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**EASTERN CARIBBEAN AGRICULTURAL  
POLICY PROJECT**

**PROJECT DESIGN STUDIES**



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## ABBREVIATIONS AND ACRONYMS

ADCU	Agricultural Diversification Coordinating Unit
AID	Agency for International Development
ANR	Agricultural and Natural Resources Office (USAID)
AREP	Agricultural Research and Extension Project
BDD	British Development Division
CAEP	Caribbean Agricultural Extension Project (Phase II)
CAIB	Caribbean Association of Indigenous Banks
CAIC	Caribbean Association of Industry and Commerce
CARDI	Caribbean Agricultural Research and Development Institute
CARICOM	Caribbean Community and Common Market
CATCO	Caribbean Agricultural Trading Company
CCPAD	Caribbean Community Programme for Agricultural Development
CCA	Caribbean Conservation Association
CDE	Caribbean Development Bank
CFC	Caribbean Food Corporation
CFSC	Caribbean Financial Services Corporation
CIDA	Canadian International Development Agency
CTO	Caribbean Tourist Organization
DBMC	Dominica Banana Marketing Corporation
DEXIA	Dominica Export and Import Agency
EAC	Economic Affairs Committee (OECS)
EAI	Enterprise for the Americas Initiative
EC	European Community
ECCB	Eastern Caribbean Central Bank
EC\$	Eastern Caribbean Dollar

ECSEDA	Eastern Caribbean Export Development Agency
ECIPS	Eastern Caribbean Investment Promotion Service
ENCORE	Environmental and Coastal Resources Project
EPRC	Economic Policy Review Committee
FAO	Food and Agricultural Organization
GTZ	German Technical Assistance Agency
IDB	Inter-American Development Bank
IICA	Inter-American Institute for Cooperation on Agriculture
IPED	Investment Promotion and Export Development Project
IRF	Island Resources Foundation
NAFTA	North American Free Trade Agreement
NRMU	Natural Resource Management Unit
OAS	Organization of American States
OECS	Organization of Eastern Caribbean States
ORD	Organization for Rural Development
PID	Project Identification Document
RDO/C	Rural Development Office/Caribbean
SEAP	Small Enterprise Assistance Project
TFAP	Tropical Forestry Action Plan
TROPRO	West Indies Tropical Produce Support Project.
TSBA	Traffickers Small Business Association
UK	United Kingdom
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
UWI	University of the West Indies
WINBAN	Windward Islands Banana Organization
WISCO	West Indies Shipping Corporation

# **EASTERN CARIBBEAN AGRICULTURAL POLICY PROJECT (ECAP)**

## **PROJECT DESIGN STUDIES**

### **INTRODUCTION**

The Regional Development Office/Caribbean (RDO/C), Office of Agricultural and Natural Resources (ANR) has contracted with AID/W's Bureau of Science and Technology-supported Agricultural Policy Analysis Project, Phase II (APAP II) to undertake a series of studies to be used as analytical input by RDO/C to prepare a Project Identification Document (PID) for the ECAP Project. The stated objective of ECAP is:

to institutionalize an integrated in-country and sub-regional agricultural policy improvement framework and learning process for policy prioritization, analysis, formulation and application that effectively informs and assists OECS governments to evolve a more responsive policy environment for agricultural development.

RDO/C selected a five person team consisting of:

Dr. William T. Levine, Team Leader  
Dr. Martin E. Abel, Policy Analyst  
Dr. George M. Johnston, Resource Economist  
Dr. Morris D. Whitaker, Institutional Specialist  
Mr. St. Bernard Sebastian, OECS Specialist

This team arrived in Barbados September 15, 1991 to begin its studies. After meeting at length with RDO/C, general agreement was reached with regard to the design elements of the Scope of Work. These included:

1. An overview of the current policy analysis situation and context within the OECS region;
2. An examination of the key constraints to effective policy analysis within relevant sectors, including a discussion of why such constraints require attention;
3. An in-depth analysis of the capacity of OECS governments to effectively deal with these constraints; and
4. A discussion of options regarding how a project might be designed to address these constraints;

5. The focus of the project should extend beyond the agricultural sector to include those sectors (e.g., agriculture and tourism) which represent the primary potential economic growth sectors, and the role of environmental and natural resource management as it impinges upon or is affected by these sectors;

6. An evaluation of the extent to which such a project might service other states in the region besides those of the OECS; and

7. The analyses should address constraints and opportunities at the national, sub-regional, regional and international levels.

The scope of work called for the delivery of a work plan, followed by a series of intensive interviews in each of the OECS countries (i.e., Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines). In addition, interviews were conducted in Barbados and Trinidad. These interviews were held with a broad representative sample of public and private sector professionals, including political leaders, ministers, permanent secretaries, chief technical officers, development bankers and private bankers, farmers, traders, hoteliers, and regional and international organization representatives. The team also visited the major donors in the region.

Following these interviews, the team had access to substantial documentation which it used to buttress its investigations. These data, and intensive interaction with ANR and other RDO/C personnel formed the basis of the team's findings.

## **ORGANIZATION OF THE REPORT**

The report is presented in two sections. The first section (Chapter I) summarizes the findings and addresses the studies elements enumerated above. The second section (Chapters II, III, and IV) provides in-depth studies of the OECS economy, environmental and natural resource situation, and Institutional context. Emphasis within these studies is given to the first three study elements. That is, these studies concentrate on identifying those issues in need of attention as policies within the OECS regions, the constraints to effective policy analysis within the relevant sectors, and an analysis of the capacity of the OECS governments to effectively deal with these constraints.

The report ends with a brief discussion of issues requiring additional research and attention, a list of those interviewed, and a bibliography.

## CHAPTER I

### **POLICY ANALYSIS IN THE OECS: ISSUES, CONSTRAINTS AND OPTIONS**

by William T. Levine

#### 1.1. INTRODUCTION

Today we face a new set of challenges as the larger regions of the world redouble their efforts at economic integration among themselves, and the Caribbean finds it necessary to adapt to such initiatives or be marginalised by them. The OECS will have to prepare, at both the technical and political levels to play a full part within the wider Caribbean Region in elaborating the institutional and policy changes, which the Region will have to make if it is to successfully meet these challenges.

Rt. Honourable John G.M. Compton  
Prime Minister, St. Lucia

A growing awareness of change and rapidly moving events is sweeping the OECS sub-region.\* Prime ministers, permanent secretaries, farmers, merchants, hoteliers and hucksters alike sense this change and the need to address it to prepare for the future. What are the salient issues that the sub-region must face which, as Dominica's Prime Minister Eugenia Charles states, "could bring either grave disappointments or bright opportunities to all of us"?

In this chapter, we will address what we see as the salient issues requiring policy interventions in the sub-region. We concentrate on the regional food system\*\* but include issues that affect tourism (which is seen as a related sector with significant potential for growth), tied as it is to the food system in important ways, and environmental and natural resource issues because of their impact upon both the food system and tourism.

After examining the policy issues, we will focus on what we see as the chief institutional and sociopolitical constraints to policy analysis and implementation in the region. We will next

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\* Sub-region refers to the geographic area encompassing the OECS countries. Region, as used here in, includes the CARICOM states.

\*\* The food system encompasses those activities involved in providing inputs to farmers, agricultural production, marketing and processing food and agricultural products, imports and exports of these products, consumers and the activities of government and private organizations in support of this system and in its regulation.

point to what we see as emerging recognition of the need to develop effective policy analysis and implementation capabilities. We will conclude with a number of considerations and recommendations regarding design of a policy analysis project to meet these needs.

## **1.2. KEY POLICY ISSUES**

The key policy issues addressed below include macroeconomic issues, food system issues, external issues, and environmental and natural resource issues. Emphasis is upon those issues requiring policy interventions.

### **1.2.1. MACROECONOMIC ISSUES**

There are a number of macroeconomic factors which have worked or have the potential to retard economic growth in the OECS sub-region. These include:

- a. The exchange rate regime
- b. Labor market rigidities
- c. Underdeveloped equity markets
- d. Restrictions on capital and management movement
- e. Tax structure disparities

a. The EC\$, were it overvalued relative to other currencies, could be discouraging production of agricultural products for export outside the region and encouraging food imports. It could also adversely affect manufacturing for export and tourism at a time when competition from other countries in the Caribbean region and elsewhere in the world is increasing.

b. Development of the OECS economies could benefit from greater flexibility in wage rates. Governments that take steps that directly or indirectly encourage wages that are inconsistent with labor market conditions are possibly limiting greater employment.

c. While there is a well developed banking system in the region that provides a good base for business to use debt financing, mechanisms to support equity financing are weak. Further, policies to reduce the spreads between borrowing and lending rates and to reduce transaction costs would have a favorable effect on investment and economic growth in the region.

d. Greater freedom to move capital within the region would also help stimulate development. The area's capital markets are not well developed and individual national restrictions on the movement of capital (e.g., alien land and investment taxes) work against a rationalization of investment and production in the OECS countries.

e. The OECS region would benefit from simplification of tax structures and more uniform tax rates. Existing disparities are probably sufficiently great to restrict flows of capital and management within the region.

### **1.2.2. OECS FOOD SYSTEM ISSUES**

The key issues requiring attention within the OECS food systems include:

- a. An inadequate food system data base
- b. Appreciation that an efficient food system must be driven by consumers
- c. Integrated institutional arrangements (both public and private) required to improve food system efficiency
- d. Unsatisfactory rates of growth in agricultural technology and productivity
- e. Urgent need to develop policy options to deal with the impending banana problem
- f. The need to address the demographic situation on remote, hilly areas for economic and environmental reasons
- g. Involvement of governments in food systems activities
- h. Legal barriers that work against rationalizing the regional food system
- i. a lack of understanding of the synergies and conflicts that exist between the food system and tourism

j. Regulatory issues that need to be dealt with on a regional basis (common grades, standards, phytosanitary regulations, etc.)

a. The food system data base is very weak in the OECS countries. While inter- and intranational trade data and production data relating to long-standing export crops are good, the quantity and quality of data of production and domestic marketing of crops and livestock are poor and often incomplete. Lengthy time series are virtually nonexistent, while economic studies of production, marketing, and processing efficiency and returns are very spotty.

b. There is limited appreciation for the overriding fact that food systems are driven by consumers, and that an efficient food system must be driven by what domestic and foreign consumers want. Tourist incomes are well above those domestically and their food preferences differ as well. The tourist sector generates a significant demand for food, one which will continue to grow. As resident incomes increase, domestic consumption patterns will also change. An important component of a policy analysis program should be analyses on levels and patterns of food consumption for both the tourist sector and the domestic population and how they will change over time, enabling policy to more closely mirror and support consumer preferences.

c. Aside from a few organized commercial activities such as bananas and a few other crops such as cocoa and some livestock products, much of the domestic and intra-regional marketing of agricultural products is done by hucksters. They are undoubtedly efficient in what they do, but they limit themselves to a rather narrow range of activities. Also, the food processing base in the OECS region is small and much of it is inefficient because of the small size of plants and unreliable raw material suppliers.

d. While unable to systematically investigate the role of technology in productivity within the region, fragmentary information points to substantial scope for improving crop yields, livestock productivity and food processing techniques closer to world competitive standards. This is clearly the case in bananas where yields and production costs have been examined in considerable detail.

e. Probably, the best understood issue in the region is that the EC will begin to diminish the 30 percent premium the U.K. has been paying for OECS bananas, after January 1, 1993. No one knows how fast the subsidies will be phased out or whether there will be some form of economic compensation paid to OECS countries by the EC for the loss of the subsidy.

Awareness of the issue, however, belies the fact that little has been done to date by governments in the region to cushion the adverse impact of the loss of the subsidy. Lack of preparation for this transition is akin to watching a major accident happening in slow motion.

f. Given the bleak agricultural development prospects for remote hilly areas, governments in the region should for economic, social and environmental reasons begin to consider demographic policies in these areas. Rather than condemning hillside dwellers in these areas to perpetual poverty, and intensifying harmful impacts on environmentally fragile land, governments should begin thinking about alternative ways and places in which they can earn a living and to develop programs and obtain financial resources required to sustain an orderly movement of people to other areas and into other pursuits.

g. Involvement of governments in food system activities through marketing boards, parastatals and other forms of involvement has resulted in inefficiencies as well as the stifling of private sector initiatives. Policies promoting public sector withdrawal from many of these activities should be promoted.

h. There are a variety of legal constraints to economic development operating both nationally and regionally. These include: land tenure laws that often keep land out of production and inhibit the transfer of lands; limitations regarding alien ownership of land and other investments; and lack of harmonization in income and business taxes among the OECS countries. These issues need to be addressed and their impact on food system development evaluated. Each country in the area has a small economic base and barriers to specialization based on comparative advantage will significantly retard the pace of economic growth and that of the food system in particular.

i. Although most public and private sector professionals recognize the interrelationship between tourism and the food system, there has been little policy attention to addressing issues such as the following:

- \* Growth in tourism will continue to absorb labor and bid up wage rates. How can agriculture best compete for labor in a rising wage-rate market?
- \* Growth in tourism will also generate increases in the demand for food. Can policies assist in ensuring that some if not most of this demand can

be met by the region's food system?

- \* Growth in tourism will also increase the demand for land and differential uses of land. How much land is agriculture likely to lose to tourism, and what types of land?
- \* Environmental considerations such as aerial spraying of pesticides, waste water treatment, protection of coral reefs and fish populations, and water and energy use create important linkages between the food system and tourism. How will these linkages be managed to promote sustainable growth and protection for both sectors?

j. Both intraregional and export trade are hampered by the lack of region-wide policies that put food system production on an internationally competitive basis. Without common grades and standards, for example, producers are not likely to be able to respond to sourcing opportunities in tourism. Nor are opportunities for states to establish criteria for comparative advantage. Common grades, standards and phytosanitary regulations will also assure potential overseas buyers that what they are getting from the region will be of uniform quality and meet existing health standards. As David Da Costa, Managing Director of the Caribbean Financial Services Corporation succinctly stated:

One can pay 100 percent duty, freight and transportation and licensing and still sell vegetables and poultry in the region for 50 percent under locally grown produce. It isn't Grade A, to be sure, but even at that, the quality control in the region is so low that these products are preferred to local alternatives. (Interview 9/17/91)

### **1.2.3. EXTERNAL ISSUES**

There are a number of significant issues whose origins are well beyond the borders of the region, but which must be addressed by the OECS policy analysts and policy makers if the states of the Eastern Caribbean are to meet their objective of sustained economic growth and development. As Prime Minister and incoming OECS Chairman Nicholas Brathwaite of Grenada, stated earlier this year:

As we approach the new decade there are many challenges which we must face, bearing in mind the state of the international environment. If we are to survive, economically, culturally and politically we must be prepared to deal with the issues accruing as a result of "Fortress Europe" in 1992. We also have to take stock of the CARIBCAN arrangements, and President Bush's Enterprise of(sic) the Americas Initiative.

Five external issues are treated here, chosen for their importance (i.e., their economic impact on the region), and their need to be addressed through policy analysis and implementation. They are:

- a. The loss of the substantial U.K. banana subsidy, along with attendant EC-'92 issues;
- b. The North American Free trade Agreement (NAFTA);
- c. Ability to take advantage of the Enterprise for the Americas Initiative once details of this program are known;
- d. Cuba after Castro; and
- e. Competition from Eastern Europe and the reconstituted USSR for capital, management and political attention.

a. The importance of the loss of the banana subsidy has been addressed above. Most governments and sub-regional bodies support alternative export crop development. CARDI is focusing on substantive improvement of alternative cash crops, and the OECS has established an Agricultural Diversification Coordination Unit to help manage diversification efforts in the region. Still, real progress in expanding the volume and value of non-banana production and exports has not been achieved, primarily because export banana production is relatively more attractive in a financial sense. Beyond providing the current levels of technical and financial support, governments are debating measures such as:

- \* expanding efforts to increase banana productivity and competitiveness in the dollar market;
- \* greater fiscal support for stimulating economic production of alternative crops (e.g., cocoa, coffee, spices, cut flowers and fresh fruits and vegetables), and strengthening marketing systems;
- \* using banana production profits to diversify production.

Unless policy makers and farmers in the region better understand the options available to them and the practical

implications of each option, little may be done to ease the transition costs that will be experienced by banana producers.

b. The activation of the North American Free Trade Agreement (NAFTA) within the foreseeable future will create a common market for the United States, Mexico and Canada. The likely impact of NAFTA upon the OECS region will include:

- \* The benefits of expanded trade in NAFTA will come in part from displacing trade with third countries;
- \* Within the constraints imposed by U.S. phytosanitary regulations, Mexico will benefit greatly from expanded exports of fresh and processed fruits and vegetables to the United States and Canada;
- \* Manufactures based on low cost labor will expand rapidly in Mexico and the products will be shipped to the U.S. and Canada; and
- \* Mexico's tourist attractions (including "sun and sand" options), already competing with the OECS, will become even more competitive.

None of these developments will be especially "good news" for OECS countries. Individually and collectively, there is an opportunity for evaluating policy options available for dealing with the growth in competition they will face as a result of NAFTA.

c. The terms of the Enterprise for the Americas Initiative (EAI) are still being finalized in Washington. When these terms become known, nations of the region should move energetically to benefit from EAI to the extent possible. Given the likely centrality of its role, the Caribbean Development Bank (CDB) may be the best institutional vehicle to analyze the Initiative's potential and pursue attendant benefits.

d. Most political analysts believe that a post-Castro Cuba will be considerably different. European entrepreneurs sensing this have already begun to develop hotels and tourist facilities. The Cuban-American community is also primed with capital and management to return to Cuba. This return will include investments in tourism, manufacturing, agriculture and trade. Given the considerable political clout of the Cuban-American community, this investment initiative will likely receive U.S. government assistance as well. To the extent that Cuba becomes an economic magnet, it will draw capital, management and tourists away from the Eastern Caribbean. OECS agricultural exports may also be threatened, given Cuba's sugar production, and richness in land resources should it also embark upon a policy of agricultural diversification.

Preparation for this eventuality, and the opportunity to

develop policies that enable OECS countries to compete with an open Cuba in the areas of tourism and agriculture need to be taken advantage of.

e. The democratization of Eastern Europe and the emergence there of market economies have captured the political attention of the industrialized countries and is beginning to attract investment capital and management. The same is potentially true for whatever political configuration is likely to emerge in what is now the Soviet Union. Multi-billion dollar financial and technical assistance loans will be made at the expense of developing countries elsewhere that fail to move more rapidly toward market based economies. In addition to this siphoning of scarce fiscal resources, the opening of the region may also have a short-term negative impact on tourism to the OECS region as Europeans travel east to see the new democracies.

Investment capital going into the European Bank for Reconstruction and Development, and being dispensed by the World Bank, IMF and private financial institutions, will maintain high real costs of borrowing, and may even increase such costs if the U.S. and other developed countries continue to run large budget deficits. Are the OECS countries equipped to deal with higher borrowing costs, particularly in view of their already heavy dependence on public and private capital inflows? What will higher borrowing costs mean for overall development in the region and for specific sectors such as agriculture and tourism, along with capital expenditures by governments?

#### **1.2.4. ENVIRONMENTAL AND NATURAL RESOURCE ISSUES**

Agriculture, forestry, fishing and tourism have traditionally been the main income-generating activities on which Caribbean countries depend for their economic viability. The natural resource base upon which these activities rely has over time been subjected to over-exploitation, mis-use, and mis-management as people have continuously taken more from the natural environment than they have given in return.

Calvin A. Howell, Executive Director  
Caribbean Conservation Association

This situation is affected by inappropriate policies as well as the absence of policies to resolve resource and environmental management problems. The OECS states are, as a result facing a number of environmental and natural resource issues which require urgent attention. Among these issues are a number which are especially relevant to the regional food system and tourism. These are:

- a. Land tenure arrangements;
- b. Inadequate data bases;
- c. Coordination regarding resource uses;
- d. Valuation of natural resources in national accounting;
- e. Enforcement of existing ENR regulations;
- f. Agricultural incentives leading to resource degradation;
- g. Population issues;
- h. Threats to tourism promotion;
- i. Lack of national and/or regional energy programs;  
and
- j. Few universally accepted standards.

a. Few issues are more complex, yet require more attention than land tenure and land use planning. A wide variety of land tenure systems exist in the OECS countries, but tenure insecurity is a fact of life in most of them. This insecurity is an important factor when considering that conservation practices are often both labor and capital intensive. The willingness of farmers to invest in such practices on land that is not technically theirs is questionable. Moreover, movement from short-cycle crops such as bananas to longer cycle crops such as cocoa or coffee is also constrained by tenure insecurity and the absence of other incentives, such as soil conservation investment subsidies and marketing assistance. The lack of additional incentives may forestall adoption of environmentally sound cultural practices even when land tenure is secure, or its presence may encourage such practices in the absence of security (A negative example of this can be seen in the case of banana cultivation on unsuitable and non-tenured lands).

The lack of adequate land use planning and zoning is a concomitant issue which needs attention. Some of the most productive agricultural land is being idled by purchase for speculation for housing and even for tourism use. The absence of taxes (economic rents from land value appreciation) for agricultural lands encourages this kind of behavior. This retirement of optimal farm land is driving farmers to use environmentally fragile or unsuitable lands, further skewing the economy away from sustainable farm production and overall

growth.

b. The availability of data bases with which to determine the nature and severity of resource issues are woefully inadequate. The recently released Environmental Agenda for the 1990s, which was excerpted from the Eastern Caribbean Country Environmental Profile series, points out in case after case:

"Limited natural resource data, including base line data, making assessment of biodiversity requirements very difficult." p. 16.

"Lack of detailed information on critical marine habitats for use in decision-making." p. 27.

"The inadequacy of quantitative data on agrochemicals (importation, use, impacts) upon which to base informed decisions." p. 34.

"Unquantified and unresolved linkages between growth in the [tourism] sector and associated environmental and social issues." p. 40.

"Insufficient documentation on the quantitative and systematic aspects of environmental pollution to permit easy development of remedial or regulatory measures." p. 46.

c. There is a concomitant lack of coordination regarding the effective and sustainable use of resources. Management, responsibility and authority are often fragmented or ill defined. In the case of water, for example, potable water may be dealt with in ministries of agriculture, health, housing, communications and utilities, and manufacturing. If these ministries communicated to coordinate plans, diffusion in itself would not be problematic, but planning responsibilities are typically housed solely in the ministry of finance, planning and development which lack environmentally trained planning staff.

d. There is a virtual lack of valuation of natural resources with respect to land, water and forests, in national accounting. As Robert Repetto states:

A country could exhaust its mineral resources, cut down its forests, erode its soils, pollute its aquifers, and hunt its wildlife and fisheries to extinction, but measured income would not be affected as these assets disappeared. (1989, p. 2.)

If the proceeds of resource depletion are used to finance current consumption, a likely situation given the present state of the macroeconomy in OECS countries, then the economic growth which may exist is also likely to be unsustainable. Banana production on marginal, steep slopes is an example of such a tradeoff.

e. There exist both ineffective regulatory controls and poor enforcement of existing ENR regulations. For example, land use controls in watershed catchment areas are inadequate to the task of controlling private land use. This is particularly important when one realizes that critical catchment areas are privately owned.

In those cases where the regulations are adequate to the task, enforcement capacity is lacking. In the case of putatively protected forests in the Windwards, for example, the (artificial) benefits to be derived from banana production have greatly accelerated deforestation as well as soil erosion. Personnel tasked with responsibilities of protecting forests in countries such as St. Lucia and Dominica are unable or unwilling to enforce protective measures.

In many more cases, however, the policies are either archaic or non-existent. As the Environmental Agenda for the 1990's points out, out-dated public health and water legislation lack regulations, national standards and modern criteria for water quality, pollution control and waste management. (p. 46.)

f. Incentives have been put into place to expand banana production, which, as described above, have actually resulted in degradation. In addition to deforestation and erosion, incentives such as aerial spraying, fertilizers and marketing services have served to leach soils and periodically contaminate water supplies. Farmers often dump rejected bananas into rivers in St. Lucia and St. Vincent, causing additional pollution and public health problems.

g. The OECS countries have enjoyed relatively stable population growth rates of between one and two percent. This modest growth has been possible largely because of emigration opportunities. Emigrants have also played a significant role in the economies of the islands in terms of remittances. Decreasing emigration options, accompanied by increasing birth rates will begin to test the carrying capacities of the OECS countries. St. Vincent, for example, is estimated to have a carrying capacity of somewhere around 150,000. Carrying capacity refers to the largest estimated population which can sustain an economy with zero population growth. With a population already in excess of 115,000, it already has the highest population density in the region. Eighty-five

percent of its arable land is owned or in ownership like possession; land is scarce and demand and prices are high. In the absence of effective population policies, both the agricultural and tourism sectors will be sorely tested.

h. All OECS countries have voiced their intent to increase tourism revenues in the near future. There is certainly awareness that part of the attraction of the Eastern Caribbean is the region's clear waters, sandy beaches and unique ecosystems. At the same time, there appears to be little appreciation of how much of a threat to this picture exists. Three issues illustrate this point.

- \* The dumping of untreated sewage and waste water into harbors or ocean sites near major resorts is threatening more than the pristine waters that draw tourists to the region: tourist and resident health alike is being jeopardized as is the fragile marine ecosystem being subjected to the dumping.
- \* Degradation of reef environments is common throughout the region. Sewage and over-exploitation by fishermen and tourists have done much to cause this occurrence. What is not generally known, however, is that in addition to the marine populations disappearing, coral reefs are also necessary for sand production. Death of the reef spells eventual death for the beach.
- \* The destruction of mangrove swamps and other coastal habitats by builders largely unregulated with respect to environmental considerations, affects both the land and marine ecosystems. Bird and crustacean habitats that attract tourists as visitors and diners are disappearing.

i. The lack of a national and/or regional energy program is resulting in piecemeal, and very expensive interventions that often conflict with tourism by disrupting sites that draw tourists in the first place. This is especially ironic when energy production to sustain tourism is one of the reasons new dams and power plants are built. Lack of oversight of charcoal production is resulting in continued inefficient production practices where up to 80 percent of the wood is wasted in the manufacturing process. This may be significant in Grenada where 50 percent of energy consumption is still charcoal, and in Dominica where the number is 70 percent.

Energy projects, such as Dominica's Hydro Expansion Project have been launched with virtually no environmental impact statements. Construction has already resulted in considerable soil erosion, landslides and displacement of

vegetation. The lack of coordinated planning and development of an energy policy often result in impediments to energy savings. Grenada, for example, places an import tax of 30 percent on solar water heaters.

j. There exists a lack of uniform standards that are universally accepted throughout the region with respect to water purity, pesticide applications, effluent treatments, emergency oil spill legislation, flood plain use and the like. This lack of uniformity constrains development of environmentally sound sustainable development strategies.

### **1.3. NATIONAL AND REGIONAL CONSTRAINTS TO IMPROVING POLICY ANALYSIS AND ITS USE**

#### **1.3.1. INTRODUCTION**

The design studies team was tasked with meeting OECS representatives of those public and private institutions at the national, sub-regional and regional levels which are central to decision-making and implementation of agricultural, tourism and environmental and natural resource (ENR) policies, programs and projects. Once these representatives were identified, the team undertook a series of open ended one-on-one and group interviews with them to help identify the key issues in these sectors. Section A of Chapter I elucidated these issues.

These interviews(over 120 in all, with mid-level and senior officials and private sector spokespersons), and others with major bilateral and international donor agencies and development banks, as well as regional agencies in Barbados and Trinidad, next sought to identify those constraints to the resolution of these issues through the formulation and implementation of sustainable growth policies. During and following the interview phase of this activity, the team also had access to substantial documentation from the Mission, the institutions visited, and from the World Bank. Below are the major observations with respect to those institutional and sociopolitical constraints obstructing effective policy analysis and implementation.

- a. Limited diagnostic capacity;
- b. Limited analytical capacity;
- c. Reactive private sector;
- d. A cultural tradition of government-led growth;

- e. Unfavorable employment conditions;
- f. Limited fiscal capacity;
- g. Lack of intra- and inter-ministerial coordination;
- h. A generalist tradition;
- i. Political limitations; and
- j. A cultural bias against the OECS food system.

Each of these will be examined in turn.

a. Diagnostic capacity is a function of the ability to generate and analyze data. In the previous section, the paucity of data was frequently cited as an issue. The quality of data in the OECS countries suffers in part because of the limited numbers of professionals in ministries and private enterprises trained to generate and aggregate data. The OECS Economic Affairs Secretariat and other organizations are beginning to generate data, but its use in policy analysis and implementation remains limited because few policy makers know it exists or how to marshal empirical data in support of a policy.

b. At the national level, the Ministry of Agriculture and the Ministry of Trade, Industry and Tourism will rarely have trained policy analysts. Indeed, emphasis is on planning rather than analysis, and this capacity usually resides only in the Ministry of Finance, Planning and Development. This ministry, usually under the purview of the Prime Minister, will appoint a Development Coordinator or Director of Planning. This incumbent will usually be an economist. If the Director has professional help (one other economist), this team is preoccupied with day-to-day monitoring of ongoing projects (one permanent secretary described it as "crisis management--always fighting fires"), or preparation of projects for the public sector investment programme. Policy analysis is foregone for a development plan, which is an assemblage of development plans generated (in isolation) by each ministry. Even when capable analysts fill these roles, the staffs are so small and the press of every day management and administrative tasks so great, that these units are sorely overextended.

c. The capacity of the private sector in OECS countries to engage in policy analysis, either with the government in

formulating policy or as part of their own economic growth strategy, is weak to non-existent. Organizations such as the CAIC have taken proactive stances on behalf of the private sector, and the private sector on its own is prepared to dialogue with political and government officials once policy is determined. Banana producers in the Windwards, and hoteliers in the Leewards, for example, are among the most active private sector participants in dialogue with their governments. Similarly, Chambers of Industry and Commerce are active on behalf of their members (which, incidently, rarely include farmers or agribusinessmen). Whether organized as groups or acting as individuals, however, business people and farmers uniformly saw policy formulation as the responsibility of the government.

d. A concomitant constraint is the predisposition of governments in the region to assume responsibility for growth. Routinely, governments will create marketing boards or parastatals for activities that patently can thrive as private sector entities. When governments are willing to include the private sector, as in the case of banana marketing boards in the Windwards, for example, these incumbents will hold minority positions and in every case be nominated by and serve at the pleasure of the government. Perhaps the ultimate example of government taking this proactive stance is in St. Vincent where its marketing board actually runs a supermarket. What is clearly missing is a predisposition to facilitate the growth.

For their part, most businesses face a lack of economic staying power, high indebtedness and relatively little equity, all of which force them to behave with extreme caution. The Caribbean Financial Services Corporation's Managing Director pointed out that three million dollars of its funding was set aside for agribusiness, and yet it "had to scrounge around to lend even half of that to borrowers."

e. Virtually all public sector employees cited unfavorable employment conditions and remuneration as constraints to effective performance (A notable exception were national development banks where morale and performance were rated as high. We were unable to determine if employees received better wages than ministry counterparts). Bureaucratically determined (as opposed to performance-based) salaries below competitively determined market levels, excessive responsibilities of an administrative nature, insufficient operating budgets, lack of professional support and limited access to equipment are common complaints. It was stated that these conditions were driving young (and not-so-young) professionals out of government. This allegation is probably borne out in fact; the team was continually struck by

the number of "vacant" signs on ministry directory boards.

Organizations such as the banana growers' associations also report unfavorable employment conditions. Those visited in St. Vincent and Dominica were indeed in flux. Neither had a General Manager and St. Vincent's new Comptroller had just arrived (the voids being temporarily filled by personnel seconded from WINBAN. The root cause of employee discontent was described as political interference by growers getting in the way of effective management. It was reported that appointees to senior positions had to be nationals and either farmers themselves, or related to farmers. It was alleged that quality control information supplied by Geest which identified bad produce by lot number (individual farmers are identifiable by such numbers), was suppressed by influential board members.

f. One of the most trying constraints to institutionalizing the capacity for policy analysis and implementation is the extremely limited fiscal capacity of both national and regional organizations in the Eastern Caribbean region. One Permanent Secretary of Trade, Industry and Tourism who requested anonymity stated that his ministry was forced to pursue least cost rather than optimal benefit strategies. Undertaking new responsibilities when governments are facing the possibility of reducing their size and costs is a dilemma throughout the region. The Permanent Secretary of the Ministry of Finance, Planning and Development in St. Vincent, for example, stated flatly that his government hadn't the resources to implement the changes it knew it had to make.

g. The lack of coordination between ministries was one of the most frequently cited constraints to effective policy analysis. As stated above, individual ministries are expected to develop their own plan and then submit it to the ministry of finance, planning and development, which molds these disparate efforts (usually without any interaction) into a comprehensive document. When the demands on one or more resource extend beyond the boundary of a single ministry, or even a single country, this lack of coordination can be disastrous. This can be seen in the case of demands for water by ministries of agriculture, tourism, health, communications (usually charged with supervision of utilities), and industry. In Antigua, much of whose ground water is saline and which therefore faces chronic water shortages, there is no comprehensive water policy. A recent environmental profile (1990) speculated that a crisis would be necessary to force the government to include the water situation in its national planning and development process. In Dominica, periodic outbreaks of eye, ear, nose and throat infections are thought

to be the result of sewage contamination of fresh water otherwise used for bathing and washing. Again, there is little coordination among agencies responsible for water.

One final note should be added regarding coordination constraints. Alfredo Jefferson, Deputy Resident Representative for UNDP in Barbados stated that the lack of coordination between donors was also a serious constraint. He averred that this resulted in a dispersion of efforts between bilateral, sub-regional and regional activities, each going in its own direction and confounding efforts to unify policies. He strongly suggested the need for donor coordination, a position supported in principle by every donor the team visited.

h. Within all OECS governments one can observe a residual characteristic of management--reliance on the "generalist" rather than the specialist. This holdover from the British colonial period sees management as the central role of government rather than empirical analysis and assistance in determining policy options. With a few notable exceptions (primarily in ministries of finance), permanent secretaries were not trained in policy analysis. In the ministries of agriculture, those charged with substantive oversight, i.e., Chief Technical Officers, were precisely that--trained scientists rather than economists. While there is little to argue over regarding having technical specialists in agricultural sciences, this expertise should be supported by professionals with comparable policy analysis skills. If, in the final analysis, economies of scale determine that policy analysis can only be done by the ministry of finance, then that ministry should have an agricultural economist with policy analysis skills to assist in the planning process. This, however, is not the case.

National development banks' spokespersons universally stressed the importance of agricultural development but rarely had staff with agricultural economics or other relevant training.

In the end, there may be a vicious circle perpetuating this tradition. Adverse employment conditions referred to above may continue to drive away talent that could provide the substantive expertise necessary to achieve effective policy analysis. Mr. Ausbert D'Auvergne, Permanent Secretary of the Ministry of Planning in St. Lucia stated that the turnover of trained personnel in the public sector is very high, and he is constantly searching for talented people.

i. The team found that serious questions exist as to whether governments have the political will to commit their resources as well as their rhetoric to develop policies which

promote sustained growth in the agricultural and tourism sectors. Can a legislative assembly in the Windwards, half of whose members are banana farmers, support diversification in the face of the present subsidy? The agricultural sector's relative importance to OECS economies (especially in the Windwards) is not reflected in relative levels of public sector recurrent or capital expenditures whether from internal or external sources. Fred Mann's study (1991) points out that despite virtual unanimity throughout the OECS region regarding support for diversification, countries have allocated minuscule amounts (sometimes as little as two to three percent) of their recurrent expenditure and capital investment programs in agriculture (p. 24). This lack of attention to the agricultural sector is even further exacerbated by the revelation that a disaggregation of the OECS Country Public Sector Investment Programs (1990) reveals that traditional crops such as bananas and sugar are receiving most of the resources. A further review of diversification efforts discloses that between 60 and 80 percent of the resources devoted to this objective are externally funded.

j. A final constraint which must be taken into account is the existence of a long-standing cultural bias regarding agriculture. Historically the stuff of slavery, plantations and exploitation, agriculture is still looked upon as an undesirable alternative by many West Indians. When queried by the team regarding the propensity of bright young men and women to enter agriculture, virtually all respondents indicated that for the most part this wasn't happening. Most development banks support student loans, but when asked what proportion of such loans were allocated to students wishing to undertake agricultural science degrees, the representatives of these lending institutions routinely indicated well under five percent. While unable to acquire age-specific data on the farming sector, most respondents indicated that it was aging.

The movement of people off farms and into other occupations is a universal trend and isn't in and of itself a serious problem. Indeed, the need to consolidate land holdings into larger, more commercially viable parcels may be aided by this process. What is of concern, however, is the deeper bias against agriculture which could keep talented potential entrepreneurs away from this sector. Current incentives (such as duty free importation of four wheel drive vehicles, no taxes on agricultural land and subsidized inputs), seem to be having a positive effect in St. Kitts and St. Vincent, but these efforts need to be augmented by education policies which stress the positive attributes and value of a career in agriculture.

## **1.4. EMERGING RECOGNITION OF THE NEED FOR POLICY ANALYSIS CAPACITY**

Despite the presence of serious constraints to effective policy analysis and implementation, there are some encouraging indicators of emerging recognition of the need for policy analysis capabilities. These include:

- a. Growing awareness of major policy issues;
- b. Understanding of the need for improved and empirical analysis; and
- c. Emergence of sub-regional and regional institutions with nascent policy analysis capabilities.

Each of these considerations will be examined in turn.

### **a. Growing Awareness of Major Policy Issues.**

Most professionals interviewed at the national, sub-regional and regional levels, were aware of major external issues such as EC-'92 and NAFTA. A smaller subset were aware of the Enterprise for the Americas Initiative. Potential competition posed by a post-Castro Cuba was actually being considered by the ECCB and the CDB. Competition for funds and tourism from Eastern Europe and the Soviet Union was rarely acknowledged.

EC-'92 and its potential implications regarding the banana subsidy was well understood, although most interviewees expected some continuation of the subsidy rather than offering alternative solutions. The potential challenge of Mexico as a major competitor with special advantages in the U.S. and Canada was recognized, although more in the area of exports than as a competitor in tourism. There were virtually no suggestions regarding any changes to be made in the region's policy regime to deal with this change.

The EAI was approached with considerable skepticism. Most respondents who were aware of the Initiative saw it as a continuation of the Caribbean Basin Initiative. The CBI, they felt, had done little good for the Eastern Caribbean and they anticipated that EAI would have the same impact.

At the national and sub-regional levels, inter-island transportation, agricultur-tourism tradeoffs and complementarities,

marketing, fiscal policy inconsistencies, and the banana problem were surprisingly well understood. Policy resolution alternatives to these issues, however, varied widely.

With respect to environmental and natural resource issues, these were recognized at an abstract level as important. The policy implications of ENR issues for agriculture beyond pesticide controls and deforestation, were not well understood. Neither were the connections with growth of the tourism sector.

## **b. Understanding of the Need for Improved and Empirical Analysis**

While familiarity with major policy issues did not lead to a consensus regarding policy options, there was near unanimity with respect to recognition of the difficulties of policy analysis given the inadequacies of the existing data bases in ministries, parastatals and regional organizations. Lack of resources was most often cited as the cause of this situation.

## **c. Emergence of Sub-regional and Regional Institutions with Nascent Policy Analysis Capabilities**

Sub-regional and regional institutions with a mandate to undertake policy analysis are beginning to emerge. Chief among these at the sub-regional level is the Economic Affairs Secretariat of the Organization of Eastern Caribbean States (OECS), which when fully operational will be prepared to address policy issues in the areas of agriculture, tourism and environment and natural resource management. Through its Economic Affairs Secretariat, Agricultural Diversification Coordination Unit and Natural Resources Management Unit, the OECS has developed the necessary infrastructure to play such a role. Moreover, it has the commitment of the political leaders represented in the organization and the support of most of those interviewed, who believe that the Organization already is or will be the appropriate center for sub-regional policy analysis. What the OECS presently lacks are the fiscal and human resources necessary to make it fully operational.

At the regional level, CARICOM has examined a range of issues and policy considerations within the agricultural sector, and has sought to develop institutional structures to promote regional integration. Within the CARIBBEAN DEVELOPMENT BANK, the creation of Sector Analysis Units will strengthen the Bank's capacity to effectively structure its lending programs, and by extension, provide borrowers important policy information. IICA is attempting

to strengthen both its own policy analysis capabilities and those of its members, the latter through a proposed policy planning initiative which seeks to enhance data collection and management capabilities of Ministries of Agriculture within the Region.

The interests of the private sector in the Caribbean are represented by the Caribbean Association of Industry and Commerce (CAIC), one of whose roles is policy advocacy. This role is played through the CARICOM Secretariat. In seeking to advance the growth of the private sector and optimize the sector's contribution to rapid and equitable development, CAIC has been tasked with influencing public policy to these ends.

To date, CAIC's membership has reflected an industrial and commercial rather than farming or agribusiness composition. Consequently, the organization itself has not focused heavily on food system issues. Nevertheless, its advocacy efforts on behalf of regional economic integration, supporting issues such as the Common External Tariff, new rules of origin and harmonized fiscal incentives in the Common Market, ultimately have an impact on the agricultural sector.

Finally, the UNIVERSITY OF THE WEST INDIES, through its Trinidad campus at St. Augustine, has established a reputation for undertaking policy studies in support of the CDB, CARICOM, and IICA. UWI also provides undergraduate and graduate training which can be accessed by OECS countries, and has run a number of short-courses and workshops to examine policy issues.

These examples of recognition throughout the Eastern Caribbean of the need for strengthened policy analysis capability in the face of both internal and external issues and constraints, which can only be ignored at the peril of the region, speak to the need for a project such as ECAP. In the next section, the design studies team presents its recommendations regarding the agenda, structure and functions of such an undertaking.

## **1.5. PROJECT IMPLEMENTATION CONSIDERATIONS**

### **1.5.1. CONFORMITY WITH THE STRATEGIES AND PROGRAMS OF THE OECS COUNTRIES**

The design studies team strongly believes that the concept of ECAP conforms with the strategies and programs of the OECS countries. There is near universal commitment to agricultural diversification, growth in tourism and attention to environmental and natural resource issues to ensure sustainable development in these sectors. There is broad awareness that sub-regionally, regionally and internationally, events and issues are impinging upon the Eastern Caribbean that will have an important bearing upon OECS states' abilities to achieve sustainable economic growth. Moreover, there is clear recognition that achieving this growth in agriculture and tourism will require effective and timely policy analysis and implementation capabilities, and that at present, these capabilities are very limited. Of those interviewed, the vast majority voiced strong support and enthusiasm for a project such as ECAP. They recognized the need for more effective policy analysis, understood the ramifications of its absence, and thought their governments would support such an undertaking.

### **1.5.2. CONSISTENCY WITH IDO/C OBJECTIVES**

The team also sees ECAP to be consistent with and complementary to the Mission's RDSS. There are a number of projects being implemented in the region whose effectiveness will be enhanced by an effort such as ECAP. AREP, for example, was recently evaluated. The evaluation team strongly suggested the need to provide CARDI with policy analysis support to ensure that its implementation activities are consistent with regional and donor objectives for agriculture, research and extension. Emphasis on food security needed to be tempered with attention to export-driven agricultural diversification.

The objectives of ENCORE and TROPRO also lend themselves to effective interaction with ECAP in so far as each project's success will be enhanced by policy analyses contemplated under ECAP. One of ENCORE's objectives is to serve as a catalyst for policy dialogue throughout the region. To encourage such dialogue, the project intends to finance a number of studies. Suggested study topics such as coastal zone land use policy and practice,

improvements in development planning and regulation, privatization of protected areas, and the settlements-conservation nexus, all link closely with ECAP agricultural, environmental and natural resource concerns. In the case of TROPRO, its efforts to enhance agricultural diversification by improving food system performance can be directly augmented by strengthening the policy regime within the agricultural sector. Production, post-harvest handling, transportation and market information systems--TROPRO's components--all lend themselves to policy analysis as envisioned in ECAP.

The Small Enterprise Assistance Project (SEAP), which provides funding for CAIC, is another project whose aims are consistent with and which can be augmented by ECAP. CAIC's Economic Research and Analysis Department, for example, is supported under SEAP to carry out policy studies germane to CAIC's constituency. As stated above, CAIC hasn't focused on agricultural policy issues, but its macroeconomic concerns apply directly to development of the sub-region's food system. ECAP macroeconomic policy concerns can be tailored to fit closely with CAIC's, thereby strengthening linkages with the private sector, expanding CAIC's mandate to include agribusiness, and strengthening the analytical capacities of this organization.

Planned RDO/C initiatives are also consistent with ECAP objectives. The Private Sector and Capital Markets Initiative, for example, seeks to promote the privatization of a range of state-owned corporations and agencies. Undergirding the PSI will be the need to focus on many of the same policy issues which ECAP proposes to address. The same is true in the health sector where a design is under way to promote sustainable health financing. Indeed, during the implementation of the design studies (Phase 1) component of ECAP, there was growing support and recognition of the need within RDO/C for an omnibus policy project which would take into account the primacy of addressing policy issues within many of the sectors receiving assistance from A.I.D.

In short, the team sees a close interactive and important relationship between ECAP and ongoing RDO/C efforts.

### **1.5.3. INCREASING THE CAPACITY OF THE OECS AS THE IMPLEMENTING INSTITUTION**

ECAP will function most effectively if institutionally housed at the sub-regional level. The issues and constraints which the Windward and Leeward Islands face are sufficiently unique as to require sub-regional policy solutions. It was felt that CARICOM, the Caribbean Development Bank and the University of the West Indies, which were also seriously considered as candidates, had broader mandates and would be less effective than the OECS Economic

Affairs Secretariat (OECS/EAS). The case for locating the project at the OECS/EAS is considerably stronger and offers several advantages.

First, the OECS/EAS has a mandate for policy analysis and planning for economic development . Its mandate includes focusing upon the agricultural sector through its Sector Analysis and Planning Unit and the Agricultural Diversification Coordination Unit (ADCU). Second, the OECS and its units are widely respected by both public and private sector organizations in the member states. The vast majority of interviewees indicated strong preference for housing the project in the OECS/EAS. Third, the Secretariat has functional linkages with both regional and national public and private entities. This nascent network will facilitate integrating policy analysis, dialogue and implementation activities anticipated under ECAP. Fourth, there are established processes for obtaining necessary political support. Ministers of Trade, for example, serve on an Economic Affairs Committee to which the EAS reports. The ADCU's affairs are overseen by Ministers of Agriculture. Thus, structures are in place which can be accessed to seek the necessary political support for a successful project.

#### **1.5.4. AGENDA SETTING**

ECAP is seen as providing technical assistance and training to help to enable the OECS and its constituent states to achieve its objectives of sustainable diversified agricultural production and overall economic growth. The means by which chances of reaching these objectives will be strengthened is effective policy analysis. Strategically, this means enhancing the capacity of public sector officials and private entrepreneurs alike to:

Empirically identify and evaluate the priority issues in the region and the constraints to their resolution;

Design and evaluate policy alternatives that are cast in actionable terms, are consistent with good environmental and natural resource use practices, and that can form the basis for policy debates at relevant fora; and

Select and apply the most appropriate policy instruments and interventions.

ECAP's sectoral foci will be upon agriculture and tourism as it impinges on agriculture. It sees environmental and natural resource (ENR) issues as inextricably linked to these sectors and will accordingly focus on these as well.

The design team identified a number of issues in need of policy action at the macroeconomic, sectoral, environmental and

external levels. It also disclosed a number of institutional and socio-political constraints to providing policy instruments and interventions. These may deserve further attention and in-depth analysis. However, the team believes that agenda setting should be the responsibility of those implementing the project. It recommends that a process along the following lines be developed for agenda setting:

The ECAP-OECS team meet immediately after initiation of the project to develop a strategic plan (a five year guidance document) and an annual work plan. The work plan would identify and prioritize those issues and constraints most in need of attention, and establish technical assistance and training activities to address these priorities.

This work plan would then be examined by RDO/C and a project advisory board (see below) composed of public and private sector leaders who would provide input and guidance. The work plan would then be modified and finalized as necessary.

The implementation team and advisory board would then meet semi-annually to review progress on the plan and determine necessary mid-course corrections.

The design studies team also wanted to stress that while the work plan should be the principal guide, that the project team have the flexibility to respond to important issues when they arise.

### **1.5.5. ECAP ADVISORY BOARD**

Just as the team has recommended locating the project within the OECS Economic Affairs Secretariat rather than creating a new institution, it also sees considerable merit in exploring the possibility of employing an existing entity such as the Economic Affairs Committee, or the Ministers of Agriculture, to serve on this advisory board. This board, however, should also reflect private sector representation. The team felt that affecting this representation needed further study. One option might be to create a separate private sector advisory board to provide input to the work plan.

### **1.5.6. TECHNICAL ASSISTANCE NEEDS**

The technical assistance component of this project remains to be determined. The design studies team recommends that ECAP be built around a core of effective long-term policy analysts located at the OECS EAS. This core team will report to a chief within the Economic and Policy Analysis Section.

The specific expertise which the core team should possess might include: macroeconomic policy, environmental and natural resource policy, agricultural policy, institutional strengthening and statistics. Other areas identified for long- and short-term assistance included:

- Marketing policy
- Trade policy
- Tourism policy
- Transport policy
- Fiscal policy
- Commodity analysis
- Land use policy
- Training
- Methodology
- Phytosanitary policy
- Privatization policy

Whatever the final mix, the design studies team recommends that the core technical assistance team be composed of three to six professionals, and further that the team include expatriate and West Indian professionals. One of the long-term specialists should be identified as the Team Leader. Given the limited capacity of existing policy analysis and planning units within the region, the design studies team strongly recommends that no seconding of existing staff be considered. Instead, professionals should be recruited.

The team also recommends that administration of the project be undertaken with the assistance of a full-time Office Manager, or Administrative Assistant, and secretarial support. The Office Manager would work closely with the Team Leader and his/her OECS/EAS counterpart and be responsible for record keeping and accounting, maintaining the logistics for subcontracts and technical assistance, and providing documentation support.

### **1.5.7. RESOURCE POTENTIAL OF OTHER SUB-REGIONAL AND REGIONAL ACTORS**

As mentioned above, there are a number of institutions within the region with resources that should be incorporated into ECAP. The University of the West Indies (UWI), for example, has a small cadre of outstanding policy analysts, some of whom might be available to provide short-term technical assistance. UWI also has the capacity to offer formal training and short courses. Located on UWI's campus, CARDI also possesses resources of value to ECAP. It has, for example, generated considerable farm level data. Its

small agricultural economics staff would derive considerable benefit from networking with ECAP economists and integrating ECAP findings into AERP implementation activities.

The Caribbean Development Bank (CDB) has begun to establish Sector Analysis Units (SAU), part of whose mandate is to work closely with policy makers at the national level and provide appropriate advice to governments. While the main function of SAUs will be to identify opportunities for and prepare, appraise and supervise sector loans, linkages with the OECS should permit networking and cooperation. The Eastern Caribbean Central Bank (ECCB) has a small Research Department which does provide advice on macroeconomic policy issues as they apply to financial services. Again, networking, cooperation and potential joint studies and training are possibilities which should be explored.

Within the OECS, both the ADCU and NRMU need to be actively involved in ECAP. While their respective resources are limited, their linkages with the TROPRO and ENCORE projects, and substantive focuses, warrant a close working relationship. The design studies team anticipates, for example, that ECAP technical assistance personnel will be periodically located in Dominica, when working on issues related to production, transportation and marketing.

IICA is designing an initiative which, if funded, will concentrate on strengthening data collection and planning capacity within OECS Ministries of Agriculture. It may be possible to integrate this undertaking within ECAP, and in so doing, provide it with a regional and substantive focus it presently lacks.

ECAP needs to establish linkages with these and other appropriate institutions in order to contribute to regional coordination, strengthening and giving direction to effective policy analysis. The vehicle for such relationships remains to be determined. One possibility would be to establish Memoranda of Understanding (MOUs) with these agencies and to subcontract with them for specific services.

### **1.5.8. TRAINING COMPONENT**

A project such as ECAP will afford substantial opportunities for on the job training, in so far as the core team (see above) in the course of its implementation activities will work closely with counterparts where these exist and impart considerable substantive skills and procedural techniques. A dilemma will continue to exist, however. Given staffing shortages at both the sub-regional and national levels, a need will persist to strengthen those units.

The design studies team determined that there exist in the Caribbean region, trained consultants who can effectively fill some

of the staffing requirements (long-and short-term technical assistance) of a project such as ECAP (see above) as well as impart on the job training. These professionals are presently employed by consultant firms located in Barbados, Trinidad and Jamaica. RDO/C, the CDB and other donors have used these firms and can attest to the quality of their employees.

The need for policy analysts, however, exists in both the public and private sector. Rather than woo such professionals away from the private sector to assume public sector positions, the team recommends that ECAP prepare a cadre of professionals to serve within the OECS and other public sector institutions. Accordingly, we recommend that the project include both formal training and short-term seminars and workshops.

Formal training should include providing M.S. level educations for at least six sub-regional participants. The substantive content of such training should focus on providing what in the U.S. is described as a Master's in Public Policy degree. Preference should be given to candidates with Bachelors' degrees in Agricultural Economics, Macroeconomics or with degrees in statistics. To the extent that such programs (e.g., Public Policy/Policy Analysis) can be crafted at UWI/St. Augustine, that choice should be encouraged. Specialization may, however (as in the case of natural resource policy analysis, for example), dictate the need for training in the U.S.

Upon their return to the OECS countries, a cadre of these formally trained analysts should be selected to pursue careers in policy analysis within the OECS/EAS. These professionals will work along side of the ECAP implementation team members for a period of six months. Thereafter, they will assume full-time roles within the Secretariat as the project team begins a "phased withdrawal."

Short-term workshops and seminars should focus on specialty topics that strengthen the capacity of public and private sector professionals to grasp the importance of policy analysis, attain specialized skills in policy analysis and decision making, and integrate these skills into their jobs and businesses. Many of these courses and seminars already exist in the U.S. (e.g., Stanford University offers an environmental and natural resource policy analysis program under AID/W's Agricultural Policy Analysis Project, Phase II, and Harvard offers a Macroeconomic and Agricultural Sector Policy course.). The bulk of such training should be conducted in the region and be tailored by the project staff to meet specialized needs which have been identified. Each year, as the annual work plan is prepared, training needs can be addressed and the requisite courses and seminars planned. Examples of such courses might include:

- a. "Great Policy Analysts" seminars, featuring notable

agricultural policy analysts such as Peter Timmer, Walter Falcon, Scott Pearson, Robert Repetto and John Mellor, addressing issues being faced in the OECS.

b. Methodology courses focusing on the Policy Analysis Matrix, statistical methods, and other tools for practitioners.

c. Private sector policy enhancement seminars, examining ways in which private entrepreneurs can play a greater role in forming the region's policy agenda.

d. Topical seminars for policy decision-makers, addressing such issues as EC-92, land use policy, NAFTA, Cuba after Castro, and the EAI.

### **1.5.9. CONTRACTING MODE**

There are a number of available contracting modes with which to implement ECAP. The two most popular are open competitive bidding and cooperative agreement options. Of these, the design studies team recommends open competitive bidding. ECAP will call for a wide variety of policy analysis skills which can best be provided by a mix of private sector policy research firms and universities. Securing reliable short-term technical assistance in a timely manner is more likely to be achieved by private sector entities. Moreover, while analysis can be undertaken effectively utilizing either contracting option, sound implementation strategies and actual participation in implementation processes are more likely to be effectively handled by private sector professionals.

The team was informed that there exist a number of West Indian consulting firms with solid reputations for economic analysis. These firms regularly provide consulting services for regional development banks and the donor community. The team believes that the optimal contracting mode would include one or more of these firms working in tandem with a U.S. firm which would serve as prime contractor.

One other contracting mode was considered. AID/W has funded a number of policy analysis projects (e.g., Agricultural Policy Analysis Project, Phase II (APAP II); Implementing Policy Change (IPC); Agricultural Marketing Improvement Strategies (AMIS); Development Strategies for Fragile Lands, Phase II (DESFIL II); and Environmental and Natural Resource Policy Analysis and Training Project (EPAT)). Conceivably, ECAP could orchestrate a number of buy-ins through these projects to secure the services it needs. The down side of such an arrangement would be the lack of coordination and cross fertilization of project elements,

complications regarding integrating regional actors in the implementation process, and the procedural headaches associated with trying to manage several mini-projects. Thus, the team felt that this option was considerably less attractive. These projects should be kept in mind, however, when unique "niche" needs arise that they are best able to provide.

### **1.5.10. SUSTAINABILITY**

The design studies team recommends that ECAP be launched as an eight year project and receive an initial funding tranche for five years. The issues and constraints facing the agricultural and other related sectors require resolution in this time period. To the extent that this occurs, ECAP will have assisted in putting a process in place that will be self sustaining. Creating the policy environment that promotes agricultural diversification, for example, will require commitments of fiscal as well as human resources on the part of OECS states for the foreseeable future. In other important areas such as land use, zoning, tax and tenure policy reform, these decisions may require modest, if any continuing financial resources.

The process of facilitating acceptance of policy change can be made easier by the inclusion of funds (such as ESF monies, or other project allowances) to facilitate the adjustments being made. In essence, these additional funds are used for policy implementation where financial resources are needed. This additional funding accounted significantly for the progress of reforms made under comparable USAID-funded policy projects in Honduras and Ecuador. At the recent World Bank and IMF meetings in Bangkok, additional evidence was provided that concludes that the success of economic policy reform programs is significantly enhanced when external assistance, be it from commercial or official sources, for project or balance of payments support, is provided. Therefore, the team recommends that the Mission consider adding funding for this purpose, or at a minimum provide support to OECS countries in their efforts to obtain commercial or official assistance for the implementation of the policy reforms that are decided upon.

Sustainability for a project such as ECAP is not analogous to building a road or building, whose ongoing maintenance is at issue. A more appropriate metaphor might be that of a patient with a number of serious ailments. Once these ailments are treated, the patient gets on with his/her life. The patient may indeed have to alter life style, but commitment to doing so and actual change will likely cost little in tangible resources.

### **1.5.11. ACCESSING DEVELOPMENT RESOURCES**

Accessing implementation resources is seen as one of the tasks of ECAP. This is not to suggest that project staff and OECS counterparts act as mendicants. As stated above, many of the resources necessary for policy changes will be generated internally. Part of the function of effective policy analysis is a thorough examination of alternative implementation strategies. This includes addressing the issue of what resources are necessary for each option and how such resources can be obtained. Self reliance will be the first consideration in each case.

Where external resources prove necessary, a major potential resource is the Enterprise for the Americas Initiative (EAI). The EAI has aroused the interest of Caribbean Governments. The Initiative proposes action in three key areas: (1) external debt; (2) investment promotion; and (3) strengthening trade relations. EAI does not propose a development strategy, but rather it constitutes a mechanism for accelerating ongoing economic reforms along the lines proposed by multilateral financial institutions and with the support of the U.S. Government.

As soon as the details regarding available resources from this source are made known, the OECS-ECAP implementation team should develop and implement a strategy of active pursuit. The states of the region have, in the past, felt that the Caribbean Basin Initiative had little positive impact upon the region. To the extent that this can be redressed in EAI while simultaneously supporting important policy changes, the team believes that a win-win situation is achieved.

There are other potential resources in addition to EAI. Interviews with bilateral and multilateral donors disclosed waning support for agricultural development. This decline is not irreversible, however. Most donor representatives indicated their preparedness to support promising agricultural initiatives when such initiatives are backed by tangible policy change. Keeping donors aware of ECAP through newsletters and meetings may help to influence them to provide additional resources for agriculture and related sectors.

### **1.5.12. SERVICING OTHER USAID PROJECTS**

As stated above, ECAP can provide another valuable service. RDO/C's strategy includes significant efforts to strengthen agricultural production and promote environmental protection throughout the region. Projects such as AREP, TROPRO and ENCORE are, or will be providing substantive support in this direction.

ECAP can help ensure the success of these efforts by providing policy analysis support. Such support would focus on clarifying the policy issues germane to these projects as well as seeking to promote policy changes where necessary to improve their performance. In this sense, ECAP will serve as an umbrella project, providing policy oversight for existing and potential interventions in agriculture, tourism and environmental and natural resources management. This effort will call for establishing a coordination process which assembles involved Team Leaders/Chiefs of Party at regular intervals (preferably prior to annual work plan submissions) for planning and implementation purposes.

Should RDO/C seek to establish an omnibus policy analysis program including the Private Sector and Capital Markets Initiative, health finance, and population sectors, ECAP can serve as a model for policy project implementation. In this case, the Mission Director would chair meetings of involved division chiefs to identify, prioritize and coordinate implementation of Mission policy objectives.

### **1.5.13. COORDINATING WITH OTHER DONORS**

Throughout the survey portion of its TDY, the design studies team was struck by the lack of a formal mechanism for coordinating efforts by donor organizations. Visits disclosed that while there was a general awareness of what each other was doing, little in the way of concrete knowledge, or interaction to align strategies was being done. While not directly related to ECAP, the team nonetheless strongly recommends that RDO/C work with other bilateral and multilateral donors to establish a forum to discuss means of coordinating development efforts in the region.

At the project level, ECAP will need to establish a mechanism to help coordinate policy initiatives presently planned or under way in the region. The team learned, for example, that CIDA was planning to fund a second phase of its Eastern Caribbean Economic Management Programme (ECEMP). ECEMP II's goal is to promote successful structural adjustment and sustainable development in the OECS sub-region. One of its objectives is strengthening economic policy analysis and decision making capabilities. ECEMP proposes to do this through creation of a regional public finance unit; improve trade and investment legislation; promote the establishment of a common OECS financial services market; focus on population policy; strengthen public sector investment programming; strengthening administration of inland revenue systems; improving accounting and budgeting capabilities; and strengthening management services in the OECS. The public sector administration and management foci of ECEMP are different than but possessing complementarities with ECAP. These complementarities should be taken advantage of by establishing formal linkages between the two projects.

In a similar fashion, IICA is contemplating a project entitled "Strengthening Agricultural Policy Analysis and Planning in the Organisation of Eastern Caribbean States." This proposed two year undertaking seeks to strengthen individual planning units in Ministries of agriculture, focusing primarily on improved data development. If approved and funded, this project should also be linked with ECAP to ensure avoiding overlapping and maximizing both projects' objectives.

The Sectoral Analysis Units (SAUs) of the Caribbean Development Bank, when fully functioning, will also be undertaking policy analyses. Although these are primarily in support of lending programs, the data generated and foci of these analyses should serve to provide inputs of considerable value to ECAP's efforts. At the same time, ECAP's efforts should prove equally valuable to the SAUs. Accordingly, there will be the need for ECAP and these other entities to periodically meet to coordinate activities and share information.

#### **1.5.14. NEXT STEPS**

RDO/C has planned a regional workshop to be held in February. This workshop will assemble some 25 participants from public and private sector institutions to discuss the proposed ECAP design elements. This will be followed by a subsequent round of design studies in support of the development of a Project Paper. At this stage, the team has identified a number of considerations which remain to be resolved. These include:

1. More Political Contacts. The timing of the first design studies activity coincided with the Madrid Conference, which meant that important political leaders were not available for face to face discussions. This task could be handled once PID efforts have been completed, by RDO/C staff. Given the sensitivities of the OECS political leaders to having assistance options "dictated" to them, this needs to be done even before the January meetings.

2. Linkages with Affiliated Institutions. It will be equally necessary and important to obtain the support of institutions such as the OECS, CDB, UWI, CAIC and others regarding participation in ECAP. The Mission will need to choose the mechanism(s) it wishes to employ in cementing these relationships.

3. Mechanism for Including Private Sector Participation. Involving the private sector in ECAP activities is seen as critical to its success. Private sector participation in training and workshop activities is pretty straight forward. Securing their participation on the Advisory Board may pose a problem if it means disrupting established procedures. This will have to be looked into.

4. Establishing the Technical Assistance Complement. This can be accomplished in stages. Team composition can and should be approached at the workshop. Final decisions can be made during the PP studies TDY.

5. Resolving the Mission's Policy Agenda. RDO/C is currently designing a private sector initiative and a health care initiative. Both projects focus on policy development. The Mission needs to decide the extent to which ECAP continues its existence as an autonomous project, or is linked to one or more additional initiatives.

6. Implementation Resources. Several discussions have been held regarding the possibility of using additional funds (such as ESF), if and when available, as a stimulus to obtaining additional support for the project. Down stream funding for activities such as pollution controls would change the scope and nature of the project. If concession-like funds are available, their inclusion has to be carefully considered.

7. Social Soundness Analysis. The original Scope of Work called for the development of a Social Soundness Analysis. Preliminary observations indicate that the one serious question that this project will face, i.e., potentially thousands of farmers out of work, will need to be examined in detail. It should be pointed out, however, that the loss of the banana subsidy will create this situation whether or not ECAP sees the light of day. Equity and gender issues do not appear to be significant at this point, but still need to be addressed.

8. Financial Analysis. The original Scope of Work also called for a financial analysis. In light of the modification and focus of the design studies activity, this was not addressed. Should the recommendations of the team regarding structuring be accepted, however, it is prepared to undertake a financial analysis at no additional cost to the project.

## **CHAPTER II. AN ECONOMIC OVERVIEW OF SIX OECS COUNTRIES**

**by Martin E. Abel**

### **INTRODUCTION**

Chapter II presents an economic overview of the food system of the OECS sub-region. It begins with an examination of the economic performance of the OECS countries. Chapter II next analyzes several macroeconomic and infrastructural issues in need of policy resolution, followed by a description of those externalities that are likely to impinge upon the region within the next two to five years. It concludes with an in-depth examination of those issues which specifically inhibit sustainable growth of the OECS food system.

#### **2.1. Economic Performance**

The OECS countries examined in this report are Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Summary data characterizing their economies are presented in Table 1 and more detailed data are given in Annex A. All of these countries are small in terms of land area and population, with a combined population in 1989 of only 571.5 thousand. St. Kitts and Nevis had the smallest population at 43.0 thousand and St. Lucia the largest at 148.2 thousand. The population of each country is equivalent to that of a small city or a large town in the United States or Europe. A widely used analogy is a combined area slightly smaller than Rhode Island with approximately 3/4 of that state's population.

The OECS countries have experienced slow rates of population growth and in some of them there have actually been periods of population decline. While birth rates are fairly high relative to death rates, the ability and willingness of people to emigrate have kept down population growth rates and have helped mitigate population pressures on land resources.

The six countries experienced good economic growth in the 1980's resulting in rising levels of real per capita income. For the 1980-85 period, annual average growth in real GDP ranged from 2.8 percent in St. Vincent and the Grenadines to 5.4 percent in Antigua and Barbuda. Annual average growth rates were significantly higher in the 1985-89 period ranging from 5.0 percent in Dominica to 11.0 percent in St. Vincent and the Grenadines.

Despite good economic growth, the OECS countries are still poor, generally falling in the middle income category of developing countries. St. Vincent and the Grenadines is the poorest with a per capita income of US\$552 in 1989. At the other end of the spectrum is Antigua and Barbuda with a per capita income of US\$1,526. Poverty is a major factor explaining the high rates of emigration experienced by the OECS countries.

A hallmark of each country is a persistent and large deficit in merchandise trade. The deficits among the countries have been offset by net service exports (mainly tourism) and net international capital transfers consisting of foreign private investment and a large measure economic aid under a combination of bilateral and multilateral lending programs (see Annex A.). Antigua and Barbuda ran a consistently large current account deficit in the 1985-89 period and has the largest foreign indebtedness of the six countries. The others have had current account surpluses in some years and deficits in others. In 1989, the external debt of Antigua and Barbuda was US\$237 million or US\$2,858 per capita -- 187 percent of per capita income. The external debts of the other countries in 1989 were much smaller and ranged from US\$32.5 million in St. Kitts and Nevis to US\$74.1 million in Grenada. Per capita external debt, with this debt expressed as a percent of per capita income shown in parentheses, was as follows for the five other OECS countries: Dominica, US\$767 (127 percent); Grenada, US\$741 (69 percent); St. Kitts and Nevis, US\$756 (67 percent); St. Lucia, US\$232 (35 percent); and St. Vincent and the Grenadines, US\$426 (77 percent).

Another interesting feature of the OECS countries is the level of government expenditures and the associated domestic debt situation. The size of government current revenues as a percent of GDP in 1989 ranged from 21.2 percent in Antigua and Barbuda to 44.0 percent in St. Lucia, representing moderately high levels of government activity in the economy in some of the countries. On the other hand, all of the governments tried to balance their current expenditure budgets over time. There were small deficits in some years and small surpluses in other. The conservative budget policies grow out of the fact that the Central Bank of the OECS does not permit countries to monetize debt and this prevents OECS members from running persistent current budget deficits (World Bank Report on long-term prospects for OECS countries).

Government capital expenditures as a percent of GDP varied widely over time and among countries. In 1989, this measure ranged from 2.7 percent in Antigua and Barbuda to 19.2 percent in Dominica; the 24.9 percent figure for St. Vincent and the Grenadines is an aberration, since the average for the previous four years was only 5.3 percent.

Table 1  
Economic Profiles of Six OECS Countries

	Antigua & Barbuda	Dominica	Grenada	St. Kitts & Nevis	St. Lucia	St. Vincent & Grenadines
Population, 1989(1,000)	82.9	82.4	100.0	43.0	148.2	115.0
Annual Population Growth (%)						
1980-85	0.7	1.7	-3.0	0.1	N.A.	1.3
1985-89	2.3	0.8	1.6	-0.5	-1.1	1.2
Real GDP Growth (%)						
1980-85	5.4	3.6	3.8	4.9	3.8	2.8
1985-89	5.6	5.0	5.6	6.4	4.8	11.0
Real GDP Per Capita, 1989 (EC\$)	4,120	1,620	2,915	3,045	1,790	1,490
Agr. Share of GDP (%)	4.0	27.0	18.6	9.2	N.A.	17.2
Trade Balance, 1989 (US\$mil.)	-316.2	-62.0	-71.2	-73.0	-164.6	-52.9
Current Account Balance, 1989 (US\$mil.)	-81.8	-32.4	-32.0	-18.7	-47.6	-11.2
Net Capital Movement, 1989 (U.S.\$mil.)	81.9	33.1	30.7	25.0	53.2	12.1
External Debt., 1989 (U.S.\$mil.)	236.9	63.2	74.1	32.5	34.4	49.0
Debt Service, 1989 (U.S. \$mil.)	1.0	2.8	9.1	1.6	4.3	2.0
Debt Service % GDP, 1989 (%)	0.3	1.8	5.0	1.5	1.9	1.2
Current Budget Deficit, 1989 (EC\$mil)	-11.4	11.1	-11.9	7.7	65.5	11.3
Total Deficit, 1989 (EC\$ mil.)	-38.8	59.6	-34.9	-3.9	24.3	-101.7
Current Revenues % GDP, 1989 (%)	21.2	29.4	33.2	31.2	44.0	30.1
Capital Expenditure % GDP, 1989 (%)	2.7	19.2	4.7	4.0	11.8	24.9

Source: Caribbean Development Bank, Social and Economic Indicators, 1989

The structure of the OECS economies changed in the 1980's (Table 2). Between 1980 and 1989, agriculture's share of GDP declined in four of the countries, but increased in St. Lucia and St. Vincent and the Grenadines. We did not have sufficient time to explore why agriculture's share of GDP increased in the latter two countries but speculate that the rapid expansion of banana production and exportation into a strong currency country (U.K.) may explain some of this. In itself, a decline in the relative importance of the agriculture sector is not a bad sign since primary industries generally become less important as a country develops, and all six OECS countries experienced respectable economic growth in the 1980's.

The importance of agriculture in the total economy varies widely among the six countries from a low of 4.0 percent in 1989 in Antigua and Barbuda to a high of 27.0 percent in Dominica. Agriculture also accounted for more than 15 percent of GDP in Grenada, St. Lucia, and St. Vincent and the Grenadines.

Experience with manufacturing was generally not very good in the OECS countries during the 1980's. Only Dominica and Grenada experienced significant increases in manufacturing's share of GDP, although the sector accounted for only 7.2 and 5.3 percent of GDP, respectively, in these two countries. Manufacturing's share of GDP was either stable or declined in the other countries and was of greatest importance in the economy of St. Kitts and Nevis with a 15.7 percent share of GDP in 1989. Recent discussions with national development bank personnel in each country indicate that this sector is continuing to remain flat.

Overall, the hotel and restaurant (tourism) sector performed the best in the 1980's. Its relative importance increased in all six countries. While it is still a small sector in Dominica and St. Vincent and the Grenadines, it accounted for as much as 16.5 percent in Antigua and Barbuda in 1989.

Table 2

Share of Selected Sectors in GDP in  
OECS Countries (in percent)

	Agriculture		Manufacturing		Hotel & Restaurants	
	1980	1989 <sup>*</sup>	1980	1989	1980	1989
Antigua & Barbuda	7.1	4.0	5.3	3.1	13.9	16.5
Dominica	30.6	27.0	4.8	7.2	0.8	1.5
Grenada	24.8	18.6	3.9	5.3	4.1	6.1
St. Kitts & Nevis	16.0	9.2	15.2	15.7	4.3	8.0
St. Lucia	11.7	15.7*	9.4	8.3*	5.9	7.6*
St. Vincent & Grenadines	14.6	17.2	10.7	9.2	2.0	2.1

\* For 1988.

Source: See Annex A.

The recent World Bank report on the OECS economies concludes that tourism has the most favorable outlook of the three sectors discussed above and historical performance supports this view (see Annex A, Table A.7). During the 1980-89 period, estimated expenditure by tourists increased at average annual rates of 20.9 percent for Antigua and Barbuda, 27.4 percent for Dominica, 15.2 percent for Grenada, 18.1 percent for St. Kitts and Nevis, 17.9 percent for St. Lucia, 13.5 percent for St. Vincent and the Grenadines, and 18.6 percent for the six countries taken together.

The outlook for manufacturing is not promising for several reasons. First, educational levels do not support growth in high technology products while relatively high wage rates make the region uncompetitive in the manufacture of many other products compared to countries in Asia and the Western Hemisphere which have lower wage costs. The wage rate problem will be exacerbated if future growth in tourism continues to bid up real wage rates.

The third sector, agriculture, has experienced only modest growth at best, but it is important because it provides a living for a large share of the population, places strong demands upon the countries' national resources, and has been a major source of foreign exchange earnings for some of the countries in the region. There are, however, major impediments to achieving better and environmentally sound performance in the agricultural sectors of the region and these are discussed in the next section of the report.

Currently, the importance of bananas and the need to diversify agricultural production dominates thinking about this sector. There is considerable pessimism about the outlook for bananas because (a) it is believed with good reason that the OECS countries will lose their banana price subsidy from the U.K. some time after January 1, 1993 when EC-92 goes into effect and (b) the region has low productivity and high production costs and will not be able to compete well in the larger international dollar market (Dominica Agricultural Assessment Report).

At the same time, progress has been very slow in finding attractive crops to replace bananas on at least some crop area. We will discuss bananas and agriculture generally in more detail later in this report. At this point, however, the importance of bananas in total exports and foreign exchange earnings of four countries in the region -- Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines -- is illustrated in Table 3. In the 1986-89 period, earnings from bananas accounted for an average of 60.3 percent of total exports in Dominica, 13.6 percent in Grenada, 57.6 percent in St. Lucia, and 35.4 percent in St. Vincent and the Grenadines.

Table 3

Bananas as a Percent of Total Exports

	<u>1986</u>	<u>1876</u>	<u>1988</u>	<u>1989</u>
	-----EC\$ million-----			
<b><u>Dominica</u></b>				
Total Exports	117.2	129.6	150.1	121.8
Bananas	67.8	82.8	99.4	64.9
Bananas Share of Total(%)	57.8	63.9	66.2	53.3
<b><u>Grenada</u></b>				
Total Exports	77.5	86.1	88.6	75.6
Bananas	10.1	10.8	12.7	10.9
Bananas Share of Total(%)	13.0	12.5	14.3	14.4
<b><u>St. Lucia</u></b>				
Total Exports	223.8	208.7	321.6	294.6
Bananas	150.6	113.7	177.4	158.0
Bananas Share of Total(%)	67.3	54.5	55.2	53.6
<b><u>st. Vincent</u></b>				
Total Exports	172.5	141.2	230.3	201.4
Bananas	53.3	47.6	83.5	82.2
Bananas Share of Total(%)	30.9	33.7	36.3	40.8

Source: Caribbean Development Bank, Social and Economic Indications, 1989, and WINBAN Newsletter, Jan.-Mar., 1991

## 2.2. Some Macroeconomic and Infrastructure Issues

There are a number of macroeconomic factors which have worked to retard economic growth in the OECS region. These include inflexibility in wage rates, barriers to movement of labor and capital, and an overvalued exchange rate. Many of these were dealt with in the recent World Bank report and were raised in our numerous country visits. They affect all sectors of the economy, but some more than others.

Development of the OECS economies would benefit from greater flexibility in wage rates. Governments should not take steps that directly or indirectly encourage wage increases that are inconsistent with labor market conditions. A related point is the need to allow greater movement of labor among countries in the region as well as between the region and other parts of the Caribbean. Greater labor mobility would help solve either temporary or permanent bottlenecks in the labor market and help equalize wages and incomes within the region.

Greater freedom to move capital within the region would also help stimulate development. The area's capital markets are not well developed and individual national restrictions on the movement of capital (e.g., alien land and investment taxes) work against a rationalization of investment and production among the OECS countries. While there is a well developed banking system in the region that provides a good base for business to use debt financing, mechanisms to support equity financing are weak (see recent report to USAID/Barbados).

The World Bank team also suggested that steps to reduce the spreads between borrowing and lending rates and to reduce transaction costs would have a favorable effect on investment and economic growth in the region.

Finally, the OECS region would benefit from simplification of tax structures and more uniform tax rates. Existing disparities are probably sufficiently great to restrict flows of capital and management within the region.

While the World Bank report examined the benefits and costs of the historic exchange rate system, on balance it favored keeping the EC dollar pegged to the U.S. dollar at the historic exchange rate of EC\$ 2.7/US\$. The World Bank report sees advantages in the currency stability the present system provides and it is also cognizant of the difficulties in changing the exchange rate, e.g., it requires unanimous consent of the OECS members.

Despite this view we believe that the EC\$ is overvalued and the extent of overvaluation should be examined as part of any USAID sponsored policy analysis project, and particularly how the

overvalued currency is affecting the agricultural sectors in the region. An overvalued EC\$ is discouraging production of agricultural products for export outside the region and encouraging food imports. It is also adversely affecting manufacturing for export and tourism at a time when competition from other countries in the Caribbean region and elsewhere in the world is increasing. Even if it were not possible to change the exchange rate, an analysis of the extent to which the EC\$ is overvalued would show in quantitative terms the adverse impact it is having on food and agricultural production in the region and in the agricultural trade balance.

Norton recently discussed the exchange rate situation in the OECS region, especially as it relates to agriculture. (Roger D. Norton, Notes on Agricultural Strategies for the Eastern Caribbean, 1988). He points out that:

"During the 1980's, there were suggestions on the part of the IMF that the EC\$ should be devalued. That suggestion has been shelved after the real exchange movements of the last two years. However, it still is true that the OECS economies have high cost structures... relative to other countries in the region. In 1987, wages in Antigua, for semi-skilled workers in manufacturing for export, were 120% higher than in Jamaica and 75% higher than in the Dominican Republic. Wages were lower in the other OECS countries than in Antigua but they still were higher than in the rest of the Caribbean.

"This situation has arisen as a result of the growth in one export-oriented, high wage sector: tourism. It is analogous to the situation of Holland in the 1950's, with the discovery of exportable quantities of natural gas, and Nigeria, Mexico and Venezuela in the 1970's, with their petroleum sectors.

"In these circumstances (called the 'Dutch disease' syndrome), the leading export sector supports the exchange rate at a level higher than it would otherwise be, and at the same time it puts upward pressure on the domestic wage structure. Both effects are damaging to the international competitiveness of the economies other tradeable-goods sectors: agriculture and manufacturing."

Norton looks at three options for dealing with this situation. First, he concludes that it is probably not feasible at this time to devalue the EC dollars because of the real effective devaluation that has occurred as a result of the U.S. dollar having declined relative to other major currencies during the second half of the 1980's.

An alternative to devaluation is to let real wage rates decline over time, but that too may not be possible with continued growth in tourism. Governments in the region may have a marginal influence on real wage rates by at least modifying policies for

public sector employment that set unusually high wage levels.

Finally, one has the option of using compensating trade policies using a system of tariffs and export subsidies. Tariffs on agricultural products would help offset the downward effect on agricultural prices of an overvalued currency, and selected export subsidies would help make agricultural exports more competitive in world markets. This approach would be difficult enough to implement if one is dealing only with a tariff-export subsidy regime for the OECs countries. It is a much more difficult task in the context of the common external tariff structure (CET) that CARICOM is attempting to put in place.

To repeat, whatever the policy approaches taken by the OECs countries, it is important to know the extent to which the EC dollar is overvalued at any point in time since this will dictate the magnitude of compensatory adjustments whether they be devaluation or a compensatory system of tariffs and export subsidies. And if compensatory measures are not adopted, it will indicate the burdens that an overvalued currency are imposing on the two leading foreign exchange earning sectors -- tourism and agriculture.

Economic growth in the OECs region is also being adversely affected by an inefficient and high cost transportation system, particularly in the case of manufacturing and agriculture, for movement of goods within the region as well as for export outside the region. Inter-island shipping is currently considered inadequate by many people we talked with in terms of frequency, cost, and ships suited to carrying perishable products. The publicly-owned regional shipping company, WISCO, is poorly managed but at the same time works to block private companies from improving services. There are also few land-air-sea links, making it difficult to use inter-modal forms of transportation. The current situation makes it difficult and costly to ship many agricultural products within the region and outside the region, especially in the case of perishable fruits and vegetables in which the region might have a comparative advantage. It is often cheaper to import food products from the United States than it is to produce and ship them within the region. The lack of transport also stymies assembly of small lots of products into efficient size shipments for export outside the region. With the exception of bananas, the transportation problems facing agricultural products and what can be done about them need to be examined.

At the same time, there are also some indications that existing transport facilities are not being fully used. In St. Kitts, for example, it was pointed out to us by a Ministry of Agriculture official that a U.S. air carrier flies meats and produce from Miami to St. Kitts and returns empty despite efforts on its part to try to get cargo for the return trip.

## 2.3. External Threats to the OECS Region

Economic and political developments around the world could pose serious threats to future economic development in the region. While many people are aware of at least some of them, little thought has been given to most of them with respect to their quantitative impact on economic growth prospects for OECS countries. Some of these developments are discussed briefly below.

### 2.3.1. EC-92

Probably the best understood issue in the region is that the EC will begin to diminish the 30 percent premium the U.K. has been paying for OECS bananas after January 1, 1993. No one knows how fast the subsidies will be phased out or whether there will be some form of economic compensation paid to OECS countries by the EC for loss of the banana subsidy.

This issue has been apparent for some time, yet little has been done to date by governments in the region to cushion the adverse impact of the loss of the banana subsidy. USAID financed projects such as the Agricultural Diversification Coordination Unit (ADCU) in the OECS Secretariat and the TROPRO project to promote exports of tropical products other than bananas are a step in the right direction in preparing for the post EC-92 period. But one senses that governments themselves in the region are doing little to prepare for the transition. The following type of statement is common among government officials we interviewed: "Bananas are the most attractive crop and there is nothing we can do to get farmers to grow alternative crops as long as the banana subsidy is in place." This is analogous to watching a major accident happen in slow motion.

There probably are steps that the banana producing countries of the region could take to provide an orderly transition to a more competitive dollar banana market and the implications of these steps need to be studied. Some of the measures that might be looked at are:

- Expanding efforts to increase banana productivity and competitiveness in the dollar market, although studies indicate improvements in this area are only a partial answer.
- Even greater efforts than those mentioned later to stimulate economic production of alternative crops (e.g. cocoa, coffee, spices, cut flowers and fresh fruits and

vegetables), and to put in place efficient marketing systems to serve both the domestic and export markets that would provide a stable if not regulated market at prices that are attractive to farmers.

- Begin to make banana production less profitable through a combination of taxing exports and withdrawing any input subsidies as a way to force farmers to diversify production for the market.

Unless policymakers and farmers in the region better understand the options available to them and the practical implications of each option, little may be done to ease the transition costs that will be experienced by banana producers. Given the importance of bananas (discussed below), there is a good chance that EC-92 will impose a major external shock that, as the World Bank study states, will be very disruptive and painful to the fragile economies in the area, particularly the four countries that depend heavily on bananas to earn foreign exchange.

### **2.3.2. North America Free Trade Agreement (NAFTA)**

Within a year or so the NAFTA will be in place and the United States, Mexico, and Canada will have a common market. Studies done to date by and for agencies of the U.S. government indicate the following results of a NAFTA that are relevant to the OECS region:

- The benefits of expanded trade in NAFTA will come in part from displacing trade with third countries, with additional trade gains coming from more rapid economic growth within NAFTA.
- Within the constraints imposed by U.S. phytosanitary regulations, Mexico will benefit greatly from expanded exports of fresh and processed fruits and vegetables to the United States and Canada.
- Manufactures based on low cost labor will expand rapidly in Mexico and the products will be shipped to the United States and Canada. Expanded manufacturing opportunities will also attract capital and management from the United States and Canada as well as from third countries who wish to establish a production base in Mexico to serve the NAFTA market.

None of these developments will be especially good news for OECS countries. Individually and collectively, they should be looking at and evaluating policy options available to them for dealing with the growth in competition they will face as a result of NAFTA.

### **2.3.3. Enterprise for the Americas Initiative (EAI)**

The Bush Administration has announced its EAI for Latin America and the Caribbean. Specifics about the EAI have not yet been fleshed out, but it is known that the Initiative proposes action in three key areas: (1) external debt; (2) investment promotion; and (3) strengthening trade relations. EAI does not propose a development strategy, but rather it constitutes a mechanism for accelerating ongoing reforms along the lines proposed by multilateral financial institutions and with the support of the U.S. government.

To the extent that EAI will be of substantive value, what are the OECS countries doing to position themselves to benefit from this new U.S. initiative? Do they have a good enough understanding of their own economies and their response capabilities to know how to capitalize on EAI when it takes more concrete shape and form?

### **2.3.4. Cuba After Castro**

It is a widely held view that Castro and communism cannot last much longer in Cuba, especially given the deplorable state of that economy and the withdrawal of Soviet aid. Europeans have already begun to develop hotels and tourist facilities in Cuba. The Cuban-American community is just waiting with capital and management to go back to Cuba and the foci of their investment plans are broad -- tourism, manufacturing, agriculture, and trade. These private U.S. initiatives will undoubtedly be bolstered by official aid from the U.S. government. Once Cuba becomes "fashionable" in reality, it will be a strong magnet drawing scarce capital and management and tourists away from the rest of the Caribbean region. The OECS countries are likely to be one of the casualties in the wake of Castro's demise. What is the OECS region doing to prepare for this eventuality? What policy options are available to the region to counter the unfavorable impact of an open Cuba? Can OECS compete with this new tourist market? Will OECS be able to compete with the growth in Cuba's exports of fresh fruit and vegetables that is likely to occur, particularly since Cuba is rich in land resources and should diversify its sugar economy?

### **2.3.5. Eastern Europe and the Old USSR**

On a much larger scale than Cuba, the demise of communism and the emergence of democracy and market economies in Eastern Europe and the republics of the former Soviet Union have captured the political attention of the industrialized countries and may yet

entice western firms to invest capital and deploy management into this region on a significant scale. Both governments and private sectors have limited capacities and a need to focus on what they consider to be priority issues, areas, and markets. They cannot nor do they wish to give equal emphasis to all areas. Many parts of the developing world are already losing out in the attention race. How will the OECS countries fare?

A related point about Eastern Europe and the former Soviet Union is worth contemplating. They have a tremendous need for investment capital. If that need is ultimately met by industrialized countries and multilateral lending institutions such as the World Bank, the European Bank for Reconstruction and Development, and the IMF, the real cost of borrowing will remain high and could increase. This may be especially so if the United States and some other developed countries continue to run large budget deficits.

Are the OECS countries equipped to deal with higher borrowing costs, particularly in view of their already heavy dependence on public and private capital inflows? What will higher borrowing costs mean for overall development in the OECS region and for specific sectors such as agriculture, manufacturing, tourism and capital expenditures by governments?

## **2.4. OECS FOOD SYSTEMS AND KEY ISSUES**

In this section we examine the food systems of the OECS countries. The concept of a food system involves all activities related to providing inputs to farmers, agricultural production, domestic marketing and processing, imports and exports of food and agricultural commodities, the domestic consumer market, and the provision of public services to and public regulation of the full spectrum of these activities. A country's food system is much broader in scope than what is typically called agriculture, which is usually defined to cover production of crops and livestock and sometimes includes some marketing and processing functions.

### **2.4.1. Food System Data Base**

The food system data base is very weak in the OECS countries. International trade data including trade among the OECS countries themselves is quite good. So too are production data related to long-standing export crops such as bananas and sugar, and information on the limited number of food processing establishments. But beyond these areas the quantity and quality of data on the production and domestic marketing of crops and livestock are poor and often incomplete, and lengthy time series data to track performance over time are virtually non-existent. Also, economic studies of production, marketing, and processing efficiency and returns are spotty at least outside of the major, traditional export crops.

Improving the food system data base in the OECS region should be a high priority and integral part of any policy analysis effort. Several areas deserve special attention. First, while it may not be possible to fill in data gaps and improve the quality of historic data for a large number of crops and livestock, a capacity to gather production, marketing, processing, and trade data systematically using sound statistical techniques should be implemented immediately, and these data should be published on a timely basis. Such a system would generally remedy existing deficiencies and provide a better data set for the future. In the interest of efficiency, data collection efforts could be run on a regional basis with each country participating in the process. The cooperative relationship between the National Agricultural Statistical Service in the U.S. Department of Agricultural and the individual State Agricultural Statistical offices is one possible model.

Second, analysis of a country's competitiveness in world trade of food and agricultural products require detailed information on costs and returns for individual crops and livestock as well as for

total farm enterprises. Information is needed on both imported and domestically produced inputs used by farmers, agricultural wage

rates, land and water costs, marketing and processing margins, capital costs, domestic and f.o.b. export prices and c.i.f. import prices, exchange rates, etc. These data will have to be gathered by systematically conducted surveys, and updated periodically. Studies of export competitiveness can identify which products are produced most competitively and the reasons for uncompetitiveness such as macroeconomic policies affecting exchange rates, tariffs, non-tariff barriers, taxes and subsidies; sector impediments such as inefficient processing or marketing systems, poor transportation, and inadequate storage infrastructure or product quantity; and inadequate levels of productivity measured by yields per acre or per animal unit, capital/output ratios, and labor productivity.

Third, data that are gathered need to be prepared in formats that allow analysts to look at the whole food system for both individual products and across products so that one can evaluate multi-product activities. As we will discuss shortly, farming in the OECS countries involves a wide range of crop and livestock activities in total and on individual farms. Marketing and processing activities are or can be diverse as well. Diversity of production, actual or potential volumes marketed, seasonality in production, and markets for both fresh and processed products all need to be considered in evaluating policies that might improve the productivity and efficiency of the OECS food systems. The data base must be adequate to support needed policy analysis and implementation.

#### **2.4.2. A Statistical Snapshot of OECS Agriculture Production**

A picture of agricultural production in the six OECS countries considered in this report is presented in Table 4 for 1988. While the information is incomplete in many respects, and some of the numbers are estimates, one can still draw some important conclusions from the data, some of which are already obvious to people working in the region and some may not be generally understood.

- As already discussed in terms of agriculture's share of total economic activity, area devoted to crops and livestock production is much larger in Dominica, Grenada, St. Vincent and Grenadines than it is in Antigua and Barbuda and St. Kitts and Nevis.
- There is considerable diversity in production both within and among countries, indicating potential for agricultural trade within the region as well as for

exports outside the region.

- Given the generally small size of farms within the region, production on individual farms is diversified to meet family food needs, the need for cash income, and risk diversification requirements.
- Given the dominant position in land use of bananas in Dominica, St. Lucia, and St. Vincent and the Grenadines, loss of the U.K. subsidy could free up substantial amounts of land for use in tree or field crops. Either marketing systems are developed and markets are found for a substantial increase in output of alternative crops or some land will go out of production and many people will be forced to find alternative sources of income.

Beyond these points, available data and studies provide only fragmentary insights into the nature of production. We know that banana yields are low and production costs are high relative to the other major producing countries of the world (Dominica Agricultural Sector Assessment Report, 1991 and Sema Group Management Consultants report on banana marketing).

Yields of many other crops also appear to be low relative to "best-practice" situations found elsewhere in the world, but yields are not a good sole indicator of economic efficiency. Productivity in the livestock sector also appears to be poor. But these are just conjectures at this point and production efficiency needs to be carefully studied.

TABLE 4.  
CROP AND LIVESTOCK PRODUCTION IN OECS COUNTRIES, 1988

	ANTIGUA & BARBUDA		DOMINICA		GRENADA		ST. KITTS & NEVIS		ST. LUCIA		ST. VINCENT & GRENADINES	
	Acres	Tonnes	Acres	Tonnes	Acres	Tonnes	Acres	Tonnes	Acres	Tonnes	Acres	Tonnes
<b>CEREALS</b>												
Maize	32.0	57.0	.	.	.	.	.	.			25.0	340.0
<b>SUGAR CROPS</b>												
Sugarcane	5.0		.	.	220.0	7,863.0	7,882.0	275,174.0				
<b>FIBER CROPS</b>												
Sea Island Cotton (lint)	30.0	3.6					80.0	2.9				
<b>OIL CROPS</b>												
Coconuts	300.0	650,000pc	16,000.0	22,000.0	347.0	6,675.0			4,781.0	3,500.0	12,800,000pc	
Peanuts	15.0	10.9					88.0	31.8			208.0	112.0
Bay			300.0									
<b>LEGUMINOUS CROPS</b>												
Stringbeans	35.0	41.0	.	.			1.5	0.8			41.0	91.0
Pigeon Peas	10.0		.	.			.	.			.	.
<b>ROOT CROPS</b>												
Sweet Potatoes	68.0	218.0	.	.	107.0	280.3	107.5	182.3	80.0	543.0	4,910.0	12,812.0
Yams	11.0	81.0			58.0	272.2	6.0	31.8	100.0	808.0	525.0	2,100.0
Eddoos	16.0	43.5									3,200.0	14,800.0
Cassava		37.0	100.0	600.0	46.0	134.0					52.0	587.0
Dashoons			2,500.0	37,000.0							1,170.0	5,295.0
Tanna			1,100.0	4,510.0	32.0	72.6					2,900.0	7,847.0
White Potatoes			25.0	175.0			20.0	108.6				
Arrowroot											145.0	1,640.0
<b>SPICES</b>												
Ginger	39.0	97.0	3.0	15.0	2.5	6.6	.	.	30.0	62.0	210.0	1,335.5
Hotpepper (1988)	1.0	2.2	25.0	59.0	10.0	69.6	.	.	40.0	170.0	79.0	215.4
(1990)			50.0	120.0								
Cinnamon					25.0	5.3						
Cloves					40.0	15.0						
Nutmeg & Mace					6.0	2,528.0					56.0	130.5
Pimento					15.0	0.8						
Others					3.0							
<b>BEVERAGE &amp; MEDICINAL CROPS</b>												
Cocoa			260.0	2.4	5,236.0	1,752.6			113.0	51.0	19.0	
Coffee			600.0	593.0			17.0				5.0	
Sorrel	10.2											
<b>FRUITS &amp; NUTS</b>												
Bananas & Plantains	35.0	84.0	15,250.0	74,899.0	1,299.0	9,258.0	6.0		15,500.0	132,000.0	10,978.0	69,159.0
Pineapple	110.0	430.0			2.0	27.0						
Papaya	5.8	1.8										
Grapefruit	2.0		3,715.0	11,145.0			5.0		300.0	2,546.0	100.0	
Oranges/Tangerines	11.3		1,400.0	3,500.0	50.0	230.0	18.5		300.0	1,584.0	220.0	
Limes/Lemons	1.0		1,200.0	4,800.0			3.9		20.0	150.3	20.0	
Avocados	3.0		350.0	1,050.0	115.0	1,150.0	5.0		200.0	394.0		
Mango	14.8		893.0	4,465.0	236.0	1,690.0	18.2		400.0	2,000.0		
Breadfruit	0.8		.	.	250.0	4,250.0			80.0	1,600.0		
Passionfruit			150.0	750.0								
Cantaloupe					5.0		1.5	7.2				
Sapodilla					47.0	329.0						
Sugarapple	0.5				30.0	90.0						
Soursop	1.2											
West Indian Cherry												
Other	6.9											
<b>VEGETABLE CROPS</b>												
Eggplants	60.0	248.0										
Squash	36.0	64.0										
Pumpkins	50.0	233.0	126.0	756.0			33.0	59.0	20.0	135.0	10.0	137.0
Carrots	55.0	177.4					4.0	16.1	15.0	56.0		
Tomatoes	53.0	168.0			52.0	136.0	15.3	77.1	20.0	72.0		
Cucumbers	44.0	161.0					2.5	12.7	20.0	133.0	20.0	100.0
Cabbage	30.0	111.0			48.0	262.0	21.5	63.5	12.0	100.0		
Okra	28.0	83.0										
Sweet Pepper	13.0	35.0					1.5	4.1	6.0	24.0		
Onions		37.0										
Christophene							12.0	52.2				
Watermelon							1.5	40,000	15.0	25.0		
Lettuce												
<b>LIVESTOCK</b>												
Cattle	Head		Head		Head		Head		Head		Head	
Cattle	14,500				5,000		3,327				5,500	
Beef		541.9		508.8		293.4		155.1				222.0
Milk (gal.)		821,280		1,250		3,000		42,000		2,418		24,000
Sheep & Goats	18,000				26,000		16,500				17,000	
Sheep & Goat Meat		6.1		335.0		46.5		77.1				28.1
Pigs	3,000				11,000						9,500	
Pork		187.7		126.8				119.5				48.0
Poultry Meat		22.7		16.0		13.6		85.0		161.0		
Eggs (doz.)		550,000		306,000		25,000		285,500		249,000		

\* Provided in small quantities mainly for home consumption.

Source: Study of the Agricultural Sector of the OECS: Country Profiles, Agricultural Diversification Unit, OECS, April, 1991.

### **2.4.3. Trade in Food and Agricultural Products**

#### **2.4.3.1. Imports**

The OECS region is heavily dependent on food and agricultural imports. In recent years food imports have accounted for as much as 15 percent of total imports (Table 5). This relationship does not include imports of feedstuffs for the livestock and poultry sectors or agricultural inputs.

It is useful to have a working taxonomy for looking at the structure of imports and the economic and infrastructure factors that drive them.

First, one has to distinguish between the demands of the tourist sector from those of the resident population. In 1989, the resident population of the six countries being considered was 572,000. In that same year the number of non-cruise tourist arrivals was 557,000. Available data indicate that the average tourist in the Eastern Caribbean stayed 1-2 weeks. (CTO Annual Report, 1989). This means that tourism is equivalent on an annualized basis to 2-4 percent of the resident population, and that share is likely to grow since the rate of growth projected for tourism far exceeds that for the resident population.

**Table 5**

**Food Imports as a Share of Total Imports in  
OECS Countries, 1988**  
(U.S.\$ million)

	<b><u>Total Imports</u></b>	<b><u>Food Imports</u></b>	<b><u>Food's Share(%)</u></b>
Antigua & Barbuda	310.6	1.3	0.4
Dominica	87.5	5.9	6.7
Grenada	92.1	14.5	15.7
St. Kitts & Nevis	92.7	6.5	7.0
St. Lucia	221.0	23.8	10.8
St. Vincent & Grenadines	122.3	17.4	14.2

Source: **Caribbean Development Bank, Social and Economic Indicators, 1989 and national trade data presented in A Study of the Agricultural Sector of the OECS: Country Profiles, Agricultural Diversification Unit of the OECS, April 1991.**

Given that incomes of tourists are well above those domestically and their food preferences differ as well, the tourist sector generates a significant demand for food, one that is likely to grow, and one that to some extent will have to be satisfied by significant imports from outside the region. But not all the food consumed by tourists is or needs to be imported from outside the OECS region. And, continued growth in tourism provides the agricultural sectors with an expanding market for foods that can be produced competitively in the area.

As incomes of the resident populations increase, consumption patterns will also change. In the context of currently low average incomes in the area, income growth is likely to favor added consumption of livestock products, imported cereals and feedstuffs, and fresh fruit and vegetables. On the other hand, one might expect shifts away from root crops and certain other foods considered to be staples in the diets of the poor people in the region.

An important component of a policy analysis program should be studies on levels and patterns of food consumption for both the tourist sector and the domestic population and how they will change over time.

Second, imports by the OECS countries have to be looked at in terms of what the region cannot produce at all or only at a very high cost. Some of the obvious items that would fall into this category are cereal grains (wheat and rice), feedstuffs (feed grains and protein feeds), vegetable oils other than coconut oil, certain temperate zone fruits and vegetables, and a variety of processed foods for which raw materials are not available in the region or for which local processing would be very inefficient and costly.

Third, there are an array of food products where domestic production might be a feasible alternative to imports or where domestic products can be easily substituted for imports. Whether to produce more meat, milk and eggs locally or to rely on imports has to do with how competitive local production is. It would appear that a wide range of fruits and vegetables and products derived from them can be produced in the region (e.g., tomatoes, cucumbers, cabbage and possibly even lettuce). Again, the import/production mix will be determined primarily by price competitiveness. Also, regional products can be substituted for imports; e.g., mangoes and papayas for apples and pears and sweet potatoes, yams, pumpkins, etc. for imported white potatoes or rice.

Fourth, there is the possibility for the OECS countries to substitute imports from other countries in the region for those from third country sources, and the regional market will grow as

the volume of tourism increases and as population and incomes in the region increase. Based on discussions with people in the region, several constraints to intra-regional trade stand out, however:

- Temporary (seasonal) or permanent barriers to intra-regional movement of some products as some countries try to insulate their producers from external competition, i.e., comparative advantage within the region is being thwarted.
- Inefficient domestic marketing systems and inadequate inter-regional transport which depresses produce returns and discourage production of food items for which there is or could be a good regional market.
- A lack of sufficient integration of production and distribution and quality standards that works against local producers being able to satisfy the unique demands of the tourist sector and up-scale retail establishments on a timely and cost competitive basis.
- Even if marketing, processing, and distribution in the region were to be efficiently organized, farmer productivity is still generally low. Technologies and production practices need to be improved and adapted to local farm conditions to make regional production more competitive with imports from outside the region.

Finally, there appear to be several macroeconomic policies that favor imports over domestic production generally or for specific items. An overvalued exchange rate would be a powerful force favoring imports over domestic production and shaping domestic food consumption patterns through determining relative prices among different foods. The structure of tariff and non-tariff trade barriers is another area that needs to be examined, but we did not have the time to do so. If, as discussed earlier, currency devaluation or reducing labor costs are not viable options, then a selected system of tariffs and export subsidies is another possibility. However, the structure of such a system should be consistent with the region's comparative advantages within agriculture with respect to both intra-regional and extra-regional trade in food and agricultural products.

#### **2.4.3.2. Exports**

The exports situation in many ways is a mirror image of what governs imports:

- Correcting for an overvalued currency which reduces competitiveness in export markets outside the region

would help stimulate exports.

- There is a need to improve farm technology and production efficiency for crops exported outside the region as well as those traded within the region.
- There is a major need to organize marketing, processing, and transport better to be more competitive in world markets and to increase and stabilize producer returns.
- The need to identify promising overseas markets and those within the region, develop business strategies and practices to penetrate these markets, and provide the quality products consumers inside and outside the region demand.

It is somewhat ironic that the marketing "success" story of bananas has not been replicated in other areas. The price subsidy issue aside, the banana story represents a case where production of many small producers has been organized to deliver a quality product on a timely basis to foreign consumers, while at the same time minimizing price risks to producers. The entrepreneurship and management skills that have gone into bananas need to be duplicated in other areas and most likely in a multi-product basis.

#### **2.4.4. Food System Constraints.**

In reviewing material and in discussions with a broad range of public and private sector people on prospects for the food system in the OECS countries, one is struck by some of the severe human and natural resource, cultural, institutional, infrastructure, and legal constraints operating on this system. Some of the more prominent ones are discussed here. It is important to recognize these constraints because they will blunt the response one will get from changing either macroeconomic or sectoral policies. Changing policies usually involves a great deal of political effort and cost. Having policies changes produce disappointing results imposes even higher costs (pain) on policymakers.

##### **2.4.4.1. Cultural Bias Against the Food System**

Participating in the OECS food system is generally not attractive for labor, management, and entrepreneurs. It is not a sector that attracts the best and the brightest people. A low level of profitability is certainly a major factor explaining this state of affairs. But even if profitability were to be improved, there is likely to remain a cultural bias against the sector which will have to be overcome through broad educational programs that portray the sector as one offering promising, profitable, and meritorious opportunities.

It is not hard to understand this source of bias. Historically, most people employed in the food system felt exploited, and with good justification. They were little better off at the end than at the beginning of the day. "Foreigners" occupied what prestigious and well paying jobs there were. The system was quite static and did not need nor did it reward entrepreneurs. For example, the basic nature of the sugar industry hasn't changed much in the past few hundred years and the same is true for much of the history of the banana business in the region. Agricultural production is hard, unglamorous work and challenging opportunities in food processing and distribution have been limited.

Under these circumstances, one should not expect an immediate rush of local entrepreneurial talent, management, and labor into food system activities even if they become more profitable. Experience has shown that it takes considerable time to reorient cultural values as evidenced by the disappointing results of many IMF-sponsored structural reform programs, compounded also by inadequate institutional and infrastructure bases.

There does not appear to be significant educational efforts in the OECS countries to portray the food system as an area of opportunity and promise.

#### **2.4.4.2. Infrastructure Constraints**

Countries in the OECS region face some serious infrastructure constraints in improving their food system. One mentioned already is the inadequacy of transportation facilities to be more competitive in intra-regional and international trade.

Another, is a lack of transportation infrastructure needed to provide efficient marketing systems for agricultural producers. Most of the countries and especially those still heavily dependent on agriculture are very hilly. Providing farmers in remote hilly areas with roads on a year-around basis would be uneconomic and probably environmentally unsound. Currently, farmers in these areas produce a variety of subsistence crops and bananas are the main cash crop which start the marketing process by being carried to the nearest road where they can then be moved by truck. Economic prospects for these farmers are bleak in view of the almost certain loss of the banana price premium. The lack of transportation infrastructure will also make it extremely difficult and costly to get these farmers to produce other high value, perishable crops because of problems involved in moving such crops to consumers on a timely basis and maintaining satisfactory product quality. The land resources in these remote areas are also generally not suited for the use of modern technology or mechanization to improve labor productivity and farm incomes.

Given the bleak agricultural development prospects for remote, hilly areas, governments in the region should for economic, social, and environmental reasons begin to consider policies to depopulate these areas. Rather than condemning people in these areas to perpetual poverty and intensifying pressures in environmentally fragile land, governments should begin thinking about alternative ways and places in which they can earn a living and to develop programs and obtain financial resources required to sustain an orderly movement of people to other areas and into other pursuits.

A corollary to this approach is that agricultural development efforts should be focused primarily on those areas with greater access to markets and which have less environmentally fragile soil and water resources. Over time, if conscious policies are not put in place to bring about the needed economic and demographic adjustments, the market will. However, the latter approach may be more socially and environmentally not to say politically costly than the former one.

#### **2.4.4.3. A Lack of Institutions for Efficient Marketing and Processing**

Aside from a few organized commercial activities such as bananas and a few other crops such as cocoa and some livestock products, much of the domestic and intra-regional marketing of agricultural products is done by hucksters. They are undoubtedly efficient in what they do, but they limit themselves to a rather narrow range of activities. Also, the food processing base in the OECS region is small and much of it is inefficient because of the small size of plants and unreliable raw material suppliers.

Improving the efficiency of the marketing and processing systems in the OEC countries to serve both the regional market and the international export market will require a higher degree of public and private cooperation and commitment than now exists and that goes beyond such ongoing efforts as the TROPRO project and the operations of CATCO. Areas that need to be tackled and for which a combination of private and public sector activities are required include:

- Creating systems of grades and standards for a wide range of products that farmers can meet and that are acceptable in regional and international markets. These would provide both meaningful quality standards, facilitate inter-island trade, and provide a basis for setting trade disputes (TROPRO has begun work in this area).
- Concentrate on creating marketing mechanisms that provide an orderly flow of high quality products to markets, ensure a tolerable degree of price stability, and meet

producers' cash flow needs.

- Carefully examine which food processing industries can operate efficiently in the context of sufficient volume, multi-product processing, and an adequate and stable flow of raw materials to sustain a high level of plant utilization.
- Integrate fresh and processing markets as a way to expand the market facing farmers (Dominica Agricultural Sector Assessment). Production in excess of fresh market demands could go into processing and the processing sector should be equipped to handle a wide range of raw materials in the interest of efficient utilization of plant facilities, e.g., multiple juice production facility. Using multiple market outlets in an organized way is a common practice for fruit and vegetable producers in other parts of the world. Achieving this higher degree of market coordination and allocation of products among markets goes well beyond the current capabilities of the huckster-based marketing system.
- Determine the degree of production specialization among the countries of the region that would be required to sustain reasonably efficient production, marketing, and processing facilities based on international standards, and remove investment and trade barriers to realizing these efficiency gains.
- Allow consumers in the region and abroad and the dynamics of the market to drive business and resource allocation decisions. The market, not government planners should be the driving force determining what is produced, when and where. As numerous studies have indicated, there is a general lack of consumer orientation in the OECS region.
- The public sector should confine its activities to those areas that it should be able to do well in such as agricultural research and extension (which should also be directed by market forces); food safety, phytosanitary regulations, and grades and standards; protection of the environment; and formulation of economic and sectoral policies that support overall economic development and that maintain an appropriate balance among sectors.
- The public sector should withdraw from a variety of businesses it now controls or is involved in and let the private sector take over. A review of marketing board activities in the OECS region by Chemonics shows that these organizations are ubiquitous, very inefficient, and rarely contribute to good food system performance.

- The private sector should be encouraged and enabled to develop sound business strategies and practices including permitting appropriate degrees of market integration domestically and forward into regional and international and international markets; attracting foreign investment and management, and modern technologies; and have access to capital and foreign exchange required to run efficient businesses.

#### **2.4.4.4. Removing Legal Constraints to a Better Business Environment.**

There are a variety of legal constraints to economic development operating both nationally and regionally.

One such constraint are land tenure patterns, the nature of which varies among countries. Land tenure issues are described elsewhere in this report. At this point we wish to highlight the fact that land tenure laws often (a) keep land out of production, particularly publicly owned lands; (b) inhibit the transfer of land making it difficult for progressive farmers to put together economic units and to adopt selective mechanization to offset high labor costs; and, in some cases, provide sufficiently insecure attachments to the land to thwart long-term investments necessary to either diversify or intensify production.

A second constraint has to do with alien (non-national) ownership of land or other investments. Non-nationals, whether from other countries in the region or from outside the region, are subject to an alien land-ownership tax which is small in some countries but not insignificant in others. There are similar constraints operating on non-agricultural businesses. Our interviews highlighted the fact that these taxes are an impediment to the deployment of both entrepreneurship and capital among the agricultural sectors in the region.

A lack of harmonization in income and business taxes among the OECS countries also acts as a barrier to rationalization of economic activity within the region based on specialization of production and reliance on trade.

These three legal issues, and undoubtedly others as well, need to be addressed and their impact on food system development evaluated. Each country in the area has a small economic base and barriers to specialization based on comparative advantage will significantly retard the pace of economic growth and that of the food system in particular.

### 2.4.5. TECHNOLOGICALLY DYNAMIC AGRICULTURE

For any sector to achieve sustained growth, it must experience continuous improvements in productivity through technological change, particularly in the case of open economies that face competition from the rest of the world. CARDI is the main agricultural research institution in the Caribbean region and is a source of technical change. Government extension services cooperate with CARDI to bring new crop varieties and improved farming practices to farmers in the region. There are also efforts to import new methods and adapt them to the region (e.g., work in irrigation and farming practices under the TROPRO project).

In the time available, we did not have an opportunity to systematically investigate the adequacy of the food system technology generating base serving the OECS region. Fragmentary information points to substantial scope for improving crop yields, livestock productivity, and food processing techniques closer to world competitive standards. This is clearly the case in bananas where yields and production costs have been examined in considerable detail.

As already alluded to in the section dealing with improving the food system data base, a policy analysis project should address the issue of agricultural productivity and its growth in OECS countries, how it compares to other nations who produce the same or similar products, and what can be done to both the private and public sectors to achieve and maintain satisfactory rates of productivity growth. This analysis should be done for both individual commodities and for the agricultural sector as a whole.

### 2.4.6. Tourism

Tourism has been one of the two dynamic sectors in the region and it is expected to continue to grow. This sector will continue to generate both opportunities for and threats to the OECS food system. The performance of tourism and its implications for the OECS food system needs to be studied in terms of at least the following issues:

- To what extent will continued growth in tourism generate increases in the demand for food that can be efficiently met by the region's food system?
- Growth in tourism will continue to absorb labor and bid up wage rates. How can agriculture best compete for labor in a rising wage-rate market?

- o Alter land tenure arrangements to facilitate growth in farm size and mechanization?
- o Achieve higher rates of productivity growth for specific crops or livestock activities to raise labor productivity?
- Growth in tourism and in the number of people who work in this sector will increase the demand for non-agricultural uses of land. How much land is agriculture likely to lose to tourism, what types of land, and where will it be located?
- As discussed in the next section of this report, there are important interactions between agriculture and tourism in the areas of natural resource management and the environment and problems in these areas must be addressed. What are these interactions and how will they be managed?

These four sets of linkages between tourism and the food system and undoubtedly others as will need to be addressed as part of a stronger policy analysis effort in the OECS region, their implications made clear, and workable options for dealing with problems need to be developed.

### **2.4.7. A Lack Of Political Will To Improve The OECS Food System**

Given the importance of the food system in the economies of many OECS countries and its potential role in future economic growth, one is struck by the degree to which governments neglect this sector either in terms of financial resources devoted to it or in terms of not making political decisions that are required to improve its performance. This observation is illustrated by how governments in the region allocate foreign aid and their own matching resources between agriculture and the rest of the economy, and by the impending banana problem and how little is being done to counteract it relative to the potential size of this problem.

#### **2.4.7.1. Resource Allocation to Agriculture**

In Table 6, data are presented for ongoing and new investments for the total economy and agriculture for the 1989-92 period. These are discussed for the five OECS countries for which data are available.

Dominica: Total ongoing economy-wide investments for the period were EC\$293.1 million of which actual expenditures on

agriculture were EC\$22.9 million or 7.8 percent. The comparable numbers for new investments were EC\$31.4 million, EC\$7.1 million, and 22.6 percent. For both measures, the shares of agriculture in total expenditures are well below agriculture's 27.0 percent share of GDP. It is also interesting to note that only 55.8 percent of the money allocated for ongoing investments and 86.6 percent of new investments will have been used. All of these measures raise questions about Dominica's commitment to the agricultural sector, particularly in view of the need to prepare the sector for the unfavorable conditions in bananas that will likely emerge (see below).

Grenada: Agriculture is also important in this country, accounting for 18.6 percent of GDP. Yet combined ongoing and new investments in agriculture constituted only 2.8 percent of total public investments, again indicating the low priority agriculture has in the total public investment picture.

St. Kitts and Nevis: Agriculture accounts for only 9.2 percent of GDP indicating it is not a large part of the economy. Ongoing and new investments in agriculture accounted for 24.2 and 6.2 percent, respectively, of total public investments in these categories. While agriculture fared well in terms of ongoing investments, the attention it is receiving in new investments is below its relative importance in the economy.

St. Lucia: Total ongoing public investment amounted to EC\$306.8 million and new investments were EC\$165.8 million in the 1989-92 period. Not all investment money allocated to ongoing investments in agriculture will be used. Based on expected actual use levels, ongoing and new public investments in agriculture were equivalent to 13.7 and 4.5 percent, respectively, of total outlays for the economy. Both numbers are below agriculture's nearly 16 percent of GDP. Even more disturbing is the sharp decline in agriculture's share of new public investments compared to its share of ongoing investments. Again, this is especially so given the major need to prepare to adjust the agricultural sector out of bananas.

St. Vincent and the Grenadines: Agriculture's share of GDP was 17.2 percent in 1989. Agriculture's shares of ongoing and new public investments for the 1989-92 period were 20.4 and 26.4 percent, respectively. This is the one country in the region that appears to be treating agriculture favorably in relation to the rest of the economy, and especially so in the case of new investments.

TABLE 6.  
PUBLIC SECTOR PROGRAMS 1989-92. ONGOING vs NEW INVESTMENTS, AND  
EXTERNAL vs LOCAL FUNDING --TOTAL ECONOMY AND AGRICULTURE

	ANTIGUA & BARBUDA 1	DOMINICA	GRENADA*	ST. KITTS & NEVIS	ST. LUCIA	ST. VINCENT & GRENADINES
Agr. GDP, 1989 (EC\$mil.)	41.1	110.6	91.4	26.5	89.6**	78.2
Agr. Share of GDP, 1989 (%)	4.0	27.0	18.6	9.2	15.7**	17.2
Ongoing total Investments (EC\$mil.)						
Total Economy	N.A.	293.1	431.6	69.7	306.8	190.7
External Funding	N.A.	N.A.	401.2	43.1	206.8	144.7
Local Funding	N.A.	N.A.	30.5	26.6	98.0	46.0
Local as % total	N.A.	N.A.	7.1	38.2	31.9	24.1
New total Investments (EC\$mil.)						
Total Economy	N.A.	31.4	N.A.	75.3	165.8	117.1
External Funding	N.A.	N.A.	N.A.	65.8	136.2	79.4
Local Funding	N.A.	N.A.	N.A.	9.5	29.6	37.7
Local as % total	N.A.	N.A.	N.A.	12.6	17.8	32.2
Ongoing Agr. Investments (EC\$mil.)						
Total Agr./(Actual)	N.A.	41.0(22.9)	11.9	16.8	52.8(41.9)	38.9
External/(Actual)	N.A.	15.7	10.9	1.3	34.6	28.5
Local/(Actual)	N.A.	7.2	1.0	15.5	18.0(7.3)	10.4
Local as % total	N.A.	17.6(31.4)	8.4	92.3	34.2(17.4)	26.7
New Agr. Investments (EC\$mil.)						
Total Agr.	N.A.	8.2(7.1)	N.A.	4.7	7.4	30.9
External	N.A.	6.3	N.A.	4.7	3.3	21.8
Local	N.A.	0.8	N.A.	0.1	4.1	9.1
Local as % total	N.A.	9.8(11.3)	N.A.	1.5	55.4	29.4

\* Ongoing and new investments combined. \*\* For 1988  
Source: OPCS Country Public Sector Investment Programs Memorandum

### 2.4.7.2. The Impending Banana Problem (Disaster?)

Governments in the region have known for some time that the banana sector will be severely stressed by the eventual loss of the substantial U.K. price subsidy. Yet they have done little to date to prepare themselves.

The magnitude of the banana adjustment problem is overwhelming in the case of major producers. While efforts to diversify production and find new markets for alternative crops are underway, government actions to date are in no way commensurate with the magnitude of the problems they may face.

Various studies done on bananas indicate that loss of the U.K. subsidy will result in a 25-30 percent decline in banana area. Production may decline by a lesser amount if yields on areas remaining in production are increased. How big an adjustment problem are we talking about in the three major banana producing countries?

One way to measure the size of the problem is to look at the amount of land that might go out of banana production relative to the area currently in, say, production of fruits and vegetables. For current purposes we will not include land in tree crops (coconuts, cocoa, and coffee, for example) because of the long time required to increase production of these crops, or in root crops.

Using the data in Table 4, a 25-30 percent reduction in banana area is equal to 3,810-4,575 acres in Dominica, 3,875-4,650 acres in St. Lucia, and 2,745-3,295 acres in St. Vincent and the Grenadines. These areas are equivalent to about 50-60 percent of the area currently in other fruits and in vegetable in Dominica, 175-230 percent in St. Lucia, and 640-790 percent in St. Vincent and the Grenadines. When the magnitude of the agricultural adjustment problem facing these three countries from bananas alone is viewed in this way, clearly the attention and resources devoted to agricultural diversification by governments in the region is wholly inadequate, especially in view of the limited time available to deal with the problem.

**ANNEX 2A**  
**DETAILED ECONOMIC DATA ON OECS COUNTRIES**

Table A. 1  
Antigua & Barbuda: Economic Indicators

	1980	1985	1986	1987	1988	1989
Population (1,000)	72.9	75.6	76.3	77.1	80.8	82.9
Population Growth Rate (%)	0.1	0.8	0.9	1.0	4.8	2.6
Unemployment Rate (%)	20.7	-	-	-	-	-
Exchange Rate (EC\$/US\$)	2.7	2.7	2.7	2.7	2.7	2.7
Consumer Prices (%)	-	(2.0)	2.0	10.0	6.8	3.7
Real GDP, 1977 price (EC\$mil.)	194.1	253.1	274.3	298.3	320.9	341.4
Growth Real GDP (%)	6.7	7.8	8.4	8.8	7.6	6.4
Per Capita Real GDP (EC\$1,000)	2,665	3,350	3,595	3,870	3,970	4,120
Sectoral Composition of GDP (%)						
Agriculture	7.1	5.0	4.6	4.7	4.4	4.0
Mining & Quarrying	0.6	1.0	1.9	2.4	2.3	2.6
Manufacturing	5.3	4.4	4.1	3.8	3.3	3.1
Utilities	3.2	3.7	3.8	3.6	4.2	4.1
Construction	9.0	7.7	9.6	11.9	13.1	15.5
Wholesale & Retail Trade	11.9	10.4	10.0	9.8	9.3	9.7
Hotel & Restaurants	13.9	15.8	15.4	15.6	15.9	16.5
Transport & Communications	16.2	17.5	16.8	16.1	20.7	21.0
Financial & Business Services	16.4	17.2	16.2	15.3	14.2	13.4
Gov't Services	13.9	14.6	14.9	14.4	16.2	15.4
Other Services	6.5	8.4	8.4	7.6	6.8	6.2
Imputed Service Charges	(4.0)	(5.6)	(5.7)	(5.3)	(4.9)	(4.6)
Trade Balance (US\$mil.)						
Export (fob)	-	26.9	28.0	29.0	30.3	31.6
Imports (cif)	-	157.0	283.7	276.5	310.6	347.8
Net Trade	-	(130.1)	(255.7)	(247.5)	(280.3)	(316.2)
Net Service Exports	-	91.1	95.9	157.4	188.4	206.3
Net International Transfers	-	14.2	16.8	18.4	21.9	28.1
Private	-	13.5	14.5	17.0	20.0	25.0
Official	-	0.7	2.3	1.4	1.9	3.1
Current Account Balance	-	(24.8)	(143.0)	(71.6)	(70.0)	(81.8)
Net Capital Movements	-	43.2	153.0	67.9	72.6	81.9
Change in Reserves	-	(4.3)	(10.0)	2.7	(2.4)	0.0
Government Operations (EC\$mil.)						
Current Revenues	56.8	117.7	152.1	172.8	190.0	217.9
Current Expenditures	57.2	122.7	131.0	156.9	203.5	229.3
Current Surplus/Deficit	(0.4)	(5.0)	21.1	15.9	(12.6)	11.4
Capital Expenditures	-	37.4	69.5	35.0	29.6	27.4
Total Surplus/Deficit	-	(42.4)	(48.4)	(19.1)	(42.2)	(38.8)
Current Revenues as % GDP (%)	19.1	21.8	20.7	23.2	21.4	21.2
Capital Expenditure as % GDP (%)	-	6.9	10.8	4.7	3.3	2.7
External Debt Outstanding (US\$mil.)	-	62.2	151.8	230.5	234.2	236.9
Debt Service	-	-	6.9	15.7	13.5	1.0
Interest	-	-	4.9	6.7	7.7	0.3
Principal	-	-	2.0	9.0	5.8	0.1
Percent of GDP (%)	--	--	2.9	5.7	4.1	0.3
Percent of Current Resources (%)	-	-	12.2	24.5	19.1	1.2

Source: Caribbean Development Bank, Social and Economic Indicators, 1989

Table A. 2  
Dominica: Economic Indicators

	1980	1985	1986	1987	1988	1989
Population (1,000)	73.4	79.8	80.8	81.2	81.2	82.4
Population Growth Rate (%)	-	1.5	1.3	0.5	0.0	1.5
Unemployment Rate (%)	-	-	-	-	-	-
Exchange Rate (EC\$/US\$)	2.7	2.7	2.7	2.7	2.7	2.7
Consumer Prices (%)	-	3.5	3.0	5.3	1.7	6.3
Real GDP, 1977 price (EC\$mil.)	92.2	110.0	117.5	125.5	315.4	133.5
Growth Real GDP (%)	16.4	1.7	6.8	6.8	7.9	(1.4)
Per Capita Real GDP (EC\$1,000)	1,255	1,380	1,455	1,545	1,670	1,620
Sectoral Composition of GDP (%)						
Agriculture	30.6	27.9	30.3	29.3	29.6	27.0
Mining & Quarrying	0.8	0.7	0.5	0.6	0.8	0.7
Manufacturing	4.8	6.4	6.7	6.5	6.5	7.2
Utilities	2.4	2.8	2.6	2.6	2.8	2.9
Construction	12.9	6.7	4.7	5.1	6.5	5.8
Wholesale & Retail Trade	9.2	9.4	10.2	10.7	10.2	11.5
Hotel & Restaurants	0.8	1.2	1.2	1.4	1.5	1.5
Transport & Communications	7.3	13.1	13.6	14.8	15.3	15.3
Financial & Business Services	11.2	12.6	11.8	11.7	12.4	12.7
Gov't Services	23.5	22.4	21.5	20.5	18.4	19.5
Other Services	1.1	1.0	1.0	1.0	0.9	1.1
Imputed Service Charges	(4.7)	(4.4)	(4.1)	(4.3)	(4.8)	(5.0)
Trade Balance (US\$mil.)						
Export (fob)	-	28.4	43.4	48.0	55.6	45.1
Imports (cif)	-	55.3	55.8	66.7	87.5	107.1
Net Trade	-	(26.9)	(12.4)	(18.7)	(32.0)	(62.0)
Net Service Exports	-	2.2	1.5	2.7	10.3	11.1
Net International Transfers	-	21.3	15.1	17.8	19.0	18.4
Private	-	6.7	6.5	7.6	8.4	8.8
Official	-	14.6	8.6	10.2	10.6	9.6
Current Account Balance	-	(3.0)	4.2	1.8	(2.6)	(32.4)
Net Capital Movements	-	4.3	4.0	7.2	3.0	33.1
Change in Reserves	-	(2.7)	4.8	8.1	(3.4)	(2.1)
Government Operations (EC\$mil.)						
Current Revenues	45.5	79.8	86.8	102.2	105.9	120.5
Current Expenditures	64.5	79.3	85.0	90.7	98.8	109.4
Current Surplus/Deficit	(19.0)	0.5	1.8	11.5	7.1	11.1
Capital Expenditures	24.6	43.8	31.7	50.3	76.6	78.7
Total Surplus/Deficit	(43.6)	(43.2)	(27.8)	(37.6)	(67.5)	59.6
Current Revenues as % GDP (%)	29.1	29.2	28.9	29.8	28.5	29.4
Capital Expenditure as % GDP (%)	15.7	16.1	10.6	14.7	20.6	19.2
External Debt Outstanding (US\$mil.)	12.3	32.8	35.8	52.6	54.9	63.2
Debt Service	0.9	0.9	1.8	2.3	2.8	2.8
Interest	0.3	0.5	1.0	1.3	1.5	1.6
Principal	0.6	0.4	0.8	1.0	1.3	1.2
Percent of GDP (%)	1.6	0.9	1.6	1.8	2.0	1.8
Percent of Current Resources (%)	5.3	3.0	5.6	6.1	7.1	6.3

Source: Caribbean Development Bank, Social and Economic Indicators, 1989

Table A. 3  
Grenada: Economic Indicators

	1980	1985	1986	1987	1988	1989
Population (1,000)	109.3	93.9	90.4	94.1	99.2	100.0
Population Growth Rate (%)	0.3	(0.2)	(3.7)	4.1	5.4	0.8
Unemployment Rate (%)	-	-	-	-	-	-
Exchange Rate (EC\$/US\$)	2.7	2.7	2.7	2.7	2.7	2.7
Consumer Prices (%)	-	2.5	0.6	(0.9)	6.5	5.6
Real GDP, 1977 price (EC\$mil.)	194.5	234.4	247.3	262.1	275.9	291.5
Growth Real GDP (%)	-	4.9	5.5	6.0	5.3	5.7
Per Capita Real GDP (EC\$1,000)	1,780	2,495	2,735	2,785	2,780	2,915
<b>Sectoral Composition of GDP (%)</b>						
Agriculture	24.8	17.9	18.7	21.6	20.6	18.6
Mining & Quarrying	0.3	0.3	0.4	0.4	0.3	0.4
Manufacturing	3.9	5.1	4.7	5.0	5.3	5.3
Utilities	2.0	2.6	2.7	2.7	2.8	3.1
Construction	6.7	7.9	8.3	8.8	9.7	10.2
Wholesale & Retail Trade	15.9	13.6	13.2	13.1	13.1	12.7
Hotel & Restaurants	4.1	6.2	6.3	5.8	6.1	6.1
Transport & Communications	12.8	12.8	13.7	13.3	14.0	13.9
Financial & Business Services	11.8	12.7	11.9	11.3	11.1	10.3
Gov't Services	16.2	20.9	20.8	18.8	18.0	20.7
Other Services	5.1	4.5	4.1	3.7	3.6	3.2
Imputed Service Charges	(3.6)	(4.5)	(4.8)	(4.5)	(4.5)	(4.2)
<b>Trade Balance (US\$mil.)</b>						
Export (fob)	17.2	23.6	28.7	31.9	32.8	28.0
Imports (cif)	54.1	78.4	83.5	88.6	92.1	99.2
Net Trade	(36.9)	(54.8)	(54.8)	(56.7)	(59.4)	(71.2)
Net Service Exports	13.7	14.6	10.7	8.4	14.8	15.8
Net International Transfers	21.9	41.9	40.0	23.6	24.4	23.4
Private	9.6	12.0	14.0	14.9	15.6	16.4
Official	12.3	29.9	26.0	8.7	8.8	7.0
Current Account Balance	(1.3)	1.7	(4.1)	(24.7)	(20.2)	-32.0
Net Capital Movements	-	27.6	2.1	28.6	14.7	30.7
Change in Reserves	0.7	-1.0	(0.2)	2.8	5.9	(1.6)
<b>Government Operations (EC\$mil.)</b>						
Current Revenues	59.1	123.9	104.5	108.4	123.3	162.9
Current Expenditures	59.6	115.1	122.7	149.1	133.2	174.8
Current Surplus/Deficit	(0.5)	8.8	(18.2)	(40.7)	(9.9)	(11.9)
Capital Expenditures	37.5	78.2	67.5	38.1	34.5	23.0
Total Surplus/Deficit	(38.0)	(69.4)	(85.7)	(78.8)	(44.4)	(34.9)
Current Revenues as % GDP (%)	29.3	39.8	29.8	26.7	27.5	33.2
Capital Expenditure as % GDP (%)	18.6	25.1	19.3	9.4	7.7	4.7
<b>External Debt Outstanding (US\$mil.)</b>						
Debt Service	1.7	3.2	4.5	5.3	5.1	9.1
Interest	0.5	0.9	2.0	2.2	2.2	2.4
Principal	1.2	2.3	2.5	3.1	2.9	6.7
Percent of GDP (%)	2.3	2.8	3.5	3.5	3.1	5.0
Percent of Current Resources (%)	7.8	7.0	11.6	13.2	11.2	15.1

Source: Caribbean Development Bank, Social and Economic Indicators, 1989

Table A. 4  
St. Kitts & Nevis: Economic Indicators

	1980	1985	1986	1987	1988	1989
Population (1,000)	43.9	44.0	43.7	43.4	43.0	43.0
Population Growth Rate (%)	-	(1.8)	(0.7)	(0.7)	(0.9)	0.0
Unemployment Rate (%)	-	-	-	-	-	-
Exchange Rate (EC\$/US\$)	2.7	2.7	2.7	2.7	2.7	2.7
Consumer Prices (%)	-	2.2	0.4	0.9	0.2	5.4
Real GDP, 1977 price (EC\$mil.)	80.3	102.1	108.6	116.9	124.6	131.0
Growth Real GDP (%)	3.9	5.6	6.3	7.5	6.7	5.1
Per Capita Real GDP (EC\$1,000)	1,335	2,320	2,485	2,690	2,900	3,045
Sectoral Composition of GDP (%)						
Agriculture	16.0	9.6	10.2	10.8	9.9	9.2
Mining & Quarrying	0.3	0.3	0.2	0.3	0.3	0.4
Manufacturing	15.2	12.8	15.4	14.8	15.9	15.7
Utilities	0.9	1.0	2.1	1.2	1.0	0.9
Construction	10.2	8.8	7.8	8.9	10.3	11.9
Wholesale & Retail Trade	12.6	13.9	13.1	13.8	12.7	12.6
Hotel & Restaurants	4.3	6.9	7.6	9.1	7.9	8.0
Transport & Communications	9.7	12.3	12.3	12.4	14.6	14.4
Financial & Business Services	11.5	12.2	13.5	11.3	11.9	11.8
Gov't Services	18.6	21.7	19.3	18.6	17.8	18.0
Other Services	5.0	5.3	4.5	4.2	3.8	3.8
Imputed Service Charges	(4.2)	(4.7)	(6.2)	(5.4)	(6.0)	(6.6)
Trade Balance (US\$mil.)	-	21.8	23.6	28.0	27.4	28.9
Exports (fob)	-	53.6	64.6	79.5	92.7	101.9
Imports (cif)	-	(31.8)	(41.0)	(51.5)	(65.3)	(73.0)
Net Trade	-	14.3	21.6	28.9	32.3	39.3
Net Service Exports	-	13.5	11.0	12.2	13.6	15.0
Net International Transfers	-	10.4	7.3	9.1	9.9	10.5
Private	-	3.1	3.7	3.1	3.7	4.5
Official	-	(4.0)	(8.4)	(10.4)	(19.4)	(18.7)
Current Account Balance	-	5.7	11.4	11.1	19.3	25.0
Net Capital Movements	-	1.7	2.8	0.4	(0.3)	6.1
Change in Reserves	-	-	-	-	-	-
Government Operations (EC\$mil.)						
Current Revenues	-	49.1	62.3	73.0	79.3	89.7
Current Expenditures	-	58.0	58.9	69.5	78.5	82.0
Current Surplus/Deficit	-	(8.9)	3.4	3.5	0.8	7.7
Capital Expenditures	-	18.0	15.9	9.3	15.2	11.6
Total Surplus/Deficit	-	(26.9)	12.5	(5.8)	(14.4)	(3.9)
Current Revenues as % GDP (%)	-	24.4	25.6	27.4	28.4	31.2
Capital Expenditure as % GDP (%)	-	8.9	6.5	3.5	5.4	4.0
External Debt Outstanding (US\$mil.)	-	19.0	19.0	21.2	26.3	32.5
Debt Service	-	1.5	4.8	1.2	1.3	1.6
Interest	-	0.9	1.0	0.5	0.6	0.7
Principal	-	0.6	3.8	0.7	0.7	0.9
Percent of GDP (%)	-	2.0	5.3	1.2	1.3	1.5
Percent of Current Resources (%)	-	8.2	20.8	4.4	4.4	4.8

Source: Caribbean Development Bank, Social and Economic Indicators, 1989

Table A. 5  
St. Lucia: Economic Indicators

	1980	1985	1986	1987	1988	1989
Population (1,000)	123.3	137.0	139.5	142.3	145.2	148.2
Population Growth Rate (%)	-	2.2	1.3	2.0	2.0	2.1
Unemployment Rate (%)	14.0	-	-	-	20.0	-
Exchange Rate (EC\$/US\$)	2.7	2.7	2.7	2.7	2.7	2.7
Consumer Prices (%)	-	0.0	2.2	7.0	1.0	4.4
Real GDP, 1977 price (EC\$mil.)	182.1	219.5	232.7	237.6	253.9	265.2
Growth Real GDP (%)	(0.8)	5.5	5.7	2.1	6.4	4.3
Per Capita Real GDP (EC\$1,000)	1,470.0	1,600.0	1,670.0	1,670.0	1,750	1,790
Sectoral Composition of GDP (%)						
Agriculture	11.7	15.0	16.6	14.4	15.7	-
Mining & Quarrying	1.5	0.6	0.6	0.6	0.4	-
Manufacturing	9.4	8.5	8.0	7.9	8.3	-
Utilities	2.1	3.9	3.9	4.2	3.6	-
Construction	11.9	6.9	7.5	8.1	6.9	-
Wholesale & Retail Trade	19.5	15.9	15.2	16.3	14.9	-
Hotel & Restaurants	5.9	6.8	6.8	7.2	7.6	-
Transport & Communications	11.7	10.4	10.0	10.0	12.0	-
Financial & Business Services	10.9	11.3	10.6	10.3	10.3	-
Gov't Services	15.6	21.6	21.6	22.1	19.9	-
Other Services	4.3	4.9	4.8	4.7	5.0	-
Imputed Service Charges	(4.5)	(5.8)	(5.4)	(5.2)	(4.6)	-
Trade Balance (US\$mil.)						
Exports (fob)	46.0	52.0	82.9	77.3	119.1	109.1
Imports (cif)	123.8	125.0	154.8	178.1	221.0	273.7
Net Trade	(77.8)	(73.0)	(71.9)	(100.8)	(101.9)	(164.6)
Net Service Exports	27.1	40.5	52.4	73.2	80.9	96.4
Net International Transfers	10.0	23.1	21.2	22.3	19.5	20.6
Private	-	14.2	12.8	13.4	14.1	14.8
Official	-	8.9	8.4	9.0	5.4	5.8
Current Account Balance	(40.7)	(9.4)	1.7	(5.3)	(1.4)	(47.6)
Net Capital Movements	-	14.8	9.7	10.9	3.6	53.2
Change in Reserves	-	4.8	10.7	5.7	1.9	5.6
Government Operations (EC\$mil.)						
Current Revenues	85.3	145.8	169.5	193.3	228.1	265.7
Current Expenditures	80.8	145.2	154.2	160.5	163.3	200.2
Current Surplus/Deficit	4.5	0.6	15.3	33.3	64.8	65.5
Capital Expenditures	30.6	28.0	43.3	53.2	64.2	71.4
Total Surplus/Deficit	(26.1)	(11.1)	(11.4)	8.1	19.1	24.3
Current Revenues as % GDP (%)	32.3	31.7	33.3	36.0	40.0	44.0
Capital Expenditure as % GDP (%)	11.6	6.1	8.5	9.9	11.2	11.8
External Debt Outstanding (US\$mil.)						
Debt Service	1.4	4.3	1.6	2.6	3.1	4.3
Interest	0.7	1.5	0.8	1.1	1.2	1.5
Principal	0.7	2.8	0.8	1.5	1.9	2.8
Percent of GDP (%)	1.4	2.5	0.8	1.3	1.5	1.9
Percent of Current Resources (%)	4.4	3.0	2.5	3.6	3.7	4.4

Source: Caribbean Development Bank, Social and Economic Indicators, 1989

Table A. 6  
St. Vincent & the Grenadines: Economic Indicators

	1980	1985	1986	1987	1988	1989
Population (1,000)	102.8	109.5	111.0	112.4	113.1	115.0
Population Growth Rate (%)	-	1.2	1.4	1.3	0.6	1.7
Unemployment Rate (%)	-	-	-	-	-	-
Exchange Rate (EC\$/US\$)	2.7	2.7	2.7	2.7	2.7	2.7
Consumer Prices (%)	17.2	1.3	1.6	3.4	2.1	3.5
Real GDP, 1977 price (EC\$mil.)	98.2	113.0	142.1	149.1	161.9	171.5
Growth Real GDP (%)	4.7	5.9	6.8	4.9	8.6	5.9
Per Capita Real GDP (EC\$1,000)	955	1,030	1,280	1,325	1,430	1,490
<b>Sectoral Composition of GDP (%)</b>						
Agriculture	14.6	19.6	19.3	17.0	18.2	17.2
Mining & Quarrying	0.4	0.2	0.3	0.3	0.3	0.3
Manufacturing	10.7	11.6	10.3	10.3	10.7	9.2
Utilities	2.5	4.0	3.9	4.3	4.9	6.7
Construction	13.6	7.7	10.0	9.9	9.3	8.9
Wholesale & Retail Trade	13.0	11.4	11.1	11.2	10.8	11.1
Hotel & Restaurants	2.0	2.0	2.0	2.2	2.1	2.1
Transport & Communications	17.5	18.4	18.8	18.2	19.8	19.2
Financial & Business Services	11.2	10.3	10.3	10.1	9.7	9.6
Gov't Services	16.7	17.0	16.3	17.5	16.7	17.8
Other Services	3.4	2.6	2.3	2.2	2.0	1.9
Imputed Service Charges	(5.5)	(4.8)	(4.6)	(4.1)	(4.3)	(3.9)
<b>Trade Balance (US\$mil.)</b>						
Exports (fob)	-	63.3	63.9	52.3	85.3	74.6
Imports (cif)	-	79.2	87.3	98.7	122.3	127.5
Net Trade	-	(15.9)	(23.4)	(46.3)	(37.0)	(52.9)
Net Service Exports	-	7.7	9.6	17.3	17.4	18.6
Net International Transfers	-	17.1	19.7	13.6	16.9	23.2
Private	-	-	-	7.0	9.9	10.4
Official	-	-	-	6.6	6.9	12.8
Current Account Balance	-	8.9	5.9	(15.4)	(2.7)	(11.1)
Net Capital Movements	-	0.7	1.1	9.9	4.7	12.1
Change in Reserves	-	5.0	10.3	(5.6)	1.6	1.0
<b>Government Operations (EC\$mil.)</b>						
Current Revenues	40.7	101.1	107.7	110.3	126.7	136.9
Current Expenditures	44.5	90.0	97.4	99.8	120.2	125.6
Current Surplus/Deficit	(3.8)	11.1	10.3	10.5	6.5	11.3
Capital Expenditures	13.7	12.1	26.4	18.0	19.4	113.0
Total Surplus/Deficit	(17.5)	(1.0)	(16.1)	(7.5)	(12.9)	(101.7)
Current Revenues as % GDP (%)	25.6	33.4	31.6	29.1	30.4	30.1
Capital Expenditure as % GDP (%)	8.6	4.0	7.8	4.8	4.6	24.9
<b>External Debt Outstanding (US\$mil.)</b>						
Debt Service	9.7	25.1	25.6	34.8	39.7	49.0
Interest	0.4	2.2	1.8	2.3	2.7	2.0
Principal	0.3	0.7	0.7	1.0	1.0	0.9
Percent of GDP (%)	0.1	1.5	1.1	1.3	1.7	1.1
Percent of Current Resources (%)	0.7	2.0	1.4	1.6	1.7	1.2
	2.7	5.9	4.5	5.6	5.9	4.7

Source: Caribbean Development Bank, Social and Economic Indicators, 1989

Table A. 7  
Tourist Data for OECS

	1980	1985	1986	1987	1988	1989
<b>Antigua &amp; Barbuda</b>						
Arrivals (1,000)	86.6	156.0	166.2	177.0	195.0	198.
Cruise Arrivals (1,000)	107.1	100.8	122.4	153.3	198.6	208.
Est. Expenditures (US\$mil.)	42.0	132.5	156.2	186.7	213.5	231.
<b>Dominica</b>						
Arrivals (1,000)	14.4	21.5	24.4	26.7	31.8	35.
Cruise Arrivals (1,000)	7.4	6.6	11.5	12.1	7.5	6.
Est. Expenditures (US\$mil.)	2.1	8.7	11.2	12.8	14.0	18.
<b>Grenada</b>						
Arrivals (1,000)	29.4	52.0	57.3	57.4	61.8	68.
Cruise Arrivals (1,000)	145.6	90.7	113.9	127.2	136.0	120.
Est. Expenditures (US\$mil.)	14.8	32.4	3.9	42.1	46.0	53.
<b>St. Kitts &amp; Nevis</b>						
Arrivals (1,000)	32.8	46.1	55.1	64.6	69.6	72.
Cruise Arrivals (1,000)	5.8	31.5	27.0	31.4	53.6	36.
Est. Expenditures (US\$mil.)	13.4	31.0	38.0	47.4	53.8	60.
<b>St. Lucia</b>						
Arrivals (1,000)	79.7	94.5	111.7	111.6	125.3	132.
Cruise Arrivals (1,000)	59.0	55.0	58.8	83.8	79.5	104.
Est. Expenditures (US\$mil.)	32.9	90.0	118.0	126.2	134.2	144.
<b>St. Vincent &amp; the Grenadines</b>						
Arrivals (1,000)	50.4	42.1	42.1	46.0	47.0	50.
Cruise Arrivals (1,000)	32.5	34.0	38.1	65.7	62.7	49.
Est. Expenditures (US\$mil.)	13.7	23.0	29.3	35.2	38.6	42.
<b>TOTAL</b>						
Arrivals (1,000)	293.3	412.2	456.8	483.3	530.5	556.
Cruise Arrivals (1,000)	357.4	318.6	371.7	473.5	537.9	525.
Est. Expenditures (US\$mil.)	118.9	317.6	356.6	450.4	500.1	550.

Source: Caribbean Development Bank, Social and Economic Indicators, 1989

Table A. 8: TRADE PATTERNS FOR THE OECS, 1989 (in US\$ million)

	ANTIGUA & BARBUDA	DOMINICA	GRENADA	ST. KITTS & NEVIS	ST. LUCIA	ST. VINCENT & GRENADINES	TOTAL	
<u>Exports</u>								
Destination								
CARICOM	4.9	12.5	5.3	2.3	20.4	26.2	71.6	25.7
U.S.	-	2.6	2.3	-	20.1	10.7	35.7	12.8
CANADA	-	0.2	1.0	-	0.5	0.2	1.9	0.7
U.K.	-	23.2	5.6	-	53.5	32.1	114.4	41.0
EC-12	-	3.8	9.3	-	7.9	2.7	23.7	8.5
JAPAN *	-	-	-	-	-	-	-	-
OTHERS **	4.5	1.3	1.2	23.2	0.7	0.8	31.7	11.4
Total	9.4	43.6	24.7	25.5	103.1	72.6	279.0	100.0
<u>Imports</u>								
Origin								
CARICOM	18.4	21.2	22.6	16.2	42.5	24.1	145.0	15.4
U.S.	-	26.9	28.8	-	93.0	53.3	202.0	21.5
CANADA	-	7.1	4.0	-	9.2	3.8	24.1	2.6
U.K.	-	17.2	17.2	-	39.9	18.5	92.8	9.9
EC-12	-	7.1	7.1	-	30.8	8.6	53.6	5.7
JAPAN *	-	-	-	-	-	-	-	-
OTHERS **	209.7	27.6	21.1	85.7	58.5	19.2	421.8	44.9
Total	228.1	107.1	100.9	101.9	273.7	127.5	939.2	100.0

Source: Caribbean Development Bank, Social and Economic Indicators, 1989

\* Lack of designation of imports from Japan must mean that Japanese products (e.g. automobiles) must be either transhipped through other points or manufactured outside of Japan

\*\* Must include trade among OECS countries



# CHAPTER III. ENVIRONMENTAL AND NATURAL RESOURCE MANAGEMENT POLICY: ISSUES IN THE OECS REGION

by George M. Johnston

## 3.1. INTRODUCTION

The analysis in Chapter III will address four questions. Those questions and a brief answer are listed sequentially below.

1. Are there policies that affect natural resources and the environment that need to be changed?

Yes. There are a range of policy related issues including not only inappropriate policies but policies which are appropriate but not implemented, and policies which should but do not exist. There are examples of each of these situations. However, the answer to this question is even more complicated. If we ask what policies affect the use of natural resources and the environment, we become concerned with a broad set of policies including macroeconomic monetary, fiscal and trade policies as well as sectoral and regulatory policies. Environmental policies often deal with the ex-post symptoms of this wider set of policies. Too often resource economics has been considered apart from other areas of economic enquiry.

For example, bananas are the principal export crop of the Windward Islands and, as discussed elsewhere have been subsidized. The environmental and resource effects of banana cultivation have been severe. Fragile lands have been brought into production and that production will not be sustainable with or without a continuation of the banana subsidy. The off-site effects of banana cultivation has been a rapid deterioration in watersheds and water quality and quantity in certain areas. In addition bananas are the primary user of chemical inputs (80% of all chemicals are used on bananas in Dominica). While the available information on pesticide pollution issues is primarily anecdotal, the limited absorptive capacity of tropical island ecologies suggests significant problems.

From a policy perspective what is lacking is a systematic inclusion of environmental and natural resource issues into broader economic development policies. This is a two way process. First, an understanding of the environmental effects of macroeconomic or agricultural sectoral policies may suggest the need to adjust those policies to reduce or eliminate negative effects or to create environmental policies which will address the problems. Second, existing resource policies may not only negatively affect resources but, unless changed, inhibit development efforts. For example, agricultural expansion into forested areas of Dominica will endanger a development strategy based on ecotourism.

As a consequence of addressing the environmental and natural resource policy issues from this broader context, it is recommended that a resource economist function as an integral part of a policy analysis effort so that the linkages between other policy foci and resource economics issues be simultaneously examined. The lack of such collaboration is being recognized and addressed in many institutions worldwide, but the trend is quite new.

2. Is there a lack of analytic capability in this area?

Yes. There is almost a complete lack of understanding of these issues and, to this point in time, no analytic skills in the region. While there have been efforts which examined one or another resource management problem, the institutional structure is weak, the analytic efforts intermittent and existing, regional expertise is practically non-existent. The UWI Centre for Resource Management and Environmental Studies (CERMES) has been advertising for a resource economist for three years. The NRMU ENCORE activities have not yet begun but it is not clear that a resource economic capability is anticipated. There is a need to not only provide such skills but also to provide training at different levels in order to meet this scarcity.

3. Does USAID have a comparative advantage in this area?

Yes. USAID has been dealing with agricultural policy projects for some time in many countries. The centrally funded S&T Agricultural Policy Analysis Project (APAP) has been supporting mission activities for 8 years. Other projects include Development Strategies for Fragile Lands (DESFIL) and the newly begun Environmental and Natural Resource Policy and Training Project (EPAT). These projects can continue to support mission activities in the region.

In addition the RDO/C ENCORE and TROPRO projects focus on various aspects of sustainable resource management and environmental policies. The ENCORE project policy dialogue activities are noted in Annex 1.

4. Will the policy analysis activity be able to implement change?

Maybe. The critical element of the recommendations associated with environmental and resource management issues is that they become an integral part of the analytic process. To the degree that this occurs it will, from a policy change point of view, not make change easier since the consequences of a change will be better known. However, the cost of not doing so could be significant. Given the fragility of the environments it will either be prohibitively expensive or impossible to reverse many

resource losses associated with development strategies which do not account for the value of those resources to present and future generations. The lack of political will may be affected by the serious economic and environmental issues.

## **3.2. CURRENT ENVIRONMENTAL AND NATURAL RESOURCE CONTEXT**

### **3.2.1. OVERVIEW**

According to the ENCORE Project Paper:

Strong indications are, however, that in all the Eastern Caribbean countries rapid deterioration of the natural resource and environmental base is occurring. A combination of factors -- international economic forces, population pressure and the lack of societal will, itself stemming from an ignorance about the relationship between environment and economy -- has created a highly vulnerable economic and environmental situation. The citizenry and government of these countries are cognizant of the problem but are not at all clear on how to deal with it. (USAID, 1991, p. 58)

Add to this view the role of policies in either exacerbating resource problems or the failure to put policies in place to resolve resource and environmental management problems. The region suffers from not only fragile economies unable to absorb shocks easily but also fragile environments with similar attributes. The interdependencies between natural resource and environmental issues are compounded and exacerbated by the small size and geographic characteristics of the OECS countries. The problems are telescoped to include, in a relatively small area, not only frequently encountered issues of agricultural land expansion to marginal lands and the concomitant effects on forests and watersheds but also issues of the conversion of prime agricultural land to urban uses or potential urban uses while the land is left idle for speculative purposes. Issues associated with the use of fertilizers and pesticides on banana plantations on marginal, steep slopes become one of not only on-site health effects but fish kills, down-stream human consumption and the pollution of coastal and marine habitats. The fragility of the ecosystems on these islands suggests the need for a refined and well-informed decision-making process in order to prevent serious potential problems. Some of those problems are already manifesting themselves and are documented in the individual Environmental Profiles done for six of the OECS countries. The description of the natural resource and environmental issues which appears here draw heavily from those reports.

The focus of this assessment is to highlight the policy interdependencies which mirror the physical interdependencies in

resource use and economic issues and prospects for individual countries and the region. The primary emphasis is on the agricultural sector. The policy questions which arise address not only resource specific policies on land, water, forest, pesticide, and coastal zone management but also the critical macroeconomic and agricultural sector policies often exclusively analyzed in terms of economic growth or welfare. These policies often have overriding influence on resource use patterns. In addition resource related policies may be crucial in determining the success or failure of macroeconomic or sectoral development policies. While this initial assessment can only raise issues, it will be apparent that the complexity of the situation and the fragility of the ecosystem combine to suggest that greater sophistication in posing questions and drawing answers will be required to meet the existing and inevitable problems of designing a set of policies which meet economic growth, welfare and environmental criteria.

Natural resources and the productivity of natural systems are critical elements for economic development. Economic development implies sustained increases in welfare derived from conventional goods and services, the production of which often requires natural resources and productive natural systems. Moreover, the environment directly provides services that contribute to increased welfare. At the same time, economic growth often is accompanied by increasing stress on natural systems and significant adverse effects on environmental quality. The central issue is to conduct development activities in a fashion that preserves the long-run productivity of natural systems for sustained development and that minimizes deterioration in environmental quality.

"The relationship between economic development and its environmental consequences needs to be more clearly understood by planners and policy makers in the Eastern Caribbean. Governments encourage and control the development of various economic sectors through policies which stimulate and shape certain investments and activities and discourage others. To varying degrees, each of these economic activities produce undesirable by-products (externalities) as well as desirable benefits such as employment, increased tax revenues, and additional investment opportunities. Identifying the environmental externalities associated with development decisions and adopting appropriate policy incentives and/or disincentives to control them is one of the fundamental responsibilities of public policy that should be strengthened among the governments of the Eastern Caribbean." (CIDE, 1988)

Recent examination of national income accounts by Repetto and others indicate that natural resource assets and their use are not properly reflected in commonly used measures of economic development. "A country could exhaust its mineral resources, cut down its forests, erode its soils, pollute its aquifers, and hunt

its wildlife and fisheries to extinction, but measured income would not be affected as these assets disappeared." (Repetto 1989, p. 2) If the proceeds of resource depletion are used to finance current consumption, a likely situation given the present state of the macroeconomy in OECs countries, then the economic growth which may exist is also likely to be unsustainable. Banana production on marginal, steep lands is an example of such a trade-off.

Environmental protection and services are often provided by governments because they have two characteristics. Within limits, some resources can be shared by two or more compatible users without subtracting utility from any one user. In economic terms, the marginal cost of an additional user is zero or close to zero. In terms of access to users, clean water, abundant wildlife and other factors contributing to the quality of life have, in effect, a marginal cost of zero. This is the case up to a threshold for the absorptive capacity or a replacement rate is exceeded. A central issue associated with this characteristic is how the costs of provision are shared.

The ease of access or, conversely, the difficulty of excluding others from access or exposure to the good affects resource use and provision decisions. When exclusion costs are high, the access or exposure to the resource will be difficult to police or, in some cases, avoid. When many are interdependent over the same resource which has both marginal costs of zero and high exclusion costs the "free rider" problem exists. In this case, each resource user knows that if resource management is improved, no one can be excluded, even if they as individuals did not contribute to the improved situation. Pure market institutions are thus unlikely to provide these goods. This is the reason governments often provide these services and why there are few market analogies to find proxy prices for the good. The willingness-to-pay and other techniques attempt to address this issue. Other resource valuation techniques can be of value in demonstrating to decision makers the true costs of decisions. At the macroeconomic level the environmental accounting techniques being developed also address the issue of valuation of resource and environmental traits not always reflected in prices.

There are, of course, many other concepts and issues associated with analysis of natural resource and environmental issues. A few will be explained here in order to make the text which follows clearer.

- open access resources exist when no effective control exists either privately, publicly or communally. In such situation resource users have the incentive to use up the resource before others do the same.
- economic rent exists when there is a natural limitation of supply and the holder of the resource gets the

economic returns simply by ownership. Externalities may exist from such a situation.

- externalities are the effects of an action not accounted for by the decision maker. Externalities may be physical effects of off-site pollution or pecuniary and reflected in changed prices for others.
- renewable resources have a biophysical or biochemical rate of replenishment. The rate of use should not exceed the carrying capacity or depletion can occur.
- irreversibility occurs with certain resource use where carrying capacity is exceeded or exhaustible resources used up. This is an issue with wildlife species extinction. Policy prescriptions often suggest caution in such situation given the unknown losses associated with irreversibilities.
- option values are the values held by some to preserve natural resource options either for their own use or for the use of future generations.
- resource mining occurs when, generally, a renewable resource is not managed on a sustainable basis. Countries are often tempted to mine resources for short-term gain and not to worry about replenishment or long-term objectives.

These concepts can help to provide the reader some background for understanding some of the policy research prescriptions below. The following list is drawn from a synthesis report for the OECS region entitled ENVIRONMENTAL AGENDA FOR THE 1990'S. Below each problem area are some indicative natural resource and environmental economic policy issues and suggested analyses.

### **3.3. KEY ENVIRONMENTAL ISSUES IN THE AGRICULTURAL SECTOR AND EXAMPLES OF POLICY ANALYSIS NEEDED**

- Economic pressures to expand banana production acreages and inputs without sufficient regard for the environmental consequences of unregulated banana cultivation on the natural resource base.
  - \* Subsidies for bananas and inputs for banana have affected the relative prices for other agricultural products. How will reduction of the subsidies affect other crops and whether they will be successful sustainable on hillsides?

- \* What resource policies will be needed to get people off of fragile land or to grow crops appropriate to the terrain?
- The need to improve the institutional structures, managerial performances, and technical expertise of the small farm sector, following the decline of the previously dominant large estate system.
  - \* Successful resource management may require a different set of inputs from large, commercial operations. Can governments create incentives and support for such situations?
- The lack of sufficient incentives, extension services, soil conservation investment subsidies, and marketing assistance to further diversify the agricultural base away from its current emphasis on annual subsistence and semi-perennial export crops.
  - \* Will land tenure issues need to be addressed in order to provide a basis for farmers to invest in soil conservation activities? There is variation among the OECS countries in this regard. St Kitts seems to have the highest degree of tenure insecurity.
  - \* Do credit policies favor short cycle crops to the exclusion of longer term investments?
- The prevalence of land tenure insecurity among small farmers who - in the absence of other incentives - are unwilling to pursue costly land conservation strategies, the benefits of which might not accrue to them in the future.
  - \* There are many possible forms of tenure which can provide secure tenure. However, this issue cannot be viewed in isolation. Much of the land currently planted to bananas on hillsides is private and the users are responding to subsidized prices for bananas. Taxes and other disincentives to banana production should be considered to begin the process of landowners accounting for the external effects of their operations. Whether taxes or land and crop controls will be appropriate tools will be a primary analysis activity.
- The inadequacy of quantitative data on agrochemicals (importation, use, impacts) upon which to base informed decisions.

- \* Pesticide problems are undocumented but anecdotal evidence indicates problems arising from the large amount used on bananas. Much of this is imported by the country banana marketing agencies. Does the current structure of importation and pricing result in safe and efficient pesticide use?
- \* Given labor shortages for agriculture and the likely difficulty in getting credit for IPM activities, are any alternatives to inorganic pesticide use available. As these non-chemical technologies become available, what policies can aid in their adaptation?
- The general failure to effectively implement extant pesticide legislation or to provide up-to-date pesticide control regulations and monitoring procedures.
  - \* Are there market interdependencies between countries in pesticide importation and control?
- The lack of adequate land use planning or zoning restrictions in the agricultural sector to ensure the continued availability of environmentally-suitable and economically-productive lands for cultivation. (CCA, September, 1991)
  - \* Many of the tenure situations inhibit the existence of an agricultural land market. What changes can facilitate the development of such a market? For example, in Dominica a non-owner in possession of land has certain rights which makes selling the land difficult for the owner.
  - \* Economic rent from land value appreciation for alternative uses such as tourism has created a speculative market and idled prime farm land. Policies to capture part of the rent for government purposes as well as control needed to curb external effects may be needed. The information base varies across countries.

### **3.4. SELECTED OTHER NATURAL RESOURCE MANAGEMENT AND ENVIRONMENTAL ISSUES RELATED TO AGRICULTURE AND EXAMPLES OF POLICY ANALYSIS NEEDED.**

- Economic pressures to increase export crop production which have resulted in accelerated clearing of forested land and the establishment of agricultural plots on ever steeper hillsides- areas highly susceptible to erosion.

- \* Open access resources, even though nominally Crown Lands, become a pressure valve for population and employment problems. This is especially the case when prime farm lands are underutilized. Thus one encounters underutilized prime farm land and overutilized marginal lands. The institutional solutions to open access resources will vary from situation to situation. In some cases clear demarcation and some enforcement will be needed. In other cases the government cannot afford the appropriate levels of enforcement and other systems need to be identified. Clearly land related issues (markets, use, zoning, tenure and taxation) will be a critical element in establishing compatible economic and environmental policies.
- The failure of Eastern Caribbean governments to consistently defend critical water catchments against non-forested use activities, thus placing at risk the continued availability of reliable sources of domestic water.
  - \* Watershed management as a concept and organizing force is in a formative stage in the area. However, given the nature of the ecological interdependencies such an approach will be needed. This will require clear cooperation or clear mandates across a large number of agencies. Policy issues will include addressing not only open access resources but forest mining activities in some of the countries.
- Uncontrolled livestock grazing, contributing to land deterioration, deforestation, erosion, and general denudation of the landscape.
  - \* Antigua is perhaps the best example of open access resource issues by livestock on nominally government land but other examples exist in the region. Other property regimes may better serve both economic and resource conservation goals.
- Limited natural resource data, including base line data, making assessments of biodiversity requirements very difficult.
  - \* Policy analysis in the absence of reliable data is rather speculative. A policy analysis effort in this area will need to draw from other project such as the FAO Tropical Forest Action Plans and OAS work on land uses to perform effective analysis.

- The relative ineffectiveness of land controls in placing restrictions on the use of private lands within catchment areas is a particularly critical issue since a significant portion of the catchment area needed for maintenance of water systems is under private ownership.
  - \* Off-site resource problems suggest the need for government to devise policies which either control the behavior of the resource user or provides incentives to change that behavior. Given the generally weak institutions in this area policies will be needed that do not require large government programs.
  
- Accelerated piecemeal development of the coastal zone with minimal consideration of the cumulative impacts of development activities and projects.
  - \* Agricultural interactions with coastal zones through land use conflicts and the downstream effects (siltation, pollution, etc) of agricultural activities can be complex and point to the need to examine the incentives and controls needed to create a sustainable use of the resources. In many situations the external effects of agriculture can destroy the fragile coastal and marine habitats.
  
- Failure of governments to give sufficient attention to an integration of economic planning and land use planning so that tourism development reflects carefully analyzed carrying capacity considerations.
  - \* Development of such a capacity will also have to address the nature of the land market and the returns to landowners. For example, on St. Kitts the building of the Southeast Peninsula Highway created large economic rents and not direct returns to the government.

### **3.5.KEY INSTITUTIONAL ISSUES**

- Fragmented institutional responsibilities for the protection, development, and management of critical natural areas and historical resources.
  - \* Policy analysis will have to take into account the institutional abilities of the region to address problems. Fragmentation of responsibilities and resolution of the related problems will need to be part of the

implementation issues addressed by policy analysis.

- Environmental decision-making on an ad hoc basis, focusing on short-term or interim rather than long-term policy objectives for the environment.
  - \* Governments like many poor farmers are in a short-term trap which will require both knowledge and resources to escape. Many recognize the nature of the trap but do not have the resources. However, it will also be necessary to develop packages of policy prescriptions and changes in order to address the problems. Isolated policy prescriptions, like studies, will not address the issues.
  
- Fragmentation of environmental management functions.
  - \* Small governments are faced with the awesome task of assuming the responsibilities of larger wealthier jurisdictions because many of the attributes of sustained resource use are public goods which often, if not always, involve government regulation or action. In order to address resource management, the analysis undertaken by the project will need to include fiscal issues such as user fees and taxes to cover recurrent resource management costs. Resource mobilization in the OECS countries seems especially low related to resource use activities.

### **3.6. RESOURCE POLICY ISSUES**

This focus on agricultural policies related to land, water, forest management, pesticide use and coastal zone effects presents a long list of possible topics for analysis. The nature of the issues will, of course, change from country to country. Some of that variation is reflected here. However, much more detail is included in the Environmental Profiles for each country. The notes below do not reflect all of the environmental issues identified in the Environmental Profiles of each country but instead focus on the agriculture related issues in order to place some bounds on the likely focus of the resource issues to be examined in ECAP.

#### **3.6.1. St. Lucia**

Key issues identified in St. Lucia included deforestation and hillside farming, erosion and downstream sediment pollution and

flooding, watershed management and water supply, land tenure and land use and management, and coastal zone degradation. Some specific points noted in the Environmental Profile are noted below.

- 12.5 % of land devoted to farming is being farmed in according to optimal use, 57.5 % is being farmed non-optimally and 30% is being farmed marginally.
- land tenure situation is a complicated blending of British common law and local traditions, some imported from Africa. Further confusion results from the survival of elements of the French civil code whereby a deceased's land is divided among many heirs in the extended family tradition.
- While more individuals gain access to land by this process, the pattern of ever increasing land fragmentation can make it more difficult for the agricultural sector to benefit from economies of scale.
- The agricultural land tenure situation is also characterized by a low level of ownership. Only 3,611 or less than 27% of the country's 13,500 parcels are owned. The remainder are rented, squatted, family lands or sharecropped.
- The agricultural sector is characterized by two distinct farming systems: 1) the commercial export oriented plantation system which, from an economic point of view has always been dominant and, 2) the small, subsistence-based individual farm unit system which has developed on the more marginal lands.
- Decline in employment on plantations has increased pressure on hillside areas for subsistence. In some areas small, landless farmers are invading or squatting on unused portions of estates or in the forest reserves.
- Urban uses are taking over from many large estate, prime agricultural lands.
- Statistics from the 1986 Agricultural Census report that over 50 % of all farm holders earn less than half of their household income through agriculture.
- uncontrolled squatter settlements on environmentally sensitive lands;

These circumstances and issues reflect some of the land policy aspects to the growing concern for resource degradation and environmental pollution. A clear priority area for policy reform will focus on how to keep people off of land too fragile for

sustained agricultural use and which has a greater value to others as protectors of watersheds or biodiversity.

### **3.6.2. Grenada**

Grenada identified issues in land use planning, soil conservation and erosion, water conservation and management, ecosystem damage, repair and sustainability and agriculture in general. Some specific information on agriculture and the environment include the following.

- agriculture accounts for 25% of gross domestic product, 40% of export earnings and about 50% of employment.
- 75% of the agricultural sectors overall value came from cocoa, bananas, nutmeg and mace.
- 90% of the farms are under 5 ha. and are largely subsistence oriented.
- pure stands of export crops occur in some of the few remaining large estates.
- farms are made up of small parcels located at some distance from each other.
- a large percentage of rentals, leases and occupancies without ownership are reasonably secure.
- 20% of the land is classified as family land and relatively insecure and not amenable to a land market.
- tree crops have reduced erosion levels but recent expansion of bananas has begun to create more erosion problems.

While Grenada has been more diverse than other islands in export crops and is developing a tourist sector, environmental problems from up-stream activities are becoming more apparent. Research here will need to focus on how to prevent deterioration of the watersheds of the country with this expanding pressure for hillside agriculture.

### **3.6.3. St. Vincent and the Grenadines**

Control of illegal activities in water catchment areas, forest reserves and marine conservation issues, control and monitoring of pesticides and development control, among others were identified in St. Vincent and the Grenadines Environmental Profile. Specific agricultural issues include:

- Bananas have been the dominant crop for over 30 years and has resulted in excessive soil erosion and pesticide contamination.
- has highest population density of OECS countries.
- land is scarce and demand and prices are high.
- the government has acquired large estates and redistributed to small owners. Much family owned land which has also resulted in fragmentation of agricultural production.
- significant encroachment is occurring in upper watershed areas and watershed management associated with agriculture and preservation activities are considered the primary priority.
- the major environmental issues associated with the agricultural sector can be summarized as mismanagement of watersheds, environmentally unsound agricultural practices, and agrochemical pollution.
- Despite Crown Lands proclaimed above 1,000 feet, agricultural encroachment is occurring.
- steep lands are being converted to banana production.
- 85% of arable land is owned or owner-like possession and reasonably secure. Only squatters and family ownership situations have tenure security issues.

St. Vincent has clearly suffered from the recent expansion of bananas into upper watersheds. Policies will have to be developed to address the use of this land when the banana subsidy ends.

#### **3.6.4. Dominica**

Land use capability, rural land use, and watershed management, coastal zone management, growth management and resource protection were key issues in Dominica.

- farmers are clearing land primarily for agriculture. Expanded banana production coming from land expansion and not productivity gains.
- bananas account for 70% of total exports and 40% of the total acreage under cultivation.
- regional market is of growing importance for Dominican fresh produce.

- bulk of banana production by a small number of growers.
- intercropping patterns make achieving economies of scale difficult.
- many former large estates are idle and are therefore under-utilized. Demand for land elsewhere has resulted in disbursement of Crown Lands on inappropriate land or has encouraged encroachment on nearby forest lands.
- timber operation, both large and small, have not been planned for sustained resource management.
- land tenure and ownership problems are common. This, as in other islands, also consists of family lands.
- 52% of land is leasehold or squatters and another 15% is rented.
- parcels are small and fragmented.
- agricultural land zoning is considered to deal with watershed management problems arising from agricultural expansion.

Land policy will have to address not only the problems associated with banana expansion but what will occur with the contraction. Indeed, the resource economist may need to work with the other team members to find jobs for this population away from agriculture. Continued expansion of these problems, as noted earlier, will seriously undermine Dominica's effort to become the destination for ecotourism.

### **3.6.5. St. Kitts and Nevis**

St. Kitts and Nevis identified development planning and control, resource conservation and pollution control as critical issues. Their agricultural situation is somewhat different from the Windward Islands because of the ownership of large sugar estates by the government.

- Sugar is the dominant crop but not expected to be so much longer because of changing market access.
- Government acquired sugar lands in early 1970s.
- Now attempting crop diversification and diversification of sugar products, including a distillery.
- The government has redistributed its land to some degree but has only sold plots of relatively small sizes, making

it difficult for a single farmer to amass enough acreage to qualify for adequate bank financing to start commercial operations.

- leases on government lands are for one year and change from year to year, removing any incentive to conserve the resource base.

Crop diversification will likely not be able to replace sugar entirely. Efforts at tourism and import substitution associated with tourism have the potential of providing some of the needed employment opportunities. Continued efforts at environmental protection and policies to encourage sustained resource management, including land policies, would be the central research focus in St. Kitts and Nevis.

### **3.6.6. Antigua and Barbuda**

Natural resource productivity, development control and pollution were critical issues in this country. The situation in Antigua is also somewhat different from the other islands.

- Much of the land that became available with the end of sugar production is used today by small scale farmers.
- 70 % are part-time farmers.
- Of a total of 6,225 acres approximately 50 percent were operated by landless farmers, and another 40 percent of the farms were under two acres in size. Only 66 farms in Antigua were larger than 10 acres.
- Only 37 % of the farm production is for commercial purposes.
- The government owns 60 % of the land but fails to provide adequate tenure security. (Comments made during the field trip indicated that relatively adequate security for farmers existed on government lands as compared to St. Kitts where the government has similar ownership but denies any security to farmers. This was not verified in St. Kitts and was not reflected in either environmental profile.)
- significant overgrazing problems exist on the effective open access public lands.
- while good land is available, the primary constraint is the lack of water for irrigation. That constraint is not likely to be addressed given competing demand for urban and tourist facilities.

- agriculture is least important on this island compared to other OECS countries.

Land control and tenure associated with management of public lands represents a critical issue for agriculture. In addition, the tourist industry effects on the environment might draw considerable attention.

### **3.7. INTERDEPENDENCE IN POLICY ANALYSES**

Macroeconomic monetary, fiscal and trade issues are perhaps the most important policies affecting the use of natural resources and the environment. These issues are addressed in more detail in other parts of this report. It will be important for analysis undertaken under the project to account in some way for the environmental issues and costs and to design resource management policies which counteract or support as appropriate macroeconomic or sectoral policies needed to achieve other policy objectives.

As primarily open economies the OECS countries must adjust to changes in the world economic order. This will also entail environmental policy adjustments. Land tenure issues -- security, open access resources, land markets -- will be part of the solution to increasing productivity of the agricultural sector and increased productivity may provide the escape from expanding production by expanding the area cultivated.

The fiscal management of the country will need policy changes in order to assume the legitimate role governments have in resource management and conservation. Those activities, including some resource management and protection, which can be handled by the private sector should be so structured in order to allow government to take on more appropriate responsibilities.

Finally, and perhaps intuitively, the growing issue of sustained development will mean difficult choices between short-term and long-term objectives. A policy analysis effort which provides this information will encounter resistance. Nevertheless the options available for successfully meeting the policy challenges ahead are limited. The present understanding of those choices and trade-offs are not well understood anywhere, including the OECS countries as well as the US. Neither the economies nor ecologies of the OECS countries can suffer much shock without significant problems and perhaps irreversible losses to a fragile environment. Agricultural externalities on coastal zone or natural areas will hinder or eliminate developments in tourism which may be the economic activity most likely to provide hope for the economies of the region.

## **3.8. ENVIRONMENTAL AND NATURAL RESOURCE POLICY ANALYSIS CONSTRAINTS**

### **3.8.1. LIMITED OPTIONS FOR RESPONSES AND LIMITED UNDERSTANDING OF THE INTERDEPENDENCIES.**

One of the people interviewed for this report expressed the options available to the OECS countries as to be so limited that it was like trying to thread a needle at dusk if not in the dark. While many understand the economic fragility of the region, the environmental issues seem disassociated or unrelated to the issues of the day. On the other hand the recently completed Environmental Profiles demonstrate or at least give promise to a greater awareness of the situation. The few economic options open to the region -- agricultural diversification for export or import substitution or tourism -- depend inexorably in the long-run on the sustained use of resources. Given the nature of the externalities from current resource use patterns, part of the response will require people to leave land too fragile for sustained production. This will require the development of options for employment. Similarly resource conservation activities must take hold or the nature tourism of Dominica or the coastal tourism of other countries like St. Lucia will wither. The options are limited. Without simultaneous consideration of complementary policy reform packages, the options chosen, including the default position of doing nothing will be wrong.

As mentioned above, our present understanding of the interdependence of economic and environmental outcomes is, as a focus of study, rudimentary and the issues will be much researched over the next decade. This region cannot wait for that analysis but must become actively engaged in understanding the issues in their own context. To a great degree many of the options available can only be responses to outside the region developments. A better understanding of the resource effects, however, may better equip the leadership of the region in the process of communicating the situation to those outside the region.

### **3.8.2. INAPPROPRIATE POLICIES**

Policies which encourage resource depletion abound. Government de jure land ownership which de facto is an open access resource. Allowing subsidies for bananas which encourage inappropriate land uses, subsidies for inputs which result in inefficient use of the input and increase health and pollution effects, policies which encourage mining of the resource by denying the user the opportunity to reap the benefits from conservation activities. For example, St. Kitts leases government lands for a year at a time and changes leases each year while Antigua farmers

have more security. Many governments allow squatting or encroachment on public lands as a pressure valve for population and employment problems.

The other form of inappropriate policy is the policy which exists on paper but is unimplemented or enforced. In some cases the government does not have the capacity to do so but in other cases political issues supersede the statutory process as is often the case with land use decisions and the sale of public lands.

### **3.8.3. LACK OF POLICIES NEEDED TO ADDRESS EXTERNALITIES**

The existence of public goods and externalities often leads to government involvement. (Yes I had a reason to explain these concepts earlier.) The actual nature of that involvement can be quite variable. In the case of many of the OECS countries government activities related to land has almost exclusively focussed on Crown lands. This management has many problems from resource management perspectives. However, lack of land use controls appears as an almost universal issue in the Environmental Profiles. The off-site effects, be they pecuniary or physical, are not presently addressed by any country. Indeed, the landowner rights in St. Lucia were reported to be nearly absolute as established in the Constitution. One observer indicated that landowners have absolute freedom to do whatever they wish with the land and water resources they own. Given the scarcity of land resources and the interdependence in the use of those resources, many policy issues exist. The aforementioned externalities, if unaddressed, will result in significant costs for others.

### **3.8.4. LACK OF APPROPRIATE INSTITUTIONAL ORGANIZATION AND CAPABILITIES**

There is a chapter in each of the Environmental Profiles demonstrating the institutional weaknesses which exist in the OECS countries. These problems are not unique but the need to have an integrated policy and institutional response to the economic and natural resource problems ahead suggests that, as is the case with the ENCORE support of the OECS NRMU, ECAP will have to be designed to address the implementation difficulties associated with institution duplication, gaps, and resistance to change and communication. Given the integrated policy analysis vision presented here, the task will not be easy. ECAP may be able to take advantage of the effort of ENCORE in this area but the links to macroeconomic and agricultural sector policy will be a challenge. Ultimately the utility of including analysis of environmental and resource policies as a complement to and supported by other analyses may well depend on the ability address the institutional issues. At the moment there is little evidence

supported by other analyses may well depend on the ability address the institutional issues. At the moment there is little evidence that such a perspective will be well received.

### **3.8.5. HUMAN RESOURCE CONSTRAINTS**

Similarly there is no identifiable capacity in natural resource or environmental economics or policy analysis in the region. This is not to say that some people of responsibility do not understand some of the issues. An interview with CERMES at UWI indicated that there was some environmental sciences represented in the region. The program began in 1986. They have had a position open in resource economic for three years and members of the St. Augustine campus Economic Department have had to "convert" to environmental economics. Dr. Moore at Cermes expressed great interest in cooperating with an ECAP Resource Economist.

The NRMU of OECS, supported by GTZ and ENCORE, will have some environmental capacity but it remains unclear as to whether resource or environmental economics will be one of the skill areas to be developed. While there may be some economists who have examined some aspect of resource or environmental issues, no specialists were identified within the region.

## **3.9. ENVIRONMENTAL AND NATURAL RESOURCE POLICY ISSUES AS A COMPONENT OF ECAP**

The following comments summarize the approach reflected in the text above.

### **3.9.1. PURPOSE AND SCOPE**

Natural resource and environmental policy issues should be included as an integral component of ECAP. While the focus of the project begins with agricultural development (or adjustment) policy all of those issues have resource utilization and/or environmental dimensions which require consideration of the resource policy regime. Indeed, resource policies may well be significant constraints to effective implementation of other policies. In addition resource policies maybe needed to ameliorate the effects of other policies addressing other criteria. The resource economist will likely begin with a strong emphasis on land policy but will also be interacting with the sectoral and macroeconomic analysis activities.

### **3.9.2. SPECIFIC ISSUES**

There are three possible venues for a resource economist:

The first potential site is the NRMU of the OECS Secretariat. The proposed policy activities of ENCORE are detailed in Annex 1. ECAP can be complementary to those activities and vice versa. However, the nature of the institutional capacity to absorb more TA might be limited.

Second and an alternative location would be the CERMES program at UWI in Barbados. Such a location would support UWI research efforts and serve as a conduit for support and communication between UWI and the NRMU.

Third, the resource economist could be located at the CDB. Support from other donors in the areas of environmental assessments of bank projects could be further expanded by inclusion of a resource economist in agricultural sector analysis. This person could perhaps support UWI as well.

Fourth, and finally, the resource economist could locate at the OECS Economic Affairs Secretariat as a member of a core team of long-term specialists. From this venue, the resource economist can support activities throughout the region.

### **3.9.3. INSTITUTIONAL ACTIVITIES**

Given the vision defined here for the resource economist, it will be necessary for this person to cooperate with a large number of existing projects. It may well be appropriate to spend some time culling through existing information and making contact with the large number of USAID and other donor projects. ENCORE and TROPRO should especially provide useful contact points for development of the research agenda.

There seems little doubt that the number of important issues and the diversity of regional and national institutions will provide both a challenge and opportunity to bring scarce skills and perspectives to policy issues in the region.

### **3.9.4. PERSONNEL ISSUES**

While USAID should not be discouraged from seeking a senior and experienced person for this position, it is unlikely that such a person will be found. Instead, a recent graduate may be appropriate given the lack of foreign language requirements and the

recent exposure to the state-of-the-art. Experienced resource economists in a developing world context are scarce. Environmental economists, however, might not have the appropriate skill mix given the nature of that approach in the US.

Short-term expertise can support such a position. Examples of the diversity of potential issues needing attention include land market policies, property and tenure policies, resource pricing, natural areas protection policy (though ENCORE might do this), and macro and micro economic resource pricing methodologies and policies. The breadth of these possible assignments may dictate the wisdom of opting for well qualified short-term professionals.

## ANNEX 3.A. ENCORE POLICY DIALOGUE

This activity will encourage the development of (1) a regional consensus on the basic, harmonized legislative framework which should be put in place in each country to encourage sustainable natural resource management, (2) a focal point in each country (e.g., an environmental desk or other appropriate unit for coordinating matters affecting environment, and (3) a basic environmental management plan in each country. The NRMU will become fully functional as coordinator and guide for these policy discussions, and become the regional center for policy development on environmental concerns.

Effective natural resource management in this region requires development of a coordinating forum across the OECS to address the interrelated nature of natural resource management decisions and bring about mutual understanding of the consequences of the decisions. The policies that will change the skein of laws and practices relating to the environment as well as harmonize environmental action in the region will be the result of dialogue based on understanding of economic and environmental concerns a broad-based knowledge of the conditions that exist. Many environmental problems transcend the national boundaries of individual countries. In some cases, strict enforcement of environmental concerns on one island without equally strict enforcement on another will result in considerable negative environmental and economic consequences.

The ENCORE Project will fund up to seven major regional or country-specific studies that will provide bases for policy dialogue and formulation. Some studies will be conducted in Local Sites and used as a basis for conducting more systematic analysis and follow-on activities, and sharing the lessons learned with other participating countries. Illustrative subjects include: coastal zone land use policy and practice; improvements in development planning and regulation; research into privatization of protected areas; reconciliation of new settlements with natural resource conservation; pollution sources and effects on regional coastal resources; methods of measuring long-term economic impact of environmental considerations in development.

While the range of policy themes under review will be flexible, most topics will be of regional interest and applicability. Specific subjects for analysis will be determined in conjunction with study needs identified under other activities of the Regional Environmental Management component. They will result from specific requests by OECS member nations (e. g., as a result of reviewing basic Environmental Profile and CLI Environmental Laws data), the ENCORE project management, or from local communities, and will be processed through the OECS Natural

Resource Management Unit (i.e., contracted for, executed and disseminated).

As each study is completed, a series of regional and local seminars and workshops will be initiated to discuss the findings and implications for immediate follow-up actions. The objective is to induce dialogue among key decision-makers, influential advisors and local area residents. Included in these sessions will be such representatives as Attorneys General from the region, Ministers, NGO/PVO groups, and community/private sector representatives.

The OECS will take the lead role in this activity, building a capability within the OECS Natural Resource Management Unit to coordinate regional policy dialogue. ENCORE will provide funding for technical assistance, staff support, equipment, supplies and operational funds as required to assist the Unit to further evolve into central coordinator, advisor and motivator for regional policy dialogue on the environment. AID will support the policy dialogue as an information source, and will seek to mobilize resources from other AID-funded activities in the region and/or internationally in support of the broad objective.

Specific outputs of the activity are:

- The NRMU recognized and respected as a regional mechanism for collaborating regional dialogue on the environment;
- Up to 7 major regional or country-specific policy studies on key environmental problems;
- Up to 40 regional and local seminars and workshops on the findings and implications for immediate follow-up actions;
- Development of a basic legislative agenda per country on the environment and natural resource conservation;
- Establishment of a focal point in each OECS country for coordinating environmental matters; and
- Development of country-specific environmental management plans. (USAID, 1991, pp. 17-18)

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## **CHAPTER IV. THE INSTITUTIONAL CAPACITY FOR AGRICULTURAL POLICY ANALYSIS AND DIALOGUE IN THE OECS COUNTRIES**

**by Morris Whitaker and St. Bernard Sebastian**

### **4.1. Introduction and Background**

#### **4.1.1. Objectives and Focus of the Study**

This paper reviews and analyzes the relevance and roles of public and private sector agencies and institutions in agricultural policy analysis and dialogue in the countries belonging to the Organisation of Eastern Caribbean States (OECS). It also describes the donor community which interacts with these institutions. In effect, it seeks to provide a comprehensive view of institutional life in the region as these entities seek to cope with agricultural, tourism and environmental and natural resource issues. The paper concludes with an in-depth analysis of those constraints which prevent these institutions from achieving effective policy analysis and dialogue.

The analysis focuses on the OECS countries. Included are the Windward Islands of Grenada, St. Vincent and the Grenadines, St. Lucia and Dominica; and the Leeward Islands of Antigua and Barbuda and St. Kitts and Nevis. The British Virgin Islands and Montserrat, with observer status in OECS, are not included in this study since they are part of Britain and not eligible for assistance from the U.S. Agency for International Development (USAID). While the focus of the analysis is on the OECS countries, some agencies of the Caribbean Community and Common Market (CARICOM) and other entities with broader Caribbean region mandates are reviewed and analyzed. They are included because they play an important role in policy formulation for the OECS countries, as well as for other countries in the region. Concomitantly, the OECS has played a leadership role in economic and political integration in the Caribbean. Thus, a somewhat broader perspective than just OECS country and subregional policy institutions also becomes necessary because of the trends toward greater economic and political integration in the region.

While this paper focuses on the process of policy formulation

for agriculture, it takes into account the effect of macroeconomic policies and those directed primarily to other sectors, but which impact directly and heavily on the agricultural sector. The performance of agriculture greatly influences the overall economic and social development of the subregion because agriculture makes up an important share of both gross domestic product and employment. The services of marketing, processing and transportation in agriculture are a growing share of GDP. Tourism has also been expanding in recent years but substantial leakages occur, largely due to the lack of linkages to domestic activities, especially agriculture.

Agriculture is in turn influenced by national, regional and international developments. The interdependence of the subregion with international development through trade, finance, and transfer of technology influences the options and directions of national development and agricultural development in particular.

Though agricultural exports remain the most important source of earnings from abroad for the subregion, the export-import balances have not been encouraging. Overall, the value of food imports have surpassed that of food exports, and it appears that foreign exchange discriminates against domestic agricultural production. Exchange rate management may, therefore be an issue. The nominal exchange rates influence the real exchange rates, which in turn have their impact on the competitiveness of domestic and export products with imports. When the nominal exchange rates are maintained at levels which do not reflect rates of domestic inflation, the real exchange rate becomes more favorable to those consumers and industries utilizing higher proportions of imports of total consumption and output. Thus, the agricultural sector whose output contains a higher proportion of domestic value added than other sectors becomes disadvantaged in relation to such activities as manufacturing or tourism.

The OECS countries all appear to have pursued macroeconomic policies which discriminate against agriculture and other tradeable goods. For example, each has tariff and non-tariff barriers to trade. In addition, there is considerable opinion that the common currency, the Eastern Caribbean Dollar, appears to be overvalued.

#### **4.1.2. The Concept of Policy Analysis and Dialogue**

Agricultural policy analysis and dialogue is defined in this paper as the two-part process of:

- (1) policy analysis which includes setting the policy agenda and then analyzing constraints to agricultural growth and development and alternative policy prescriptions for their resolution, including careful study of the incidence of the costs and benefits of each policy alternative on various

economic and social groups; and

(2) policy dialogue which includes thoroughly debating the various policy options, selecting the most appropriate policy instruments and interventions, developing a plan and strategy for funding the requisite interventions and then implementing the policy program, all based on the consensus or majority decision arrived at through democratic processes.

This two-stage, iterative process involves continuous interaction between agents in the private sector and various public sector entities which affect agriculture, directly or indirectly. Such interaction must occur in setting the agenda for policy analysis and in the process of policy dialogue and formulation. It may occur between individual entrepreneurs and government agencies but most often will take place with the government through associations of entrepreneurs in the food system, from producers to marketers to consumers.

The importance of clearly conceptualizing the policy analysis process as comprising both policy analysis and policy dialogue can not be overemphasized. It is critical that the ECAP project design comprise these two fundamental elements, if the proposed project is to strengthen the system whereby effective policy change in the OECS subregion is possible. A system which produces timely, high quality policy studies will be relatively ineffective if it is unable to articulate the results of the studies and alternative prescriptions into the democratic process for full and open public debate and resolution. Policy-makers must gain support of the private sector if requisite reforms are to be properly formulated and implemented. This must involve active participation of the private sector in setting the policy agenda and vetting the results of policy studies. In turn, the private sector will need to reallocate its resources in response to the changing policy environment. Agricultural entrepreneurs must have a clear sense of the costs, potential benefits and the degree of associated risk and uncertainty of alternative policy scenarios, if business performance is to be improved through policy change.

### **4.1.3. Urgent Policy Issues**

The proposed ECAP project can help to address a series of extremely difficult policy issues which are at the forefront of public debate and discussion throughout the countries of the OECS subregion and others in the broader Caribbean region.

One of the most important is the potential removal of the banana subsidy of Britain. The spectre of the European Community in 1992 (EC'92) has raised grave concerns in the OECS about the viability of micro island economies heavily dependent on banana

exports. The issue is very high on the policy agenda of Dominica, St. Lucia and St. Vincent, the most seriously affected OECS countries and of primary concern to the OECS Secretariat and CARICOM. These three Windward Island countries rapidly expanded banana production through lucrative price and quota subsidies from Britain and bananas now dominate their economies.

The prospect of losing these subsidies in the next two to five years has engendered a flurry of expressions of concern and a subregional policy response to try and diversify agricultural production.<sup>1</sup> Policy-makers in the public and private sectors of the Windward Islands worry not only about rapid reduction in banana production and sharp decreases in foreign exchange earnings. They are equally concerned about the high social costs associated with the almost certain, eventual displacement of approximately 15,000 banana farmers who produce on very small plots with high-cost, traditional technologies. The magnitude of this problem is staggering, given the importance of bananas in the structure of employment in these small economies. There is a generally held view that France will continue its subsidy support for banana producers in Guadeloupe and Martinique. The same view holds that if this is the case, it is unlikely that Windward Island bananas would be treated differently in the European market. However, if tariff barriers do disappear, what will keep dollar bananas arriving in Germany, for example, from reaching France and Britain? Unfortunately, there is only limited analysis of the likely scenario which will unfold during the next few months and years, or of the incidence of costs and benefits of alternative policy responses through the adjustment period. A more careful policy analysis is urgently needed.

Low productivity in agriculture and the degradation of natural resources are the closely interrelated elements of another major policy issue confronting the OECS countries.<sup>2</sup> These economies face the difficult tasks of increasing agricultural productivity and the incomes of people working in agriculture and simultaneously sustaining the natural resource base upon which agricultural production and tourism are founded. The banana problem illustrates

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<sup>1</sup> The term "sub-region" is used synonymously with "OECS countries" throughout this paper. The term "region" includes the OECS countries and others in the Caribbean and is used synonymously with "CARICOM countries."

<sup>2</sup> Detailed information on environmental policy issues and linkages between agriculture and the environment is being prepared by Dr. George Johnston, under a contract between Abt Associates, Inc. and USAID to prepare background analyses for the ECAP project design.

this dilemma. The relatively large growth in banana production during the 1980s has come from incorporating increasingly marginal, hillside lands into production in the Windward Islands. Yields have not increased and may have even fallen slightly while fragile lands have been eroded and watersheds destroyed. Banana production is inefficient compared to other countries primarily because it has been based on the use of natural resources (expansion of marginal land) as a primary production input. The OECS countries can not compete with Central and South American countries which employ modern industrial inputs and technologies that substitute for the scarce land. These countries enjoy yields 2-3 times higher and face world market prices that are substantially lower than the subsidized price in the OECS countries. OECS countries must play "catch-up" while facing the problems of environmental pollution posed by the farm chemicals needed to augment productivity. Again, little information about the linkages between agriculture and the environment exists as a basis for better-informed decisions by policy-makers.

Farmers, hucksters, traffickers and agricultural policy-makers alike are concerned with issues such as:

- the high cost and unreliable transportation system;
- critical operational deficiencies in the existing commodity and marketing organizations;
- unreliable market information delivery arrangements;
- significant deterioration or wastage of produce in the process of harvesting and marketing, due to poor handling techniques and inappropriate on farm storage systems.

These constraints have tended to discourage farmers from utilizing their farm lands to optimal capacity.

Just as for the banana problem, there is little in-depth analysis or data about these policy concerns, nor any sense of perspective about how these issues relate to each other. Enhanced capacity in policy analysis and dialogue is sorely needed. The proposed ECAP project can help to address the urgent need for better policy formulation in the face of a rapidly changing regional and world economy and political realignment.

#### **4.1.4. Methodology**

This assessment and analysis of constraints is based on an open-ended series of one-on-one and group interviews with knowledgeable individuals to extract data from informed viewpoints and judgements. Visits were made to regional and national entities

from both the public and private sector engaged in some aspect of agricultural policy formulation, including non-agricultural agencies whose policies impact agriculture. Visits also were made to the major bilateral and international donor agencies and development banks. These visits were carried out in Barbados, St. Lucia, Antigua, St. Kitts, Dominica, St. Vincent, Grenada and Trinidad in that order during September 16-October 9, 1991. Approximately 5-6 meetings were held each day of about 1 hour each, with the team splitting up to cover a particularly heavy schedule. The bulk of this working paper was written during the same period during weekends and evenings.

A form was used to record information and impressions and to guide evaluation of institutional capacity with respect to several factors (Appendix A). These factors were the principal bases for analyzing the overall capacity for and constraints to policy analysis and dialogue in regional and country policy agencies. No attempt was made to sample statistically in this initial fact-finding mission. Results are based on comparison of information and impressions from the various field interviews and collective interpretation of them by the team.

#### **4.1.5. Organization of the Chapter**

The rest of the paper is organized as follows. Section 4.2 reviews current and planned policy activities of USAID and other donor agencies and considers their relationship to the proposed ECAP project. Section 4.3 presents a profile and description of OECS country, subregional and region-wide agencies which are engaged in some facet of policy analysis and dialogue. Private sector organizations are also addressed.

The capacity of these entities to engage in, as well as constraints to, more effective policy analysis and dialogue are analyzed in Section 4.4, while evidence about a nascent regional system for policy formulation is examined in Section 4.5.

#### **4.2. Donor Activities in the Policy Arena**

The Caribbean Development Bank (CDB), in cooperation with the World Bank, loosely coordinates donor support to OECS countries. Such coordination includes multilateral and bilateral lending for infrastructure projects but is much more ad hoc with respect to bilateral grant assistance. Principal multilateral donors of grant assistance include the United Nations Development Program (UNDP), the Inter-American Institute for Cooperation on Agriculture (IICA), and the European Community (EC). Principal bilateral donors include the U.S., the U.K. and Canada, with Japan, Germany, Italy and France playing increasingly stronger roles. Regional donors include Trinidad and Tobago, Brazil and Venezuela (USAID).

### **4.2.1. Complementary USAID Interventions**

USAID has several projects being implemented which are complementary to the ECAP project. Most have modest policy components which partially address issues and problems identified in this initial review. Others strengthen the capacity of regional institutions involved in policy analysis and formulation. These projects are complementary to the proposed ECAP project and its design needs to take them into account and build on their successes.

The Small Enterprise Assistance project (SEA) is perhaps the most complementary to the ECAP initiative of RDO/C's current portfolio. The SEA project, which is focused on providing funding for the Caribbean Association of Industry and Commerce (CAIC) to take equity positions in small enterprises, also has a policy advocacy component. This component was added in 1987 when the original project was amended to strengthen the capacity of CAIC and its affiliates to effect policy change favorable to private enterprise development (Source: Caribbean Regional Project Paper, Amendment No. 1, Project Number: 538-0133). The project supports CAIC's Economic Research and Analysis Department with short-term technical assistance to conduct research and carry out policy studies germane to CAIC's constituency. The CAIC, a Caribbean regional organization with formal consultative status with CARICOM, engages in policy advocacy as well as providing technical assistance and training to private sector firms in trade and regional integration. The CAIC is an important regional, private sector association which will need to be involved in a regional policy network under ECAP.

The West Indies Tropical Produce Support (TROPRO) project supports regional efforts of the OECS to enhance diversification of agriculture by improving production, post-harvest handling, transportation, and market information systems. The latter two modules are directly supportive of policy analysis and formulation. The transportation component has undertaken review and study of constraints in the transportation sector and development of a transportation plan. In a similar manner, the marketing component provides data and market information to producers and other agents in the regional food marketing system.

Both the transportation and marketing components of TROPRO seek to strengthen the capacity of regional institutions to be more effective in serving national needs by improved data, analyses and consensus on appropriate courses of action. The TROPRO project is located in Dominica at the Agricultural Diversification Coordinating Unit (ADCU) of the OECS, a line agency reporting to the Economic Affairs Secretariat of OECS. The major activities of the ADCU revolve around support provided through TROPRO. In addition to strengthening the capacity of the regional ADCU office,

TROPRO has enhanced linkages between the Caribbean Agricultural Research and Development Institute (CARDI), the Inter-American Institute for Cooperation on Agriculture (IICA) and the Caribbean Agricultural Trading Company (CATCO). It also is strengthening CATCO, a publicly and privately owned firm with majority ownership in the Caribbean Food Corporation (CFC), an operational unit of CARICOM.

Thus, the TROPRO project has built upon and enhanced linkages and relationships among several important regional institutions. TROPRO is very complementary to ECAP because it has enhanced basic data and policy analyses in transportation and marketing--two priority areas for urgent policy studies identified in the broader background studies of which this working paper is a part. Concomitantly, TROPRO has enhanced capacity of key regional and national institutions and has strengthened the network between CARICOM, OECS and national institutions which the ECAP will have to incorporate into a policy analysis network, if it is to be successful. Finally, linkages to private agricultural associations developed under TROPRO will directly enhance and facilitate the incorporation of the private sector into the policy analysis and dialogue process under ECAP.

The Investment Promotion and Export Development (IPED) project also has a thrust in policy analysis and formulation which is complementary to ECAP. The IPED project includes a component to support the establishment of the Eastern Caribbean Investment Promotion Service (ECIPS) along with a technical assistance fund for supporting RDO/C's investment promotion and export development activities (Source: Project Paper, Investment Promotion and Export Development: Amendment # 2, Project Number 538-0119). ECIPS, located in Washington, D.C., is an agency of the OECS Secretariat. The project emphasizes the role of the private sector in national and subregional policy dialogue. ECIPS, as an integral element of OECS, is a new forum which will directly facilitate and complement regional policy analysis and dialogue efforts to be developed under the ECAP project. This complementarity will be even more direct in the event that project design identifies another unit of OECS such as the OECS Economic Affairs Secretariat (EAS) as the coordinating, central unit for a regional policy analysis and dialogue network. The ECIPS also directly supports and complements the essential private sector aspects and intersectoral scope of the ECAP.

The Caribbean Agricultural Extension II Project (CAEP II) does not have a policy component, per se. It does, however, seek to improve the long-term effectiveness of the University of the West Indies to backstop and support national extension services. UWI has been identified in this working paper as a key regional institution to participate in a regional network for agricultural policy analysis and dialogue. The experience and enhanced capacity of UWI to collaborate with national institutions in a regional project and under USAID auspices will enhance the success of the

ECAP project.

The Environmental and Coastal Resources (ENCORE) project will seek to strengthen the OECS's Natural Resource Management Unit to serve as catalyst for policy dialogue throughout the region. Its mandate also calls for the NRMU to encourage the development of regional consensus on a legislative agenda and promoting mutually compatible national management plans. To encourage dialogue, ENCORE plans to fund up to seven major studies. Potential topics include: coastal zone land use policy and practice; improvements in development planning and regulation; privatization of protected areas; the settlements-conservation nexus; pollution issues; and methodologies. These studies, once completed, will serve as agendas for workshops to encourage policy dialogue.

The Agricultural Research and Extension Project (AREP), being implemented by CARDI, addresses crop diversification and extension throughout the subregion. Recently, AREP was evaluated. Its substantive performance was highly regarded, but the evaluators stressed the need for the project to address the absence of market condition studies, prioritize commodities, and move from import substitution to crops and value added opportunities for the export market. It pointed out that policies were needed that effectively challenged the pervasive food security focus in favor of export diversification and production. It also stated that agenda setting with the project lacked adequate data bases on external markets. Virtually all of these needs can be met through close cooperation with ECAP.

#### **4.2.2. Other Donor Projects**

IICA. A project currently being designed by IICA entitled "Strengthening Agricultural Policy Analysis and Planning in the Organisation of Eastern Caribbean States (IICA/Barbados), may provide opportunities for valuable linkages with ECAP. This project, slated to run from 1992-1994, is the latest in a series of IICA initiatives in planning for<sup>3</sup> agricultural development implemented during the last 15 years.

IICA's policy unit focused on sensitizing Caribbean countries to the concept of sectoral planning in its Agricultural Planning and Policy Analysis (PROPLAN/AP) project from 1978-1983. During the 1980s, IICA implemented sequential projects focused on project preparation and associated training at the national and then regional levels. In 1988, a five-year project entitled "Design of

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<sup>3</sup> IICA also plans to sponsor a two-week seminar on the effect of macroeconomic policies on agriculture for agriculture, tourism and natural resources personnel in Trinidad during October 1991.

Strategies for Agricultural Policy Analysis and Planning in the Caribbean," was initiated. This project provided support to planning units in Ministries of Agriculture in Grenada, Antigua and Barbuda, Dominica, Suriname and Trinidad and Tobago. It also resulted in several policy studies and a compilation of macroeconomic and sectoral data. These initiatives, however, have been intermittent and without a clear objective of building the policy analysis capacities in these agricultural ministries.

The proposed IICA project in Policy Analysis and Planning for the period 1992-1994, is based on needs identified by CARICOM ministers of agriculture at their ninth meeting which resulted in the development a Caribbean Community Programme for Agricultural Development (CCPAD). CCPAD identified a number of priorities which required urgent attention, including policy analysis, and IICA was asked to develop a response. The IICA initiative also is responsive to the agricultural diversification plan of the OECS states. As a result, the proposed IICA project is listed as part of CARICOM's planned project activities, even though the project has not been approved as of the date of this report and no funding has been secured. If approved, the project will emphasize data collection for agricultural planning and management. Proposed funding is very modest (\$1.5 million over two years).

The United Nations Development Programme (UNDP) has been assisting OECS countries in agricultural diversification during 1987-1991 and will continue this thrust during its next five-year cycle (1992-1996) with about one-half of its funding. The balance will be for programs in production, technology and marketing. The UNDP provided some assistance in agricultural planning during the 1980s through a training program but most people they trained did not stay in Ministry of Agriculture planning offices because of limited support. The brain drain has seriously undermined previous UNDP efforts to improve agricultural policy analysis and planning.

The European Community (EC) has negotiated a ten-year assistance program to OECS countries in its Lome IV Convention. The program has two five-year funding periods, 1990-1994 and 1995-1999. Allocations of US\$3.5 to US\$5.0 million were made as grants, along with a small amount of risk capital for each OECS country. Priority areas are agricultural production (Grenada and Dominica); health (St. Kitts and St. Lucia) and tourism (St. Vincent and Antigua). Countries must propose specific programs, under a set of policy conditions and proposed counterpart funding, before grants are made.

The British Development Division (BDD) is responsive to requests from each OECS country in its assistance program. Such request usually are for infrastructure projects. The BDD also supports regional projects in three main areas: assistance to banana producers through the Windward Islands Banana Research Organization (WINBAN); help for food crop diversification through

the CARDI; and assistance for a Tropical Forest Action Plan (TFAP) which is part of a broader global effort. The latter activity assists each country to develop its own plan, which could be important data for the ECAP policy project, if the individual country studies and plans are of good quality.

The Canadian International Development Agency (CIDA) is planning a second phase for its Eastern Caribbean Economic Management Project (ECEMP). ECEMP II's goal is to promote successful structural adjustment and sustainable development in the OECS sub-region. One of its objectives is strengthening economic policy analysis and decision making capabilities. ECEMP proposes to do this through creation of a regional public finance unit; improve trade and investment legislation; promote the establishment of a common OECS financial services market; focus on population policy; strengthen public sector investment programming; accounting and budgeting; tax systems; and strengthening management services in the OECS. The public sector administration and management focus of ECEMP is different than, but possessing complementarities with ECAP, which should be taken advantage of by establishing effecting linkages.

### **4.3. PROFILE AND DESCRIPTION OF REGIONAL POLICY AGENCIES**

#### **4.3.1. Introduction**

At the regional level there has been a significant amount of institution building for policy analysis and planning. In addition to the University of the West Indies, which predated the relatively recent regional activities, there is a growing pool of technical expertise and analytical capacities based in such institutions and programmes as CARDI, CFC, CDB, University of Guyana, the CAIC and ECCB and at the CARICOM and OECS Secretariats. This has been augmented by the regional activities of technical agencies such as IICA. As a result, greater exchange of information and experience has occurred, leading to marked improvements in professional skills in policy analysis, and creating the basis for improved planning and implementation processes as required in the ECAP project.

In this section, we examine the institutions at the regional, subregional, and national levels, which are and/or will be principal actors in shaping policy in agriculture, tourism and the environmental and natural resources sectors within the Eastern Caribbean.

### 4.3.2 Regional Policy Institutions

#### Caribbean Community and Common Market (CARICOM)

The Caribbean Community was established by the Treaty of Chaguaramas in 1973, for the purpose of facilitating the economic and social development of its member states, and as a movement towards unity in the region.

CARICOM is composed of the following member countries: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines. Some of the smaller members of CARICOM namely, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines are also members of the Organization of Eastern Caribbean States (OECS). In the OECS there is a stronger drive towards strengthening political cooperation, and discussions are well advanced for the establishment of a political union of some members.

The overall objectives of the Community focus on three key areas: economic integration, foreign policy coordination, and functional cooperation (including common services). With regards to the area of functional cooperation, CARICOM aims at economizing on scarce technical and financial resources, in a number of sectors including education, health, culture and transportation. The small size of the average CARICOM country relative to the optional requirements for efficient large scale production, international trading, and international cooperation, means that it makes economic sense and geographically feasible for member countries of CARICOM to cooperate and coordinate their external policies. This arrangement has strengthened the Caribbean voice and influence in international fora on matters affecting the region. As regards to economic integration, through the development of the Common Market, CARICOM has started the process which will transform the region into a single market by 1994. All CARICOM member states, with the exception of The Bahamas, are members of the Common Market, which is founded on the following objectives:

- (1) the strengthening coordination and regulation of the economic and trade relations among member states in order to provide their accelerated harmonious and balanced development,
- (2) the sustained expansion and continuing integration of economic activities, benefits of which shall be shared equally,
- (3) the achievement of a greater measure of economic independence and effectiveness of its member states.

Under the Caribbean Community and Common Market arrangements,

and in pursuing its mandate of functional cooperation a number of regional institutions have been created and designated Associated Institutions.

The following is a list of such institutions and field programmes and projects:

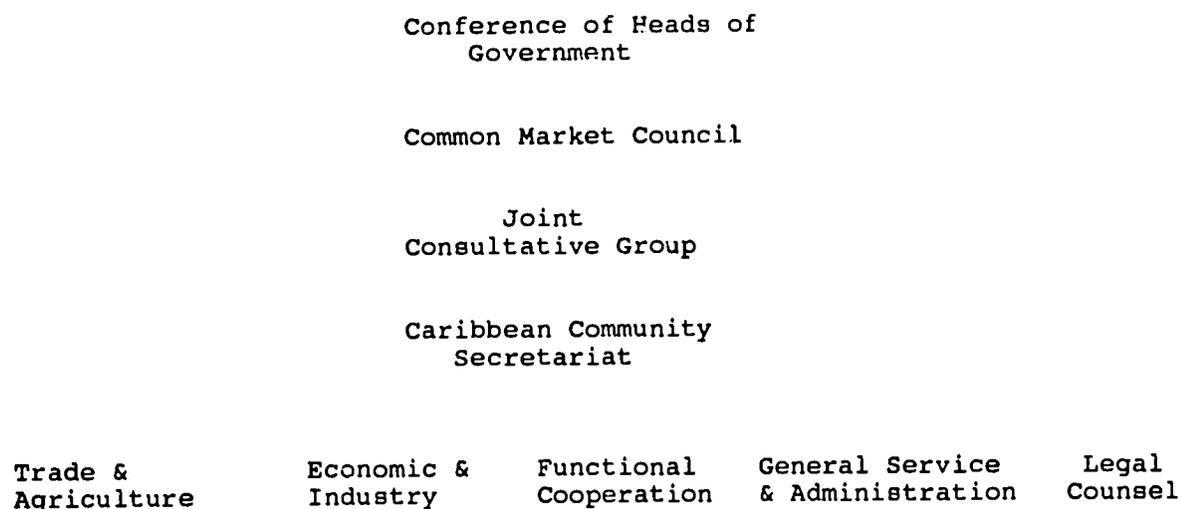
Associated Institutions

- West Indies Shipping Corporation
- Caribbean Development Bank
- Caribbean Meteorological Council
- University of the West Indies
- University of Guyana
- Caribbean Examinations Council
- Council of Legal Education

Field Programmes/Projects

- Caribbean Food Corporation
- Caribbean Tourism Organization
- Caribbean Agricultural Research & Development Institute
- Caribbean Environment and Health Institute
- Caribbean Regional Drug Testing Laboratory

The Secretariat of the Caribbean Community is located in Georgetown, Guyana and is the principal administrative arm of the Community. The following chart summarizes the organizational structure of the CARICOM Secretariat:



The executive arm of CARICOM policy making capacity is shared between the Departments of Trade and Agriculture and Economics and Industry. Over the years CARICOM has made a number of interventions and carried out a broad programme of studies, training and information activities focussed on promoting Caribbean economic integration and the creation of a single market. The policy interventions are generally undertaken at CARICOM's own

initiative, or as a result of requests by member states or regional organizations. The initiatives by CARICOM have stemmed from its macro economic policy analysis at the regional level and its quest for greater policy coordination. The following are some of the more pertinent policy related activities by CARICOM:

- The CARICOM Multilateral Clearing Facility (CMCF) which is no longer functional, was created to promote the use of member's currencies in settling transactions and the expansion of regional trade, and thereby conserving scarce foreign exchange resources.

- CARICOM Enterprise Regime (CER) has become operational in some member countries, and provides the legislative framework for the creation of regional enterprises with the goal of promoting intra-regional investment and the development of regionally based industry, agriculture and services. Enterprises under the CER receive the same benefits as local enterprises in whatever member country they are established, plus special fiscal incentives for engaging in agriculture, tourism, forestry, transport and communications and preferential treatment against non-regional enterprises applying for fiscal incentives.

- The following Caricom initiatives on policy reforms are currently in progress at the regional level: a revision and implementation by some countries of the Common External Tariff, full liberalization of intra-regional trade and the revision of the Rule of Origin. The Revised Rule of Origin which came into force in January, 1991, have increased the requirements and criteria which govern the eligibility for preferential treatment of goods produced within the Common Market.

- CARICOM has also fostered the growth of other institutions or programmes to give directions on the role of the agricultural sector. One such institution is the Caribbean Food Corporation, (CFC) which was established in 1976 to promote and finance agribusiness in CARICOM, to facilitate technology transfer and to encourage greater use of regional raw materials. The shareholders are largely CARICOM governments, but the owners are currently considering the sale of shares to other government organizations and the private sector.

- CARICOM has also assisted in formation of the Caribbean Agricultural Trading Company (CATCO). CATCO was formed in the 1980's as a marketing subsidiary of CFC which owns 51% of its shares; the balance of the shares is held by the private sectors, made up of the growers from whom CATCO purchases. CATCO is one of the major exporters to its marketing extra regional markets. In addition to its marketing role CATCO undertakes development activities such as research and extension, introducing farmers to new technology and varieties of produce, and improved techniques of post harvesting handling and shipping.

- CARICOM Export Development Programme is an initiative of the Caribbean Community Secretariat to assist member states in their efforts towards diversifying their structure of production, strengthening their production bases, increasing their share of the regional market for regionally produced goods, and developing and expanding the potential for exports to extra regional markets.

These are just some of the interventions that CARICOM has undertaken to deal with the wide range of production and trade related constraints, challenges and problems that the agricultural sector in the region faces. CARICOM can play a vital role in the proposed agricultural policy analysis project intended to remove obstacles to, and embrace opportunities for development.

In the past CARICOM has been a valuable negotiating forum for the region, giving strength to the countries' negotiating position. It is expected that the same role can be performed on issues such as the status of preferential markets for sugar and bananas, or maximizing the potential benefits from the EAI. CARICOM could also perform a useful function as a repository of information, as well as monitoring the non-tariff barriers imposed for protectionist purposes by the U.S.A. or other CARICOM members and negotiate their removal. In addition the development of quarantine standards to curb the spread of plant and animal diseases is another area requiring CARICOM intervention.

## Caribbean Development Bank

The Caribbean Development Bank (CDB) is a multilateral financial institution which was established by an agreement signed in Jamaica on 18th October 1969, and which came into force on 16th January 1970. Article 1 of CDB's Charter states that the purpose of CDB is to "contribute to the harmonious economic growth and development of the member countries in the Caribbean and to promote economic cooperation and integration among them, having special and urgent regard to the needs of the less developed members of the region."

The Bank's original founding members are the English speaking Caribbean countries of Antigua and Barbuda, The Bahamas, Barbados, Belize, the British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, Turks and Caicos Islands, as well as non-regional members, Canada and the United Kingdom. With the subsequent entry of Venezuela, Colombia, Anguilla, Mexico, France, Italy and Germany, the membership of the Bank has expanded to twenty-five (25) countries.

The Bank's highest policy making authority is its Board of Governors. Each member country nominates one Governor and one alternate Governor. For this purpose the member territories of Anguilla, British Virgin Islands, Cayman Islands, Montserrat and Turks and Caicos Islands are regarded as one member. All the powers of CDB are vested in the Board of Governors. However, the Board of Governors may delegate all of its powers to the Board of Directors, with the exception of those powers reserved to the Board of Governors by the Bank's Charter notably:

- admission of new members
- change in capital stock
- election of Directors
- amendment of the Charter
- termination of the Bank's operations

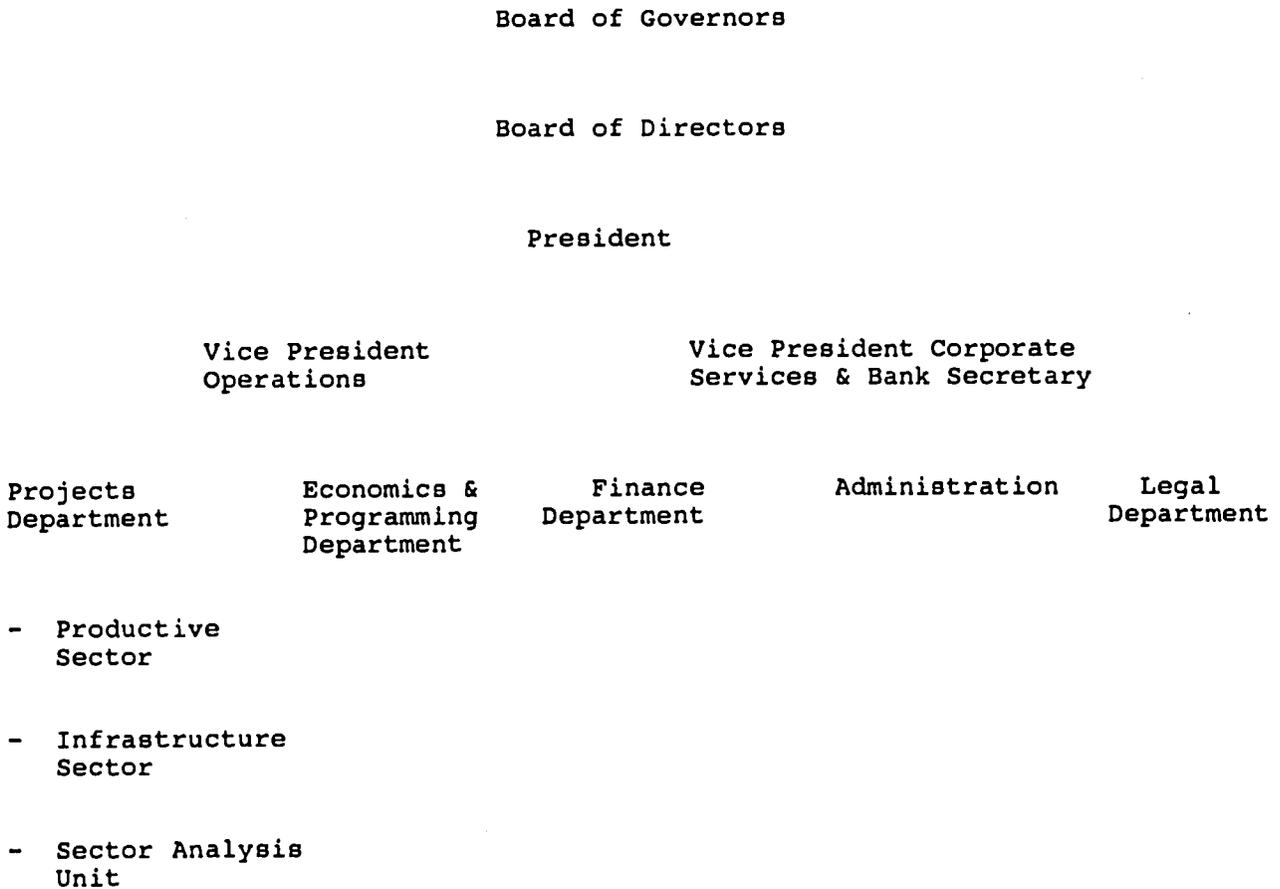
The Board of Governors holds an annual meeting at which the Bank's operations are reviewed and major policy decisions are taken. The Board of Governors may also hold special meetings when circumstances warrant.

The Board of Directors is responsible for the general policy and directions of the operations of CDB. It is comprised of seventeen (17) Directors, twelve (12) representing the regional members and five (5) representing the non-regional members. The Board exercises all the powers delegated to it by the Board of Governors and takes decisions concerning loans, guarantees and other investments by CDB, borrowing programs, technical assistance

and other operations. It also approves the Annual Administrative Budget and submits accounts pertaining to each financial year for the approval by the Board of Governors.

The President of the Bank is elected by the Board of Governors for a term of five years, and serves as Chairman of the Board of Directors. He is primarily responsible for formulating proposals on the general policy organization and operation of the Bank.

The following is a summary of the organizational structure of the CDB:



During its twenty one (21) years of operations the CDB has become a major catalyst in mobilizing resources within and outside the region to assist its borrowing members in the coordination of their development programs. CDB's mandate requires it to assist its BMC's in making their economies more complementary and promoting orderly expansion of production and international trade. While CDB does not have the responsibility or authority for the management of the economies of its borrowing member countries

(BMC)'s, it is expected that its lending activities will provide the opportunities to influence country policy formulation. In addition CDB has adopted a more dynamic stance in its assistance to the BMC. By collaborating with Governments in formulating Public Sector Investment Programs (PSIP), it proffers advice on such matters as fiscal and balance of payments deficits, public utility pricing and export promotion.

Under the Caribbean Community and Common Market (CARICOM) arrangement CDB is designated as an Associate Institution. In that capacity, CDB works closely with the CARICOM Secretariat, the OECS Secretariat, and other regional institutions. It has played the leading role on economic assignments on issues of importance to the region, notably-structural adjustment lending, debt management. In conjunction with other agencies it has assisted the OECS countries in embarking on an organized programme of agricultural diversification. It has made loans and provided technical assistance to regional projects intended to facilitate the movements of people and goods, notably West Indies Shipping Corporation (WISCO) and Leeward Islands Air Transport (LIAT).

CDB has traditionally been a project financing institution. However, in recent times, it has given greater recognition to the need for a more comprehensive sector analysis as a means to improve the effectiveness of its lending. A new Sector Analysis Unit (SAU) has been established with the following functions:

- (a) identify opportunities for and prepare, appraise and supervise sector loans,
- (b) prepare sector analysis reports of its BMCs in consultation with the Economic and Programming Department and Projects Staff,
- (c) work closely with policy makers at the national level and provide appropriate advise to governments.

The Sector Analysis Unit is expected to address critical sectoral issues and to focus on the inter-sectoral linkages between agriculture, tourism and industry. The SAU has already planned a two week workshop to sharpen the skills of policy makers on macro-economic analysis in relation to agriculture natural resources and tourism. In addition the Bank will soon be presenting to its Board a Multisector project in Guyana as well as a structural adjustment loan for Grenada. Given the existing analytical capacity within the Economics and Programming Department, and the advantage of CDB as a source of development financing, it could play a valuable role in the management of the ECAP project.

### Organization of Eastern Caribbean States OECS

The Organization of Eastern Caribbean States is a sub group

within Caricom. In 1981 the Governments of St. Lucia, Dominica, Grenada, St. Vincent and the Grenadines, Antigua and Barbuda, St. Kitts and Nevis, and Montserrat, signed the Treaty of Basseterre and thereby formalized a relationship which already existed in various forms of cooperation among the said Governments. The Treaty of Basseterre signalled the merger of the West Indies Associated States (WIAS) and the East Caribbean Common Market (ECCM) to form the Organization of Eastern Caribbean States. The underlying principle guiding the efforts at cooperation is that many voices speaking in harmony would have a better chance of being heard on matters which affect the sub region.

The following are the major purposes of the OECS.

- (a) to promote cooperation among the Member States, and at the regional and international levels,
- (b) to promote unity and solidarity among the Member States and to defend their sovereignty, territorial integrity and independence;
- (c) to promote economic integration through the provisions of the Agreement establishing the Eastern Caribbean Common Market.
- (d) to seek to achieve the fullest possible harmonization of foreign policy among the Member States to seek to adopt as far as possible common positions on international issues and to establish and maintain wherever possible arrangements for joint overseas representation and/or common services.

The Basseterre Treaty established the Authority of Heads of Government as the supreme policy making institution of the OECS. In addition to the Authority and the Central Secretariat, the functions of the Organization are undertaken primarily through the following institutions.

- The Foreign Affairs Committee (Ministerial)
- The Defense and Security Committee (Ministerial)
- The Economic Affairs Committee (Ministerial)
- The Legal Affairs Committee

The Authority of Heads of Government and the Economic Affairs Committee meet twice a year. The other Committees meet as the circumstances warrant.

As the OECS subregion faces up to the challenges and opportunities stemming from developments on the regional arena and in the international community, a number of specialized institutions for joint activities, have been established. These agencies include:

- The Agricultural Diversification and Coordinating Unit (ADCU)
- The Eastern Caribbean States Export Development Agency (ECSEDA)

- The Eastern Caribbean Investment Promotion Service (ECIPS)
- The Eastern Caribbean Fisheries Desk
- The Natural Resource Management Unit

The responsibility for administering these agencies has been placed on the Economic Affairs Secretariat of the OECS, located in Antigua and Barbuda, while the agencies themselves are located in other OECS countries, except for ECIPS which operates from an office in Washington U.S.A. The Economic Affairs Secretariat is the executive arm of the Economic Affairs Committee and its primary objective is to promote the economic development of the Member States within a framework of cooperation and joint action, as well as assisting the individual member states in specific areas of economic policy advice and project implementation. Another area which forms part of the permanent activities of the EAS is the evaluation of the effects of certain national policies, as well as international developments on the sub-regional economy.

The Economic Affairs Secretariat collaborates with most of the regional agencies such as CARICOM, CDB, the Caribbean Association of Industry and Commerce (CAIC) and with donor agencies operating in the region. It has a close working relationship with the Eastern Caribbean Central Bank and liaises with most of the functioning government agencies in the member countries. The organizational structure of the EAS is broken down between economic and policy analysis, and management administrative and support services for the Secretariat. The economic and policy analysis section consists of the following sub-divisions.

- Trade and Economic Policy
- Sector Policy and Planning
- Information and Intelligence
- Project Coordination and Evaluation

The common and support services are provided by the Administration and Finance sections.

Twice yearly, the EAS is subjected to a performance appraisal by the Ministers responsible for Trade and Industry who comprise the Economic Affairs Committee. Traditionally the EAS activities have focused on trade related matters. However, given the recent thrust in strengthening economic relationship and political unity among the Member States, as well as the emerging trends in international trading relationships, the EAS has reconsidered its orientation, and is now focussing on the overall macroeconomic development goals of the sub-region. Given, its institutional structure and orientation/mandate the EAS seems well placed as a possible institutional home for the ECAP Project.

## Agricultural Diversification and Coordinating Unit (ADCU)

In 1988 Heads of Government mandated the OECS Economic Affairs Secretariat to develop appropriate mechanism to accelerate the process of diversification of the agricultural sectors of member countries. This decision was founded out of a concern about the imminent creation of a single European market in 1992 and other emerging trends in international trade liberalization. Typically, the OECS economies are dependent on a small number of primary products especially bananas and sugar; and traditionally the EEC has sought to ameliorate the trading difficulties of the Caribbean by giving trade concessions, particularly for agricultural commodities through the Lome' convention. The single European market signals the possible removal of preferential access that Caribbean bananas and sugar now have on the U.K. market. In response the governments of the OECS have embarked on a regional agricultural diversification programme.

The agricultural diversification programme has been following a market-led approach, and given the limited quantity of any commodity that each country can supply, joint marketing of crops has been a major focus of the programme. In addition, the programme has been advising on the appropriate support services and infrastructure necessary for organizing production and distribution to market centers and to the end user. The mechanism for administration and coordination of the programme has been installed through the Agricultural Diversification and Coordinating Unit (ADCU) located in Dominica.

ADCU is a relatively new organization which has not had the time to develop a performance record. However, the manner in which it has proceeded to undertake its mandate is a factor to be considered in mapping out the ECAP project, and its perceived institutional home. Essentially ADCU is required to address issues of expanding the production base of non-traditional agricultural produce, the zoning and rationalization of production, domestic food supply and food security, intra- and extra-regional trade issues and opportunities, and to promote effective linkages with other sectors, particularly the tourism and industry sectors. These aspects of ADCU's functions are clearly consistent with the perceived functions of the ECAP Project.

The success or failure of the diversification programme will be influenced by the policy environment in which agricultural production and marketing takes place. Within the OECS, there are several policy related issues that will guide agricultural diversification. For instance, the recently instituted Common External Tariff, the diversity of fiscal incentives to agriculture, and the determination of commodity specific comparative advantage between countries, are some of the issues which would inform the diversification strategy. However the ADCU does not have the

capacity and there isn't a formalized mechanism to address these issues. ADCU is currently made up of four individuals - the programme coordinator a marketing coordinator, a marketing officer and an economist. This staffing structure seems inadequate to undertake the scope of work expected to developed from the ECAP Project.

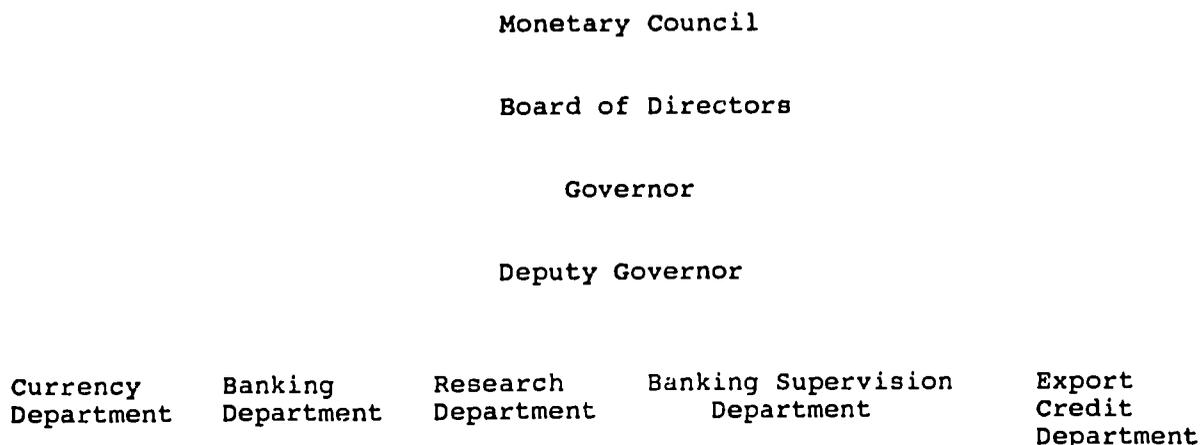
## Eastern Caribbean Central Bank (ECCB)

The Eastern Caribbean Central Bank (ECCB) was established on 5th July 1983 by Agreement between the Governments of Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines. In their commitment to maintain a common currency, the Eastern Caribbean dollar, the Agreement gave the ECCB the power to issue and manage that currency, to safeguard its international value, to promote monetary stability and a sound financial structure, and to further the economic development of participating Governments.

The central policy making authority of the ECCB is the Monetary Council consisting of one Minister, usually the Minister of Finance, appointed by each participating Government. The Council meets twice each year at which time the Governor of the Bank presents a report on the monetary and credit conditions. At that forum the Council provides directions and guidelines on matters of monetary and credit policy to the Bank.

The powers of the Bank are vested in the Board of Directors which is responsible for the operational policy and general administration of the Bank. The Board consists of nine directors, comprising the Governor of the ECCB who presides as Chairman, the Deputy Governor and one director appointed by each participating Government. The appointed directors are persons of recognized standing and experience in the fields of finance, accounting, banking, economics, and law. Generally the Financial Secretary of each participating Government is chosen as Director.

The following chart shows the organizational structure of the Bank:



The Research Department is the economic intelligence unit of the Bank. Through its network of commercial bank affiliates, as well as through other sources, the Bank is informed on developments in the monetary and financial fields. That information is analyzed in the formulation of monetary policy. Through the work of its Research Department the Bank has issued publications containing economic and financial review of the participating Governments. This role has grown in importance and the ECCB has been able to intervene on several policy initiatives that would impact on the financial sector or public and private investments. The Research Department is adequately staffed by economists who provide advice to the governments on macroeconomic policy reforms.

The ECCB also provides the main mechanism by which the trading relationships and transactions therefrom are settled. In addition, the Bank has established the Export Credit Insurance and Finance Guarantee Facility, as a means of fostering export promotion and providing capital to enable enterprises to face up to the competitiveness of international trade. Furthermore, in response to the recent fall in foreign capital flows to the sub-region, the ECCB has focused its advice on policies that encourage domestic savings and investment, and to direct the flow of resources to profitable activities in agriculture and tourism.

Evidently the ECCB has an appropriate structure and technical staffing capacity to undertake policy analysis. However, ECCB's orientation and mandate is specific to the financial services sector, although the Bank's Management recognizes the crucial role for agriculture and tourism in the long-term development strategy

of the sub-region. While the Bank may not present a strong candidacy as the institutional home for the ECAP project, some of its experiences can be useful in the management of the ECAP Project, particularly the administration of the export credit and guarantee facility on the trading aspects of agricultural policy.

### **Caribbean Agricultural Research and Development Institute (CARDI)**

The Caribbean Agricultural Research and Development Institute (CARDI) was established in 1975 to serve the agricultural research and development needs of the member states of the Caribbean Community. CARDI's operational strategy is based on two major premises:

- (1) that technology is a constraint to improved productivity and greater efficiency in Caribbean agriculture,
- (2) that CARDI should provide this technology in the key crops and livestock production enterprises, particularly for the smaller member states of CARICOM.

CARDI's Governing Body is the Standing Committee of the Ministers Responsible for Agriculture in CARICOM. This Body approves the annual budget and provides the Board of Directors with broad guidelines concerning policy and programmes. The Board of Directors is composed of representatives of the member states of CARICOM, the University of the West Indies, the University of Guyana, the Caribbean Development Bank, the Caribbean Food Corporation, and CARICOM. CARDI's staff consists of a group of fifty-three (53) trained professionals in various agricultural disciplines.

In its Strategic Plan 1988/93 CARDI has identified several categories of constraints that the agriculture in the region faces, notably policy limitations, technological deficiencies, inadequate information flows, infrastructural problems, and institutional research limitations. As regards to policy limitations CARDI has identified the need for policy interventions by governments in the area of prices, land use and interregional trade restrictions. Policy analysis, though important, does not form part of the mandate of CARDI. In fact, the required policy assessment which informs CARDI's operations, focuses on socio-economic studies or farming systems research to understand farmers' aspirations and the social factors which affect technology adoption and marketability. Traditionally, the broader macroeconomic policy analysis for CARDI's operations are provided by institutions such as CARICOM, CDB and UWI.

CARDI's operations are by mandate focused on the identification of agricultural research and development needs of member countries, to study the research results available from

other institutions, undertake applied and adaptive research in a selected range of crops and livestock enterprises, to generate new technology and transfer that technology to extension agents and farmers. In the circumstances, CARDI doesn't seem a likely institutional home for the ECAP Project. It doesn't have the mandate or the technical capacity to analyze macro policy issues related to agriculture.

### Caribbean Association of Industry and Commerce (CAIC)

In the OECS countries, the domestic private sector dominates the directly productive sector of agriculture, manufacturing, commerce and tourism, where it covers over 90% of economic enterprises. These sectors themselves contribute about 33% of GDP and, in fact, are the driving forces of the economies in terms of output, employment and foreign exchange generation. The interests of the private sector in the wider Caribbean are represented through the Caribbean Association of Industry and Commerce (CAIC). The main areas of intervention by the CAIC for its membership are policy advocacy, international trading arrangements, and regional integration.

In recent years both bilateral and multilateral donor agencies have given prominence to the need for major reforms in government policy. Moreover, faced with mounting deficits the countries of the region have increasingly begun to implement economic reforms designed to change the balance between the public and private sectors in economic activity. In that regard, countries of the region are being required to implement certain basic reforms including, allowing the private sector to enjoy a greater role in their economies.

The CAIC is well placed to advance the on going reforms aimed at encouraging a clear separation of public and private sector functions. Its basic mandate is to further the growth and expansion of the private sector and to optimize the sectors' contribution to rapid and equitable development. In discharging its basic mandate CAIC seeks to accomplish two core functions:

(a) to influence public policy so as to foster an environment in which private enterprises can operate profitably as well as to make a significant contribution to employment and export earnings;

(b) to broaden membership and develop local affiliate services so as to improve private sector interests in national and regional economic developments.

The membership of the CAIC is comprised of twenty five (25)

corporate and affiliate members from Trinidad and Tobago, Jamaica, Guyana, Barbados and the OECS countries, as well as associate membership reserved for banks and insurance companies. The affiliate members of the CAIC are the Chambers of Industry and Commerce in the respective countries, which represent manufacturing and trading business concerns. In most of the countries agricultural activities, commodities' associations or farmer's groups are not generally represented on the Chambers of Commerce. Consequently, the CAIC, the umbrella organization, has not focused on the agricultural sector in its operations.

In its policy advocacy functions, CAIC has provided assistance to the governments of the region through the CARICOM Secretariat, in designing the region's trade policy regimes, notably the Common External Tariff, New Rules of Origin and Harmonized Fiscal Incentives in the Common Market. The CAIC has also been proactive in its lobbying efforts to ensure that benefits accrue to the private sector from the trading arrangements with U.S.A., Canada and the European Community. More recently the proposed Enterprise of the Americas Initiative and the North American Free Trade Association have come under the scrutiny of the CAIC.

As regards regional integration, the CAIC has supported the Caricom Enterprise Regime, as a means to mobilize natural, human and financial resources and enhance production in the region. The Caricom Stock Exchange is another initiative in which the CAIC has provided policy analysis and guidance to the private sector. The objective of the regional stock market is to allow companies the possibility of listing in one of the three stock exchanges in the region. The new exchange is expected to increase investment interest in the region and strengthen the private sector.

These interventions suggest that the CAIC does have the commitment and the private sector support to be influential on key policy making issues. However, the CAIC is faced with a serious shortage of trained personnel, and its organizational structure is not geared to undertake agricultural policy analysis. The CAIC has been unable to forge effective links with the agricultural community and therefore may not be internally driven to address the critical problems in the agricultural sector. In its present form policy advocacy and economic research is the sole prerogative of the Chief Executive Officer, who has kept abreast on new developments impacting on the region. The organization itself is technically not equipped to serve as the institutional home for the ECAP Project.

### **4.3.3. National Policy Agencies**

#### **Introduction**

The countries of the OECS differ from each other in overall size, economic endowments and social organization, yet they have much in common with respect to geography, development objectives, and population size, a diminishing percentage of which is actively employed in agricultural production. In each of the OECS countries, discussions were held at the governmental and private sector levels with a view to understanding the demand for an agricultural policy analysis project and the institutional capacity to undertake such analysis. In every case the specific nature of the agricultural problem became apparent and its various aspects, production, marketing, technology, land use, processing, nutrition and linkages with other sectors were examined. Policy needs were identified and a number of policy measures were outlined. Below, we describe the functions of "generic" ministries. The names may vary slightly, but their structures and processes are almost identical.

#### **Ministry of Finance, Planning and Economic Development**

The Ministry of Finance, Planning and Economic Development is a normative institution primarily responsible for policy making at the national level, and macro management of the public sector investment programme. The name or status may vary from one country to another, but their basic functions are fairly uniform. This Ministry generally falls under the portfolio of the Prime Minister, whose prime concern is with the establishment and direction of national goals for investment and the mobilization of enough resources for financing development activities.

The economies of the OECS countries are mainly mixed, in which the effort for investment is shared between the public and private sectors. While the private sector businesses generally make their own decisions concerning their production levels, their use of resources, selling prices and employment levels, Governments provide general guidelines through an Investment Code and a Development Plan. This Plan outlines the policies, strategies investment targets and the major programmes/projects to be implemented by the public and private sectors.

The investment targets are not defined in a vacuum, but take account of competing interests of the different sectors e.g. agriculture, industry, tourism and infrastructure. Priorities therefore have to be negotiated. The investment targets become operational when translated into elements of National Budgets which

set out the decisions about how to allocate financial resources for every function performed by the respective Governments.

The following are the principal commonly held objectives of the Development Plans in the Agricultural Sectors of the OECS countries:

- increased levels of sub-regional food and market security for consumers producers and traders;
- greater diversification of production and markets, taking into account the need to preserve the social, employment and foreign exchange contributions of traditional export agriculture;
- increased linkages within the sector and between other sectors;
- increased productivity of human, physical and financial resources in agriculture;
- improved levels of technology;
- improved distribution of resources in agriculture;
- improved flow of resources into the sector and the reversal of current outflows;
- an enhanced awareness of the need to ensure that in all economic activities, and agriculture in particular, environmental and ecological balance and stability is treated as a primary goal, and the objective of sustainable development enters into all economic activities of the sector.

The Chief Executive Officer of the Ministry of Planning is the Development Coordinator or Director. In most countries the Director of Planning is supported by one other economist who is so preoccupied with day to day monitoring of on-going projects, or the preparation of projects for the public sector investment programme, that there is little time to undertake policy analysis. In fact, the task of preparing sector plans, or national development plans has had to be undertaken through technical assistance because the in-house capabilities are inadequate.

In the design of the ECAP Project it is important that institutional development objectives are given an increased priority. Concurrently with the emphasis on increased production and marketing, there should be a focus on a performance improvement through a deeper understanding of organizational processes and human behavior. The central concern should be to bring about

improvements that do not require outside assistance for their continuation. In that regard, a key priority in building the resource bases will be a system of incentives to sustain performance.

### **Ministry of Agriculture Forestry and Fisheries**

The main functions of the Ministry of Agriculture Forestry and Fisheries in the respective countries of the OECS are:

- (a) to prepare and implement plans and projects aimed at steady, balanced and sustainable agricultural development;
- (b) to provide technical and financial services in a manner that creates a suitable environment for agricultural investment and promoting the interest in commercial farming among young persons;
- (c) to design policies and enforce measures and regulations aimed towards the conservation of and optimum use of water, land and other agricultural resources.

In each country the Minister of Agriculture is responsible for overall agricultural policy formulation. In addition that Minister may be a member or chairperson on the Board of related organizations, as well as a member of the Standing Conference of the Ministers of Agriculture at the level of CARICOM. The Permanent Secretary is the chief executive officer of the Ministry and is responsible for implementing ministerial and cabinet decisions, as well as the general operations of the sector. The Permanent Secretary is assisted by a Chief Technical Officer, who supervises the activities of the various technical divisions namely, livestock development, extension services, project services, land resource management, and programme monitoring and evaluation.

The countries of the OECS are all similar with regard to the limited capacity to undertake in-depth technical analysis on policy issues. The Ministries of Agriculture have a small cadre of trained and capable people. However, because most of the labour force lack technical and administrative skills, this cadre is severely overextended when asked to focus on economic policy development and planning. Moreover, the incentive system is not designed to ensure that effective use is made of available staff. There are no rewards for individuals who work to their full potential and find imaginative solutions to problems. Consequently, policy analysis and other matters of national interest are subordinated to the bureaucratic imperatives of strict

interpretation of regulations. The ECAP project design would be enriched by reflecting on the existing institutional landscape and propose a delivery mechanism that fits the local situation.

## **Ministry of Trade Industry and Tourism**

This Ministry may have variations in name and scope, from one country to the other, but its reference is generally that of the Ministry responsible for non-agricultural activities. It is headed by a Minister who may sometimes be assisted by a Junior Minister. The Minister is also responsible for appointing members of the Board of semi-autonomous bodies involved in undertaking specific activities, notably - the Tourist Board, Industrial Development Corporation, and Export Marketing Agencies. The Minister of Trade is also the country representative on the Economic Affairs Committee of the OECS.

The Ministry is responsible for managing the following activities:

- (a) coordinating and supervising industrial development policy and programmes, and trade regimes;
- (b) establishing the basic framework needed for the development, encouragement and protection of private manufacturing and commercial enterprises in accordance with the overall objectives and strategies of the development plans;
- (c) supervising the implementation of the Investment Code and the licensing and registration of all investments;
- (d) evaluating the licenses and following up of manufacturing and tourism projects and supervising the implementation of incentives programmes for industry.

The Chief executive officer in the Ministry of Trade Industry and Tourism, is the Permanent Secretary. Generally the Permanent Secretary is an individual with established technical competence in the particular ministerial portfolio, but that officer is also expected to display administrative/management capabilities. The Permanent Secretary is assisted by a Chief Trade Officer with responsibility for on going analysis of the structure of intra-regional and international trade; analysis of policy instruments including fiscal incentives as they impinge on the structure of production and exports, as well as the administration of industrial licensing.

The Chief Trade Officer may be supported by another economist designated Trade Officer, as well as by the directorate of the

associated semi-autonomous bodies. Their respective mandate would be advising on agricultural marketing policy and trade development, tourism promotion and industrial investment promotion.

The human resource constraints are evident within the Ministry of Trade, Industry and Tourism. In one country the Chief Trade Officer had to be assigned part-time as General Manager to an Industrial Development Corporation for four months. By spreading the officer so thinly, the policy analysis capabilities of the Ministry were significantly reduced, and the agency could not fulfill its intended functions.

## **ENVIRONMENTAL AND NATURAL RESOURCE MANAGEMENT**

Given the importance of environmental and natural resource management in both the agricultural and tourism sectors, it is striking to note that throughout the OECS region, environmental and natural resource (ENR) planning, analysis, implementation and evaluation activities are typically undertaken by three or more ministries, often (as in the case of water use) with overlapping jurisdictions. If one were to characterize major responsibilities for ENR issues, one would generally find ENR-related planning and development control vested in Ministries of Finance, Planning and Development. Ministries of Agriculture typically deal with land surveys, pesticides, soil conservation and forestry and fisheries protection and management. Ministries of Communications and works oversee mining and water conservation, apportionment and use, while Ministries of Health generally have responsibility for (mainly urban) environmental considerations such as sewage, waste water and waste removal and industrial pollution. Ministries of Tourism usually are empowered with protection of historic structures and sites.

While major ENR issues are adequately addressed through this arrangement, emphasis is upon the immediate and ongoing. Little if any long-term planning is being undertaken; overlapping jurisdictions referred to above are exacerbated by limited communications between actors, considerably different mandates for respective ministries, lack of credible data, and limited human resources to undertake needed studies and analysis.

## **Conclusion**

The deficiencies cited in the policy analysis capabilities at the national level embrace the idea that institutions matter, and that institutional capacity is critical to the sustainability for the ECAP project. The problem should not be seen as simply getting the right leader or focusing on more easily measured and attainable

production policy targets; in addition the design of the project should include activities that raise local organizational capacities.

#### **4.3.4. Private Sector Agencies**

##### **Introduction**

In the discussions on the country requirements for policy and planning in the agricultural sector, the institutional framework and coordination have been emphasized. In that regard the role of the private sector was highlighted. Although the entrepreneur is a key agent in economic change and progress, Government agricultural policies often seem to neglect the need to develop and retain in agriculture people with entrepreneurial talent. On the other hand, given the evidence of failures in agriculture projects and schemes it is understandable that entrepreneurial talent is not attracted to agriculture. However, the private sector has taken the lead in highlighting the success stories of farmers and promoting the development of agricultural producer associations and participation in the national chambers of commerce.

##### **Producer's Associations**

In each of the countries of the OECS, private sector farmers have initiated the development of commodities associations for the organization of production, harvesting, processing, selling and financing of output. Currently there are associations representing cocoa, nutmeg/spice, arrowroot, citrus, sugar and most importantly, banana producers. With the exception of sugar and banana producers' for whom there is an assured market and infrastructure for production and distribution, the producers' associations have often operated on a traditional basis with little formality or legal structure.

Bananas form the backbone of the agricultural sector in the islands of Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines. In each island there is a well organized Banana Growers' Association, which is in charge of banana production, marketing, and providing a range of services to farmers including packaging and transport to the port.

##### **Cooperatives**

Traditionally cooperative societies are favored as appropriate forms of group action for farmers who have been unable to

singularly articulate their interests in public policy formulation. There has been considerable quantitative expansion in the membership of cooperatives and extension of their activities to areas other than credit. Some Governments have taken measures to make it obligatory for cooperatives to lend a minimum percentage of credit to small farmers. Almost all the cooperatives have given increased attention to membership training programmes as well as support services. Notwithstanding the noteworthy performance, the success of the cooperative movement depends on their access to productive resources, and a more flexible procedure in administrative, technical and financial support.

### **Chambers of Industry and Commerce**

In each of the countries of the OECS, there is an established system for promoting entrepreneurship and helping micro businesses to grow and increase their efficiency. The formation of the National Chambers of Industry and Commerce representing large wholesale/retail distributors, hoteliers, the financial services sector and manufacturers in each island, and their ability to function as sub-centers within a wider network, has greatly facilitated the flow and exchange of information. In addition the network of Chambers has stimulated the provision of services to small and medium enterprise subsector of the business community.

Representation on behalf of the farming community is noticeably absent on the membership profile of the respective Chambers, except in one or two cases. Yet farmers represent the largest number of private entrepreneurs in the private sector.

#### **4.4. Assessment of Policy Analysis Capacity and Constraints in National and Regional Institutions**

This section assesses the capacity for policy analysis and dialogue in regional and national institutions and identifies constraints to improved policy formulation to be addressed in the ECAP design. The analysis is based on data gathered from the series of open-ended interviews with various public and private sector policy agencies at the national, OECS and CARICOM levels (see Section I.D. "Methodology"). Several indicators of capacity in policy analysis and dialogue were evaluated: professional work force; facilities and equipment; recurrent funding; employment and salary conditions; analyses and studies; leadership; understanding of urgent policy issues; conceptualization of the policy analysis and dialogue process; and impact on policy formulation.

Evaluation of each indicator revealed the extent of capacity in agricultural policy analysis and dialogue. In general, the evaluation showed very limited capacity and identified a set of constraints limiting more effective policy analysis and dialogue system at the subregional level. The evaluation of these indicators also revealed modest progress in some areas. This progress is indicative of some elements of an emerging foundation upon which the proposed ECAP project can help to build a more viable, subregional policy analysis capacity and system. It also is a basis for expecting the project to be a strategic intervention, if it can successfully address the constraints identified below. The positive aspects of the indicators are discussed in the next section.

##### **4.4.1. Limited Capacity for Policy Analysis and Dialogue**

One main conclusion of this working paper is that overall capacity for agricultural policy analysis and dialogue is patently limited. This is generally true in most public and private sector entities at the country, OECS subregional and the CARICOM regional levels. There is, however, substantial variation among agencies, with modest capacity for agricultural analysis and dialogue in a few OECS and regional institutions. Generally, however, capacity for diagnosing urgent policy issues affecting agriculture, doing requisite analyses and studies on a timely basis, facilitating debate of alternative policy prescriptions and participating in policy formulation and implementation is very limited. No single entity is carrying out all of these interrelated elements of the agricultural policy analysis and dialogue process at an acceptable level.

Country Level Public Agencies. The capability of public institutions at the country level to engage in agricultural policy analysis and dialogue is generally much less than at the OECS subregional or CARICOM regional levels. This is almost uniformly true in the Ministries of Agriculture which have very small planning offices (one or two staff) or none at all. Historically, the emphasis has been on planning along the internally oriented model of government interventions and control, rather than on market-oriented policy analysis and dialogue. Data are relatively poor and unreliable and long time series are usually not available.

Ministries of Trade, Finance, Planning and Economic Development tend to have somewhat greater capacity for policy analysis than Agriculture, but not much more. These ministries usually play key roles in economy-wide planning (each country has configured their planning process differently, with each of these ministries playing some role, depending on the country). Their planning and policy analysis offices also are quite small and tend to focus on planning as opposed to policy analysis. The policy analysis that is done tends to be developed with limited input from agriculture, especially in countries where the sector is relatively small in the total economy. Such units tend to work independently from sister ministries in other OECS countries. Finally, planners and policymakers in such ministries usually have only a general understanding of the effect of their policy programs on agriculture, a limited appreciation of the role of agriculture in economic development and of the private sector in policy formulation. The failure of governments in individual OECS countries to invest more heavily in policy analysis capacity appears to be, at least in part, tacit recognition that scale economies in providing such government services require a pooling of resources at the subregional level.

Country-Level, Private Sector Entities. The capacity of the private sector to engage in agricultural policy analysis also is relatively weak to non-existent in the OECS countries. The private sector is involved in policy dialogue with national, subregional and regional agencies. Banana producers in the Windward Islands and the hotel owners in the Leewards are among the most active private sector participants in policy dialogue. Chambers of Commerce, Industry and Agriculture also are active on several islands and do interact with various Ministries in helping to establish the policy agenda and set policy. Agricultural producers tend to have weaker associations, especially in the Leeward Islands where Ministries of Agriculture are relatively less important and have extremely limited capacity in policy analysis. Most private sector officials interviewed for this study were quite conversant with the major policy issues facing agriculture and other sectors of their economies. They generally, however, did not employ policy analysts or engage in policy studies, but relied on government agencies and subregional and regional organizations (public and private) for advice and information.

OECS Subregional Level. There is nascent, growing capacity for agricultural policy analysis and dialogue at the OECS sub-regional level, but it is still incipient, ad hoc, disparate and inadequately funded.

The OECS has created several interrelated units which are becoming increasingly involved in agricultural policy analysis and dialogue. The primary thrust of the OECS is shifting from a focus on trade toward economic development. This new focus has increasingly incorporated issues related to agriculture into the OECS policy agenda and has tended to broaden the perspective to intersectoral linkages and relationships in the context of regional economic integration.

The OECS/Economic Affairs Secretariat (EAS), based in Antigua, has a political mandate and the greatest capacity for policy analysis and dialogue at the subregional level. It carries out analyses and facilitates dialogue, especially in the areas of trade, exchange rate, investment, regional integration, monetary, fiscal and sectoral development policies primarily through two sub-units: Trade and Economic Development and Sector Analysis and Planning. The OECS/EAS has increased its attention to agriculture and the environment as it administers the new Agricultural Diversification Co-ordinating Unit (ADCU) created in 1988 and located in Dominica. ADCU's Work Programme includes policy issues to strengthen the diversification process throughout the region. However, because of its relatively small staff, ADCU has been unable to address these issues. Instead, it has focused on pressing organizational and administrative responsibilities.

The Secretariat also interacts closely with the OECS Natural Resource Management Unit (NRMU) located at Secretariat headquarters in St. Lucia and the OECS Fisheries Unit (created in 1987 and located in St. Vincent). It also administers the Eastern Caribbean Export Development Agency (ECSEDA) and the Eastern Caribbean Investment Promotion Services (ECIPS). The ECSEDA program, started in 1989, is located in Dominica and shares support staff and offices with ADCU. The establishment of ADCU, ECSEDA and the Natural Resources Unit and their relationship to OECS/EAS has enhanced attention to agricultural and natural resources policy analysis and the role of agriculture and the environment in national and regional economic development by the OECS/EAS (Source: OECS. No Date. *OECS 10TH Anniversary: Commemorative Magazine*. St. Lucia).

The various program areas of the OECS/EAS are tied to the private sector through membership on boards which help set policy and guide their activities. The EAS has increased its understanding and appreciation of the role of agriculture in economic development and of the intersectoral linkages between agriculture, tourism, industry and the environment. It also is

aware of the need for quickly analyzing and responding to a number of urgent policy issues, including EC'92, the imminent North American Free Trade Agreement, the Enterprise for the Americas Initiative (EAI), the possibility of a democratic Cuba and regional trade, macroeconomic, and political issues.

The capacity of the OECS/EAS to carry out its broad, and increasing range of responsibilities is quite limited. Many of these endeavors have started in the past 2-3 years and EAS is experiencing serious growing pains as it attempts to implement them. The EAS does not have sufficient human, financial and support resources, nor the experience to fulfill all of its obligations, given the rapid increase in its duties.

Caribbean Region. The Caribbean Development Bank (CDB) is the regional agency with the greatest capacity in place for policy analysis and dialogue. Historically, the CDB's analytical capacity has been directed toward feasibility analyses of projects. In recent times, the CDB has established a Sector Analysis Unit (SAU) charged with sectoral and intersectoral analyses to examine emerging issues at the CARICOM-wide level. In addition to the SAU, and based on its own substantial experience in structural adjustment lending and knowledge of the economies of Bank Member Countries, the Economics and Programming Department can also assume a significant role in the area of policy analysis. The CDB also is development oriented and is linked to the OECS and its national governments through its lending programs. Its scope includes all the productive sectors as well as infrastructure and the social sectors. It serves the broader Caribbean region rather than the more narrow subregional focus of OECS/EAS.

The role of IICA has been discussed above in the Section on donor support, but is mentioned briefly again to emphasize its long history of support to sector planning and analysis for agriculture in Latin America and the Caribbean. IICA also has some in-house capacity for sector analysis and has carried out some policy studies. This capacity and IICA's long history of involvement in policy analysis in the region suggest it has a role to play as part of an enhanced OECS agricultural policy analysis capacity through ECAP.

Several other regional institutions also have some capacity in specific aspects of agricultural policy analysis and probably should be incorporated more formally into a policy analysis and dialogue system.

CARDI's mandate is essentially research and development of small farmer production systems. It has a small cadre of agricultural economists and the organization of its economic analysis reflects a micro-perspective to support its specific mandate. As stated above, recent institutional and project evaluations have recommended enhanced policy analysis capability

for CARDI in order to prioritize its activities, and to move beyond food security to export-led diversification production. This need could readily be met through a linkage with ECAP. Such a linkage would provide information from CARDI's area of focus to regional policy analysts and would provide CARDI with a broader perspective in which to formulate its own research and extension agenda and priorities. Also, CARDI economists clearly can contribute to both setting the subregion's policy agenda and to researching specific components of that agenda in their areas of expertise.

The University of the West Indies (UWI) has significant analytical capacity in economics and agriculture focused on teaching and research in the broader Caribbean region. While its staff have a primary commitment to its institutional mission, the University also is an important institutional player in any attempt to strengthen capacity in agricultural policy analysis and dialogue in the OECS subregion. Their involvement would result in the same kind of activities and benefits as those of CARDI: participation in setting the agenda, data and information, staff involvement in specific studies and a broader, more accurate institutional perspective which will help UWI to improve its own performance in developing human capital for the region. Moreover, UWI's ability to offer both degree and non-formal training will be especially important to capacity building aspects of ECAP.

The Eastern Caribbean Central Bank (ECCB) is also a very important subregional institution for the formulation of macroeconomic policies. As stated above, its focus on monetary policies, trade and investment throughout the sub-region is solid. The Bank's Research Department also has a cadre of economists with expertise in both the agriculture and tourism sectors. Networking with the ECCB will prove to be an important linkage for ECAP.

The CARICOM Secretariat has limited policy analysis capacity, although its activities cover the entire Caribbean region. Most people interviewed in the subregion did not see it as a major player in the design of ECAP, since it lacks the executive powers to ensure that decisions taken at the CARICOM level are in fact implemented. Notwithstanding this disadvantage, the Secretariat has led the way on a number of agricultural policy-related matters, including a medium trends perspective on agriculture within the region, entitled Agro Carib 2000. In addition, the CARICOM Secretariat has carried out some policy studies in transportation and trade.

Several other public and private regional institutions also have some capacity in policy analysis and dialogue and need to be carefully considered in the design of the ECAP project. The CAIC already is involved in policy advocacy for private sector interests in industry and commerce at the CARICOM level and is receiving support under USAID's SEA project. The Caribbean Association of Indigenous Banks (CAIB) is very active in promoting development

policies for the financial markets and banking system at the CARICOM level. WINBAN engages in research and grower services to improve banana production. It also reportedly has undertaken a policy study to determine the impact of EC'92 on banana production in the Windward Islands. Given their importance with respect to the agriculture and tourism sectors, the Caribbean Tourism Organization, Caribbean Food Corporation and Caribbean Conservation Association should also be part of an ECAP network.

Notwithstanding the analytical capabilities of the OECS, CDB, UWI, IICA, and the more limited capacity other entities, policy analysis and dialogue in agriculture in the subregion and region still must be considered relatively weak, due to a number of interrelated constraints, which are now discussed.

#### **4.4.2. Shortage of Human Resources**

One senior government official, when asked to describe the most serious constraints development in his country, said: "Shortage of human resources and even greater shortage of efficient and effective human resources." Clearly, one of the most serious constraints to improved capacity in agricultural policy analysis and dialogue in the OECS subregion is too-few professionals with appropriate training and experience. There are only a few policy analysts with advanced degrees (usually M.Sc. and a handful of Ph.D.s) and several years of experience working in national agricultural institutions, public and private, in the subregion and most occupy administrative assignments. While there may be roughly 4-6 people per country (on average) working at the staff level in the policy arena (in all economic sectors) most are relatively young and usually have only a B.S. or diplomate degree.

While national entities may have a handful of professionals with capacity and experience in various aspects of agricultural policy analysis and dialogue, they are located in different sub-offices with very different mandates. In addition, many have important administrative assignments so that their considerable training and experience is not being utilized in policy analysis, per se. Consequently, there is not a minimum critical mass of professionals working together on agricultural policy analysis and dialogue in any such institution.

There are also insufficient human resources in subregional and regional institutions, with no critical mass of professionals for policy analysis and dialogue in any of them. There are probably a greater number of professionals, collectively, in the subregional and regional institutions than in the national institutions of OECS countries and they likely are more experienced and better trained. It is estimated that OECS/EAS, CARDI, ECCB, UWI, CARICOM and CDB

each have 4-5 professionals (economists, agricultural economists, agronomists, project specialists, lawyers, etc.) working in some aspect of policy which impinges directly or indirectly on agriculture. In addition, other subregional or regional organizations which have 1-3 such professionals include OECS/ADCU, OECS/ICIPS, OECS/ECSEDA, ECCB, WINBAN, and CAIC. Some professionals at the subregional and regional levels have Master's Degrees, and a few have Ph.D.s. Most have experience in some aspect of agricultural policy analysis or formulation, either from working primarily in the sector or from other sectoral, macroeconomic and administrative perspectives.

In summary, the pool of professional human capital for developing a more focused, intensive capacity in agricultural policy analysis and dialogue is very thin. Pulling together a critical mass of professionals (5-7 experienced M.S./Ph.D.s) to constitute an agricultural policy analysis and dialogue unit (in some existing entity) will take people away from other key activities, in other national, subregional and regional agencies. Thus, mounting a more specialized effort in agricultural policy will decapitalize some agencies, at least in the short run. This can be ameliorated by technical assistance and recruiting for such positions in the international labor market. Also, linking to international and regional graduate and sabbatic leave programs can provide a significant number of research assistants and visiting analysts (professors) to augment regional capacity, enrich perspectives and establish important inter-institutional linkages. This approach has been used successfully by the Ecuadorian Agricultural Policy Institute, especially in the area of environmental policy cum agriculture.

#### **4.4.3. Unfavorable Employment Conditions and Remuneration**

Almost all national and many regional institutions involved in agricultural and general economic policy analysis suffer from the problem of "brain drain." Young professionals with advanced degrees, faced with generally poor opportunities for career advancement, lack of computers and other equipment, insufficient operating budgets and support, isolation from professional contacts, and non-competitive salaries, are enticed into the international labor market. They seek and accept alternative employment which provides a more professionally satisfying work environment where remuneration is competitive and job satisfaction is much higher.

The presence of unfavorable employment conditions and bureaucratically determined salaries below competitively determined market levels is widespread throughout the public sector at the country level and in some regional agencies. These constraints are pervasive and extend well beyond the purview of agricultural policy analysis. These two factors generally ensure difficulty in

staffing public agencies with well-trained, experienced professionals. They also explain the generalized failure of donor-funded institutional development projects based on provision of expatriate technical assistance and advanced degree training for nationals who are supposed to return to the home agency after obtaining requisite knowledge and degree. This suggests that the ECAP intervention will have to confront this problem to the extent that it tries to institutionalize policy analysis capacity in the public sector, especially at the individual country level.

Fortunately, several subregional and regional institutions were found to have competitive salaries and acceptable employment incentives and opportunities for career advancement. Most observers felt that the CDB and CARICOM offered the most competitive salaries, the best general working conditions, and the greatest opportunities for career advancement. Most also felt that the OECS also offered competitive salaries and excellent career opportunities and employment conditions, although it was judged to be not as good as CDB and CARICOM. Other regional entities with competitive salaries and employment conditions include CARDI, UWI and CAIC.

The conclusion is that the ECAP will need to develop a nucleus of agricultural policy analysts at one of the regional institutions which offers competitive salaries and employment conditions.

#### **4.4.4. Insufficient Fiscal Capacity for Recurrent Funding**

Perhaps one of the most difficult constraints to institutionalizing the capacity for agricultural policy analysis and dialogue is the extremely limited fiscal capacity of both national and regional organizations. National governments in the OECS subregion are almost uniformly subject to severe fiscal stress and are facing the difficult task of reducing the size and cost of government. Some governments are in arrears in paying their dues to subregional and regional entities, which also face severe fiscal constraints.

Regional and subregional governments rapidly expanded their activities and services during the 1980s, especially the OECS. New activities in agricultural diversification, export development, investment promotion, natural resources and fisheries have stretched funding sources to the limit. The OECS is now being asked to do more in regional economic and political integration and in analyzing external economic and political developments on the subregion.

People at the national and regional level questioned how the proposed ECAP would be sustained after project funds were expended, and how entities like the OECS/EAS would be able to take on an additional function. Most felt there was a substantial need for a

more specialized policy analysis effort at the subregional level but they were concerned about the sustainability of such an effort, due to the recurrent funding problem.

One approach to resolving the problem of recurrent funding and sustainability is to endow the proposed agricultural policy analysis unit. The endowment would provide a source of income which could be used to cover costs for decades, if needed. The appeal of this approach is compelling and it has been successfully used by USAID missions in several institution-building projects in Ecuador and Honduras, including an endowment for the Agricultural Policy Institute (IDEA) in Ecuador. These projects were endowed with locally owned currencies, generated by PL 480 sales of donated commodities. People interviewed in national and regional organizations expressed interest in this approach and it should be carefully explored by the Mission during PID development.

While PL 480 is not an option, the debt and investment provisions of the Enterprise for the Americas Initiative may offer an opportunity for creative funding of ECAP. If the individual OECS states each owed a few hundred thousands or millions to the U.S. government, it might be feasible to design a debt swap with EC Dollars dedicated to an endowment fund for a policy institute. Another approach would be to seek special authorization for using DA to endow a policy institute.

#### **4.4.5. Many Institutional Players**

One major constraint to developing a regional capacity in agricultural policy analysis and dialogue is simply the large number of potentially relevant public and private institutions that presently exist. There are six countries, each with at least three ministries that should be part of a policy network (Ministries of Agriculture, Planning and Development (or Trade). In addition, each country has a national development bank and several important private sector associations (banana growers, hotel owners, chambers of industry and commerce). Thus, each country would have to have six or more entities strongly linked into the policy analysis and dialogue process, or a total of 36. In addition, there are at least ten key subregional and regional institutions (OECS/EAS, OECS/ADCU, OECS/Natural Resources Unit, ECSEDA; CDB (Policy Analysis Unit), CARDI, IICA, UWI, CARICOM and ECCB), and a like number of other important institutional players.

This complexity translates into very high transactions costs for the project unless it is kept very simple and streamlined, and accounts in part for the emphatic statements from interviewees opposed to creating an additional institution. Given that coordination between individuals in ministries within a single country are characterized as problematic when addressing policy dialogue, one can appreciate such a stance.

#### **4.4.6. Inadequate Equipment and Related Support**

Most national and some regional agencies have inadequate equipment and related office support services. Computers and software are limited and outdated. Telephone and facsimile services are spotty and some offices are without copiers. Office facilities are not large enough to accommodate the six to eight professional and support staff for a policy unit. While these kinds of constraints can be readily addressed in a project, they have serious implications for recurrent costs. Continued support for equipment, supplies and office space is an important element of recurrent costs that must be addressed during project design.

#### **4.5. Evidence of an Emerging, Institutionalized Regional Policy Analysis System**

Despite the set of serious constraints discussed above, there are several indicators that some policy analysis is being done and that a nascent, regional system for policy analysis is beginning to develop. Evaluation of the indicators in Section IV, while generally revealing a very limited capacity for policy dialogue, also suggest modest progress in some areas. These are discussed below.

##### **4.5.1. Knowledge of Major Policy Issues**

Most people interviewed in the public and private sector, both nationally, sub-regionally and regionally were quite knowledgeable about the major issues facing them. Almost all described, in some detail, the complexities of the banana problem and most mentioned the North American Free Trade Agreement, the Enterprise for the Americas Initiative and inter-island transportation and marketing problems. Some raised the question of environmental degradation relative to expansion of banana production and tourism. Others worried about the future of tourism, given the imminent entrance of Cuba into the market and competition from Mexico. While each tended to be most conversant with issues germane to their assignment and institutional home, there clearly was a broader perspective in almost every institution and some had in-depth, detailed knowledge of the broader set of issues facing the region and the relationship among the principal policy issues. This augurs well for setting a common regional policy agenda for the proposed policy unit.

#### **4.5.2. Understanding of Need for Improved, More Efficient Policy Analysis**

Almost all expressed the need for a better analytical base for understanding emerging policy issues. While they generally were conversant with emerging, major policy issues, they did not seem to have suggestions for policy reform, suggesting an inadequate analytical base. Their comments suggested they needed and wanted objective and credible data and information for better-informed policy formulation. They also expressed concern about how to provide this needed service more efficiently. They (especially national leaders) recognized the severe inefficiencies associated with trying to provide agricultural policy analysis and dialogue at the national level. Most understood the need for a regional approach and expressed support for the proposed ECAP project.

#### **4.5.3. Leadership**

While professional human capital for mounting a specialized policy analysis and dialogue project in the Eastern Caribbean is limited, the team identified clusters of individuals in each country and at the sub-regional level with the training, experience, conceptual skills and vision to effectively access an agricultural and economic policy analysis effort such as ECAP. Moreover, these individuals made it clear that with additional human resources and improved data, they were prepared to assume active roles. Notwithstanding the need to take political realities into account, and recognizing that these professionals presently occupy key roles in public and private agencies, and that they are already overextended in terms of personal involvement, ECAP should make every effort to provide these individuals with the requisite resources.

#### **4.5.4. Participation in Policy Analysis and Dialogue**

Most public and private agencies' representatives who were interviewed are participants in the policy planning process, even with the constraints and weaknesses discussed in Section IV. People indicated they participated in studies, meetings and seminars where policy-related issues were discussed. National entities are networking among themselves with evidence of communication between private and public agencies and among the ministries involved in policy formulation for agricultural and general economic development. The national agencies also are participating in subregional meetings and discussions under OECS auspices and vice-versa in a number of interrelated fora. For example, the ADCU interacts with the Ministries of Agriculture and other agencies of OECS, including EAS, ECSEDA and the Natural

Resource Management Unit. Most national and subregional institutions in agriculture participate in various seminars and programs of IICA, CARDI, and UWI. The task is to "coopt" these processes and utilize them to strengthen policy analysis and dialogue that moves away from monoculture and import substitution, and replaces them with implementable policies that facilitate the private sector to take the lead in sustainable, diversified agricultural production.

#### **4.5.5. Emergence of Nascent, Subregional System for Agricultural Policy Analysis**

There is, in fact, an emerging regional system for agricultural policy analysis and dialogue, although it is relatively weak and tenuous. One result of the interactions discussed above appears to be some general consensus about the principal issues on the policy agenda for the OECS subregion. These interactions also reveal increased regional involvement in policy analysis, although there is no institutional coordination of policy analysis at this point. Finally, participation in various fora at the national, subregional and regional levels has led to consensus on a few major policy reforms (e.g., common currency, common external tariff and agricultural diversification--see below) notwithstanding the weak data and analytical base which characterize the nascent system.

Thus, the subregion does have a system for setting its policy agenda, carrying out policy studies and formulating policy interventions. The system, however, is relatively inefficient and constrained by a number of factors which limit its effectiveness. Also, it does not attempt to do policy analysis in lieu of that done by individual countries, although scale economies suggest much greater efficiencies were it to do so. Finally, most people working and administering various agencies in the region probably do not recognize the existence of the system nor understand the constraints which limit its effectiveness.

The emerging system has examined macroeconomic, cross sectoral and international issues on a limited and cursory basis. It also has established a few viable relationships in the international science network concerning development policy and economic. Leaders participate in professional meetings and policy formulation processes and related activities in the broader region and internationally. Nevertheless, agriculture's role in the broader development process has not been adequately treated.

#### **4.5.6. Contributions to Policy Change**

There have been several major policy changes which have

resulted from cooperation among the countries of the OECS subregion. Principal among these are the movement toward economic integration of the OECS, agricultural diversification, export promotion, a common external tariff and a common currency. The free movement of OECS nationals without passports among the OECS countries will begin on December 1, 1991 and is the first step in moving toward free movement of labor. The OECS also is exploring ways to improve inter-island transportation. The largest issue on the agenda is full economic integration, followed by political unification. The OECS has been a key player in developing consensus for these policy changes. Its development and addition of more specialized units, such as EAS, ADCU, ECSEDA, Natural Resources, Fisheries, and ICIPS are evidence of emerging regional capacity for policy analysis and dialogue in the OECS subregion.

Thus, national and subregional institutions, working together, have substantially changed the policy process for the countries of the subregion. These important successes suggest that a more refined and focused effort to improve agricultural policy analysis and dialogue can succeed. It will be important to develop ECAP as an integral element of the broader process of policy formulation for economic development in the subregion and build upon the positive factors set forth in this Section.

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APPENDIX 4.A.:

INSTITUTIONAL INVENTORY AND ASSESSMENT FORM

Name of Institution:

Address:

Principal Contact:

Telephone:

Fax:

Institutional Focus/Specialization:

NOTE: This form will be used to evaluate institutional capacity to engage in effective policy analysis and dialogue. by analyzing several indicators. These factors can be conceptualized as the rows of a matrix with each institution as the columns. Empirical data should be gathered to the extent possible, although informed judgement will be required to measure most indicators, given the short time available in Phase I. If empirical data are not readily available, provide a qualitative assessment, briefly explaining your rationale. Also, collect brochures and reports which contain descriptions of each institution and its organization, and other relevant written information.

**I. Indicators of Effective Policy Analysis:**

1. Critical Mass of Professional and Support Staff. Is there a sufficient number of high quality (well-trained and experienced) analysts to carry out the quantity and quality of policy analyses needed?
  
2. Adequate Facilities. Is work space (offices, conference rooms, etc.) adequate and appropriately located?
  
3. Computer and other Equipment and Support. Are there adequate numbers and quality of computer hardware and software, international telephone and fax services, copiers, related equipment, secretarial and other support services?
  
4. Sustainability of Recurrent Funding. Does this agency now have or could be expected to have recurrent funding for the operation and salary expenses of the proposed policy analysis institute?

APPENDIX 4.A.:

INSTITUTIONAL INVENTORY AND ASSESSMENT FORM

Name of Institution:

Address:

Principal Contact:

Telephone:

Fax:

Institutional Focus/Specialization:

NOTE: This form will be used to evaluate institutional capacity to engage in effective policy analysis and dialogue. by analyzing several indicators. These factors can be conceptualized as the rows of a matrix with each institution as the columns. Empirical data should be gathered to the extent possible, although informed judgement will be required to measure most indicators, given the short time available in Phase I. If empirical data are not readily available, provide a qualitative assessment, briefly explaining your rationale. Also, collect brochures and reports which contain descriptions of each institution and its organization, and other relevant written information.

5. Conducive Employment and Salary Conditions. Are there opportunities for career advancement, job satisfaction, competitive salaries,, etc. for professional policy analysts?
  
6. Objective Analyses and Credible Results. Does this agency now produce objective studies with credible results? Does it enjoy the reputation of a serious and respected entity by national and regional public and private agencies and the international donor community? Is its reputation deserved?
  
7. Awareness of Need for Policy Analyses for Planning for the Future. Does this agency have a perspective and basic understanding of emerging policy issues (such as the "banana problem," the "brain drain," the consequences of changing international economic and social conditions (NAFTA, EAI, EC'92, and emerging investments in Cuba, regional trade and macroeconomic policy constraints, etc.)? Does it sense the urgent need to provide objective data and information for planning for the future?

8. Policy Studies Focused on Important, Timely Issues. Do the policy studies and analyses of this agency focus on centrally important issues. Are the studies completed in a timely manner?
  
9. Effective Leadership. Is leadership of this agency dynamic, visionary and capable of engendering confidence in the results of studies and the policy dialogue efforts of the of the agency?
  
10. Process of Policy Dialogue, Political Interface and Public Debate. Does this agency conceptualize the policy analysis process as comprising its two principal elements: (a) policy analysis; and (b) policy dialogue? Is the leadership capable of fostering a constructive policy dialogue and public debate about the results of policy analysis? Will the agency contribute to more informed policy decisions?
  
11. Improved (Changed) Policies. Are there important policy changes that this agency has contributed to?



