

Report No. 44060-LAC

Organization of Eastern Caribbean States Increasing Linkages of Tourism with the Agriculture, Manufacturing and Service Sectors

September 30, 2008

Financial and Private Sector Development
Caribbean Management Unit
Latin America and the Caribbean Region



Document of the World Bank

SELECTED ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECD	Eastern Caribbean Dollar
ECEF	Eastern Caribbean Enterprise Fund
EU	European Union
FAO	Food and Agriculture Organization
FDA	United States Food and Drug Administration
GDP	Gross Domestic Product
GNI	Gross National Income
ICT	Information and Communications Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
IPC	Import Price Competitiveness
LAC	Latin America and the Caribbean
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
OECS	Organization of the Eastern Caribbean States
PSD	Private Sector Development
SME	Small and Medium Enterprise
TA	Technical Assistance
UK	United Kingdom
UN	United Nations
USA	United States of America
USD	United States Dollar
VAT	Value Added Tax
WB	The World Bank

ACKNOWLEDGEMENTS

This study is the result of work developed by a diverse and multinational team comprising representatives of the World Bank, the FAO, the ECCB, and local Governments, all supported by international consultants. The effort focused on six OECS countries that form part of the Eastern Caribbean Currency Union (ECCU): Antigua and Barbuda, Dominica, Grenada, St. Christopher-St. Kitts- and Nevis, St. Lucia, and St. Vincent and the Grenadines. Visits to the islands took place over the course of seven months by different teams. A preliminary and main mission was led by Mr. Eduardo Urdapilleta (World Bank) with Ms. Stefka Slavova (World Bank), Ms. Camila Rodriguez (World Bank), Ms. Jane Hwang (World Bank), and Ms. Caterina Meloni (World Bank) visiting the islands from November 18-24 2007 and April 15-26, 2008. A survey team composed of Mr. Ivan Ordonez and Mr. Jonathan Getjman, and supported by Walter Sosa and Esteban Rubin from The Mind Company, visited the islands February 1-12, 2008. An agriculture team led by Ms. Yurie Tanimichi Hoberg (World Bank) with Mr. Pierre Werbrouck ((World Bank) and Mr. Deep Ford (FAO) visited the islands from March 10-14, 2008. This study has been produced in close consultation with the eastern Caribbean Central Bank (ECCB), in particular Mr. John Venner (Adviser, FEED), Mr. Don Denzil James (Director, FEDD), and Mr. Daniel Arthurton (Deputy Director, FEDD). The team was also assisted by the ECCB resident representatives: Mr. Albert Lockhart (Antigua), Mr. Edmund Robinson (Dominica), Ms. Linda Felix-Berkley, Mr. Gregor Franklyn (St. Lucia) and Ms. Elritha Dick (St. Vincent and the Grenadines). The study also benefited from the comments and contributions of Tova Solo, Shaun Mann, John Lamb, Lily L. Chu, and Benu Bidani, all World Bank.

CURRENCY EQUIVALENTS

(Exchange rate effective as of 05/21/2008)
Currency Unit: Eastern Caribbean Dollar (EC\$)
US\$ 1= EC\$ 2.65

FISCAL YEAR

January 1 – December 31

WEIGHTS AND MEASURES

Metric System

Vice President	Pamela Cox
Chief Economist	Augusto de la Torre
Country Director	Yvonne Tsikata
Sector Manager	Lily Chu
Sector Leader	Benu Bidani
Task Manager	Eduardo Urdapilleta

TABLE OF CONTENTS

EXECUTIVE SUMMARY	7
1. INTRODUCTION	10
2. TOURISM INDUSTRY IN THE OECS: STYLIZED FACTS AND HISTORICAL PERFORMANCE	11
3. ANALYSIS OF THE DEMAND FROM THE TOURISM INDUSTRY	18
3.1. OVERVIEW OF KEY PLAYERS, PURCHASING PATTERNS, AND BUSINESS MODELS	18
3.2. DEMAND ANALYSIS BY PRODUCT CATEGORY	22
3.2.1. AGRICULTURE AND FOOD	22
3.2.2. MANUFACTURING	25
3.2.3. SERVICES	28
4. OVERVIEW OF LOCAL SMALL AND MEDIUM ENTERPRISES PERSPECTIVES	31
5. POTENTIAL TO EXPAND LOCAL SUPPLY TO THE TOURISM INDUSTRY	35
5.1. LOCAL AGRICULTURE AND FOOD PRODUCTION	36
5.2. LOCAL MANUFACTURING	44
5.3. LOCAL SERVICE PROVISIONING	47
6. CONCLUSIONS AND POLICY IMPLICATIONS	50
APPENDIX I: DETAILED RESULTS OF THE SURVEY ON TOURISM LINKAGES	54
APPENDIX II: CONSTRAINTS AND POSSIBLE ACTIONS IN THE AGRICULTURAL SECTOR	60
APPENDIX III: AGRICULTURE VALUE CHAIN ANALYSIS	64
APPENDIX IV: OECS PRIVATE SECTOR FINANCING STUDY POLICY MATRIX	80
REFERENCES	84

LIST OF FIGURES

Figure 2.1: OECS Agriculture Imports vs. Exports	12
Figure 2.2: GDP Sectoral Composition.....	14
Figure 2.3: Island GDP vs. Number of Accommodations and Rooms	15
Figure 2.4: Poverty Line Headcount as a Percentage of the Population	16
Figure 3.1: Percentage of hotel expenditure in local and foreign inputs by main categories	20
Figure 3.2: Hotels' Procurement by Food Category	24
Figure 3.3: Hotels' Procurement by Manufactured Good Category	26
Figure 3.4: Share of Local Manufacturing (Percent)	27
Figure 3.5: Hotels' Procurement by Service Category	29
Figure 3.6: Locally Sourced Services (Percent).....	30
Figure 4.1: Key Constraints Identified by SMEs	32
Figure 5.1: Possible niches identified for food products.....	36
Figure 5.2: Schematic Representation of OECS Tropical Fruits Supply Chain: Pineapple (USD/lb)	42
Figure 5.3: Schematic Representation of OECS Vegetables Supply Chain: Lettuce (USD/lb)	43
Figure 5.4: Schematic Representation of OECS Livestock Supply Chain: Pork (USD/lb).....	44
Figure 1.1: Profile of surveyed companies.....	54
Figure I.2: Hotels' Average Expenditure in Food Items (USD/Week per occupied room).....	55
Figure I.3: Hotels' Expenditure in Purchased Food Items (USD/Week per occupied room).....	56
Figure I.4: Percentage of Hotels' Expenditure in Locally-Produced Items	56
Figure I.5: Hotels' Average Expenditure in Services (USD/Week per occupied room)	57
Figure I.6: Hotels' Expenditure in Local vs Imported Services (USD/Week per room)	58
Figure I.7: Hotels' Average Expenditure in Manufactured Goods (USD/Week per occupied room).....	59
Figure I.8: Percentage of Hotels' Expenditure in Locally-produced Manufacturing Goods	59
Figure III.1: Value Chain Analysis in the OECS Context	64
Figure III.2: Pineapple Supply Chain in the OECS	67
Figure III.3: Scheme of Pricing Structure for Pineapples Imported into the OECS (US\$/lb)	68
Figure III.4: Romaine Lettuce Supply Chain in the OECS.....	71
Figure III.5: Scheme of Pricing Structure for Lettuce Imported into the OECS (US\$/lb)	71
Figure III.6: Pork Supply Chain in the OECS.....	73
Figure III.7: Scheme of Pricing Structure for Pork Imported into the OECS (US\$/lb).....	74

LIST OF TABLES

Table 2.1: Key OECS Economic Indicators.....	11
Table 2.2: 2006 OECS Tourism Statistics	13
Table 2.3: OECS Poverty Indicators	16
Table 2.4: Migration from 1970 to 2000 according to Education Levels	17
Table 3.1: Food and Beverage Consumption by the Hotel Sector	23
Table 4.1: Doing Business in the OECS	33
Table 4.2: Use of Business Support Services in Grenada	34
Table 4.3: Sources of Working Capital and Investment Finance in Grenada	35
Table 5.1: Summary of Constraints to Agriculture/Livestock/Fisheries.....	41
Table III.1: Imports of Selected Fruits	65
Table III.2: OECS Pineapple production	66
Table III.3: Pineapple Product Tariffs.....	69
Table III.4: Imports of Selected Vegetables.....	69
Table III.5: Imports of Selected Livestock Products.....	72
Table III.6: OECS Pig Stocks (Number of heads)	73
Table III.7: OECS Tariff rates for selected products	75

LIST OF BOXES

Box 3.1: Sourcing Considerations for Fresh Products	23
Box 5.1: Farmers Cooperative Focused on Organic Products	38
Box 5.2: Local food products manufactured from traditional inputs	47
Box 5.3: Innovative Service Offers - Wedding Planners	49

Executive Summary

Tourism has become the leading economic sector of the OECS islands, thus expanding linkages with the local economy seems crucial going forward. Tourism has replaced agriculture as the main economic driver within all the islands comprising the OECS. In the early 1990s, agriculture contributed nearly 12 percent of GDP overall; however by 2007 its share dropped to only 5 percent of GDP. Conversely, in the same year the tourism sector of these islands accounted for an estimated 45 percent of GDP, and around 60 percent of foreign exchange earnings, as a result of the more than 2.6 million tourists that visited these islands.

This study analyzes the purchasing patterns and demand for agriculture, manufacturing and services by the tourism industry, both directly and indirectly, through a structured survey and in-depth interviews. A detailed survey covering 70 hotels, marinas, and other tourism operators analyzed the current purchasing pattern of agricultural and food products (13 categories from fruits to canned goods), services (12 categories, from legal support to flower arrangements), and manufactured goods (8 categories). From the supply side, 16 small and medium enterprises were surveyed on the obstacles they were facing for their development, and on their revenue and cost structures. Three different missions covered the 6 largest OECS islands, conducted over 80 interviews and included experts from the agricultural sector (including FAO) and PSD. Additionally, a value chain analysis evaluated the economics of key products. This combined approach provided an extensive source of data and information on linkages that was not available in the islands, as well as insights to improve them going forward.

Overall, there seem to be interesting opportunities to increase linkages between tourism and other sectors of the OECS economies. Most hospitality operators, particularly hotels, demonstrate high willingness to increase the share of products and services purchased from local origin; and in addition, local suppliers of goods and services are willing to focus more their offer on the needs of the tourism industry. This study intended to provide some initial conclusions about specific economic activities and particular ways to increase such linkages in the agricultural and food, manufacturing, and services sectors.

In terms of agricultural products, the tourism sector is a relevant but not the dominant consumer of imported food. The estimated value of food imported by the tourism sector (USD 93 million in 2007) represents approximately 20 percent of total agriculture imports in OECS (around USD 366 million in 2007). All the OECS countries are net food importers, and the negative trade balance has been growing since the late 1990s. Thus, rapidly rising global food prices have resulted in increased attention by governments to the productivity of the domestic agricultural sector. The rising prices may provide opportunities to modify some traditional policies in order to modernize the sector, which may position farmers to take better advantage of the linkages with tourism.

Hotels source a relevant share of their consumption of agricultural and food products locally; opportunities to increase linkages are more significant for niche products than for traditional crops. According to the survey conducted with hotels, cruise lines and marinas, 32 percent of tourism food demand is currently sourced locally. While more than 60 percent of fish, fruits, and

eggs are sourced locally, less than 20 percent of meats, dairy products, and canned food come from local producers. Going forward, to satisfy the demand of the tourism industry some niche products seem to be the most suitable, according to the survey results and to the value chain analysis included in this study. Tropical fruits constitute the clearest area where local production is competitive to imported substitutes, including mango, pineapple, and papaya. Fresh produce is another area where local products can compete with imports; although the economics are not as positive for produce as for tropical fruits, there is an added value given by hotels to freshness. Fish and seafood are already procured locally (except for cold water fish), its value could be increased with higher processing. Most meats face difficulties both from the economics of the business, as revealed in the value chain analysis, and from the point of view of quality standards. The key to profit from these opportunities is to gain scale at the different links of the value chain, and several associations of food producers are already working in that direction.

Most manufactured products used by the tourism sector in the OECS are imported and the sector presents a critical set of adverse conditions. The share of locally sourced goods in the manufactured goods category is below 15 percent for most items (some 100 percent imported) with the exception of construction materials and guest toiletries. When asked about the possibility of increasing this percentage by purchasing more locally produced goods, survey respondents mentioned the local unavailability of raw materials, the poor infrastructure including the complexity of logistics, the lack of a trained workforce, the cost of utilities, particularly electricity, and the business environment as barriers that hinder development of this sector (manufactured food items are included under food). Limited opportunities seem to exist in products customized to tourist demand such as crafts, toiletries, linens and some furniture items.

Services seem to present the most relevant opportunities for further linkages by (i) improving quality to increase the local share, and (ii) increasing quantity, the overall availability of services offered. Services constitute the largest expense of the tourism industry. Hotel expenses with the service sector amount to around USD 265 per room per week. Overall, an average of 90 percent of this amount is sourced locally. Although the local share is already high, there are opportunities to increase it according to the respondents of the survey. The key factor cited as a barrier is the quality of the offer and the overall hospitality abilities of the local population. Opportunities also exist in increasing the quantity and variety of services offered to hotels. Such services would include attractions, entertainment, and cultural offers. Although there are relevant differences in the extent of the offer in the different islands of the OECS (Antigua and St Lucia relatively more developed, Dominica and St Vincent relatively less so), respondents stressed the need to encourage local entrepreneurs to form small or medium businesses to fill the gap in the service offer compared to other tourism destinations.

On the supply side, local businesses complained mainly about taxes, labor skills, and customs/trade regulations. The top five items identified by SMEs as obstacles to develop their businesses include tax rates, inadequately trained labor force, macroeconomic instability, customs and trade regulations, and business licensing. The issue of labor skills raised by companies is consistent with

the results presented in the survey to hotels, and a topic that appeared repeatedly in interviews with all sectors. It is noteworthy that the topic of customs procedures and overall regulations to clear goods appeared as a key element in the survey, some people noted that it may take several days to clear perishable goods. On the other hand, the issue of access to finance is relevant but does not appear comparatively high in the survey. Although business complained about interest rates, they do not seem too high at 11 to 15 percent for a working capital loan compared to other countries.

Going forward, interventions have to be carefully planned since there seems to be fatigue with traditional methods of donor assistance. Since the phasing out of the EU preferences for the bananas and sugar cane crops of the OECS, the Europeans have been eager to provide different forms of financial and technical assistance to the islands. Most recently, specific countries such as the US and the UK as well as other donors have also been providing assistance. As a result, there has been a proliferation of training courses of different types, either concentrated on technical skills or business abilities, with foreign and local instructors, sometimes duplicating an existing initiative, and with varying degrees of success. This has provoked certain level of fatigue about this type of initiatives. Thus, interventions have to be carefully designed together with key stakeholders, including the private sector, and implemented with first rate consultants.

In any case, there is room for initiatives to improve hospitality skills and to adequately promote entrepreneurship in local businesses. There are already some initiatives in hospitality skills such as the tourism institute in Antigua, but according to the responses to the survey and interviews, it seems insufficient to meet the needs of hotels. A feasibility study could be launched to evaluate a sub-regional initiative to upgrade the institute with deep involvement of the private hotel sector to make it successful, and could combine base training at a hub with localized courses in other islands. In terms of entrepreneurship, successful experiences go beyond the traditional training on business skills, and focus on “reverse training” by attracting entrepreneurs with implementable ideas offering matching grants programs coupled with senior mentorship. Any program should include a careful design to make it adequate to the needs of the OECS.

Moreover, simplification of trade procedures is a possible area of work going forward though requiring inter-government coordination. Logistical issues have been raised in many cases as a key impediment, including infrastructure, transport, and procedures. In terms of investment climate, simplification of customs and trade regulations, including complexity of procedures and time to clear, were presented as key to facilitate commerce among islands improving prospects for some SMEs. A project could focus on simplifying and harmonizing procedures among the OECS, and should be coordinated among the different local governments.

These policy implications suggest a rich policy and research agenda going forward. Given the conclusions on the current level of linkages between the tourism sector and other sectors of the economies of the OECS member countries, the products and services which present relevant potential to increase such linkages, and the levers to make this potential blossom, we presented some areas of possible policy discussion. These areas should be taken as preliminary, constituting a base to further evaluate and engage in a dialogue going forward.

1. Introduction

1. This study is motivated by the general perception that the tourism sector's impact on the local economy is still limited, despite the high influx of tourists into the OECS islands.

After a sharp decline in agriculture performance in the last decade and an increased dependence on food importation, tourism has become the main foreign exchange earner and the key engine for the sub-region's economic growth. Notwithstanding, there is a general perception, that there is still room for expanding and consolidating the backward linkages in the tourism sector. We have reviewed agriculture, manufacturing and services sectors in order to have a thorough review of linkages, and given their potential to increase jobs in the local economy, particular the latter.

2. The report analyzes the purchasing patterns and demand for agricultural products, manufacturing products and services by the tourism industry, both directly and indirectly.

When referring to the linkages between the tourism industry and other sectors of the Organization of Eastern Caribbean States (OECS) economy, this study aims to understand the purchasing patterns for products and services by the tourism industry, defined in terms of direct key players, as hotels, cruise ships and yachts that vary in terms of size, location, target market and customer value proposition. It analyzes current patterns for the different categories within each sector, agriculture and food, manufacturing and services, as well as the industry willingness to increase local sourcing and conditions to do so. Notwithstanding, the study also investigates this issue by looking at other indirect players, such as food wholesalers and retailers throughout the OECS, particularly to understand the agricultural demand and food procurement dimension that is of key interest to this report.

3. In terms of approach, the study is primarily based on a detailed survey and interviews with a sample of tourism establishments, food retailers and wholesalers, local SMEs and other relevant stakeholders throughout the OECS.

An in-depth survey covering 70 hotels, marinas, and other tourism operators analyzed the current purchasing pattern of agricultural and food products (13 categories from fruits to canned goods), services (12 categories, from legal support to flower arrangements), and manufactured goods (8 categories including furniture, toiletries and construction materials). From the supply side, 16 small and medium enterprises were surveyed on the obstacles they were facing for their development, and on their revenue and cost structures. Three different missions covered the 6 largest OECS islands, conducted more than 80 interviews and included experts from the agricultural sector (including FAO) and the private sector development area. This combined approach provided an extensive source of data and information on linkages that was not available in the islands, as well as insights to improve them going forward.

4. The rest of the report is organized in five sections. Section 2 provides an overview of the tourism industry and its economic relevance for the OECS. Section 3 analyzes the demand for agricultural products, manufactured goods and services from the various tourism stakeholders,

while Section 4 looks at the potential to expand the local supply of these products to the tourism industry, opportunities and challenges. Lastly, Section 5 concludes and provides some policy implications.

2. Tourism Industry in the OECS: Stylized Facts and Historical Performance

5. **The small size and scale potential of the different economies comprising the OECS has resulted in a high dependence of imports.**¹ The OECS islands consist of a combined population of 598,000 and a GDP of 3.6 billion. It shares a single monetary union with a single currency, the Eastern Caribbean Dollar, which is pegged to the U.S. dollar. The countries also abide under the same Supreme Court of Justice. Historically, the islands have been part of the British Overseas territories but all have gained independence in the period 1974 to 1983. The islands have traditionally had a strong base of agriculture production, particularly of bananas and sugar cane, with trade agreements with the European countries, which have recently been phased out. In addition, their limited potential to achieve economies of scale and scope has resulted in open economies with a high level of importation. The average trade openness (exports and imports of goods and services as a percentage of GDP) for 2005 was 118% of GDP. In 2003, import levels as a percentage of GDP averaged 68 percent for all OECS countries.

Table 2.1: Key OECS Economic Indicators

	Year	Antigua & Barbuda	Dominica	Grenada	St. Kitts & Nevis	St. Lucia	St. Vincent & the Grenadines	OECS
Population (thousands)	2007	84	72	108	48	166	120	598
Island Size (sq. km)		440	750	340	360	620	390	2900
GDP (USD millions)	2006	962	300	519	486	906	466	3639
GDP per capita (USD)	2006	11504	4141	4801	10057	5457	3895	6643
GDP growth (annual %)	2006	8%	4%	7%	5%	5%	4%	5%
Imports (% of GDP)	2003	71%	65%	71%	70%	70%	62%	68%
Trade Openness (Exports plus Imports as a % of GDP)	Average 2001-2005	129	110	112	114	114	109	113

Source: *World Development Indicators, The World Bank*

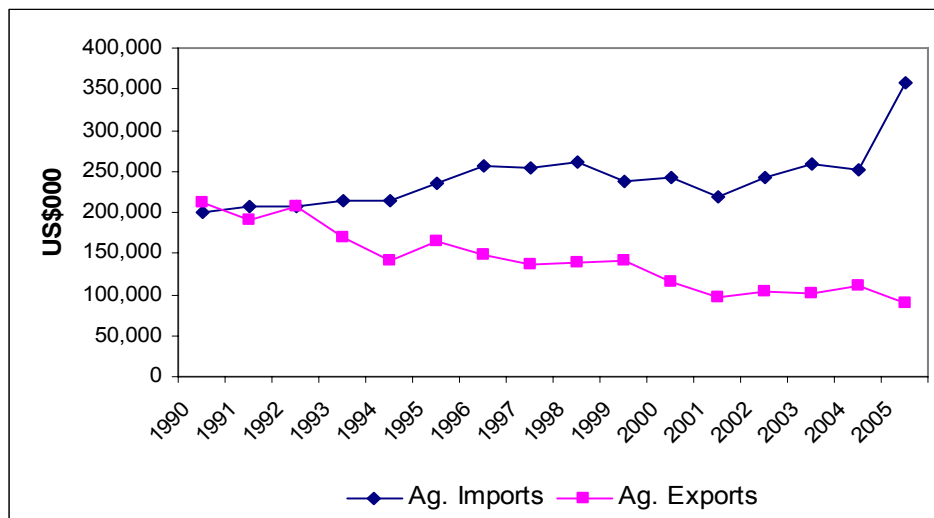
6. **The relative openness of the OECS countries leaves them vulnerable to external factors.** The recent sharp increases in oil prices, the depreciation of the US dollar, the global increase in commodities and food prices, the high susceptibility to natural disasters in the Caribbean region, such as the devastation of hurricanes, and the fluctuations in tourism after the events of September 11th, have all resulted in some instability in the OECS economies performance. One of the most prominent economic changes has been the erosion of trade

¹ For the purposes of this report, OECS refers to the 6 island countries of Antigua and Barbados, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

preferences of bananas and sugar cane to the European Union, which has been a strong factor to the overall decline of agriculture as a leading GDP contributor.

7. The agricultural sector has been facing numerous challenges, which have ultimately led to the deterioration of its performance. Since 1990, agriculture imports have been steadily rising with a severe jump in 2004-2005 when global food prices sharply rose. On the other hand, exports have moved in the reverse direction and currently, imports are four times as high as exports.² The agricultural sector's low performance can be attributed to several factors, including: (i) a historical dependence on a few export commodities that ended when agriculture formally became part of the GATT at the end of the Uruguay round in 1994; originally these exports were heavily supported by preferential trade agreements on banana and sugar cane to the European Union; (ii) fragile ecosystems and their location in the Atlantic hurricane belt; (iii) severe competitive pressures from more efficient agricultural producers; and (iv) alternative attractive employment options in the formal and informal sectors has led to the migration of young people out of agriculture. The result has been a decline in agriculture performance, increased dependence on food importation and structural barriers within the option of agriculture diversification.³ Structural barriers include small domestic markets, high production costs (labor, land, inputs and utilities), difficult access to new technologies, inefficient inter-island transportation system, lack of adequate irrigation systems, complex land tenure systems, and scarce water resources in some islands.

Figure 2.1: OECS Agriculture Imports vs. Exports



Source: FAO

² World Bank: the Backward Linkages of Tourism in the Agriculture Sector for the OECS Countries.

³ FAO: The Future for Agriculture in the OECS Countries: Technical Paper. Report No. 05-029 CP-RLC. June 2005 and World Bank: the Backward Linkages of Tourism in the Agriculture Sector for the OECS Countries.

8. With the decline in agriculture, tourism is now the leading foreign exchange earner in the OECS and has become one of the key drivers of economic growth. Tourism has replaced agriculture as the main economic driver within all the islands comprising the OECS. In the early 1990s, agriculture contributed nearly 12 percent of GDP overall; however by 2007 its share dropped to only 5 percent of GDP.⁴ Conversely, in the same year the tourism sector of these islands accounted for an estimated 45 percent of GDP, and around 60 percent of export revenues, as a result of the more than 2.6 million tourists that visited the OECS islands. The tourism industry supports on average 43 percent of total employment and the general consensus is that the sector's share of total employment will increase in years to come⁵. Consequently, tourism has become the region's largest foreign exchange earner; and has surpassed agriculture as a vital economic engine for growth.

Table 2.2: 2006 OECS Tourism Statistics

	Antigua & Barbuda	Dominica	Grenada	St. Kitts & Nevis	St. Lucia	St. Vincent & the Grenadines	OECS***	Caribbean Region	Worldwide
Total Number of Tourists	720,520	463,419	337,328	238,086	662,103	203,906	2,625,362
Stayover Arrivals*	253,669	83,916	118,490	91,769	302,510	97,432	947,786
Cruise Ship Arrivals**	466,851	379,503	218,838	146,317	359,593	106,474	1,677,576
Travel & Tourism Accounts as % of National Accounts on Government Expenditures	27.9	6.1	11.9	14.2	17.0	11.9	14.8	9.2	3.8
Travel & Tourism Accounts as % of National Accounts on Capital Investment	51.7	14.8	26.5	27.1	38.1	27.1	30.9	20.2	9.4
Travel & Tourism Accounts as % of National Accounts on Visitor and Other Exports	74.8	49.2	53.2	55.9	58.2	55.4	57.8	18.2	...
Travel & Tourism Economy as % of Employment	94.5	24.1	30.9	39.3	41.1	29.9	43.3	12.9	8.4
Travel & Tourism Economy as % of GDP	84.1	26.3	33.3	38.0	41.1	33.3	42.7	14.8	9.9

Source: World Travel and Tourism Council, *Tourism Satellite Accounting and OECS Statistics*

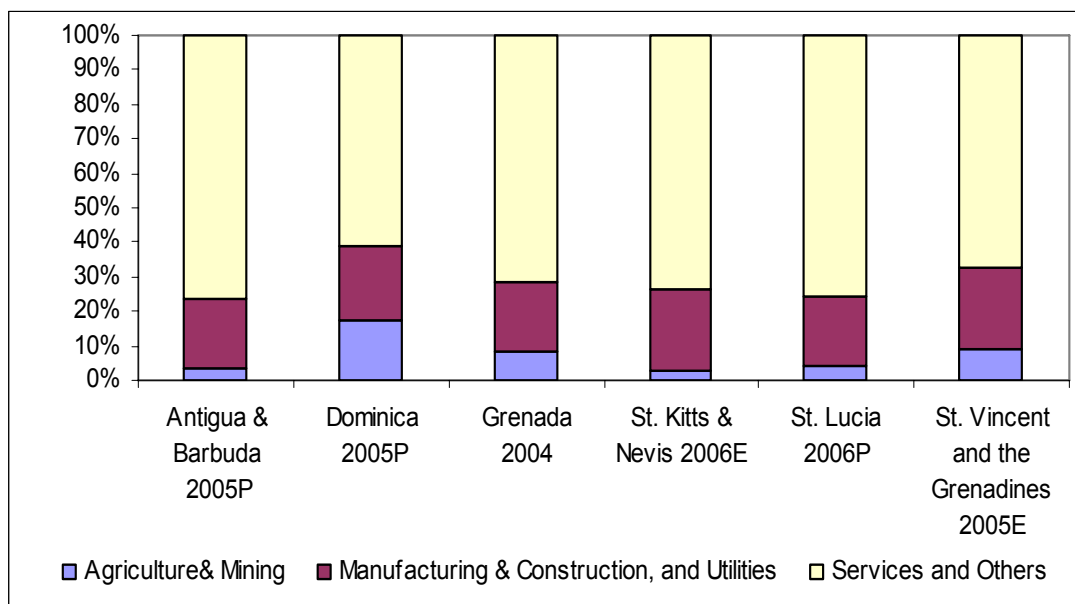
* St. Kitts & Nevis 2004 Stayover Arrival, **Antigua & Barbuda 2005, St. Kitts & Nevis 2003 Cruise Ship Arrivals ***Simple Average for Percentage Figures

9. Despite these recent trends, there are different patterns in the OECS in terms of sectoral composition. The first is exemplified by islands such as Dominica, Grenada, and St Vincent and the Grenadines with relatively large agricultural sectors, and quite significant service and government sectors. In these islands, the agricultural sector still represents more than 10 percent of GDP, in spite of the aforementioned challenges. The converse is depicted by St. Kitts and Nevis which have hardly any agriculture and are reliant on services and government sectors. St Lucia and Antigua lie in the middle with some agriculture but also focused on services and government sectors All in all, the service sector accounts for more than 60 percent of GDP across all OECS.

⁴ ECCB Statistics

⁵ All respondents to the survey as well as people interviewed in the different missions agreed that the importance of tourism for these islands will increase going forward

Figure 2.2: GDP Sectoral Composition

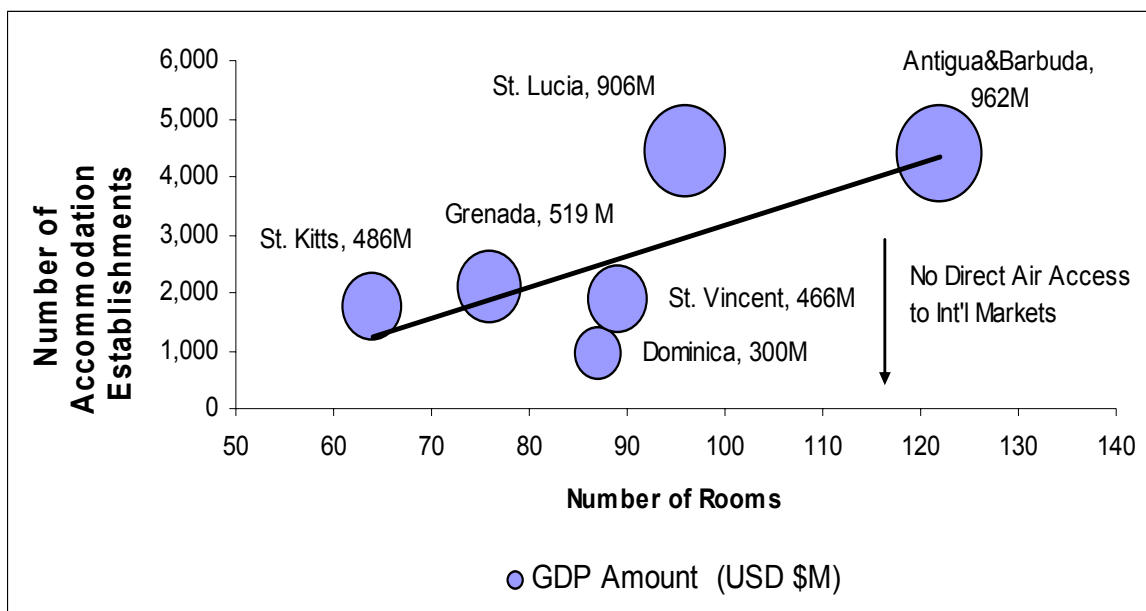


Source: IMF

10. Although the tourism sector is one of the largest contributors to each islands' economy –both directly and indirectly- there are significant differences in terms of each islands' tourism value proposition, which results in varying degrees of outcomes on the local economy. When done and managed successfully, tourism can create significant multiplier effects on the local economy in numerous ways: directly, through the creation of jobs and business opportunities in tourism establishments, and indirectly, through increased opportunities of the local population that offer complementary services and experiences to this market. In order to gauge the realization of this potential, the three main levers are number of arrivals, length of stay; and expenditures per day. St. Lucia and Antigua have been the most successful in these dimensions, while Dominica and St Vincent had lagged behind. Despite the perception of “sea, sun and sand” for the Caribbean as a whole, each island offers additional travel focuses such as Antigua for yachting, Dominica for eco-tourism, St. Kitts for diving. St Lucia and Antigua have the largest number of accommodation establishments and the most number of rooms. Subsequently, they have the highest GDP as well as the most number of direct flights from abroad. It is followed by St. Kitts & Nevis and Grenada which have more medium size hotels. Lastly, there is St. Vincent & the Grenadines and Dominica, which have the smallest hotels and the lowest GDP. Most importantly, in the figure below, the islands that sit on or above the line all have direct air access to

international markets, have larger GDPs and more rooms with more tourism accommodations. In contrast, those below the line have no direct air access to international markets, meaning all tourists must transfer at a secondary location prior to arriving to the island, and also have the smallest GDP as well as the fewest number of rooms and accommodations in the OECS.

Figure 2.3: Island GDP vs. Number of Accommodations and Rooms



Source: Team analysis based on World Bank and ECCB data

11. Despite the high influx of regional tourism, only 58 percent filters to the local economy with varying sectoral impact. In 2004, the average tourist expenditure ranged from \$1,164 USD in Antigua to \$489 USD in St. Vincent. Of each dollar spent by tourists in the OECS countries, 58 cents remain in the local economy, particularly because of the high participation of services. The average GDP per capita is \$6,643 USD in the sub-region, but there are significant differences among islands and among sectors of the population in each island. Farmers have not been as favored by tourism as service providers. As measured by the Gini coefficient, the inequality in the region averages at 0.43⁶. Five of the six islands have poverty headcount rates near 30 percent of the population, with Antigua & Barbuda having the lowest amount of poverty. Thus, despite growing amounts of tourists, poverty in many of these countries remains a significant issue.

⁶ The Gini coefficient is an indication of the level of inequality-- the closer the ratio is to 1.0, the more unequal is the distribution of societal income. Coefficients of 0.3 and less tend to be found mainly in developed countries.

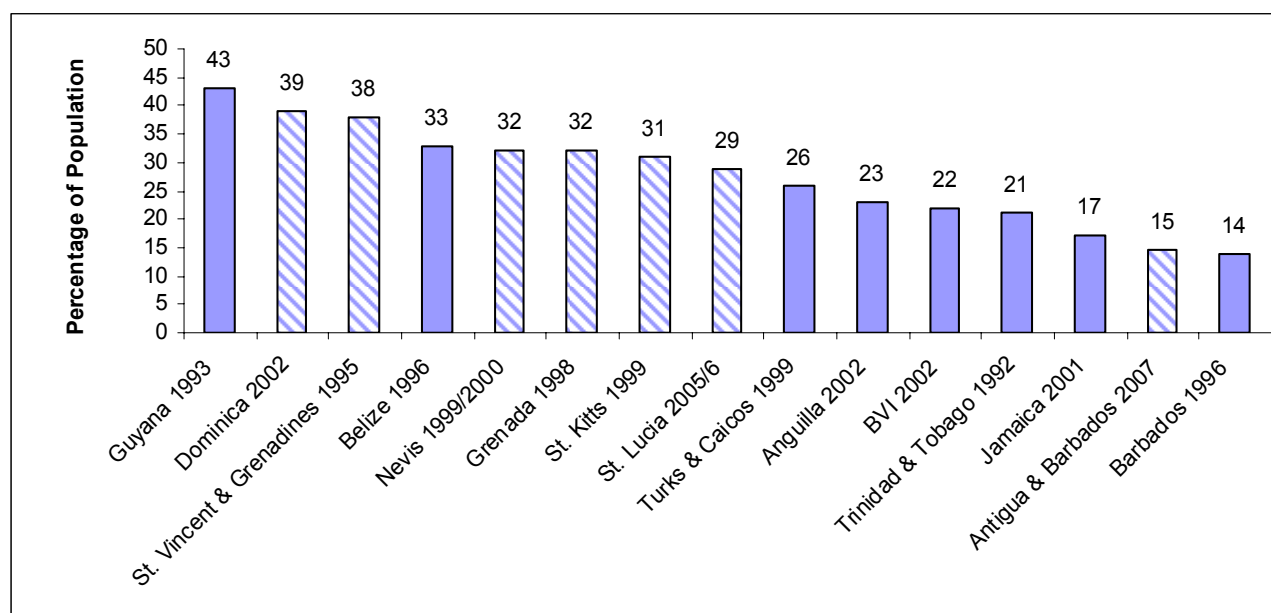
Table 2.3: OECS Poverty Indicators

Country	Survey Year	Indigent Headcount (as a percentage)		Poverty Line Headcount (as a percentage)		Poverty Gap**	Poverty Gap Squared	Gini
		Household	Population	Household	Population			
Antigua and Barbados	2007	3	4	10	15	0.48
Dominica	2002	11	15	29	39	10.2	4.8	0.35
Grenada	1998	11	13	24	32	15.3	9.9	0.45
St. Kitts	1999	na	11	16	31	2.5	8.9	0.40
Nevis	1999/2000	na	17	16	32	2.8	10	0.37
St. Lucia	2005/6	1	2	21	29	8.6*	4.4*	0.42
St. Vincent and the Grenadines	1995	20	26	31	38	12.6	6.9	0.56
Barbados	1996	1	1	9	14	2.3	na	0.39
Jamaica	2001	na	na	na	17	na	na	0.38
Trinidad & Tobago	1992	na	11	na	21	na	na	0.42
British Virgin Islands	2002	1	1	16	22	4.1	1.7	0.23
Anguilla	2002	2	2	20	23	6.9	3.2	0.31
Turks & Caicos	1999	3	3	18	26	5.7	2.6	0.37
Belize	1996	10	13	25	33	8.7	4.3	0.51
Guyana	1993	na	28	na	43	16.2	8.2	na

Source: Caribbean Development Bank: Antigua and Barbados, Dominica and St. Lucia Poverty Assessments

* St. Lucia 1995 Figures ** The Poverty Gap measures the aggregate disparity in the expenditure of the poor compared to the poverty line. It represents the amount needed to raise the expenditure of all poor individuals to the level of the poverty line, as a proportion of the poverty line.

Figure 2.4: Poverty Line Headcount as a Percentage of the Population



Source: Caribbean Development Bank: Antigua and Barbados, Dominica and St. Lucia Poverty Assessments

12. Given the inflow of foreign revenue, there are considerable leakages and rather weak linkages of tourism with some sectors. The impact and spillover effect between tourism and local agriculture and manufacturing is small. With the exception of the service sector, where 90 percent of services are conducted by locals, there is a high percentage of imports into the islands for tourism consumption--particularly in the areas of meat, dairy, vegetables, fruits and manufactured goods; thus weak linkages with the local domestic economy. Local SMEs in

particular have not been able to adequately develop linkages to the tourism sector due to internal and external barriers. The low amount of local supply networks into tourism also diminishes the potential multiplier effects of increased income.

13. The transition between agriculture and tourism as the major driver of economic growth continues to be hindered by issues in the areas of human capital, infrastructure and business culture. Skills related to competitiveness are a crucial aspect when moving from a low-skilled agriculture development to a more skill-intensive industry such as tourism. The OECS is suffering from a shortage of skilled workers that is further compounded by a high migration rate. The Caribbean region has one of the highest emigration rates in the world, particularly of individuals with tertiary education. During the years from 1970 to 2000, an average of 63 percent of Caribbean people with tertiary education left their own countries. The vital loss of human capital detracts from potential productivity gains, and may promote isolation from external experiences that would promote an entrepreneurial class. The outward migration may have also introduced excessive dependence on remittances in some sectors of these societies. Secondly, it seems that the insufficient infrastructure for intraregional transit remains a significant cost barrier as well as high energy costs and poor airport/road facilities. Lastly, business associations have not been very effective to date in disseminating modern management practices and quality procedures as a means to support business development, nor reached important levels of industry cooperation.⁷

Table 2.4: Migration from 1970 to 2000 according to Education Levels

	Percent of Labor Force Migrated to the OECD, 1970-2000 (By Level of Education)			Remittance Inflows as a % of GDP
	Primary	Secondary	Tertiary	2006
Antigua and Barbuda	6	36	71	1.1
Bahamas	2	12	36	...
Barbados	10	24	61	4.5*
Belize	6	49	51	5.4
Dominica	8	61	59	1.3
Dominican Republic	6	31	22	10
Grenada	10	70	67	4.8
Guyana	14	34	86	24.3
Haiti	3	28	82	21.6
Jamaica	8	30	83	18.5
St. Kitts and Nevis	10	37	72	0.6
St. Lucia	3	32	36	0.2
St. Vincent and the Grenadines	6	53	57	1.1
Suriname	18	44	90	0.1
Trinidad and Tobago	6	21	78	0.5
Average**	8	37	63	7

* Barbados 2005 Remittance Inflows **Simple Averages

Source: World Bank: Private Sector Financing Study and World Bank Remittance Database

⁷ World Bank. Private Sector Financing Study, 2007

3. Analysis of the Demand from the Tourism Industry

14. This section will look at linkages from the Demand Side. It analyzes the patterns of purchase currently displayed by the key players in the tourism market including: hotels, the yachting industry, and the food retailer & wholesaler sector with a description of their business models and key drivers, based fundamentally on a comprehensive survey conducted to these players during January and February 2008⁸. Accordingly, this section evaluates how these different types of players demand different categories of products related to the sectors of agriculture and food products, manufacturing, and services.

3.1. Overview of Key Players, Purchasing Patterns, and Business Models

Hotels and Other Tourist Accommodations

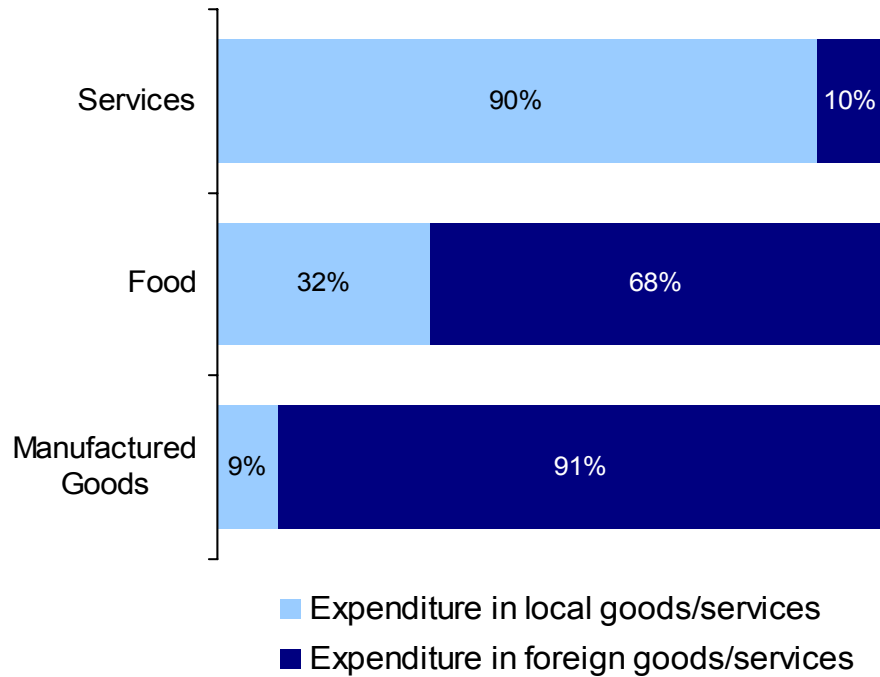
15. Hotels are the main players in the OECS tourism industry, and vary widely in terms of size and target market. Several types of establishments exist across the different islands. Large hotels are generally defined as accommodations that offer more than 100 rooms, occasionally reaching as much as 500 rooms. This type of hotel is commonly located on the beachside and offers two types of stay-over experiences: mass market all-inclusive hotels, which typically includes all meals, beverages and in some cases leisurely complementary activities, and regular stay-over hotels that only include accommodation and sometimes one extra meal. Medium and small hotels are defined as establishments providing between 40 and 100 rooms. Most high-end, luxury hotels are within this segment, and offer a value-proposition where guests can have *a-la-carte* or tailored services during their stay-over. As is the case with the all-inclusive hotels, the presence of international chains in this high-end segment is significant. Guesthouses are typically small establishments offering from 4 to 40 rooms with a business proposition similar to small lower-end hotels. They are usually located on valleys that are distant from the beach area. Higher-end guesthouses are typically plantation inns. These are old plantations estates that have been refurbished to accommodate tourists. Furthermore, some of its agricultural activity is still active, producing fruits and vegetables for the inns' consumption. Other examples of high-end guesthouses are the ecological retreats in eco-tourism focused islands. Lastly, villas and apartments are another type of accommodation option for tourists, they are establishments of approximately 30 rooms without maid or breakfast service. Flats are usually rented out for short periods of time, ranging from 7 to 14 days.

⁸ Additional details on this survey can be found on Appendix I

16. Hotels' purchasing patterns and business model largely depend on their market and on the value proposition offered to the customer. Hotel purchasing patterns in the OECS have a certain number of common elements throughout, being the main drivers the quantities and quality demanded versus the local availability and quality, and the price differential between imports against local costs. Nonetheless, there are important differences in the way tourism accommodations carry out their business, most notably depending on the segment they target. For instance, in large hotels, particularly the all-inclusive segment, where economies of scale are crucial, purchasing policies are designed and carried out at the corporate level to meet large supplies and consistent quality standards, minimizing total costs. Medium and small hotels are more flexible in their procurement patterns; they are usually run by their owner or by a local general manager, who is also in charge of defining the purchasing policies. In this case, the manager or procurement director's relationship and involvement with the local community appears to be a defining factor on the hotel's decision to buy local goods and services. High-end hotels are keen on quality standards and relatively less price-sensitive than the other hotels. Contrary to conventional wisdom, high-end international players tend to buy more local than mass-market players, given their customers interest in local experiences and focus on social responsibility. Lastly, guesthouses are usually managed by their owners and it is common to find them overseeing all services offered to guests.

17. While most hotels procure services locally, very few purchase locally manufactured goods, as local production is neither competitive nor large enough to accommodate hotels' demand. According to the survey carried out for this study, 90 percent of hotels' expenditures in services such as maintenance, landscaping, and transportation, come from local providers, while the rest, namely some business services are obtained from foreign providers. At the other end of the spectrum, most manufactured goods from furniture to toiletries, chemicals to stationary, are imported (91 percent of the total hotels' manufacturing expenditure) and very few are purchased locally. Lastly, slightly more than 30 percent of hotels' food expenditures are local and the rest is foreign, eggs, fish, fruits and vegetables being the most locally purchased ones.

Figure 3.1: Percentage of hotel expenditure in local and foreign inputs by main categories



Source: World Bank Tourism Linkages Survey 2008.

Note*: Figure 3.1 is based on a weighted average for each of the 3 categories. The average percentage of expenditure in local inputs for every sub-category in each main category was weighted by the average weekly expenditure per week per room of such sub-category. In this way, total expenditure in each main category can be divided into local and foreign percentages.

The Yachting Sector

18. Yachts can be categorized according to their size and use as cruisers, charter yachts, and super or mega yachts. For the purpose of this study, we will define a yacht as a vessel with a length of 20 feet or more that is mostly used for leisure purposes. Yachts are generally divided into three types of vessels: (i) the so called *cruisers*, or *mom and pop* yachts, which are boats of up to 100 feet, generally owned and operated by their owners, a large proportion of them are retired people, and usually spend more than 2 months a year on board; (ii) *charter yachts*, which are boats of up to 100 feet, and are rented out to tourists who spend an average of one week on board, and include crew services; and (iii) *super* or *mega yacht*, which are large vessels of 200 feet on average that are rented out with full crew services to groups of tourists that typically go from 20 to 30 people.

19. Consumption, and thus food purchasing patterns for yachts vary greatly according to the different market segment that each yacht caters to. *Cruiser* passengers tend to spend a good portion of the year on their yachts, and spend a limited amount on food. This segment tends to have the highest interaction with local producers, and enjoy visiting local markets and purchases most items directly. *Charter boats*, depending on their size, may work with a retailer at a designated marina that provides them with the necessary items during their stay-over in an island (usually not more than 3 days). Tourists of this segment typically eat at restaurants located at the marinas or the nearby local towns, do not have a high degree of interaction with the rest of the island, and leave a large amount of their purchasing and service delivery decisions to the marinas where they dock. *Mega yachts* usually carry a chef on board who is in charge of food purchases. Chefs typically contract out a distributor that specializes in this segment, and who is commonly referred to by the marina. Consumption is typically very high-end oriented, and products require the highest standards of quality. Passengers in this segment typically demand the same products that they consume at their countries of origin; hence, distributors import most of their products from wholesalers in the US and Europe. A distributor in this category typically provides 15 boats a week, and deals directly with the chefs.

20. Demand for other manufactured goods and services are mostly satisfied by the marinas. On their arrival to the port of destination, whether it is a long-term or a short-term destination, yachts dock in marinas. A marina is a dockyard prepared to accommodate yachts, and provide them with a different set of supplies and services. This usually includes maintenance, security, ICT, and related services. Additionally, some marinas have retailers on site that are able to provide the yacht tourists with food and other basic supplies. A yacht association is a socially oriented club that aims at promoting yachting as an activity, and building networks for its members both locally and internationally, while membership in marinas can be bought for different periods of time. For example, at the Eastern Caribbean Marina and Boat Yard Ltd. in Antigua, commonly know as the Jolly Harbour Marina, 25 percent of total memberships is sold on a per day basis, 30 percent on a weekly basis, and 45 percent of the yachts have annual memberships. The Jolly Harbour Marina is one of the 4 marinas in Antigua, and it serves mostly *cruisers* and some *charters*.

Food Retailers and Wholesalers

21. Most of the food distribution business appears to be concentrated into relatively large players that try to integrate the commercial value chain as much as possible. Most food retailers and wholesalers own more than one establishment and describe themselves as members of a chain. This business tends to be highly concentrated in the hands of one or two distributors, particularly in the smaller islands. In addition, local distributors tend to source most of their demand for both agricultural/food and manufactured products from overseas distributors, located in the United States, particularly in the State of Florida, and Europe. When dealing with regional

suppliers, most of the business takes place with Jamaica and Barbados. Thus, the proportion of local supply is minimal.

22. Chains tend to source most imported goods, and individuals provide local produce and goods. In general, local retailers and wholesalers carry out the distribution of imported produce and processed food, while the vast majority of the farmers' and fishers' produce is sold directly to end clients, general public, restaurants and hotels, or in open markets. Still, it is important to note that in many islands these businesses are encouraged to source locally by the local governments by tying the issuance of import licenses to minimum local purchase requirements and other means.

3.2. Demand Analysis by Product Category

3.2.1. Agriculture and Food

23. The tourism sector is a relevant but not the dominant consumer of imported agricultural products. According to the survey results, current food purchases by the tourism sector amounts to almost USD 140 million per year. As presented above, about 32 percent of their food expenditure is sourced locally and 68 percent is imported. The estimated value of food imported by the tourism sector (USD 93 million in 2007) represents approximately 20 – 25 percent of total agriculture imports in the OECS countries (estimated to be USD 366 million in 2007).⁹ Thus, most of OECS food imports are not destined to the tourism sector but to the local population, and the importance of the tourism sector as a food importer should not be overstated. Given the recent hike on international food prices, the issue of food security becomes a very relevant question which is beyond the scope of linkages between the tourism and the agricultural and food sectors.

24. There are important variations in the shares of local supply among different agricultural products in the OECS countries. Fresh products accounts for 60 percent of total food expenditure mainly meat (25.5 percent), fish (8.7 percent), and fruit and vegetables (13.8 percent), while beverages (18.4 percent) and dry goods (8 percent) account for the bulk of the non-fresh products. About 64 percent of the fresh products are imported, although there is great variance among them. For example, almost 90 percent of meat products and around 80 percent of dairy are imported, whereas only 30-40 percent of fish, fruit and vegetables come from abroad.¹⁰ (See Table 3.1.)

⁹ Total food imports to OECS was USD 305 million in 2005, the last year for which there is available data. Given the rapid food price increase since 2005, a 20 percent increase is used to estimate total food imports in 2007 as USD 366 million. The 20 percent increase is based on FAO food price index for the various import food categories in OECS countries.

¹⁰ The local procurement/ import figures need to be treated with some caution. Although the survey asked the interviewees specifically to categorize locally purchased imported goods as imports (and not as local goods), some

Table 3.1: Food and Beverage Consumption by the Hotel Sector

Fresh Products	Local	Imports	Imports %	Total (US\$)	% of Expenditure
Meat	3,938,444	31,346,796	89%	35,285,240	25.50%
Dairy Products	2,491,668	10,931,190	81%	13,422,859	9.70%
Fruit	6,349,736	3,616,938	36%	9,966,674	7.20%
Vegetables	5,465,595	3,697,314	40%	9,162,910	6.60%
Fish	8,359,146	3,697,314	31%	12,056,460	8.70%
Eggs	3,375,809	0	0%	3,375,809	2.40%
Subtotal	29,980,397	53,289,553	64%	83,269,950	60.20%
Non-fresh products					
Alcoholic Beverages	4,259,949	13,101,353	75%	17,361,302	12.50%
Dry Goods	1,446,775	9,645,168	87%	11,091,943	8.00%
Non-Alcoholic Beverages	3,456,185	4,661,831	57%	8,118,016	5.90%
Starch	1,044,893	5,385,219	84%	6,430,112	4.60%
Bakery Products	2,652,421	2,089,786	44%	4,742,208	3.40%
Canned Products	401,882	4,340,326	92%	4,742,208	3.40%
Preserves	1,286,022	1,366,399	52%	2,652,421	1.90%
Subtotal	14,548,128	40,590,082	74%	55,138,210	39.80%
Total	44,528,526	93,879,635	68%	138,408,161	100.00%

Source: World Bank, *Tourism Linkages Survey 2008*

25. In general, food products that require less processing tend to be sourced locally while processed foods tend to be imported. The local sourcing percentage and the main drivers leading to the decision of procuring locally or importing are very diverse, including cost, quality, and availability considerations. In general, processed (non-fresh products) or semi-processed foods (meat and fish) are often quoted as having lack of sufficient processing facilities as one of the key reasons for imports. Thus, food products with less processing (fresh products) are reported as having higher share of local sourcing. (See Box 3.1.)

Box 3.1: Sourcing Considerations for Fresh Products

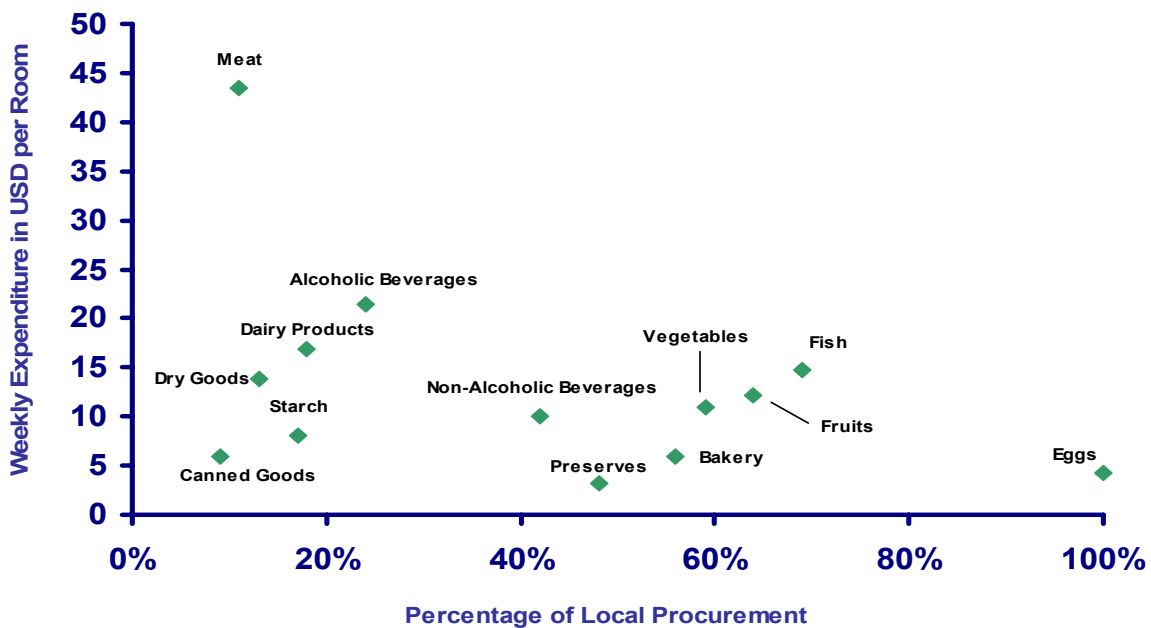
- a. **Meat (mainly beef) is 89 percent imported** because OECS countries apart from Antigua & Barbuda and St. Kitts & Nevis do not produce beef in a significant way. This is due to (i) unsuitable topography of the other islands for the establishment, (ii) high cost of imported animal feed, (iii) lack of adequate slaughterhouse facilities, meat processing plants and hygiene and sanitary control, and (iv) lack of skilled butchers to cut the meat in a way that is acceptable to hotels and restaurant.
- b. **Dairy Products are 81 percent imported.** Milk is mainly imported in powder form and re-hydrated locally. Butter and cheese are almost all imported. There is some local milk and yogurt/cheese production, but are not sold to hotels and restaurants since there is limited local pasteurization capacity.
- c. **Fruit and vegetables are 59 percent procured locally** directly from farmers, from the marketing boards and from supermarkets. Some hotels have a group of farmers and vendors who supply the hotel with what is locally available (The Four Seasons Hotel on Nevis, the Marriott Hotel in St. Kitts and Sandals in St. Lucia are good examples of direct purchasing from farmers). Hotels are willing to purchase more local fruit and vegetables contingent on the quality, specifications, and continuity in the supply.
- d. **Fish. About 70 percent of the fish consumed in the tourism sector is caught and procured locally.** Some fish are not available locally during certain seasons and thus are imported. Hotels are willing to buy more locally if processing (filleting) is done off-site under hygienic conditions.

respondents may have classified them as local since they would not know the origin of each of their local purchases. This implies a likely underestimation of import shares for the estimated figures gathered by the survey.

e. **Eggs are the only food product for which the OECS is self sufficient** in supplying the tourism sector, according to the conducted survey.

26. Moreover, this suggests that the majority of food products that are currently being sourced locally are generally low value added products, and thus account for the lowest share of a hotel’s weekly food expenditure. As previously mentioned, the total average hotel expenditure in food amounts to USD 171 per room per week, meat being the category with the largest average expenditure at USD 43.5, and accounting for around one-fourth of total expenditure. The second largest expenditure is alcoholic beverages, at 21.5 USD. The top six categories also include dairy products, fish, fruits, and vegetables that together make up for more than 80 percent of the total expenditure in food. On the other hand, looking solely at sourcing patterns, most of the food products that are imported are not only more processed, but also account for a higher share of a hotels’ total expenditure (See Figure 3.2). Conversely, some staples like eggs are 100 percent local, followed by fish at almost 70 percent local sourcing. Fruits, vegetables, bakery products, preserves and non-alcoholic beverages are all in the range of 40 to 65 percent local sourcing. Noticeably, the three items that represent the highest expenditure are in the low range of local sourcing: meat (11 percent), dairy products (18 percent) and alcoholic beverages (24 percent).

Figure 3.2: Hotels' Procurement by Food Category



Source: World Bank Tourism Linkages Survey 2008

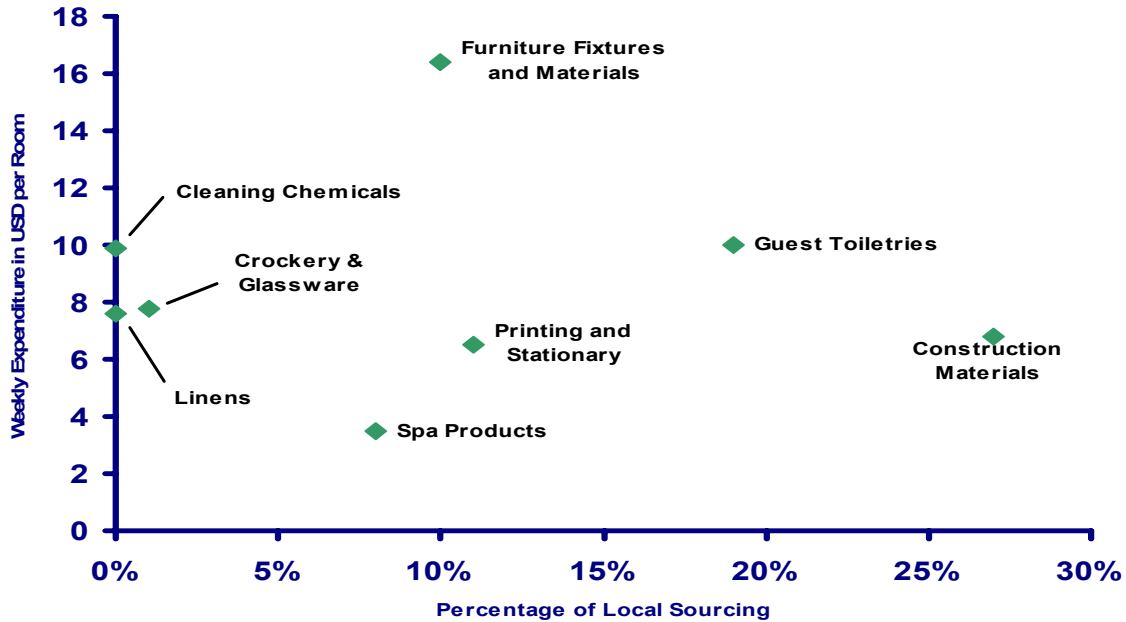
27. The same pattern observed in hotels holds true for the yachting industry, where the less processing a product requires, the more it tends to be bought locally. Small yachts, or *cruisers*, spend an average of USD 500 per week in food purchases, whereas *charters* spend in the range of USD 1,500– 2,000 per week, and *mega yachts*' expenditures can go as high as USD 5,000 and more. On top of this, *mega yachts* usually work with a budget on food per crewmember, practice that accentuates as crew numbers increase. A USD 30 per day per crewmember is common on bigger boats, which represents an extra USD 2,100 per week if a typical crew of 10 is hired. The main items purchased by larger yachts on a weekly basis consist of alcoholic beverages, amounting to USD 2,250 per week, fruits USD 1,500 per week and non-alcoholic beverages USD 1,100. It is worth highlighting the share of expenditure that goes into buying fresh fruits for this market, which poses an interesting opportunity as most is sourced out locally.

3.2.2. Manufacturing

28. Manufacturing within the OECS is characterized by a critical set of adverse conditions that limits the potential to expand tourism linkages. The total average value of manufactured goods purchases by hotels is around USD 75 per room per week. The picture for manufactured goods is the least favorable among the segments for the OECS countries, given both the reduced percentage of local sourcing and the low expenditure level. Restrictions related to the availability of raw materials, poor infrastructure, high energy costs, lack of a trained workforce and entrepreneurship were cited by the survey respondents as the main reasons for a depressed local manufacturing industry.

29. Most manufactured goods demanded by the tourism industry are currently imported. In general, manufactured goods are purchased from local distributors. Purchases range in frequency depending on the types of goods, from monthly purchases of stationary and guest toiletries up to furniture purchases, which are replaced on average, every 5 years by hotels. Yachts rarely purchase manufactured goods in the OECS, except for cleaning chemicals and other very basic manufactured products kept at marinas. If yachts need to conduct repairs, or replace any equipment, they do so in either duty free ports such as St Marteen or Barbados, or in larger ports in Puerto Rico, Florida, or directly in their ports of origin. The share of locally sourced goods in the manufactured goods category is below 15 percent for most items (some 100 percent imported) with the exception of construction materials and guest toiletries.

Figure 3.3: Hotels' Procurement by Manufactured Good Category



Source: World Bank Tourism Linkages Survey 2008

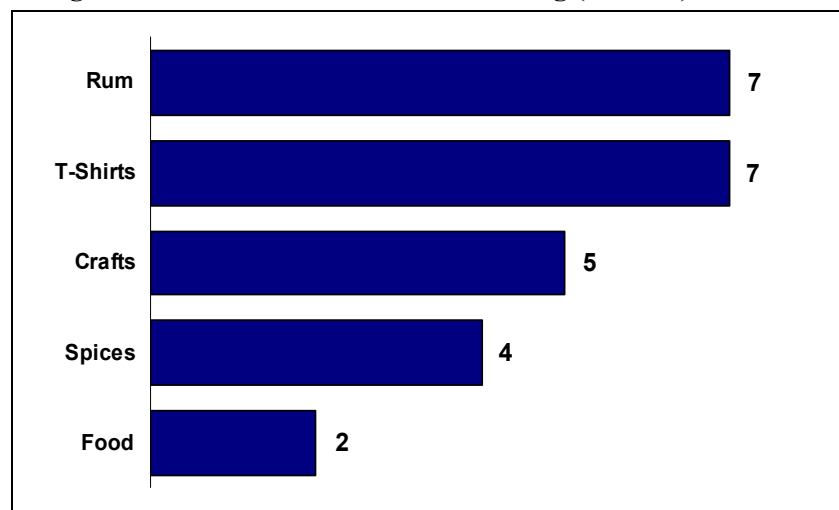
30. Quality, pricing and supply reliability determine the extent of locally-produced goods purchased by the hotel industry. Goods such as crockery and glassware, cleaning chemicals and linens, printing and stationary, as well as furniture materials are almost exclusively imported from outside the OECS region, mainly from the USA. A higher percentage (about 25 percent) of hotels' need for construction materials is satisfied locally. A mismatch between what hotels demand and what the local market offers is also a factor that prevents stronger linkages, as it is evident in the case of furniture manufacturers. In addition to practical difficulties in matching hotels needs in terms of quantity requested and delivery time expectations, it seems that local furniture producers have not been able to adapt their styles to the demands of most tourist establishments.

31. Goods that have a distinct local flavor might have a potential for stronger linkages with the tourism industry. A category that according to the survey seems to have better appeal for the hotel industry are spa products such as soaps and oils made out of local spices and fruits, such as nutmeg, clove, and coconut. According to a survey, hotels spend on average USD 16 per week per occupied room in spa products. As spa services are an essential component within the

relax-style vacation that some high-end hotels tend to market, this is an area that could bring additional economic opportunities for the local community.

32. Souvenirs and local handicrafts constitute an area where linkages with the hospitality industry have to be better established. The range of souvenir products available to tourists is quite small compared to other destinations, and quite repetitive across the six islands surveyed. The most common purchased souvenirs are rum, crafts and t-shirts. A relevant portion of t-shirts are produced in Asia. According to the survey, it seems that there has not been an effective effort to emphasize the uniqueness and distinctiveness of each island country in their souvenir products. Tourists that visit more than one OECS country, such as cruise passengers, are faced with very similar product options across the region.

Figure 3.4: Share of Local Manufacturing (Percent)



Source: World Bank Tourism Linkages Survey 2008

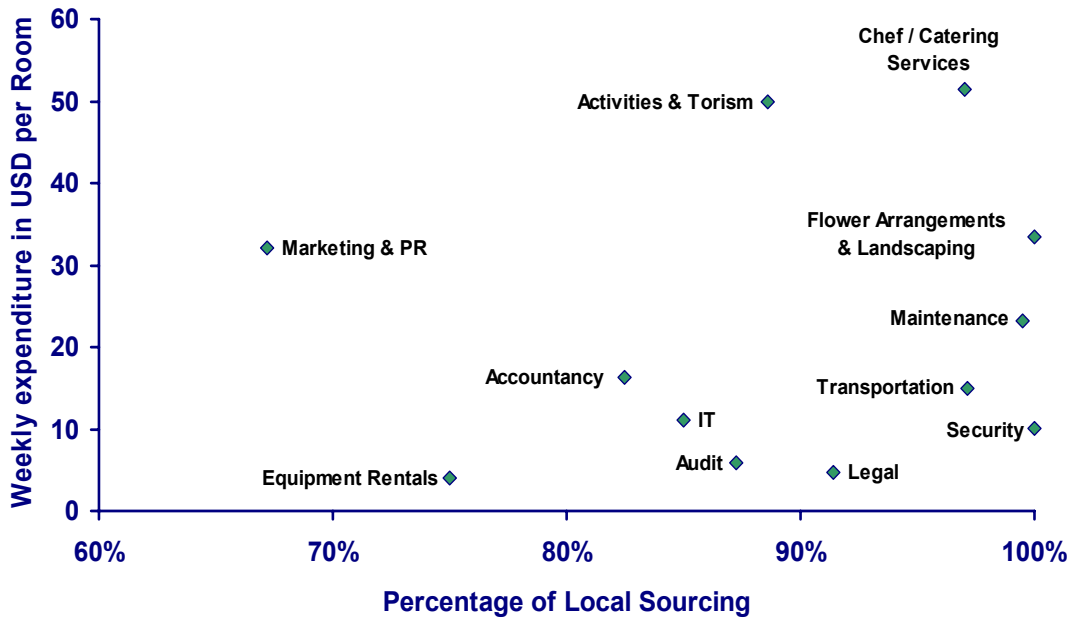
33. A need for the development of business skills and competitiveness has been clearly identified. Several manufacturers and manufactures' associations have highlighted the need for targeted training to develop a stronger and more competitive sector. This includes both business development support in specific industries, as well as generic guidance in management and financial issues such as feasibility studies, preparation of business plans, and financial projections. Some development agencies programs, such as the EU-run CLIME program in St Lucia, as well as government structures have provided comprehensive training to local small and medium enterprises on the different OECS islands. Notwithstanding, there have been a variety of programs in the OECS, designed by different donors and run by a variety of agencies with dissimilar results, provoking some level of fatigue on these type of initiatives. One key issue of business development is entrepreneurship, a topic very hard to teach, more suitable to providing the right incentives than to setting up training sessions.

3.2.3 Services

34. The service industry poses interesting opportunities for expanding linkages with tourism, as it currently accounts for the highest share of hotels' weekly expenditure per room. According to the survey, the average expenditure in services for surveyed hotels is USD 265 per room per week. The leading sub-category in terms of weekly expenditure is chef and catering services. On average, 90 percent of services are locally sourced, and they include activities such as chef and catering, transportation and tours, flower arrangements and landscaping, and maintenance and security services. Most often, foreign sourcing of services is done by the large, all-inclusive hotels where core operating activities such as accounting, auditing, and legal are carried out at their headquarters. ITC support activities of some large hotels are sourced from third countries such as India. (See Figure 3.5.)

35. Likewise, there are significant opportunities to consolidate linkages with the yachting industry as a wide range of services are needed in marinas and docking stations. In order to properly operate, yachts not only hire a seasonal crew, but also contract the services of a marina that functions both as a dockyard and as a maintenance center. In general, the largest expenditure on services amounts to the cost of the crew and in-house captain and chef, who are most commonly hired in places where tourists reside. Salaries for yacht personnel range from USD 3,000 to USD 6,000 per month, with trained captains and chefs in the top of such range. A typical marina, on the other hand, hiring 10 to 12 employees to offer maintenance and docking services may spend as much as USD 12,000 per week on payroll-related expenditures. A typical yacht pays an average of USD 200 a day for dockage. Another important category for marinas is ITC related services, where expenditures per week amount to USD 4,000 on average. Although there is limited information to quantify the demand for these types of services, it seems that there is an important niche opportunity for service delivery in the tourism industry.

Figure 3.5: Hotels' Procurement by Service Category

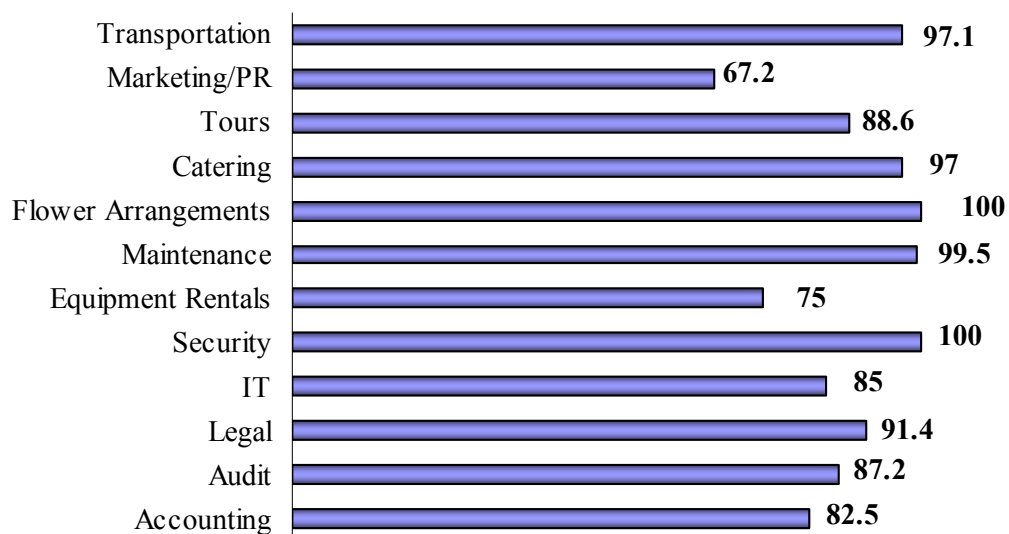


Source: World Bank Tourism Linkages Survey 2008

36. **Some services, such as security, hotel entertainment and flower arrangements and gardening are entirely locally sourced.** According to the survey carried out for this study, marinas and hotels spend USD 4,600 and USD 680 per week respectively in security and surveillance services. These positions are completely filled locally. Also, hotels hire entertainment services, usually a music band, from the local community. Depending on the season and the establishment, entertainment is offered every night. In this case, a hotel would have arrangements with more than one group of local artists. When it comes to flower arrangements and gardening, hotels are estimated to spend an average of USD 33 per week per room. While flowers are not necessarily produced locally, this expense represents a noticeable, regular source of income for local service providers.

37. **The percentage of locally sourced services decreases in more highly-skilled, specialized positions.** Specialized services such as marketing and promotion, are often purchased from overseas companies. This can be partly explained by the fact that international chain hotels tend to have their marketing and promotion activities centralized at headquarters' level. At the same time, as the hospitality industry targets the foreign tourist market, hotels might feel that foreign public relations and marketing agencies have a better understanding of the targeted market. In addition, local companies themselves tend to buy printing and marketing materials from overseas, most often from the USA, due to better pricing and higher quality, as well as quicker service and a wider range of products.

Figure 3.6: Locally Sourced Services (Percent)



Source: World Bank Tourism Linkages Survey 2008

38. Management-level positions in the service sector tend to be filled by foreigners. Chefs, particularly at high-end hotels and restaurants, also tend to be foreigners. Partly this is due to the fact that the hospitality industry caters mostly to an international audience and tends to offer international cuisine. In the case of mega yachts, the survey noted that often passengers request the same food that they are accustomed to. In general, Caribbean cuisine has not been very well incorporated in many establishments and therefore local chefs are somewhat at a disadvantage. Also, there are no culinary institutes in the OECS or any in the Caribbean which fulfill the international standards demanded by tourist establishments in the region. Chefs tend to be recruited from Europe, the USA or Asia. Similarly, top managers often come from overseas, and all tend to have international experience and qualifications. Finding qualified candidates for mid-level management was mentioned as a challenge by several industry stakeholders. There is only one training institute within the OECS, based in Antigua and Barbuda. While it is estimated that a good percentage of locals employed in the tourist industry attend the institute at least once in their career, the school is not highly regarded among several survey respondents. Other options for local people that want to get specialized education in the tourism sector is to attend the University of West Indies, which offers management programs in its Barbados, Jamaica and Trinidad campuses, or to go overseas, usually Canada, the USA or Europe.

39. Increasing the quality and quantity of local services seems to be an important issue. Many survey respondents assessed that in the case of the service sector, besides the issue of increasing the quality of the local offerings, there is ample room to increase the quantity of services offered, particularly in terms of attractions and entertainment. This would tend to increase both the spend per tourist and the length of stay.

4. Overview of Local Small and Medium Enterprises Perspectives

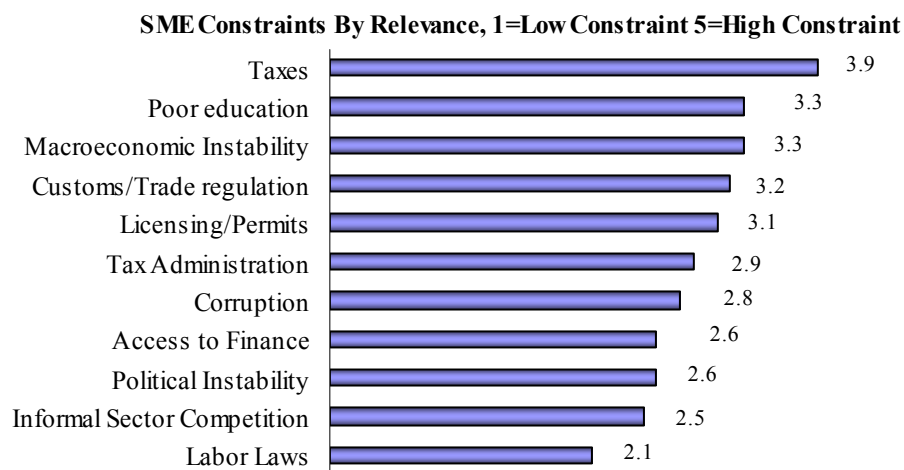
40. Besides the demand side analysis, local SMEs were included in the survey and in interviews to get their perspective. In order to obtain a more thorough picture of the current and prospective linkages among the tourism industry and the local population, small and medium enterprises of the six OECS islands were surveyed and interviewed. SMEs responded about their perceptions on the barriers to do business as well as potential mechanisms to overcome the challenges.

41. Local companies have achieved mixed results in exploiting linkages with the tourism industry. Small and medium enterprises make up most of the local private sector in all OECS countries and operate in very challenging environments. OECS islands are small open economies, with limited domestic demand, and highly dependent on imports of food and manufactured products. The exposure to natural disasters combined with a high level of emigration, particularly among the younger and better educated workforce, have been additional factors discouraging local private sector competitiveness and entrepreneurship. While there are some successful examples of SMEs linking with the hospitality industry for specific profitable growth opportunities, there seems to be a need for considerable upgrading to unlock the local private sector's full potential and further explore linkages with tourism.

42. High infrastructure costs hinder SME competitiveness and growth. Utilities, especially electricity, water and telecommunication services are rather expensive across the OECS islands, and are commonly reported as a key business constraint by local small and medium enterprises. In general, electricity costs are reported to be several times higher than in Trinidad and Tobago, and even than in Barbados. Also, given the small size of OECS island countries, entrepreneurs need to import most of their inputs and export a significant part of their production if they were to achieve some scale economies. In this respect, local entrepreneurs have indicated that the irregular transportation systems and the perceived high freight costs have been hampering export business to other OECS islands and to the USA. In the absence of a regular intra-regional ferry system, companies usually hire private boats to transport their goods to other islands. Small manufacturers would work opportunistically when there is marginal space available to their desired destination.

43. The SME survey raised several issues to improve the investment climate. According to the local companies that answered the survey, issues regarding the level and complication of taxes, education of the local workforce, macroeconomic conditions, the burden and length of customs procedures, and licensing requirements were considered as the most important factors affecting the overall investment climate in the OECS countries. The importance of these issues was qualitatively corroborated by a series of face-to-face interviews with local entrepreneurs that the team had in the different islands and secondary data sources. (See Figure 4.1.)

Figure 4.1: Key Constraints Identified by SMEs



Source: World Bank Tourism Linkages Survey 2008

44. Weaknesses in tax and customs administration were reported as obstacles for private sector development. Besides the survey, according to the Doing Business in the OECS report, the tax burden on companies in OECS countries is high and exceeds 40 percent of commercial profits for firms in Grenada, Antigua and Barbuda, and St Kitts and Nevis (See Table 4.1)¹¹. The corporate income tax rate is 35 percent in St Kitts and Nevis, and around 30 percent in most of the remaining OECS countries. Additionally, the complexity of the tax administration and the time spent by businesses in complying with tax regulation seem to be additional SME challenges. Importing goods into an OECS country takes on average 19 days and requires 7 documents, while exporting goods takes an average of 17 days. All OECS countries require that a bill of landing, invoice, certificate of origin, and customs declaration be completed to import goods. Additional documents requested vary across countries. Cost to export from the OECS sub-region can be considered high at an USD 1170 average, while businesses in other countries in the Caribbean such as Trinidad and Tobago only pay USD 693.

¹¹ See Paying Taxes in Doing Business 2007, OECS, World Bank (2006).

Table 4.1: Doing Business in the OECS

	Antigua & Barbuda	Dominica	Grenada	St. Kitts & Nevis	St. Lucia	St. Vincent and the Grenadines	OECS*	Dominican Republic	Jamaica	Trinidad and Tobago	Guyana	Haiti
Trading Across Borders												
Documents to export (number)	5	7	6	6	5	6	6	6	6	5	7	8
Time to export (days)	19	16	19	15	18	15	17	12	21	14	30	52
Cost to export (US\$ per container)	1107	1197	820	750	1375	1770	1170	815	1750	693	850	1650
Documents to import (number)	6	8	5	6	8	6	7	7	6	7	8	10
Time to import (days)	19	18	23	17	21	16	19	13	22	26	35	53
Cost to import (US \$ per container)	1174	1107	1178	756	1420	1769	1234	1015	1350	1100	856	1860
Paying Taxes												
Payment (number)	45	38	30	24	32	36	34	74	72	40	34	53
Time (hours per year)	184	147	140	172	71	76	132	286	414	114	288	160
Profit tax (%)	31.2	26.1	27.6	32.7	27.8	37.6	31	28.6	28.6	21.6	26.9	23.3
Labor tax and contributions (%)	9.5	7.9	5.6	11.3	5.6	3.9	7	9.5	13	5.8	8.8	12.4
Other taxes (%)	6.2	3.1	12.1	8.6	3.5	3.4	6	2	9.7	5.8	3.3	4.3
Total tax rates (% of profit)	46.8	37.1	45.3	52.6	36.9	45	44	40.2	51.3	33.1	39	40

*Simple Average

Source: 2008 Doing Business in Small Island Developing States

45. Small and medium enterprises find customs clearance a particularly burdensome process, with lengthily bureaucratic steps and administrative fees that slow business within the OECS. According to mission interviews, small companies attempting to export goods to neighboring islands within the OECS are faced with complicated procedures. Thus, besides the existence of a customs union, the issue of coordination and simplification of procedures seems a relevant one to tackle by the different islands countries. Still, based on the interviews, it seems that the burden depends on the sector and on the island, thus its simplification requires a coordinated effort among the different Governments. Some small and medium enterprises have attempted to export vegetables to neighboring islands but despite the demand from other hotels, it proved unfeasible due to the long delays in clearing goods at the harbor. Anecdotal evidence shows that clearance processes may take 3 days for fresh produce, which fatally compromised the product freshness and quality, and ultimately their marketability. On the other hand, food exports from Dominica into Antigua seem to be working reasonably well. Dominica also supplies the neighboring French islands of Martinique and Guadeloupe.

46. The shortage of skilled labor is a constraint to increase SME competitiveness. Weak business related education and training within the local laborforce have a direct impact on SME growth and competitiveness. Governments have set up a number of programs to improve business skills, encourage entrepreneurship, and provide business development services to SMEs. International donors have also been quite active in this area. The EU has increased its financial and professional support to the OECS islands since the phasing out of the agricultural subsidies to specific islands crops. Specific countries such as the US and the UK have also become active more recently. Services offered range from accounting, legal, ICT to finance and management training, and marketing. Some of these programs duplicate one another and are plagued with lengthy bureaucratic processes, or have a limited time frame. A fair number of OECS small and medium enterprises have received some sort of business development support. Usually, services such as

management, marketing and engineering are provided by international providers, while locals tend to dominate in the accounting, insurance and legal counsel areas. The affordability of such services is clearly a factor that influences the choice of a local versus an international service providers, when the cost is borne by recipient firms. (Table 4.2 for the example of Grenada.)

Table 4.2: Use of Business Support Services in Grenada

	% of Firms Using Services	% of Users hiring international service provider
Insurance	77.4%	7.5%
Legal Services	73.3%	5.6%
Accounting	69.9%	6.6%
IT services	52.9%	16.5%
Engineering	39.7%	36.8%
Marketing	32.6%	31.2%
Management Consulting	27.7%	46.2%

Source: OECS Private Sector Financing Study, World Bank (2007)

47. High emigration rates, particularly among the young and educated, have an important impact on the effectiveness of the local SME sector. The OECS private sector, and SMEs in particular, are reputedly affected by low entrepreneurial spirit, attributed by interviewees to both geographical and cultural factors. Many successful businesses, such as small hotels and light manufacturing, prefer to stay small rather than expand. At the same time, the sector seems to be lacking in dynamism and creativity, with entrepreneurs often employed in a small number of well-known areas rather than venturing into innovative business ideas. The high level of emigration, particularly among the younger and better-educated sectors of the population, seems to have a considerable negative impact on the creation of new enterprises, the business climate of these countries, and the overall growth prospects. Another consequence of the strong emigration is the large flow of remittances into the OECS economies, which is considered by some of the interviewees an additional factor hindering employment in lower level positions in SMEs.

48. Finally, SMEs report access to finance as an obstacle to further growth. Companies report access to and cost of finance as another constraint to their operations and growth. Factoring is offered only by a few commercial banks, and only to firms that have an excellent credit record with the bank. SMEs usually resort to overdraft facilities to finance working capital needs, and/or to retained earnings, or prefer to borrow from family or friends. Interest rate charges for working capital for small businesses are reported between 11 and 15 percent. Interviewees perceive these rates as very high, though the rates seem to compensate for funding costs and risks assumed, and do not seem when compared with other countries¹². The availability of factoring would be a useful instrument to meet working capital needs for SMEs that supply hotels and face long payable terms.

¹² As of December 2007, interest rates for working capital loans in the US average 11 percent, 25 percent in Chile, and over 75 percent in Brazil.

In addition to the perceived high cost of financing, some small businesses cannot access financing due to insufficient collateral. In some cases, companies are required to have collateral in excess of 100 percent of the loan value. The absence of a formal credit reporting system in the OECS as well as weak contract enforcements across the six countries make banks more risk-averse and dramatically increase the importance of physical collateral for loan applicants¹³. The IFC is currently working on setting up a regional credit bureau in the OECS, and working with regional and indigenous banks to set up working capital facilities. The ECCB is in the process of developing the Eastern Caribbean Enterprise Fund (ECEEF) to support private sector development in the region. The ECEEF will focus on facilitating access to financial and technical services for small and medium enterprises through equity and debt financing, independently or in co-financing arrangements with regional and/or international financial institutions. The fund is still being designed, and would also provide export credit facilities and export credit insurance through an enhanced Export Credit Guarantee Scheme.

Table 4.3: Sources of Working Capital and Investment Finance in Grenada

	Retained Earnings	Banks	Trade Credit	Venture Capital	Equity	All Other Sources
Working Capital						
Average share in total finance (%)	60.2	25.5	4.5	1.8	1.5	8.2
No. firms accessing the source	111	68	28	3	9	36
No. firms relying on the source entirely	45	8	0	2	1	1
New Investment						
Average share in total finance (%)	48.4	42	0.4	0.8	2.1	6.4
No. firms accessing the source	51	41	2	1	3	11
No. firms relying on the source entirely	25	17	0	0	1	2

Source: OECS Private Sector Financing Study, World Bank (2007)

5. Potential to Expand Local Supply to the Tourism Industry

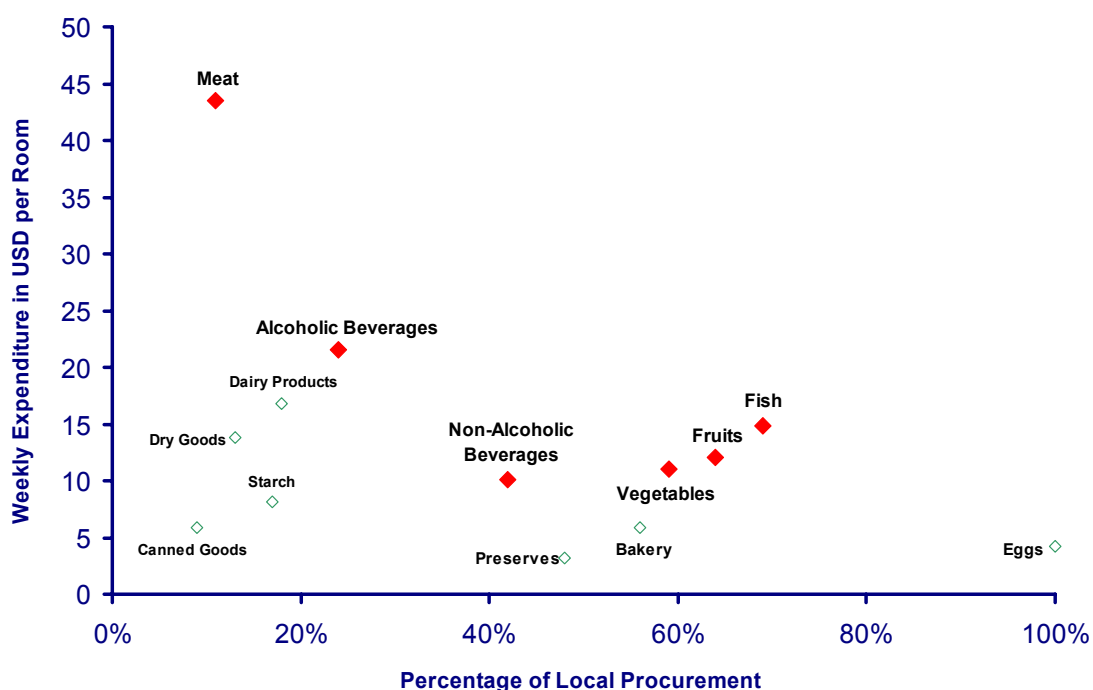
49. This chapter explores ways to expand current linkages to tourism. Based on the results of the survey to tourism establishments as well as on interviews with different stakeholders in the six main islands of the OECS, potential tourism linkages were explored in the areas of local agriculture and food products, local manufacturing, and local service provisioning. A survey to local SMEs supplying the tourism market, combined with additional primary and secondary research sources provided an overview of the supply side. To meet the economic demands within the islands, the supply potential and capabilities were analyzed to see if further leverage potentials are possible.

¹³ Please see the OECS Private Sector Financing Study, World Bank, 2007, for a thorough discussion on SME financial issues

5.1. Local Agriculture and Food Production

50. Several food categories may present opportunities for value growth. These categories include those that currently represent the highest percentage of local sourcing and/or highest expenditure category. As depicted in Figure 5.1 there are a couple of food categories whose potential for expanding local production and supply is worth noting, since they currently represent a high share of hotels' expenditure, or are generally sourced out locally by establishments. Among those products we find fruits and vegetables, meat, fish, and alcoholic and non-alcoholic beverages.

Figure 5.1: Possible niches identified for food products



Source: World Bank Tourism Linkages Survey 2008

51. In the short run, fresh products have the best chance of being supplied locally in the OECS countries. The OECS countries do not currently have the manufacturing base to produce dry goods, flour and other products considered under the category of “non-fresh products”, although there may be some exceptions. Similarly, lack of processing capacity was found to be a bottleneck for processing these products. There is also potential for the livestock and fisheries sectors. This study, however, does not make any specific recommendations on individual food products since neither a feasibility study nor specific marketing study have been carried out at that level.

52. Tropical fruits and vegetables have been critical to the development of the OECS and remain an important opportunity for increasing the local supply to the tourism sector. Fruit and vegetables imports into the OECS are estimated at around USD 29.6 million, of which around USD 7.3 million are imported directly by the hotel sector.¹⁴ Most islands of the OECS have the conditions and resources to produce fresh fruit and vegetables. There are several ongoing initiatives of local farmer groups supplying under formal and informal agreements such as the Sandals Hotel Chain in St. Lucia, the Four Seasons Hotel in Nevis, and the Marriott Hotel in St. Kitts. The fruit and vegetable farmer organizations are slowly developing the skills to deal with the requirements of the tourism sector, but many of them have not yet succeeded in maintaining the quality and regularity in supply required by some hotels. New farmer groups, who are not confined to the traditional mold, are emerging and some Ministries of Agriculture such as that of St. Kitts and Nevis have become directly involved in successfully organizing and managing the supply of local produce to hotels.¹⁵ Individual commercial farmers are also entering in some capital-intensive horticultural ventures that require investments in greenhouses, plastic covered tunnels, or hydroponics. In many cases, farmers grouped in cooperatives or other associations have worked together without external assistance focusing their production in high end products.

53. In general, fruit and vegetable producers need a market that is much larger than that of the tourism sector. Considering the low price-elasticity of tourism demand and the large quantities of fruit and vegetables that can be produced by few farmers on a limited acreage, producers in general need a larger and diversified market to spread risk and ensure profitability. Some OECS producers have tried to specialize on the needs of the tourism sector, but most cooperatives seem to cater to both the tourism and the local markets in order to smooth their supply patterns.

¹⁴ The USD 29.6 million corresponds to imports of USD 27.4 million in 2005 plus an estimated 4 percent annual growth rate for 2005-2007 based on FAO data.

¹⁵ The Ministry of Agriculture of St. Kitts and Nevis has played an important role in assisting small producer groups to identify, develop and manage successful commercial initiatives, as well as to provide them with some ad hoc fiscal or other type of incentives.

Box 5.1: Farmers Cooperative Focused on Organic Products

A Farmers Cooperative in St. Lucia is an interesting case of integration between the agricultural sector and the tourism industry. Belle Vue Coop is an independent cooperative with more than 20 years of history in the SW of the island of St. Lucia, owned by over 200 farmer members, with gross sales in excess of ECD 1.8 million. The cooperative supplies seedlings and other agricultural inputs to farmers, provides technical support, facilitates their business processes, and markets their products to end users.

In 2006 they started St. Lucia Organics (SLO) as a venture completely focused on the tourism sector, based on the understanding that this industry will have an increasing importance for the economy of the islands in the coming years. Members of Belle Vue also continue with their traditional crops, bananas and other tropical fruits. When creating SLO the farmers realized that they had to focus on high value added products where hotels would pay a higher price for their specific characteristics. They currently sell to more than 35 hotels and restaurants in St. Lucia at a premium price with a value proposition based on freshness of the product (picked same day), fully organic production, and timeliness and reliability of delivery.

They commercialize 10,000 cases of organic products a year, including lettuce, arugula, greens and cherry tomatoes planted in a series of greenhouses in the SW part of the island. They have their own washing and packing facilities, and then distribute directly to the hotels with employees of the cooperative, with deliveries twice a week, 52 weeks a year. The cooperative owns their equipment and produces biodiesel from discarded cooking oil provided by the hotels and restaurants they serve.

SLO is able to sell at a price several times higher than green products in the local market, and at a small discount of the price of the imported quality equivalent, with the additional value of freshness, since some imports take 10 days to get to the hotel or restaurant. They market directly to the chefs of the hotels and restaurants.

The Coop accepts terms of 60 days payment from the hotels, but it pays farmers in 7 days. Payment terms have always been an important barrier for farmers in St. Lucia, as well as other islands, to commercialize directly to large hotels because of their lack of working capital. The cooperative charges a fee to farmers which also accounts for administration, marketing, and savings for capital investments such as greenhouses.

By capitalizing on an opportunity that is present throughout the OECS, the Belle Vue Farmers Cooperative has grown dramatically in the last 3 years, with a positive impact in the SW region of St. Lucia. The Coop is currently in the process of devising other specialty items that have similar characteristics (consumed in small quantities, high quality standards, time-to-market sensitivity, and high unit price). They are also working together with cooperatives in other islands, such as St. Vincent, to transmit their experience and help them set up similar ventures.

54. There is an increasing opportunity for production of higher valued and highly perishable vegetables in the OECS. OECS demand for vegetables is expanding in volume and

variety and the tourist industry is an important demand point. The results indicate that improved systems of vegetable production such as greenhouses and more efficient irrigation systems can generate higher returns and have greater competitiveness possibilities. The production and distribution organizational structures are important as purchasers seek to deal with fewer points of purchase and sale. Most success cases are where small farmers have associated into groups or cooperatives, as well as business minded entrepreneurs operating commercial farms. In the case of vegetables, their high perishability provides an opportunity for just-in-time delivery of fresh quality produce. However, to be able to do so, the farmers need to adopt improved production technologies, careful harvest planning, and adequate post-harvest technologies. Expansion of the local production will need to be accompanied by enhanced access to intra-regional markets. The Belle Vue Farmers Cooperative in St Lucia constitutes an interesting example of this type of ventures with organic vegetables. (See Box 5.1).

55. In the longer term, some efforts should be aimed at developing more value-added production in niche fruit and vegetable categories. Although the agribusiness sector is quite incipient in the OECS, there are opportunities to move up the market given the local production of tropical and exotic fruits and vegetables. Initial opportunities could be explored in products that require less processing facilities and plant and equipment, such as jams, local sweets, dried fruits, and other foods that could be sold either as souvenirs for tourists or exported to niche markets, including the diaspora of OECS nationals living in Europe and the US. As these opportunities develop and consolidate, more prospects may arise for increased value-added and processing of food products

56. The livestock sector is less attractive overall due to the high cost of imported feeds and lack of adequate processing facilities. Meat appears to be a big ticket item among tourism food imports according to the survey; it represents the largest expenditure for hotels. However, expansion of production for the hotel market seems to be limited to some selective meat products, such as pork and small ruminants. The total imports of meat and meat products in the OECS in 2007 are estimated at USD 66.4 million¹⁶ of which around USD 31 million are imported to meet the demand of the tourism sector.¹⁷ Increasing local production capacity will require substantial private investment, and probably some public investment, in the upgrading of processing facilities, the introduction of hygienic standards, as well as training of the labor force. Wherever grain-fed meat production is expanded, it will have a substantial economic cost in the form of animal feed imports, which may reduce the benefits of government assistance to the expansion of the sector. The OECS and the CARICOM region have long been trying to develop domestic feeds based on root crops and fruit by-products, but cheaper imported corn in the past had been hampering this effort. Thus, the changed international food prices and cereal situation, with the use of corn for

¹⁶ This corresponds to USD59.3 million in 2005 plus an extrapolation of 12 percent increase between 2005-2007 using FAO global meat price index.

¹⁷ Total meat consumption of the hotel sector is estimated at USD35 million per year, or 25.5 percent of total hotel food consumption

ethanol, may point to increased opportunities. Livestock where domestic feed opportunities are the greatest would have the most potential. Some of them such as pigs, as opposed to poultry, would have the advantage for their capacity to eat a much wider variety of feeds. However the list of improvements and interventions needed is much more extensive than for fruits and vegetables, at the farm level and especially in processing beyond the farmgate.

57. Expansion of the dairy sector is hampered by issues similar to those of the meat sector. Total OECS imports of dairy products in 2007 are estimated at USD 43 million.¹⁸ The hotel sector imports about USD 10.9 million. World agricultural subsidies in industrial countries have resulted in low imported price of de-hydrated milk thereby significantly reducing the price competitiveness of local milk production. Thus, most milk is imported in powder form from several countries. The production of local ruminant cheeses or yogurts prepared with local fruits may offer some opportunities to supply a niche market.

58. There is high tourism demand for local fish that is of high quality and filleted. Fish is one of the most important products for the hotel sector (around 9 percent of tourism food consumption). Imports into the OECS countries are estimated at USD 15.7 million¹⁹, of which around USD 4 million are imported by the tourism industry. There is high demand by the tourism industry for filleted high quality fresh fish, but the local fishery sector has not invested in fulfilling the necessary requirements to achieve high standards of hygiene and sanitary control. There are also opportunities for aquaculture in some OECS islands, but the cost of imported fish meal will likely lessen its competitiveness.

59. There are several constraints that will determine whether and how the OECS can respond to the above challenges and opportunities. The FAO/CP document “The Future of Agriculture in OECS” provides an extensive overview of those constraints including: (i) human factors; (ii) production factors such as the scale of production, access to new technologies, infrastructure (transport and irrigation), and risks such as hurricanes and praedial larceny; (iii) marketing factors such as sanitary and phyto-sanitary (SPS) issues and the limited size of the domestic market; and (iv) institutional and policy factors. Table 5.1 provides a summary of the constraints.

¹⁸ This corresponds to imports of \$39.8 million in 2005 plus a 4% annual growth rate for 2005-2007 according to FAO statistics.

¹⁹ This corresponds to imports of \$14.3 million in 2005 plus a 5% annual growth rate for 2005-2007 according to FAO statistics.

Table 5.1: Summary of Constraints to Agriculture/Livestock/Fisheries

Human Factors	<ul style="list-style-type: none"> ➤ Aging farm population ➤ Farmers lack entrepreneurial skills ➤ Young people are less interested in farming
Production Factors	<ul style="list-style-type: none"> ➤ Small and fragmented nature of farms ➤ Livestock (beef) needs extensive land areas ➤ Complex land tenure systems in different countries ➤ Lack of readily access to new technology ➤ Lack of cost efficient and timely inter-island transport ➤ Scarce water resources and irrigation not always possible ➤ Threat of hurricanes ➤ Praedial larceny ➤ Fragile eco-system
Marketing Factors	<ul style="list-style-type: none"> ➤ Small size of the domestic market ➤ Phyto-sanitary requirements
Institutional Factors	<ul style="list-style-type: none"> ➤ Agricultural institutions geared towards declining export-crops ➤ Heavy government involvement in land, production and marketing that is not always conducive to private investment

Source: FAO and World Bank Agriculture Team

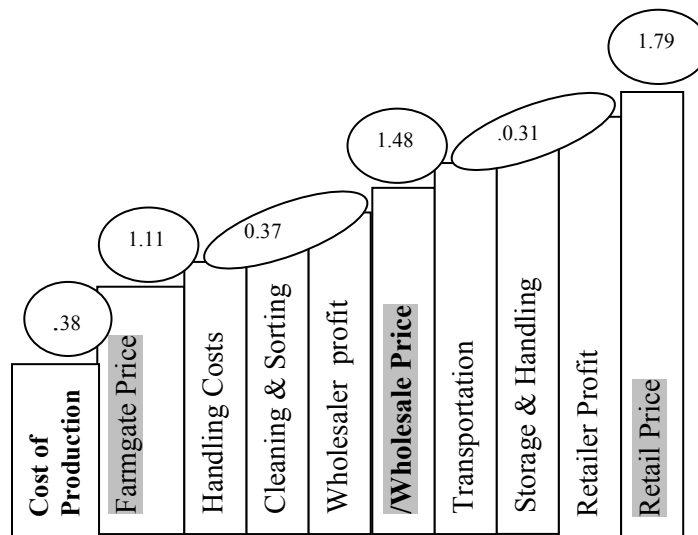
Value Chain Analysis for Agricultural Products

60. A value chain assessment was conducted for three of the aforementioned agricultural products covering the categories of tropical fruits, vegetables and meats. Drawing on information regarding product volume, product value and production and marketing characteristics from producers, extension offers, marketing boards, vendors, supermarkets and the Ministry of Agriculture; a value chain analyzed all phases of production to final consumption. Pineapple was chosen as an illustration of tropical fruits, lettuce for vegetables, and pork for meats. These products were chosen due to their potential for successful local competition with the imported equivalents. For each item its commercial viability was evaluated through a measure of Import Price Competitiveness (IPC) comparing the cumulative cost of the local product at the wholesale level with the final landed cost of the equivalent imported product, which also includes transportation cost to the local market. Given this calculation, an IPC value less than one means that domestic production is price competitive. Refer to Appendix III for a complete explanation of the value chain methodology.

61. Tropical fruits, and pineapples in particular, are potentially viable for further development in the OECS. There is a strong demand by tourists for tropical fruits in the region;

fruits such as mangoes, papaya and pineapples would naturally be associated within this category. However, many of these fruits are not grown under production systems that ensure year round availability. Among them, pineapples seem to have the highest potential in meeting the consistency requirements, both in quality and in quantity, which most hotels demand. The high transportation costs and tariffs of pineapples from abroad make local pineapples rather competitive in the domestic market. The IPC ratio for this product is 0.52 resulting from a local cost at the wholesale level of USD/lb 0.71 (excluding profits) compared to USD/lb 1.37 for the imported product excluding taxes which suggests that local pineapple production is viable (See Appendix III for details). Other issues have to be taken into consideration such as the limit for acreage improvement given the size of potential saturation of the local market, and the possibility of byproducts such as jams, juices, and sweets. It should be taken into account that the CARICOM common external tariff elevates the current competitive advantage, but this particular product would still remain competitive without this protection. Current farmgate price is almost triple the cost of production, since local farmgate prices are set just to undercut price of imports. (See Figure 5.2).

Figure 5.2: Schematic Representation of OECS Tropical Fruits Supply Chain: Pineapple (USD/lb)

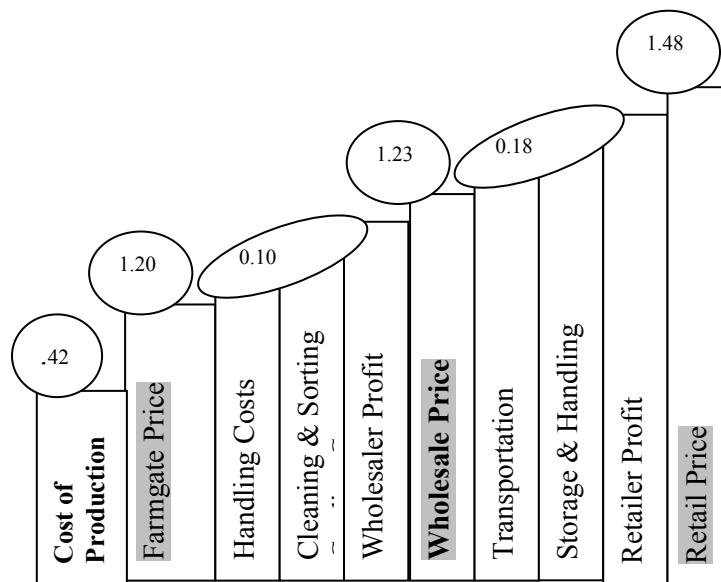


Source: FAO and World Bank Agriculture Team

62. Given freshness and commercial considerations, vegetables seem to also be a viable market for the OECS farmers. Fresh vegetables constitute a vital component for the kitchen of any restaurant or hotel. Their participation in the total cost of a dish is rather small compared to the requirements of quality, hygiene and freshness associated to this category of products. Lettuce, in particular, is a highly perishable product but is relatively easily grown on all the islands composing the OECS. It is considered a high value crop that can be grown on small scales in greenhouses

covering a few acres or with little investment. Given its availability and its close proximity to hotels, with the potential to be able to reduce the costs and time of transport of the product, it is a natural product to consider within the OECS. Current estimations by local agricultural specialists interviewed in the islands suggest that there is an import gap of around two to three tons of lettuce per week for the OECS islands as a whole. An IPC value of 0.47, resulting from a local cost at the wholesale level of USD/lb 0.52 (excluding profits) and an imported cost of USD/lb 1.10 for the foreign product excluding taxes, suggests that local lettuce production is commercially viable (See Appendix III for details). Given the requirement of freshness, as well as the high transportation costs and tariffs of imports, similar to the case of pineapples depicted above, local lettuce seems a good candidate for local production with relatively high profit margins. Farmgate price is currently 2.5 times the cost of production for traditional lettuce. (See Figure 5.3).

Figure 5.3: Schematic Representation of OECS Vegetables Supply Chain: Lettuce (USD/lb)

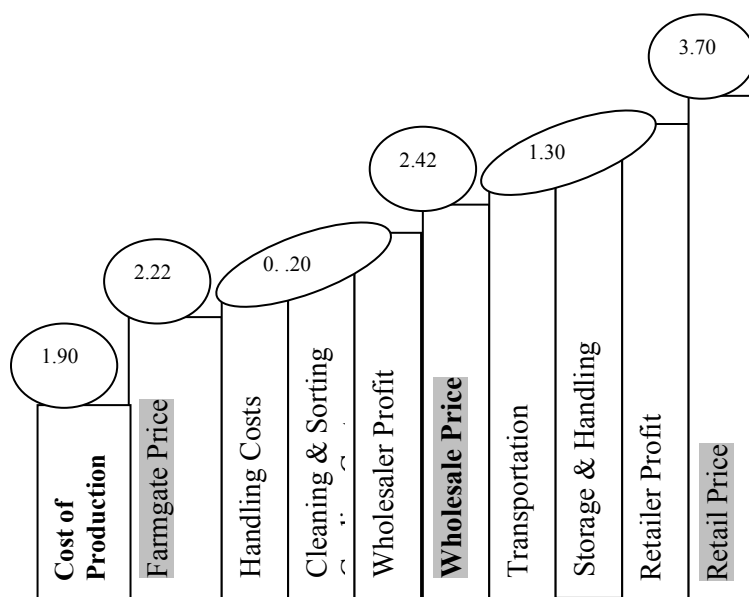


Source: FAO and World Bank Agriculture Team

63. Livestock, more particularly pork, is a marginally competitive sector in the OECS countries. Meats as a whole constitute one of the most costly imports in the OECS islands. The topography of many of these islands -small land masses and steep slopes- makes it unfavorable for extensive cattle production. The lack of adequate meat processing facilities, the high cost of imported feed, and the required technology upgrading all hinder the economic development of this product. Feed in particular is an important commercial obstacle for all types of meat, though pigs tend to have a wider range of possible diets than other farm animals. Some countries that are expanding pork production, such as Vietnam, are increasing the use of feed based on local products like sweet potatoes, bananas, and plantains. Increased nutritional efficiency would increase marketable weight and quality of meat, critical to profitable growth of this sector. Still, an

IPC level of 0.96 which results from a local cost at the wholesale level of USD/lb 2.15 (excluding profits in the value chain) and an imported cost of USD/lb 2.25 for the equivalent foreign product excluding taxes would suggest that local pork production is only marginal competitive (See Appendix III for details).

Figure 5.4: Schematic Representation of OECS Livestock Supply Chain: Pork (USD/lb)



Source: FAO and World Bank Agriculture Team

5.2. Local Manufacturing

64. The potential to expand local supply of manufactured products to the hospitality industry is rather limited. The relative small size and geographic isolation of the OECS countries poses a challenge to local manufacturers to achieve sufficient scale for efficient production, as transportation costs are high and distribution networks are not optimal. Competition from companies based in the US, European and even other Caribbean islands, including Trinidad and Barbados, with usually better quality products at lower prices, means that OECS-based companies tend to import a large proportion of manufactured goods rather than sourcing them locally.

65. Additional local conditions prevent development of manufacturing. Besides isolation, there are some other unfavorable conditions preventing higher development of this sector. Energy costs tend to be very high as in most islands electricity is mostly generated from oil (there is some small scale hydro, and Dominica is planning geothermal). Costs tend to be three times higher than in Trinidad and other locations. Labor costs are not particularly low in some islands since the tourism industry tends to set a threshold compared to other locations. Manufacturing companies

complain about high taxes and, particularly, burdensome customs clearance processes that become an added cost and a considerable obstacle in pursuing export opportunities. Finally, the irregular supply and longer delivery times from local manufactures contribute to making local products less appealing.

66. Delayed payments from tourist hotels make them less attractive business partners for small manufacturers. Tourism establishments tend to pay suppliers two to three months after receiving the merchandise. Smaller manufacturers often do not have the working capital needed to cope with this payables schedule and therefore tend to oversee hotels as viable long-term business partners. Factoring is an option offered only by a few banks within the OECS and limited to firms with an excellent credit record. Anecdotal evidence indicates that small businesses in particular tend to shy away from bank loans or overdraft facilities due to perceived high interest costs and prefer instead to finance their business through retained earnings or by borrowing from friends and family.

67. The manufacturing sector may require stronger support for business skills and competitiveness training but there is already some fatigue. A need to improve business skills at different levels has been identified as an important challenge for the manufacturing sector. While both the government and several donor agencies particularly the European Union, and most recently UK and US development agencies, have provided business development support programs, results have been mixed and there is a need for really targeted work in this area. Traditional programs do not seem to work, and there are signs of fatigue in entrepreneurs regarding traditional programs. Any initiative in this area should include the private sector and high level professionals. Reverse training initiatives, including matching grants, may also work better than traditional programs.

68. A better enabling environment, including a more efficient and clear tax and customs administration is needed to support growth of the OECS manufacturing sector. A better business environment to ease the way of doing business was reported as crucial not only for manufacturing companies to flourish but also for the operation of all business entities. According to survey participants and interviewees in the manufacturing sector, the current tax and customs administration in most OECS countries appears quite complex, cumbersome, and slow. There seem to be also practical procedural differences among the different OECS countries. Reducing import licensing requirements and improving the efficiency of customs administration, including greater harmonization of customs and transport procedures among OECS countries, would most likely have a very positive impact on the manufacturing sector. This effort would require some degree of coordination among the different OECS countries.

69. A regular and reliable regional transportation system would also help manufacturers tap the export market. High freight costs and the lack of a reliable transportation system that connects the OECS islands among each other and with continental US reduce the viability of

export businesses. As domestic markets within the OECS are very small, manufacturers tend to look at intraregional exports once they have achieved a reasonable success in their own country. The experience of Susie's Hot Sauce of Antigua, Erica's Hot Sauce of St Vincent, De La Grenade of Grenada, and other manufactures show that the weak and expensive maritime transportation can considerably hinder their growth plans. The Eastern Caribbean Central Bank is currently conducting a feasibility study and looking into possible options to establish a regular intraregional transportation system.

70. OECS financial sector needs to develop instruments that respond to manufacturing firms' needs. OECS commercial banks have not explored the potential of the SME sector yet, under which most manufacturing firms fall. Financial instruments currently available are not adequate to promote the development of the small and medium segments of this sector and remain a challenging option for firms in need of working and investment capital. Collateral requirements for smaller firms would need to be revisited, for instance. The recent World Bank's Private Sector Financing Study contains a detailed analysis of access to finance barriers for OECS private sector (Refer to Appendix IV). The IFC is also currently pursuing partnering opportunities with commercial banks in the region for downscaling operations in some of the OECS islands, including both regional and indigenous institutions, as part of their Access to Finance strategy in the OECS.

71. Despite the challenges, there are successful examples of local manufacturers linking with the tourism industry. Rum, beer and hot sauces obtained from local spices are among such examples. Virtually all islands have their own local brewery with products reaching both the local and tourism markets. Manufactured sauces and jams are usually produced at a smaller scale, sometimes as cottage industries, but in some cases have become quite well-known within the hospitality industry due to the creativity of local entrepreneurs. See Box 5.2 for more details on hot sauce production in Antigua and St Vincent, as well as nutmeg jams in Grenada.

Box 5.2: Local food products manufactured from traditional inputs

Erica's Hot Sauce is an agribusiness company in St Vincent that manufactures pepper sauces and other food snacks. Susie's Hot Sauce is a small cottage business in Antigua that produces pepper and fruit sauces. De La Grenade started as a cottage industry in Grenada but has moved to manufacturing on a semi-industrial scale. Susie's and De La Grenade's operations were set up in the 1960s by turning family recipes into successful business ideas which have quickly conquered the local market and are now trying to expand and strengthen their export market. Erica's has been in business since the 1970s. All have both been very creative in commercializing local products and, starting very small, have continued expanding their product line and marketing efforts. De La Grenade's key raw material is the nutmeg pericarp, the fruit's outside shell, which previously had usually been discarded.

They are now very established in their local markets, and are ubiquitous in their native island's restaurant and hotels, St Vincent, Antigua, and Grenada. De La Grenade employs 19 people in its factory, while Erica's employs 11 full-time workers, and Susie's Hot Sauce employs 6 full-time and 3 part-time workers, and. All of them have a model based on contract agreements with several farmers that supply their raw materials, although consistency of the supply seems to be difficult. They can be considered as examples of successful entrepreneurship within their local community. Their biggest challenge is to expand beyond their islands in a relevant scale.

These companies base their success on the quality of their products. They target a market that can recognize the quality premium and is willing to pay for it. They market the "uniquely Caribbean flavor" of their products and have largely capitalized on tourist's presence to increase their production. They had rightly identified sufficient local demand to grow their business at a commercial scale and built on this to begin venturing into the export market, both at the regional level, sometimes as private label, and to the USA and Europe. De La Grenade nutmeg syrup is served to Virgin Atlantic passengers on their flights linking UK to Grenada. All three companies maintain stock in the USA, where relatives help run US operations and manage product storage. Also, all have borrowed at some stage from local financial institutions to expand their business, although they remain wary of taking large loans due to perceived high costs.

Going forward, all of them plan to expand in the export market, but perceive transportation as a hurdle. In addition, issues linked with quality standards make it very difficult to supply US upper-end food retailers, like Whole Foods. Erica's and Susie's have obtained HACCP certification and FDA approval, but they are still not ISO certified.

5.3. Local Service Provisioning

72. Linkages between the tourism industry and the services sector are well-established within the OECS, but there are additional opportunities to be explored. The local community supplies most of services requested by hotels. This ranges from professional services such as auditing and accounting, which are 87 percent and 83 percent sourced locally according to the survey, to gardening, flower arrangements and security services. Maintenance is also an important area where the hospitality industry draws from local resources. Even when goods and equipment are imported, such as in the case of furniture, IT equipment, entertainment systems, and others, subsequent maintenance needs are usually performed at the local level. Both existing as well as new areas for cooperation between tourist and local service sector can be explored.

73. For services in particular there are opportunities to increase both the quality and the quantity of the offerings to the hospitality industry. In order to increase the local share of services and the value added of these services, improvements seem to be needed on hospitality skills of local service providers. Other opportunities seem to lie in increasing the types of services currently available to international tourists, particularly in new attractions to prolong the stay in the islands, and in the availability of more entertainment options to increase the average spend per day.

74. Specialized technical facilities seem to be needed to achieve international standards in services. Tourism to the Caribbean islands is mostly international and primarily high-end. For this reason, achieving international standards in services offered to tourists is of outmost importance for locally-based establishments. Despite tourism being the highest revenue earner for the OECS economies, out of the six islands analyzed in this study only Antigua and Barbuda has a hospitality education institute. The importance of raising the hospitality abilities of the local population has been highly emphasized by several industry stakeholders, and it is considered a crucial factor to improve local OECS citizens' career opportunities within the industry to staff management positions currently held by foreigners. In addition to specific skills such in technical areas like culinary skills, managerial abilities like human resources and finance management, there seems to be a general need to improve general hospitality abilities in service providers. Restructuring the hospitality institute in Antigua to improve management and faculty quality could be an option to consider to fill that perceived gap. Given the logistical problems to move students to Antigua, a scheme with base classes held at the center and specialized courses being delivered at different times in different islands could be appropriate. In any case, a key factor for the success of this type of initiatives, if undertaken, would be the heavy involvement of the private sector. International hotels and other establishments should be involved in all aspects since the inception, from defining the specific curricula to getting trainees in their facilities.

75. Increasing the offerings of attractions and entertainment is a complementary way to improve linkages. Most survey respondents and interviewees assessed that the OECS islands in general lack an adequate array of additional services marketed to the tourist beyond the basic package offered by the hotel. There are important variations among islands in this point, but still it seems to be an interesting area of development for local entrepreneurs. Attempts to promote a deeper entrepreneurship culture seem to not have been able to fulfill the gap. Incentives to develop innovative value propositions funding them with matching grants could be explored. If pursued, these mechanisms should be carefully implemented with adequate monitoring of results, and actual mentorship of established businesses to growing entrepreneurs.

76. Exploring and promoting alternative forms of tourism could prove a winning strategy to foster stronger linkages with the local community. While the Caribbean islands are mostly known as “sun, sea and sand” destinations, they have much more to offer to tourists than beaches and have started to promote alternative vacations. Dominica, Grenada and St Lucia have a fair number of plantation lodges, which provide accommodations on former plantations. Plantation

lodges are an alternative to the more common tourism beach resorts and cater to eco-sensitive tourists or to tourists that pay relatively longer visits and would like to explore more of what the islands have to offer in a closer contact with the local culture. Plantation lodges have a clear positive impact on the local community, since they either produce onsite the fruits and vegetables consumed by guests, or they source them from local producers. Dominica, in particular, is beginning to promote itself as the eco-tourism destination within the Caribbean as one strategy to diversify itself from neighboring countries with its exuberant rainforest, falls and volcanoes.

77. Emphasizing the uniqueness of each OECS country could also contribute to foster linkages with the tourism industry. Each OECS country has a unique cultural and historical heritage which could be better marketed to the tourism industry. Cultural tours are an underexploited resource in the OECS, where they could be successfully marketed to tourists. For instance, the historical sites in Grenada and St Lucia could be transformed into attractions for the culture-sensitive tourists through museums and guided tours.

Box 5.3: Innovative Service Offers - Wedding Planners

Wedding planners provide a full range of services to couples that decide to tie the knot in the Caribbean and to their guests. Services range from travel arrangement, to managing required procedures with the local registry office, to entertainment, tours, and others.

Awesome Caribbean Weddings is a company started in 1999 and based in St Lucia. St Lucia has successfully marketed itself as one of the best wedding destinations within the Caribbean region, and thus wedding planning services became an interesting niche to be exploited. Awesome Caribbean Weddings arranges everything from the legal procedures for the wedding and the requirements to enter the country for all guests, to decorations, cake selection, videographers, to even the wedding handicrafts for the guest. They also include tours and other activities for wedding guests, such as catamaran cruises, jeep safaris, deep sea fishing, whale and dolphin watching, horse riding, etc. In larger islands like St Lucia with a diverse geography, where a larger number of activities are available to tourists, wedding planners play a strategic role in involving the wider community through a variety of additional services provided.

In the past year, Awesome Caribbean Weddings organized 103 weddings in the island. The majority of their clientele are couples based in the United States, (approximately 55 percent), the second largest groups of couples are from the United Kingdom, (approximately 35 percent) and the rest of the couples are a mixture of local, regional and international couples from Canada and parts of Europe.

Many of the services offered through the Awesome Caribbean Weddings were developed from personal business connections of the owners with local individuals with specific skill sets that have become vital business linkages. For example, the interviewee commented the business has been using the same florist and the same baker for years due to the high level of quality service and high level of client satisfaction. Many of the individuals/businesses they are linked with were described as locals who are highly motivated and self-taught entrepreneurs.

6. Conclusions and Policy Implications

78. There are clear opportunities to increase linkages between the tourism and the other sectors of the OECS islands. On the demand side, most hospitality operators, particularly hotels, demonstrate high willingness to increase the share of products and services purchased from local origin and, on the supply side, local suppliers of goods and services are willing to focus more their offer on the needs of the tourism industry. This study intended to provide some initial conclusions about specific economic activities and particular ways to increase such linkages, based on the survey of both the demand and the supply sides mentioned above, in the agricultural and food, the manufacturing, and the services sectors.

79. Regarding agriculture and food products, it is important to note that most imported food is for the domestic population consumption, not for the tourism industry. The estimated value of food imported by the tourism sector (USD 93 million in 2007) represents approximately 20 percent of total agriculture imports in OECS (estimated to be USD 366 million in 2007). According to the survey conducted with hotels, cruise lines and marinas, 32 percent of tourism food demand is currently sourced locally, while 68 percent is imported. Thus, most of OECS food imports are not destined to the tourism sector but to the domestic market; the importance of the tourism sector as a food importer should not be overstated.

80. The recent global fuel and food price hike is a challenge to food security but, at the same time, an opportunity to modernize the agriculture sector. All the OECS countries are net food importers, and the negative trade balance has been growing since the late 1990s. Thus, rapidly rising global food prices have resulted in increased attention by OECS governments to increase production and productivity of the domestic agricultural sector. The rising prices may provide opportunities to modify some of the traditional policies in order to modernize the sector, which may position farmers to take more advantage of the linkages with tourism.

81. Within the tourism industry in particular, hotels consume 32 percent of local products, with high variation among different categories. About 32 percent of agriculture and food products are purchased from local sources, but this share varies highly among different product categories and different hotel types. A significant proportion (more than 60 percent) of fish and seafood, fruits, eggs and bakery products are already sourced locally, while a small share (less than 20 percent) of meats, starch, dairy products, canned food and dry goods come from local producers. Moreover, the percentage of local sourcing is larger for small and medium sized facilities than for large hotel chains. Cruises and yachts also tend to source a smaller percentage from local sources.

82. Opportunities to increase local food participation in the tourism sector are more relevant for niche products instead of traditional crops. OECS agriculture has historically been based on traditional export crops, including bananas, sugar cane and nutmeg. This situation has

deteriorated given the elimination of some preferential treatment conditions that were given by European countries. Going forward, to satisfy the demand of the tourism industry some niche products seem to be the most suitable, according to the survey results and to the value chain analysis included in this study. Tropical fruits constitute the clearest area where local production is competitive to imported substitutes, including mango, pineapple, and papaya. Fresh produce is another area where local products can compete with imports; although the economics are not as positive for produce as for tropical fruits, there is an added value given by hotels to freshness, particularly in the case of organic products. Fish and seafood are already procured locally (except for cold water fish), its value could be increased with higher processing. Most meats face important difficulties both from the economics of the business, as revealed in the value chain analysis, and from the point of view of hygiene and processing standards. Key to profit from these opportunities is to gain scale at the different links of the value chain, and several associations of food producers are already working in that direction.

83. Services constitute the largest expense of the tourism industry, and most of them are currently sourced locally. Hotel expenses with the service sector amount to around USD 265 per room per week, making this category the most relevant cost for a hotel establishment. Overall, an average of 90 percent of this total amount is sourced locally. For example, almost all maintenance, catering and chef, transportation, and legal services come from local sources; while a somewhat lower share of some specific professional services such as IT support, accounting and marketing services are obtained from local providers. Furthermore, most services provided to yachts and marinas are also sourced locally.

84. There are relevant opportunities in the service sector by increasing the local share and, most importantly, by increasing the overall service offerings. Although the local share is already high, there are opportunities to increase it according to the respondents of the survey. The key factor cited as a barrier is the quality of the offer and the overall hospitality abilities of the local population. Opportunities also exist in increasing the quantity and variety of services offered to hotels. This area constitutes the largest prospect of increasing linkages between the tourism sector and the local economy. Such services would include attractions, entertainment, and cultural offers. Although there are relevant differences in the extent of the offer in the different islands of the OECS (Antigua and St Lucia relatively more developed, Dominica and St Vincent relatively less deep), respondents stressed the need to encourage local entrepreneurs to form small or medium businesses to fill the gap in the service offer compared to other tourism destinations.

85. Most manufactured products used by the tourism sector in the OECS are imported. Manufactured goods used in tourism activities involve a vast array of items, from periodic supplies such as cleaning chemicals, spa and health products, and printing and stationary to linens, crockery, glassware and durable goods such as furniture. The share of locally sourced goods in the manufactured goods category is below 15 percent for most items (some 100 percent imported) with the exception of construction materials and guest toiletries.

86. The manufactured goods sector presents a critical set of adverse conditions. Survey respondents mentioned the local unavailability of raw materials, the poor infrastructure including the complexity of logistics, the lack of a trained workforce, the cost of utilities, particularly electricity, and the business environment as barriers that hinder sizable entrepreneurship in this sector (manufactured food items are included under food). Limited opportunities seem to exist in products customized to tourist demand such as crafts, toiletries, linens and some furniture items.

87. On the supply side, local small and medium enterprises complained mainly about taxes, labor skills, and customs and trade regulations. The top five items identified by SMEs as obstacles to develop their businesses include tax rates, inadequately trained labor force, macroeconomic instability, customs and trade regulations, and business licensing and permits. The issue of labor skills raised by companies is consistent with the results presented in the survey to hotels, and a topic that appeared repeatedly in interviews with all sectors. It is noteworthy that the topic of customs procedures and overall regulations to clear goods appeared as a key element in the survey, some people noted that it may take several days to clear perishable goods. On the other hand, the issue of access to finance is relevant but does not appear comparatively high in the survey. The financial systems of the OECS islands are rather liquid and, although business complained about interest rates, they do not seem too high at 11 to 15 percent for a working capital loan compared to other countries.

88. Several donors have been very active in the OECS countries, provoking a certain level of fatigue with traditional interventions. Since the phasing out of the EU preferences for the bananas and sugar cane crops of the OECS, the Europeans have been eager to provide different forms of financial and technical assistance to these islands. Most recently, specific countries such as the US and the UK as well as other donors have also been providing assistance. As a result, there has been a proliferation of training courses of different types, either concentrated on technical skills or business abilities, with foreign and local instructors, sometimes duplicating an existing initiative, and with varying degrees of success. This has provoked a certain level of fatigue about this type of initiatives, and thus an additional intervention, if any, has to be carefully designed with the participation of the stakeholders, and implemented with first rated consultants.

89. Nevertheless initiatives to promote entrepreneurship in local businesses appear relevant. As mentioned above, one key area to increase linkages between tourism and the local economy is to promote new businesses (or expand existing ones) focused on the needs of the tourism sector, particularly in services (attractions, entertainment, culture) and also in some selected and focused business in the food (especially in fruits and vegetables) and manufactured goods areas. Successful experiences in promoting entrepreneurship tend to go beyond the traditional training on business, technical and financial skills. An alternative is to focus on “reverse training schemes” by creating a facility to attract local entrepreneurs with implementable ideas and clearly defined business plans offering matching grants programs coupled with senior mentorship. The mentorship factor seems to be crucial and may include successful businessmen, either local or

from abroad, that would serve as advisors to the entrepreneurs. Any program, however, would require a careful design to make it adequate to the needs of the OECS countries.

90. Another area of possible intervention includes initiatives to improve hospitality skills.

There are already some initiatives in this arena such as the hospitality institute based in Antigua as well as other regional offerings, but according to the responses to the survey, later checked with interviews, it seems insufficient and not adequate to the needs of hotels in the islands. In addition to specific skills such in technical areas like culinary skills, managerial abilities like human resources and finance management, there seems to be a general need to improve general hospitality abilities in service providers. Restructuring the hospitality institute in Antigua to improve management and faculty quality could be an option to consider to fill that perceived gap. Given the logistical problems to move students to Antigua, a scheme with base classes held at the center and specialized courses being delivered at different times in different islands could be appropriate. A feasibility study could be launched to evaluate a sub regional initiative that should have deep involvement of the private hotel sector from the inception, from defining the specific curricula to getting trainees in their facilities, in order to increase the chances of success.

91. Moreover, simplification of trade procedures seems a possible area of intervention going forward though requiring inter-government coordination.

Complexity of logistics appeared repeatedly as a key barrier to development, including infrastructure, transport, and procedures. A basic assessment of the investment climate in the different islands showed that simplification of customs and trade regulations, including complexity of procedures and time to clear customs (around 17 days to export), were key to facilitate commerce improving growth prospects for some local SMEs. All regulatory issues were presented among the top 5 obstacles for SMEs in our survey, which is corroborated by Doing Business Indicators on Trading Across Borders for the OECS. This is an area of possible intervention which could have high impact on local companies growth, and thus on linkages with the tourism industry. This possible effort would focus on simplification and harmonization of procedures, and should be coordinated among the different Governments of the OECS member countries.

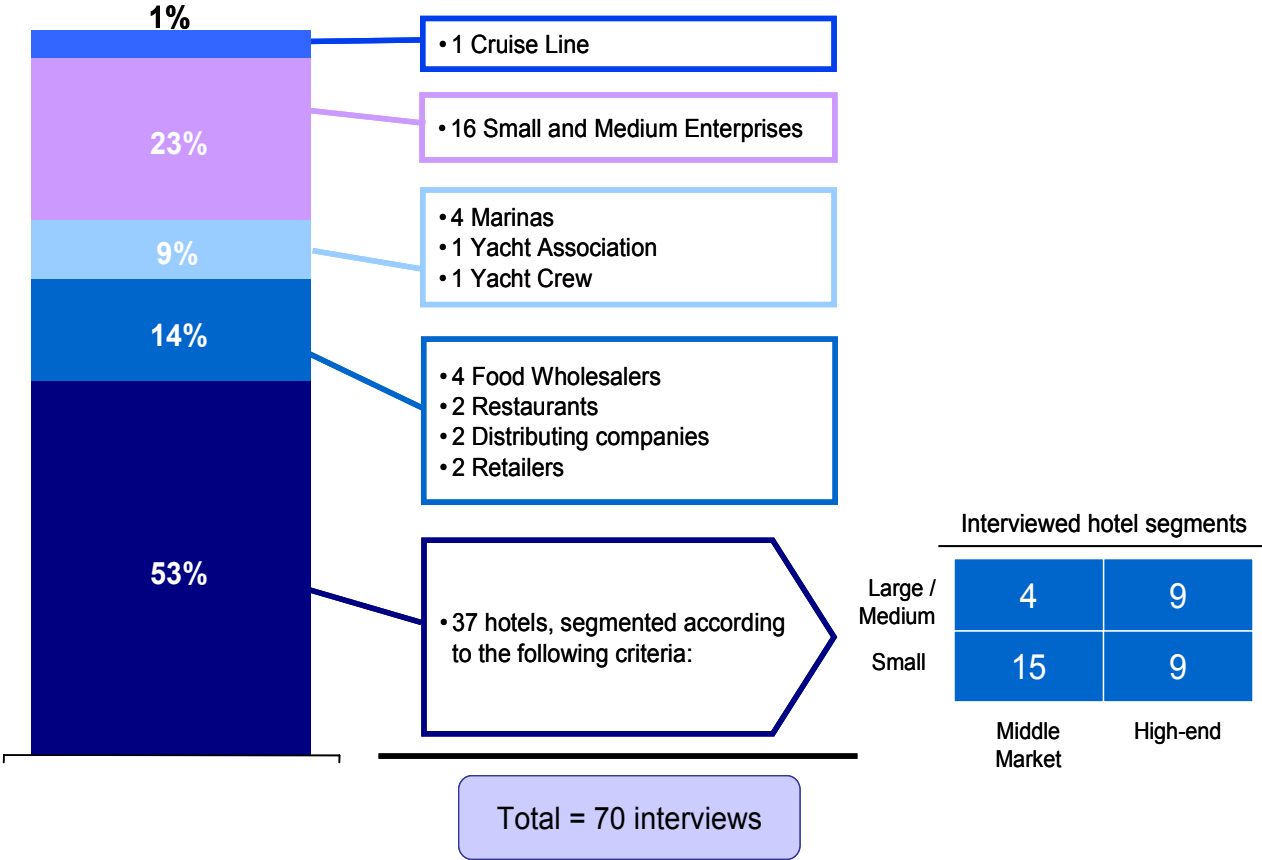
92. The policy implications presented suggest a rich policy and research agenda going forward.

Given the conclusions on the current level of linkages between the tourism sector and other sectors of the economies of the OECS member countries, the products and services which present relevant potential to increase such linkages, and the levers to make this potential blossom, we presented some areas of possible policy discussion. These areas should be taken as preliminary, and only constitute a base to further evaluate and engage in a dialogue to design some specific initiatives going forward.

Appendix I: Detailed Results of the Survey on Tourism Linkages

A total of 70 companies were interviewed during the Survey in the OECS islands. The focus of interviews was hotel establishments which represented 53 percent of the survey, but other types of establishments were also included in order to have an adequate mix. Regarding hotels specifically, the survey was done taking into account a balance by size and segment-focus of the different hotels, and the sample represents around 31 percent of total OECS establishments.

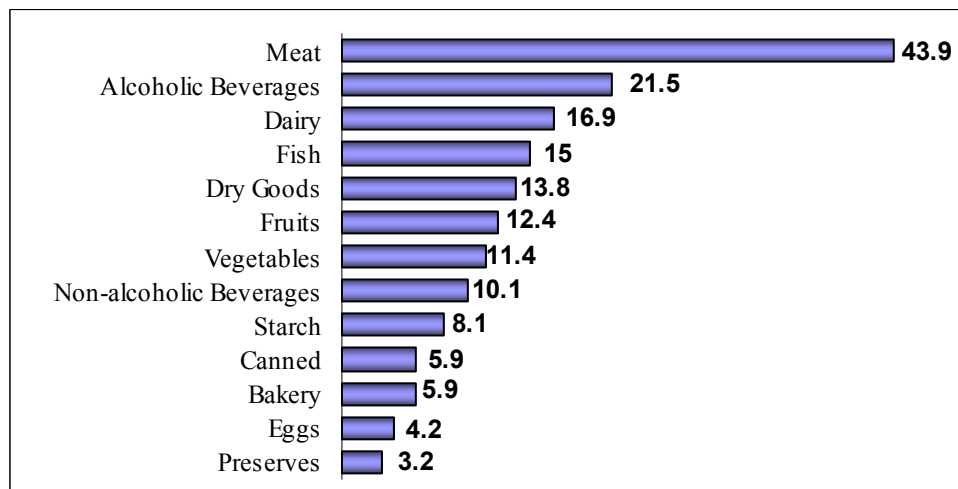
Figure 1.1: Profile of surveyed companies



Food

OECS Tourist hotels spend an average of USD171/Week per occupied room. The largest expense is meat, with USD 43.5/week.

Figure I.2: Hotels' Average Expenditure in Food Items (USD/Week per occupied room)



		Expenditure per Room per Week					
		Mean	Median	Min	Max	Number of Obs.	Std. Deviation
Food	Fruits	12,4	9,2	1,1	44,4	16,0	13,3
	Vegetables	11,4	7,4	1,1	53,5	15,0	13,3
	Starch	8,1	9,0	0,2	18,0	9,0	6,9
	Meat	43,9	33,8	3,6	140,4	12,0	42,8
	Dairy	16,9	5,1	0,9	80,0	13,0	22,5
	Fish	15,0	10,3	2,5	53,3	14,0	14,9
	Eggs	4,2	2,1	0,1	12,8	11,0	4,3
	Non-Alcoholic Beverages	10,1	3,5	0,3	44,4	12,0	12,9
	Alcoholic Beverages	21,5	18,8	2,4	48,6	11,0	13,0
	Canned	5,9	2,3	1,2	19,2	6,0	7,1
	Preserves	3,2	2,0	0,3	8,9	8,0	3,1
	Dry Goods	13,8	9,3	0,6	46,0	9,0	14,2
	Bakery	5,9	5,1	0,6	19,2	9,0	5,7

Tourist hotels expenditure in food items has been disaggregated by origin of consumed goods, whether local or foreign. The largest expenditure in imported food items is meat, based on a weekly basis per occupied room.

Figure I.3: Hotels' Expenditure in Purchased Food Items (USD/Week per occupied room)

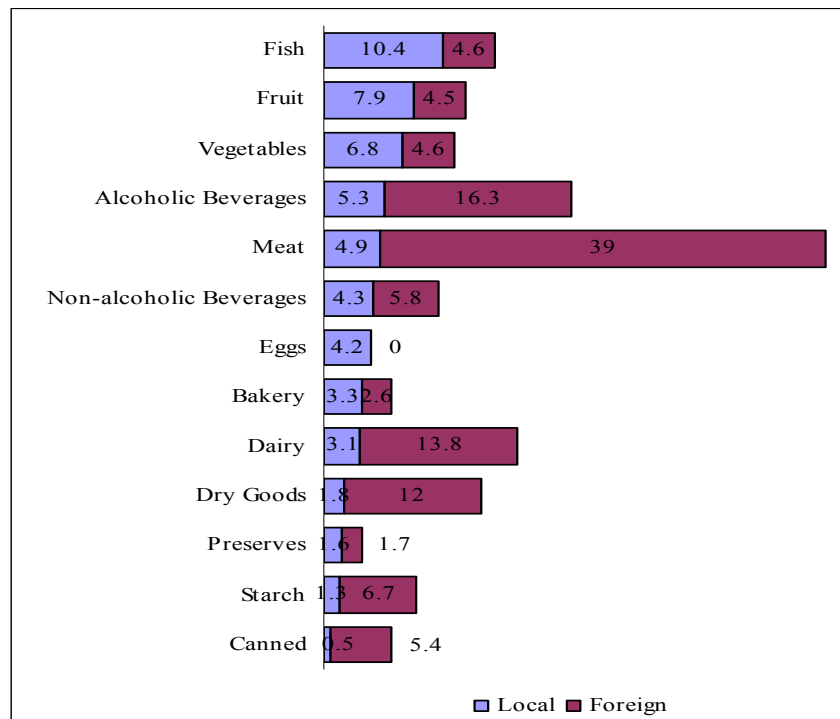


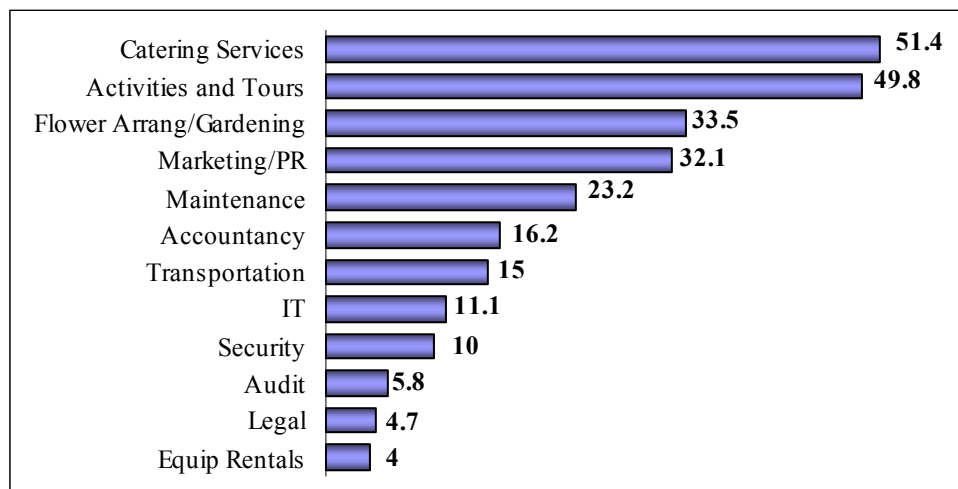
Figure I.4: Percentage of Hotels' Expenditure in Locally-Produced Items

	Percentage of local sourcing					
	Mean	Median	Min	Max	Number of Obs.	Std. Deviation
Food Fruits	63,7	80,0	0,0	100,0	15	40,6
Vegetables	59,3	75,0	0,0	100,0	15	37,3
Starch	16,7	0,0	0,0	75,0	9	27,5
Meat	11,2	0,0	0,0	60,0	13	17,8
Dairy	18,3	0,0	0,0	100,0	12	37,7
Fish	69,2	82,5	10,0	100,0	12	32,9
Eggs	100,0	100,0	100,0	100,0	8	0,0
Non-Alcoholic Beverages	42,3	25,0	0,0	100,0	11	42,4
Alcoholic Beverages	24,4	20,0	0,0	70,0	9	21,6
Canned	8,8	0,0	0,0	35,0	4	17,5
Preserves	48,3	55,0	0,0	100,0	6	41,2
Dry Goods	13,0	0,0	0,0	40,0	5	18,6
Bakery	56,4	80,0	0,0	100,0	7	48,9

Services

OECS Tourist hotels spend an average of USD 265/week per occupied room in services. Catering services and activities and tours account for close to 40% of this amount, or USD 101/week.

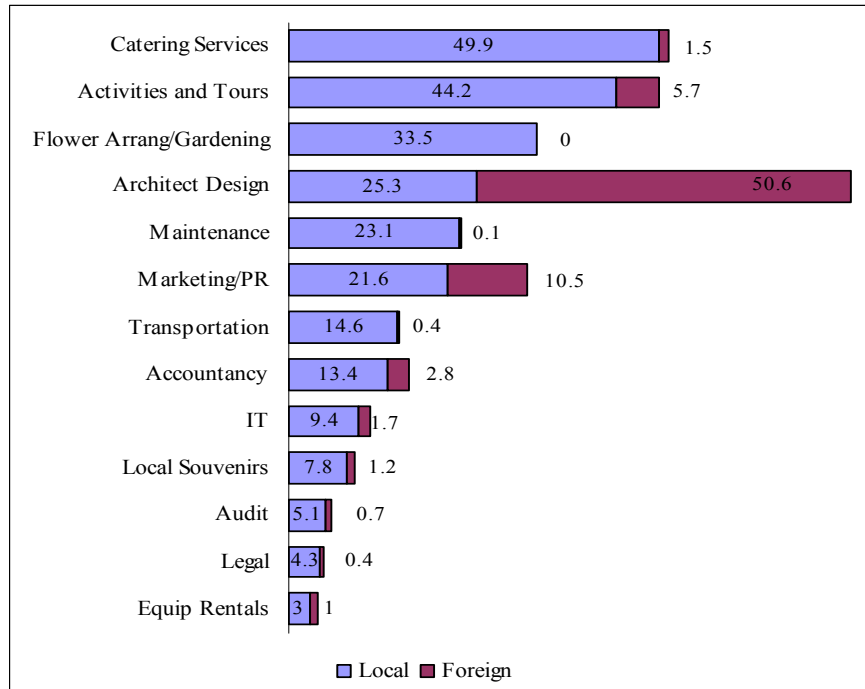
Figure I.5: Hotels' Average Expenditure in Services (USD/Week per occupied room)



		Expenditure per Room per Week					
		Mean	Median	Min	Max	Number of Obs.	Std. Deviation
Services	Accountancy	16,2	8,4	0,8	71,4	14,0	19,5
	Audit	5,8	3,3	0,6	17,9	11,0	5,7
	Legal	4,7	5,4	0,6	12,0	10,0	3,7
	IT	11,1	4,7	0,0	40,1	13,0	13,5
	Security	10,0	5,9	0,2	46,7	14,0	11,9
	Equipement Rentals	4,0	3,6	0,0	8,3	3,0	4,2
	Maintenance	23,2	15,8	3,2	71,8	14,0	19,2
	Flower Arrangements and Landscaping	33,5	21,2	3,3	95,2	12,0	33,7
	Chef / Catering Services	9,0	9,0	2,0	16,0	2,0	10,0
	Engineer	51,4	38,6	1,7	143,5	14,0	45,1
	Marketing and PR	7,4	7,4	4,2	10,7	2,0	4,6
	Transportation	32,1	17,9	1,0	143,5	10,0	43,2
	Activities and Tours	15,0	10,9	0,2	39,5	11,0	12,1

Hotels' expenditure in services has been disaggregated by origin of the service provider, whether local or foreign. The highest expense among imported services is for architect and design services, about USD 50/week per occupied room.

Figure I.6: Hotels' Expenditure in Local vs Imported Services (USD/Week per room)



		Percentage local					
		Mean	Median	Min	Max	Number of Obs.	Std. Deviation
Services	Accountancy	82,5	100,0	0,0	100,0	14,0	36,0
	Audit	87,2	100,0	0,0	100,0	9,0	33,1
	Legal	91,4	100,0	50,0	100,0	7,0	18,6
	IT	85,0	100,0	10,0	100,0	11,0	33,5
	Security	100,0	100,0	100,0	100,0	9,0	0,0
	Equipement Rentals	75,0	100,0	0,0	100,0	4,0	50,0
	Maintenance	99,5	100,0	95,0	100,0	10,0	1,6
	Flower Arrangements and Landscaping	100,0	100,0	100,0	100,0	7,0	0,0
	Chef / Catering Services	97,0	100,0	80,0	100,0	3,0	11,5
	Engineer	0,0	0,0	70,0	100,0	10,0	9,5
	Marketing and PR	67,2	75,0	0,0	0,0	1,0	N/A
	Transportation	97,1	100,0	20,0	100,0	6,0	37,2
	Activities and Tours	88,6	100,0	80,0	100,0	7,0	7,6

Manufacturing:

Total average of manufactured goods purchased by tourist hotels in the OECS countries analyzed in this study is USD 75/week per room.

Figure I.7: Hotels' Average Expenditure in Manufactured Goods (USD/Week per occupied room)

		Expenditure per Room per Week					
		Mean	Median	Min	Max	Number of Obs.	Std. Deviation
Manufactured Goods	Crockery and Glassware	7,8	4,0	0,3	29,2	7,0	10,2
	Printing and Stationary	6,5	3,3	0,2	23,8	6,0	9,0
	Cleaning Chemicals	9,9	5,0	1,0	30,0	7,0	11,3
	Linens	7,6	7,5	1,3	14,0	4,0	5,5
	Guest Toiletries	8,4	9,0	0,0	16,1	6,0	7,8
	Local Souvenirs	9,0	9,0	2,0	16,0	2,0	10,0
	Spa Products	1,2	0,0	0,0	4,8	6,0	2,0
	Construction Materials	5,1	2,7	1,3	13,7	4,0	5,8
	Furniture fixtures and materials	16,4	14,4	7,2	27,5	3,0	10,3

Figure I.8: Percentage of Hotels' Expenditure in Locally-produced Manufacturing Goods

		Percentage Local					
		Mean	Median	Min	Max	Number of Obs.	Std. Deviation
Manufactured Goods	Crockery and Glassware	1,3	0,0	0,0	10,0	8,0	3,5
	Printing and Stationary	10,5	0,0	0,0	100,0	10,0	31,5
	Cleaning Chemicals	0,0	0,0	0,0	0,0	10,0	0,0
	Linens	0,0	0,0	0,0	0,0	10,0	0,0
	Guest Toiletries	18,9	0,0	0,0	100,0	9,0	38,2
	Local Souvenirs	86,7	80,0	80,0	100,0	3,0	11,5
	Spa Products	7,5	5,0	0,0	20,0	4,0	9,6
	Construction Materials	27,1	0,0	0,0	100,0	7,0	46,4
	Furniture fixtures and materials	10,0	0,0	0,0	50,0	7,0	19,1

Appendix II: Constraints and Possible Actions in the Agricultural Sector

Constraints on agricultural supply in the OECS countries:

Human Factors

The traditional farming community has been accustomed to the captive market of banana exports and sugar. These farmers or workers are mostly over fifty years old and lack the skills to deal with the evolving conditions and changing demands of markets. Most of the younger generation is no longer involved in agriculture but has built livelihoods in the tourism sector and construction. Unavailability of labor for agriculture, its high cost and generally low productivity are mentioned to be important constraints to the development of a modern, competitive and efficient agricultural sector.²⁰

Production Factors

Small, fragmented farms and a complex land tenure system. The small and fragmented nature of most farms is a constraint to farm investment. For instance average farm size in the banana industry is one hectare. Livestock, in particular beef, needs extensive land areas. The OECS have also a very diverse and complex land tenure system resulting in a cumbersome and costly legal framework for land policy, continued state interference and inequitable and expensive access to land.²¹

Lack of readily access to new technology. Responding to the demand in the tourism sector requires new agricultural technologies, new crops, varieties and production methods. Lack of access to information and availability of up-to-date technical knowledge concerning most new technologies in production, post harvest, agro processing, quality standards, sourcing of appropriate equipment and marketing is reported as an important constraint to modernization of the production systems and to the uptake of new technologies.

Inter-island transport and boat connections are difficult, expensive and complicate trade arrangements. There is lack of appropriate vessel capacity, particularly for perishable products, and routes and routes schedules for efficient inter-island trade.²²

The seasonal dependence on scarce irrigation water is a main production constraint. For the Leeward Islands, the overall lack of water during the dry season is a major problem. On the Windward Islands the difficult topography limits the possibilities of irrigation.

²⁰ Source: Ibidem, para 88-89.

²¹ For further details see Allan Williams and David Stanfield for the Workshop on Land Policy, Administration and Management in the English Speaking Caribbean held in 2003 under the auspices of the Land Tenure Center, University of Wisconsin.

²² The intra-regional sea-freight service available for the types of fresh produce that require refrigerated service is generally inappropriate in terms of transit time and trans-shipment risk, though to different degrees for each Member State. Trinidad & Tobago and St. Vincent & the Grenadines are the only States where this is not a significant constraint. For further details see CARICOM, The concerns of shippers and other issues that impact on the transportation of agricultural and other products within the Caribbean community and beyond, CARICOM, July 2006

Hurricanes pose a threat to agriculture. For instance, in 2007 hurricane Dean cause extensive damage to banana plantations in Dominica, St Lucia and St Vincent and the Grenadines.²³ Most storms damaging agriculture do not reach the strength to trigger payments from the recently subscribed hurricane insurance scheme.

Praedial larceny remains a deterrent to farming as thieves can remove a full crop overnight. Farmers cannot afford 24/7 security unless they would cultivate large areas.

The fragile eco-system limits large-scale farming. The lack of water resources, the erosion-prone topography imposing soil-conservation and possibilities of environmental damage to the beaches because of water run-off increase the direct and indirect agricultural production costs. In the fisheries sector, there is some concern for the limits of the fish resources.

Marketing Factors

The main marketing factors are the small size of the domestic market and sanitary and phyto-sanitary (SPS) issues.

- (a) **Small Size of the Domestic Market.** Although there is market room for the absorption of additional production (tourism, import substitution), the local market has seasonal and temporary limits. For instance, the diversification of a few banana farms into tomato production in St. Lucia in 2007-2008 has instantly created a glut of tomatoes during the main growing season pushing the prices down considerably.
- (b) **Sanitary and Phyto-sanitary Issues.** Farmers and food processors must increasingly comply with strict hygienic requirements of food safety and quality standards. Much remains to be done to make products fully comply with quality standards and food safety required by the tourism sector.

Institutional Issues

Traditional institutions are not well equipped to support diversified agriculture. Adequate support from the Government is crucial to help farmers respond to the new production and marketing challenges. Ministries of Agriculture, Livestock and Fisheries (Forestry) have traditionally dealt with the main export crops. Other public sector institutions such as the marketing boards and the cooperatives responsible for bananas, cocoa, nutmeg and other crops were set up for ensuring a guaranteed outlet. Over time, those institutions have lost efficiency and effectiveness in providing services to growers. Some of them have been restructured and privatized. Others lack the capacity to service the needs of modern agriculture.

In some countries there remains important government involvement in areas that should be handled by the private sector. For instance, government-controlled marketing boards keep on clearing the market by purchasing local produce as buyers of last resort while incurring financial deficits. Ministries authorize or decline food import licenses as a measure to satisfy local producers and they still play an important role in the procurement of farming inputs.

²³ Source: The Economist Intelligence Unit, 2008

Policy Actions to Move Forward

To facilitate the development and growth of non-traditional agriculture within this context, specific objectives of the sector should include, (i) continuing the support of development of new types of productive alliances between producer groups and hotels, supermarkets and other agribusinesses, (ii) improving the investment climate for entrepreneurs to take advantage of new opportunities in agriculture and reorienting the institutional support framework to support diversified agriculture, and (iii) promoting the tourism-agriculture linkage in policy, trade and investment frameworks, including publicity campaigns and tourism trade shows.

Specifically, the following policy actions are recommended to achieve each of the objectives:

Development of productive alliances

- Supporting and strengthening of farmer associations
 - Provide technical assistance and training in organizational management, production technology, post-harvest technology and marketing
- Supporting the development of small and medium agribusinesses
 - Facilitate the identification and development of potential productive alliances across the value chain, linking input suppliers, farmers, processors and marketing agents
 - Provision of financial incentives (matching grants) as seed funds to fund business opportunities

Improving the investment climate in agriculture and reorienting the public institutional framework

- A sound policy environment
 - Promote increased harmonization of macroeconomic, sectoral and trade policies across the region
 - Facilitate cross border investment agreements and joint ventures through the provision of incentives and development of investment and business codes and operational mechanisms that lower transaction costs
- Adequate provision of public goods
 - Improving land zoning, tenure and administration systems to facilitate land use acquisition or leasing that enable medium and large scale production systems
 - Improve coverage for hurricane damage for the agricultural sector by including agricultural risk insurance into the hurricane risk insurance scheme
 - Conduct feasibility study for intra-regional transportation system
 - Conduct feasibility studies on agro-processing facilities for meat, fish and fresh produce
- Retooling of public institutions
 - Improve marketing institutional services by strengthening both public and private sector entities, the former focusing mainly on the provision of information on prices and trade logistics. The past practice of public marketing boards being directly involved in the buying and selling of produce should be discouraged.

- Increase and improve agricultural R&D and technology transfer capacity by strengthening regional institutions such as the Caribbean Agricultural Research and Development Institute (CARDI)
- Facilitate national capacity to meet SPS and other standards through the strengthening of regional organizations such as Caribbean Agricultural Health and Food Safety Agency (CAHFSA) and Caribbean Regional Organization for Standards and Quality (CROSQ)

Promoting the tourism-agriculture linkage

- Advocate corporate social responsibility and responsible tourism
 - Tourism authorities to provide certifications for tourism establishments with higher linkages with local agriculture
 - Tourism authorities to promote “eat local campaigns” as part of tourism packages
 - Provide culinary training for foreign chefs that encourages use of local ingredients through collaboration with culinary institutes and CARDI

Appendix III: Agriculture Value Chain Analysis

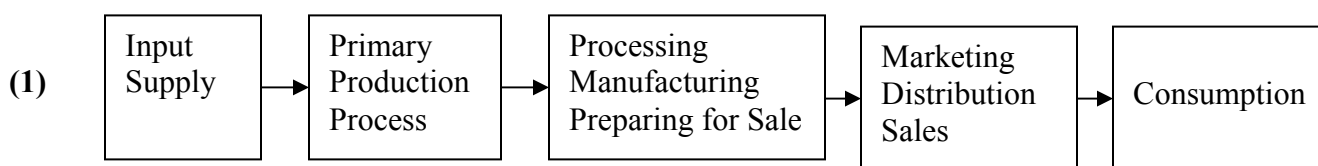
Value chains describe the range of activities involved in creating products and services, analyzing and valuing the input-output relationships at all the phases of product transformation between production and final consumption. Value chain analysis thus adds an additional dimension to supply chain analysis which evaluates the stages that transform a raw material into a finished product or service and delivers it to the ultimate customer. Value chain analysis also estimates the value created and the allocation of the price paid by final consumers to the actors along the value chain.

Products with import substitution potential were selected. The principal factors determining the choice of agricultural product value chains analyzed as examples of the main categories of products: fruits, vegetables and livestock products are: (i) the level of consumption of the product in the OECS and especially the tourism sector, (ii) the high levels of import of the product and (iii) the potential for import substitution by local production.

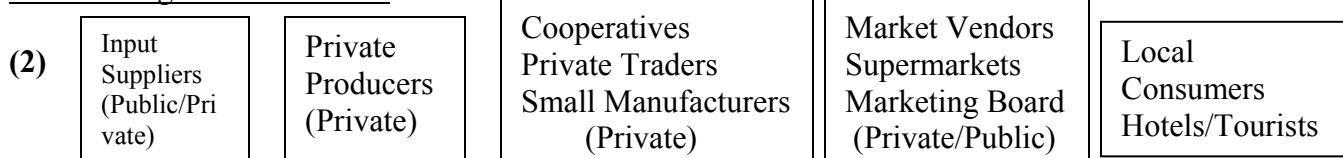
The value chain methodology applied here carries out the analysis in the context of five phases from input supply to consumption, including an assessment at several levels of the technology production process, the producer/production structure profile and policy or framework conditions. Figure III.1 presents an overview of these phases in reflecting the current value chain arrangements for three commodities that will be analyzed. The first line reflects the technology production process. The second line provides an indication of the dominant forms of organization at the different links of the value chain. The third line shows the supporting framework which is generally provided by the public sector given the very weak farmer and industry organizations.

Figure III.1: Value Chain Analysis in the OECS Context

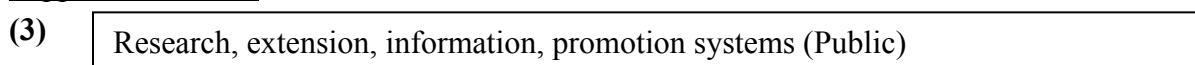
Production Process



Actors along the Value Chain



Support framework



The remainder of this section analyzes the value chains for pineapple, lettuce and pork drawing largely on the product volume, product value and production, as well as marketing characteristics information in three OECS countries: St. Lucia, St. Vincent and the Grenadines, and Grenada. These countries have the largest and economically most important tourism sector in the OECS, thus they provide examples of the potential agricultural linkage that may be developed in the OECS countries. In the value chains presented below, all values and prices are in US\$ to facilitate comparisons with benchmarks within and outside of the region. The value chain analysis draws on specific production information compiled from producers, extension officers, the Ministry of Agriculture and on marketing and price information collected from vendors, supermarkets, marketing boards and hotels.²⁴

Fruits – Pineapples

Non-traditional fruit production has not achieved year around production. Fruit production, bananas, has historically, been the basis of development of most of the economies of the OECS. While the range of other tropical fruits produced is wide, and there have been projects to promote their expansion, the hoped production growth to substitute for bananas has not taken place. Generally, when mangoes, pineapples, papaya, breadfruit, avocados, and other fruits are in season they are sold in the domestic markets, with the tourism sector purchasing mainly the more widely known and consumed fruits such as papaya, mangoes and pineapples. With the possible exception of pineapples more recently, these fruits are not grown under production systems that ensure year round availability in the volumes and quality required.

The survey identifies fruit as a major opportunity. The fruit demand opportunity in the tourism sector is considered a growth area because of the exotic appeal of these tropical fruits and the amount of fruits (both tropical and temperate) imported. Table III.1 presents the level of imports for some selected fruits, including potential import substitutes, highlighting the fact that both tropical and temperate fruits are imported in significant quantities.

Table III.1: Imports of Selected Fruits

	('000\$US - Average 2003-2005)				
	Papaya	Pineapples	Melons	Apples	Grapes
Antigua and Barbuda	0.00	80.00	n.a	40.00	11.67
Dominica	0.00	6.00	1.00	49.33	21.33
Grenada	0.00	7.33	16.00	49.67	23.00
Saint Kitts and Nevis	0.00	35.33	46.33	230.33	210.33
Saint Lucia	0.00	97.67	130.67	360.33	191.00
Saint Vincent/Grenadines	0.00	11.00	2.00	47.67	31.67
OECS	0.00	237.33	196.00	777.33	489.00
Caribbean	40.00	1,559.00	1,118.67	11,510.67	8,888.00
Source: FAOSTAT, 2006					

²⁴ The data for the value chains was supplied mainly by marketing boards (St. Lucia and Grenada), Ministries of Agriculture (St. Vincent and the Grenadines, and Grenada), and farmers (Grenada, St. Lucia and St. Vincent and the Grenadines)

Local production of pineapple is not sufficient to satisfy tourism demand. Given the almost signature association of pineapples with the tourist industry and the fact that this fruit can be grown year round in the OECS agro-climate, it was selected as an example for the fruit category. Pineapples are one of the most sought after exotic fruits by the tourist industry and are imported by all OECS countries in one or several forms, such as fruit, juice and canned. Table III.2 presents production data for selected OECS countries. The major OECS producer countries are St. Vincent and Antigua and Barbuda with several other countries also expanding their production in recent years, e.g. St. Kitts and Nevis and St. Vincent and the Grenadines. In Antigua and Barbuda, the development of the pineapple industry has been one of the cornerstones of their agricultural policy, including the development of agro-processing facilities.

Table III.2: OECS Pineapple production

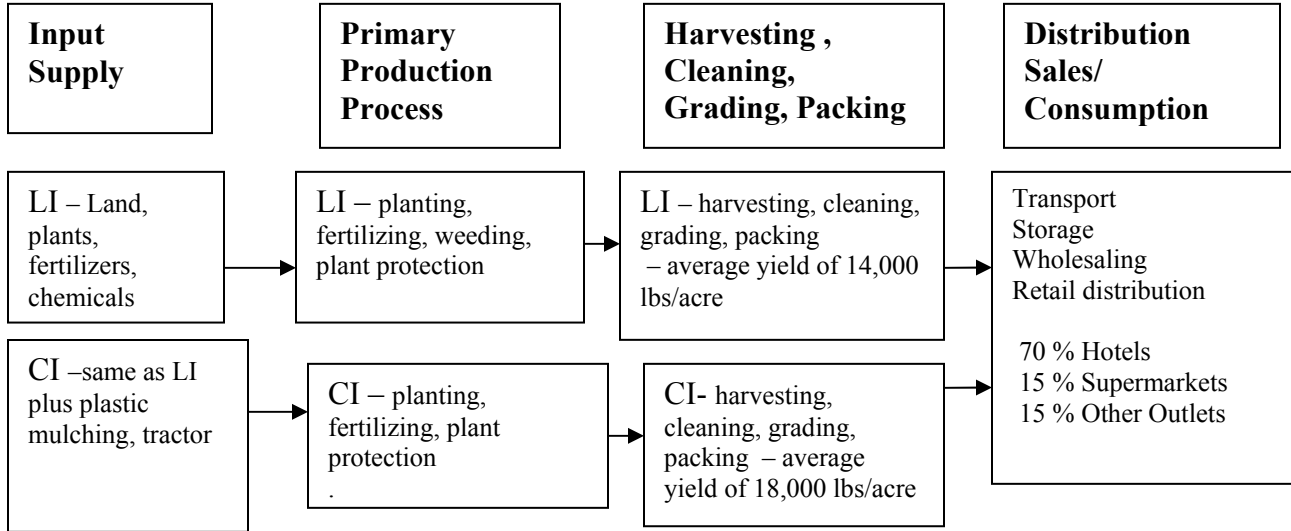
	2003	2004	2005
	Tons		
Antigua and Barbuda	185	210	210
St Kitts and Nevis	10	15	14
St Vincent and Grenadines	250	300	310
St. Lucia	41	28.8	18

Source: National data for St. Kitts/Nevis, St. Lucia and St. Vincent and the Grenadines. FAO for Antigua.

The pineapple production systems: Figure III.2 shows the supply chain for the Antigua Black variety pineapple. The average farmer plants one quarter of an acre with very few farmers growing four to six acres. The initial investment cost to purchase slips (sucker-like growth from the peduncle - between 7,000 and 12,000 to plant an acre) is by far the largest single expenditure in establishing the pineapple production system. This is not a major cost in future crops since slips are produced by the crop. During production, the main cost factor is related to plant protection and the nature of this expenditure is determined by the production system. The two systems are a) manual weeding and expenditure on herbicide and pesticide (labor intensive) or b) replacing weeding by the use of a mulching (plastic) system (capital intensive). One of the major challenges to the industry is consistent supply, producing sufficient volumes and quality, throughout the year. The use of a flowering induction hormone, Etherel, has been recommended and is increasingly being used to address these market requirements.

Figure III.2: Pineapple Supply Chain in the OECS

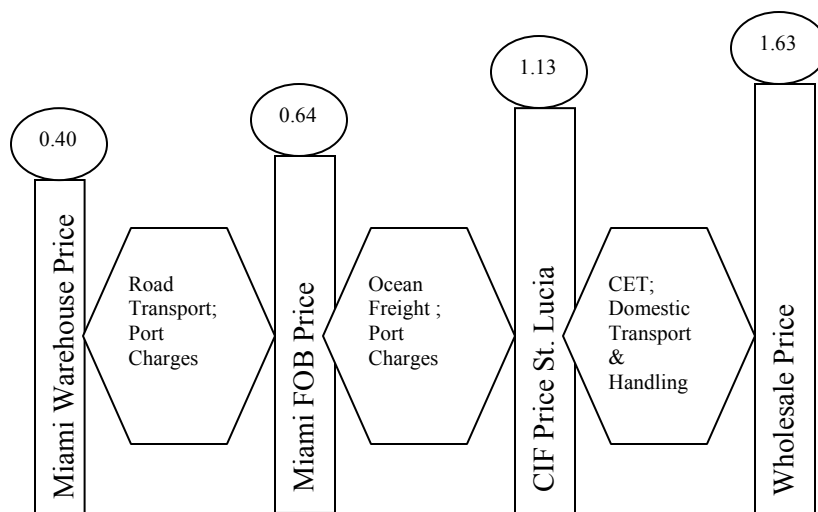
(LI = Labor Intensive, CI = Capital Intensive)



OECS pineapple production still relies on the labor intensive method. Although commercial growers use the capital intensive mulching system, pineapple production in the OECS is still largely using the more traditional system, which yields 18,000 pounds of fruit as opposed to 14,000 for the labor intensive method. It is expected that as the average acreage size increases, there will be increased use of the more capital intensive system which also involves mechanical land preparation. The production costs per pound are estimated at \$0.33 for the labor intensive system and \$0.42 for the capital intensive system. An average production cost of \$0.38 per pound was used to represent local production costs.

Farmgate prices for import competing produce are set just below the import price to ensure competitiveness of local produce with imports. Thus, profit margins are lucrative at the farmgate level if the produce is sold in the domestic market. High transportation costs and tariffs result in local pineapples being competitive in the domestic market. The pineapple price in the Miami market at the wholesale warehouse during 2007 averaged \$0.40 per pound, while the FOB price in Miami is \$0.64 per pound (see Figure III.3). The international transportation and related costs contributed to a CIF price in St. Lucia in March 2008 of \$1.13 per pound. At the wholesale market, imported pineapples are generally sold at \$1.63 per pound (as opposed to local fruit which is sold at \$1.48). This reflects both additional handling charges and the CARICOM Common External Tariff (CET) of 40 percent. Given that the local cost of production is only around \$0.38 per pound, local production would be competitive even if the CET were not in place. The domestic pricing structure thus creates a rent for local producers, enabling them to enjoy profit margins of approximately \$0.70 per pound since farmgate prices are set at about three times the actual production costs.

Figure III.3: Scheme of Pricing Structure for Pineapples Imported into the OECS (US\$/lb)



Price competitiveness can be measured by Import Price Competitiveness (IPC), comparing the cost of the local product at the wholesale level (CLP) with the final landed cost of the imported equivalent product (CIP), which is the CIF total plus transportation to local wholesale market. Thus,

$$IPC = CLP/CIP$$

Where, IPC = Import Price Competitiveness coefficient

CLP = cost of the local product at the wholesale level

CIP = cost of the imported product at the local wholesale market level

Domestic production is considered price competitive when the $IPC < 1$.

OECS pineapples are price competitive. The IPC for pineapples in the value chain presented here is 0.52 which suggests that the local pineapple production is viable. Three aspects related to this result should be underlined: (i) the domestic fresh product market can easily be saturated given the current import gap, estimated at between 100 tons given the current level of imports. This implies a capacity for a total of improved production system pineapple acreage of only about 20 acres.²⁵; (ii) the viability of local production would be greatly enhanced by the production of value-added pineapple products – slices, juices, jams, sweets, including incorporating pineapple more into other

²⁵ A 25 percent expansion of current production in St. Lucia and Antigua could potentially supply the gap represented by OECS imports of pineapples. This is based on OECS yields that are half those of the USA and one third those of Costa Rica. However, there exists a wider regional CARICOM market where Barbados alone imports almost twice the fresh pineapples as all of the OECS, and of course extra-regional opportunities, although given the price of pineapples in the wholesale market in the USA and the cost of transportation, the likelihood of OECS pineapple exports being competitive is slim.

processed products and food preparations. Currently very little of these activities are taking place due to issues related to availability of processing facilities, scale, quality, high cost of imported materials, e.g. bottles and jars, and shipping costs; and (iii) the competitiveness of the pineapple production is enhanced by the CARICOM Common External Tariff (CET) of 40 percent (Table III.3 shows tariff levels for selected pineapple products). Without this protection, the profitability currently enjoyed by the producers will decrease, although they would still remain competitive given the low cost of production.

Table III.3: Pineapple Product Tariffs

HS Code	Product	Tariff Level
804.3	Fresh Pineapples	40%
2007.992	Jams, Jellies, Purees	20%
2009.41.00	Juices	20%
81290	Preserved Pineapples	15%

Vegetables – Lettuce

Imports of vegetables into the OECS have increased in terms of volume, variety and value over the past twenty years. The variety of imported vegetables has increased in recent years. Products such as leeks, sweet corn, mushrooms, cauliflower, asparagus and artichoke were imported in the 1980s. Furthermore, the import volumes of the heavily consumed products such as cabbages, carrots, onions have increased. These patterns reflect several factors: increased tourism, higher incomes, the rise of supermarkets, and globalization represented through the promotion of fast foods. Table III.4 presents the imports of selected vegetables. Among the vegetable crops consumed, produced and imported, lettuce was selected as an example for vegetables based on its potential for tourism agriculture backward linkages.

Table III.4: Imports of Selected Vegetables

	('000\$US - Average 2003-2005)				
	Cabbages	Carrots	Cauliflower	Lettuce	Onions
Antigua and Barbuda	13.33	7.33	n.a.	n.a	91.33
Dominica	2.67	13.67	6.00	0.00	179.67
Grenada	2.33	56.00	32.00	10.67	123.00
Saint Kitts and Nevis	85.33	117.33	199.00	178.67	160.67
Saint Lucia	71.67	190.67	120.33	139.00	606.00
Saint Vincent/Grenadines	7.33	22.00	6.00	8.33	149.00
OECS	30.44	67.83	72.67	67.33	218.28
Caribbean	1411.00	2693.00	1541.67	1994.33	8082.00
Source: FAOSTAT, 2006					

Lettuce is a potentially viable crop especially for small farmers. There are two major types of lettuce grown and consumed in the OECS, romaine and iceberg. All of the countries in the OECS produce both types of lettuce, mainly by small farmers on less than a quarter of an acre of land. It is a highly perishable, high value small farmer crop that is generally grown on a small scale with little investment, although increasingly it is being grown under shade infrastructure.²⁶

Current demand for lettuce could be satisfied by relatively few local farmers. In St. Lucia, the Marketing Board has historically imported approximately one ton of lettuce per week for the hotels they supply. Given other importers for hotels, supermarkets and other domestic market outlets, it is possible that there is an import gap of at least two to three tons per week. Given the estimated yields for lettuce in the OECS at around eight tons per acre, the imported amount could be supplied by less than sixty farmers planting a quarter of an acre each or 15 acres.

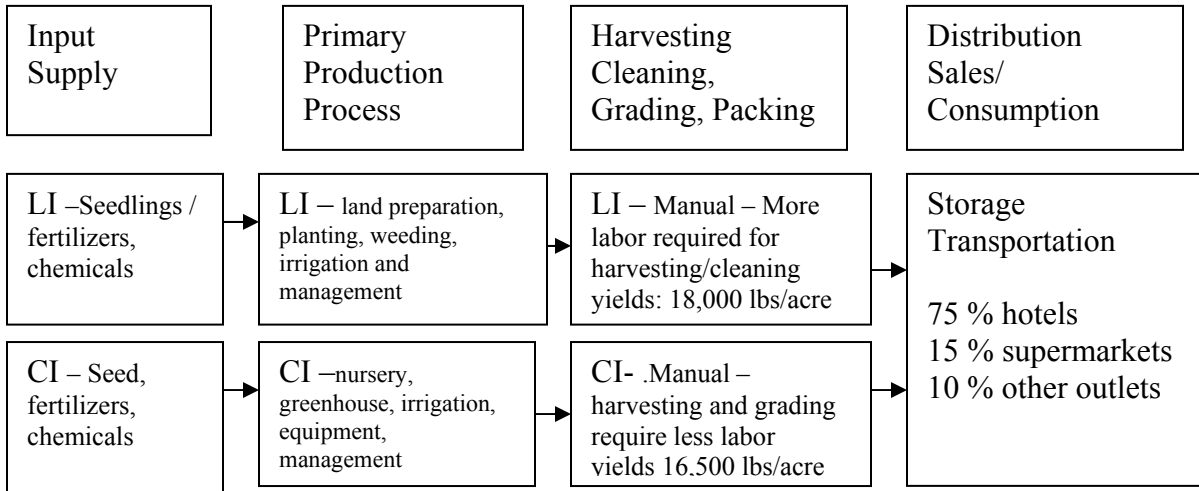
However, the high fragility and perishability characteristics of lettuce and the importance of product quality mean that it remains representative for vegetables with import substitution possibilities. The fact that lettuce, as many other vegetables, is consumed primarily in its fresh form, and the absence of any packing and storage facilities for this product in the OECS, results in a short and simple value chain for lettuce generally and especially in the OECS.

Lettuce production in the OECS is characterized by two technology systems. The capital intensive system represents a farmer who owns and plants in a greenhouse and produces his own seedlings from seed. The labor intensive farmer purchases seedlings and plants in a field. Thus the former has capital costs associated with purchasing a green house, replacing the plastic and irrigation equipment every five years. In both cases the lettuce variety grown is the leafy Romaine type. Production costs are estimated between \$0.39 and 0.45 per pound. An average cost of \$0.42 was used to present local production costs in further. Figure III.4 presents the supply chain for Romaine lettuce.

²⁶ Reliable production data for lettuce is difficult to obtain in many developing countries including the OECS. One major reason for this is that the majority is grown on a small scale basis, marketed in local areas within the country, and a significant amount of the production is not grown commercially. Lettuce production data was obtained from two OECS countries, St. Lucia and St. Vincent and the Grenadines, which produced some 97,000 kg and 23,000 kg in 2006. Even in St. Lucia with its high imports relative to other OECS countries, lettuce imports were estimated as at least 50 percent of domestic consumption.

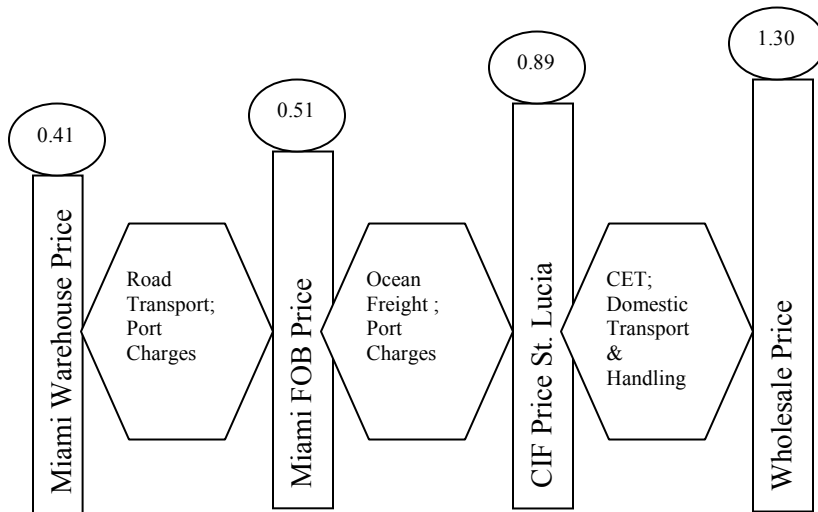
Figure III.4: Romaine Lettuce Supply Chain in the OECS

(All costs are per acre unless otherwise stated; LI=Labor Intensive system; CI = Capital Intensive system)



High import prices dictate the local farmgate price. Lettuce is imported from the United States and the FOB price in Miami is \$0.51 per pound (see Figure III.5). The international transportation and related costs contributed to a CIF price in St. Lucia in March 2008 of \$0.89 per pound. At the national wholesale market imported lettuce is sold at \$1.30 per pound (as opposed to local lettuce which is sold at \$1.23). This reflects both additional handling charges and the Common External Tariff (CET) of 40 percent. Similar to the case of pineapples, the farmgate price is set to just undercut import prices, thus maximizing profit for local producers. In addition, the CET provides an additional layer of protection.

Figure III.5: Scheme of Pricing Structure for Lettuce Imported into the OECS (US\$/lb)



OECS lettuce production is price competitive compared with imports due to the low production costs. Based on the above prices the IPC for lettuce in the value chains presented here is 0.47 which suggests that a local lettuce industry is viable. Similar to the situation with pineapple, the local price is artificially set high to just undercut import prices, which includes high transportation cost to the OECS and the CET. However, lettuce yields in OECS are about four times less than in the USA from where they are imported, plus high transport costs it very unlikely that the OECS can export lettuce. The CET increases the profitability of local producers, although they remain competitive even without its protection.

Livestock – Pork

Livestock production in the Caribbean, and in the OECS in particular, is not considered competitive. The small land masses, the steep slopes, the low potential throughput all contribute to low competitiveness of commercial operations. As Table III.5 shows, there are substantial imports of meat products with poultry meat being by far the largest imports. Given the high dependence on imported feed, poultry is generally not considered to be a viable import substitute. Small ruminants (sheep and goat) are also discouraged because of the potential damage to the environment unless strict confinement systems are practiced. Due to the possibility to use fruit, vegetable and root crop by-products to feed pigs, the pork industry was used as an example of a livestock value chain.

Table III.5: Imports of Selected Livestock Products

	('000\$US - Average 2003-2005)			
	Pork	Mutton/ Lamb	Poultry	Beef
Antigua and Barbuda	834.67	190.00	4870.00	404.33
Dominica	764.00	54.67	3381.33	321.00
Grenada	1333.00	190.00	4427.00	984.33
Saint Kitts and Nevis	766.00	279.33	2831.00	927.00
Saint Lucia	1680.33	1346.67	5073.33	2354.67
Saint Vincent/Grenadines	1024.00	71.33	5718.00	1483.67
OECS	6402.00	2132.00	26300.67	6475.00
Caribbean	78392.67	19543.00	187583.67	102962.00
Source: FAOSTAT, 2006				

The pork industry in the OECS has been relatively static and remains in its infancy, producing mainly fresh pork and importing fresh and processed pork products in several forms. The future development of the pig industry is considered to be dependent on the availability of processing capacity but this itself is limited by the small domestic demand and production. Table III.6 shows the small number of pigs across the OECS countries. There is heightened concern with the

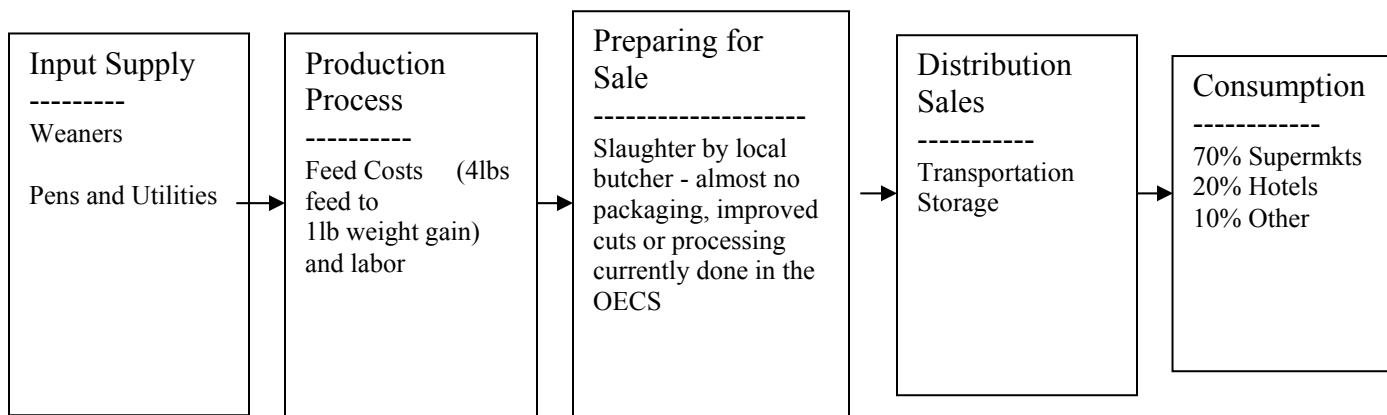
increasing numbers of pigs slaughtered annually and the lack of growth in the national herd. As a result, in almost all of the countries, there is an expansion of efforts recently to increase the pig population, to improve efficiency and establish small scale processing facilities. The different segments of the pig industry currently include suppliers providing basic equipment and medication, feed producers, veterinarians providing animal health services, butchers, and meat vendors. There are no specialized processing and transportation facilities serving the industry.

Table III.6: OECS Pig Stocks (Number of heads)

Countries	2004
Antigua and Barbuda	2,800
Dominica	5,000
Grenada	2,650
Saint Kitts and Nevis	4,000
Saint Lucia	10,000
Saint Vincent/Grenadines	9,150
FAOSTAT, 2006	

There are essentially two types of small farm pig production systems in the OECS. Farms with both breeding and fattening activities dominate, while increasingly there are farms with fattening operations only. The majority of pig farmers (more than 95 percent) have less than ten pigs with very few operations exceeding twenty-five pigs.²⁷ The production technology system characterizing the industry is rudimentary with pens generally needing repairs. Cleaning, feeding and watering is often done manually. Further, waste disposal practices are generally inadequate in light of existing environmental standards. Small farmers supplement purchased feeds with locally available agriculture and agro-industrial by-products. Attention to nutrition formulation and animal conformation is, at best, minimal. The enterprise system represented below in Figure III.6 is for a farm purchasing and finishing 40 weaners.

Figure III.6: Pork Supply Chain in the OECS

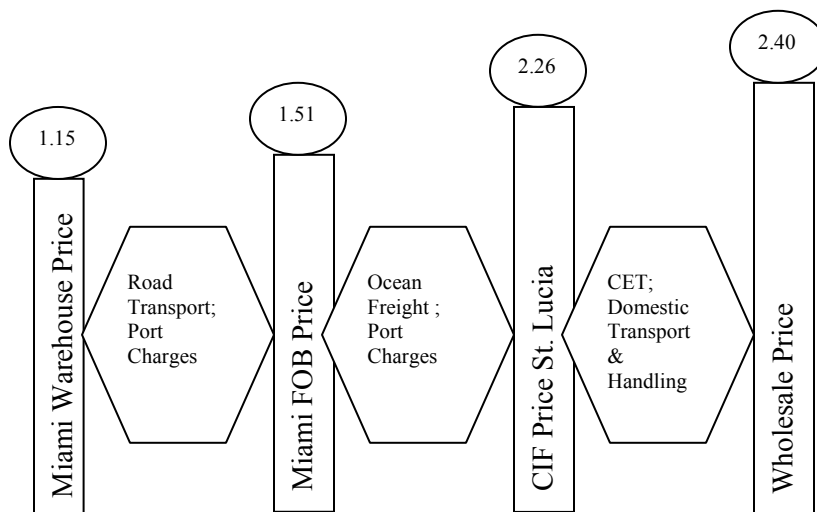


²⁷ According to interviews with Livestock Department personnel.

Profitability hinges on increasing replacement of local feed for imported animal feeds. The major cost factors in pork production are feed and labor. The feed is largely imported and an important part of increasing efficiency and competitiveness will be dependent on both better utilization of feed from a nutritional standpoint and substitution of imported feed through use of local agricultural crop by-products. In a number of developing countries with expanding pork production, e.g. Vietnam, there is an increased use of local based feed materials such as sweet potatoes, bananas, plantains and other products. Increased nutritional efficiency will increase marketable weights and quality of pork, both of which are critical to reducing costs and increasing profitability.

Current local pork production is only marginally competitive vis-à-vis imports and needs improved technologies to increase competitiveness. Pork products are mainly imported from the USA. Considering FOB and CIF prices, it is clear that the OECS pig industry would need a lot of technology upgrading, feed innovation and scaling-up to increase competitive (see Figure III.7). The FOB price in Miami is \$1.51 for pork, while the CIF price landed in St. Lucia is \$2.26. The wholesale cost of domestic pork is \$2.15. This results in an IPC of 0.96 suggesting that pork competitiveness is marginal and raises the importance of the quality difference between local and imported pork. Thus, in addition to increasing price competitiveness, more attention should be paid to the skills of butchers and the production of higher-end pork cuts. Currently, a number of OECS countries are assessing the viability of small scale multi-purpose livestock processing facilities to address this issue.

Figure III.7: Scheme of Pricing Structure for Pork Imported into the OECS (US\$/lb)



The Common External Tariff is either suspended (St. Lucia) or lowered (rest of OECS) for pork products since local production cannot supply local demand. The tariff suspension and lowering is put in place in order to make pork products more accessible to consumers, in light of the limited capacity of domestic producers to supply at competitive price. Thus, CARICOM has suspended CET enabling each state to apply its own level of tariffs. Table III.7 shows the tariff rates for pork.

Table III.7: OECS Tariff rates for selected products

HS Code	Product	Rate
0210.11,12	Hams, Bacon – Salted, dried, smoked	CET – 20%
0203.11,12,19,21	Carcasses and half carcasses, hams, shoulders – fresh, chilled, frozen	Antigua: 30%; Dominica: 30%; Grenada: 30% St. Kitts: 5%; St. Lucia: Free St. Vincent: 5%

Thus, OECS countries have backward linkage opportunities in the tourism sector in the production of fruits and vegetables. The results of the value chain case studies are consistent with the findings of the tourism survey in underlining the structural agricultural conditions that favor the production of fruits and vegetables but not of livestock products. The transportation component in import product costs is about half the value of the imported product landed in the country. This transportation wedge contributes to the price competitiveness for OECS producers in terms of backward linkages with the tourism sector. The CET is simply an additional layer of protection that helps to increase the profit of producers, but at the expense of consumers. In the three studied value chain examples, removing the CET would still ensure that local producers remain competitive vis-à-vis imports due to the very low cost of production associated with the low level technologies employed currently in the OECS countries. The three case studies also point to several issues related to policy and program interventions for developing agricultural linkages with the tourism sector. Some of these aspects arising in the value chain analysis are addressed below.

Tropical fruits have been critical to the development of the OECS and remain an important opportunity. While they require more skilled management to achieve the quality, supply consistency and standards required by the tourism and export markets, there are clear opportunities for profitable investments. Recent years have shown that expansion in production and productivity in the OECS is possible. The results from this study, however, show that the domestic market can quickly be saturated and therefore attention should simultaneously be paid to expanding access to the regional and extra-regional markets.

There is an increasing opportunity for production of higher valued and highly perishable vegetables in the OECS. Demand for vegetables is expanding in volume and variety and the tourist industry is an important demand point. The results indicate that improved systems of vegetable production such as green houses and more efficient irrigation systems can generate higher returns and have greater competitiveness possibilities. The production and distribution organizational structures are important as purchasers seek to deal with fewer points of purchase and sale. Most success cases are where small farmers have associated into groups or cooperatives, as well as business minded entrepreneurs operating commercial farms. In the case of vegetables, their high perishability provides an opportunity for just in time delivery of fresh quality produce. However, to be able to do so, the farmers need to adopt improved production technologies, careful harvest planning, and adequate post-harvest technologies. Expansion of the local production will need to be accompanied by enhanced access to intra-regional markets.

The livestock sector is the least attractive due to the high cost of imported feeds and lack of adequate processing facilities. The OECS and the CARICOM region have long been trying to develop domestic feeds based on root crops and fruit by-products, but cheaper imported corn in the past had been hampering this effort. Thus, the changed international food prices and cereal situation may point to increased opportunities. Livestock where domestic feed opportunities are the greatest would have the most potential. Pigs, as opposed to poultry, would have the advantage for their capacity to eat a much wider variety of feeds. However the list of improvements and interventions needed is much more extensive than for fruits and vegetables, at the farm level and especially in processing beyond the farmgate.

Import Price Competitiveness (IPC) calculation

Pineapple Production:

Per Acre/Crop	Units	Labor Intensive		Capital Intensive
		Qty	Manual	Plastic Mulch/Tractor
		US\$	US\$	
Cost of slip collection	person days/acre	15	225	
Cost of slip collection	person days/acre	25		375
Land Lease	per acre/year		500	500
Land preparation	person days	50	750	
Land preparation	cost/acre			400
Farm tools	cost/acre		100	150
Planting	person days/acre	24	360	
Planting	person days/acre	40		600
Plant protection / fertilizers	chemicals/fertilizer		780	900
Weeding	person days/acre	15	225	
Harvesting	person days/acre	20	300	
Harvesting	person days/acre	30		450
Financing charges (1)	costs/acre		970	
Financing charges (1)	costs/acre			2,220
Management and work supervision (estimate)			400	1,000
Total costs	acre		4,640	7,595
Yield	lbs/acre		14,000	18,000
Production Cost	\$/lb		0.33	0.42
Farmgate Price	\$/lb		1.11	1.11
Transportation	\$/lb		0.05	0.05
Cleaning, Sorting, Grading	\$/lb		0.07	0.07
Cost ex Packing House	\$/lb		1.23	1.23
Wholesale Price	\$/lb		1.48	1.48
Retail Price	\$/lb		1.79	1.79

Source: Interviews with producers, wholesalers and retailers

- (1) Initial cost of 7000 slips (\$3,500) reimbursement of principal and 12% interest per year over 5 years in constant payments
- (2) Initial cost of 12000 slips (\$6,000) plus \$2,000 mulching material reimbursed principal and 12% interest per year over 5 years in constant payments

IPC for pineapples:

CLP: cost of the product at wholesale level (\$/lb):

Cost of production	0.38
Transport, grading	0.08
Wholesale cost (storage)	<u>0.25</u>
Total	0.71

CIP: cost of imported product at the local wholesale market level (\$/lb)

Wholesale price imported pineapples:	1.63
Minus CET (40% of FOB)	<u>- 0.26</u>
Net wholesale price	<u>1.37</u>

IPC: $0.71/1.37 = 0.52$

Lettuce Production:

Per Acre/Crop	Unit	Qty	Labor Intensive	Capital Intensive
			Field	Greenhouse
			US\$	US\$
Planting material	Seedlings/Seed	43,560	4,033	29
Land Lease	per acre/per crop		250	250
Land preparation/Nursery/Beds	person days	75	1,125	
Land preparation/Nursery/Beds	person days	185		2,775
Equipment	Greenhouse/Tools		175	880
Planting	person days	20	300	300
Plant Protection / Fertilizers	Chemicals / fertilizer		996	786
Harvesting/Cleaning/Grading)	person days	87/50	1,305	750
Financing	(1)			415
Total Cost of Production			8,184	6,185
Yields			18,000	16,000
Cost of Production(Farmgate)			0.45	0.39
Farmgate Price			1.20	1.20
Packing	\$/lb		0.01	0.01
Transportation(.03)	\$/lb		0.05	0.05
Wholesaler Price			1.30	1.30
Retail Price			1.48	1.48

Source: Interviews with producers, wholesalers and retailers

(1) Cost of greenhouse plus equipment estimated at \$4,500 per acre / 3 crops per year at 12% interest rate payable over 5 years

IPC for lettuce:

CLP: cost of the product at wholesale level (\$/lb):

Cost of production	0.42
Transport, grading	0.06
Wholesale cost (storage)	<u>0.04</u>
Total	0.52

CIP: cost of imported product at the local wholesale market level (\$/lb)

Wholesale price imported lettuce:	1.30
Minus CET (40% of FOB)	<u>- 0.20</u>
Net wholesale price	<u>1.10</u>

IPC: $0.52/1.10 = 0.47$

Pork Production:

Typical Pig Weaner Enterprise Budget:

Annual Costs		
Items	Units	USD
Building Maintenance	Cost per cycle	250
Weaners(40)	65\$/per animal	2,600
Feed Costs	420 bags at \$9/bag	3,780
Chemical/Cleaners	\$/per animal	450
Water/Electricity	\$/per animal	55
Management(operations)	labor	2,400
Financing (Building 2200sq ft)	(1)	1,332
Cost of Production	\$	10,867
Production	lb	5,700
Cost of Production	\$/lb	1.90
Slaughter (Labor)	\$/lb	0.05
Cost at farmgate	\$/lb	1.95
Pork Price at Farmgate/lb		2.22
Whole sale costs	Transport, storage, cutting - \$/lb	0.20
Wholesale Price		2.42
Pork at Supermarket/lb		2.96
Pork to Consumer/lb		3.70

Source: Interviews with producers, wholesalers and retailers

(1) Initial investment cost of \$15,000 at 12% interest payable over 10 years; two production cycles per year

IPC for pork:

CLP: cost of the product at wholesale level (\$/lb):

Cost of production	1.90
Other costs	0.25
Total whole sale costs	2.15

CIP: cost of imported product at the local wholesale market level (\$/lb)

Wholesale price imported pork:	2.40
Minus CET (30% of FOB)	<u>-0.15</u>
Net wholesale price	<u>2.25</u>

IPC: $2.15/2.25 = 0.96$

Appendix IV: OECS Private Sector Financing Study Policy Matrix

The following pages contain a matrix of policy issues and options analyzed in the OECS Private Sector Financing Study.

MATRIX OF POLICY ISSUES AND OPTIONS

	<p>Issues in Access to Finance</p>	<p>Ongoing and short term measures</p>	<p>Ongoing and Future Possible Actions Medium to long term measures or considerations</p>
<p>Demand Side</p>	<ul style="list-style-type: none"> • Private firms do not generate enough viable investment projects which demand external financing • Private firms suffer from lack of sufficient scale of production • Firm partnerships, such as business associations and clusters, are relatively weak or non-existent • Low quality of certain products (agriculture) and lack of consistent supply of these reduce competitiveness • Business development services (BDS), such as training in management, marketing and accounting, are not widely available in the market • Existing programs to provide BDS are often fragmented and not sustainable over time • Entrepreneurship is not vibrant; loss of worker skills poses problems • Linkages from tourism industry to other industries have been weak 	<ul style="list-style-type: none"> • Enhance firms capacity to develop business plans and apply for loans, especially for micro and small firms • To achieve higher scale of operation, firms need to form clusters or value chains and attain a higher degree of regional integration (across the OECS and Caribbean as a whole) • Improvements in quality infrastructure (e.g. laboratories, metrology and standards) are needed • Ongoing government programs offering BDS and other assistance, are underway across the OECS • Programs offered by donors and governments could be better aligned with firm needs and better targeted • Entrepreneurial skills could be enhanced through targeted interventions in the educational system • Governments and private sector are trying to foster more backward linkages through different programs 	<ul style="list-style-type: none"> • Further pursue efforts, at the level of business clusters or associations, to train micro and small entrepreneurs in basic business planning and management • Further pursue the creation of value chains and firm associations, such as clusters, which could potentially reduce transaction costs and bring about economies of scale; cluster development is a long-term endeavor • Further invest in a better quality system, perhaps with a focus on regional bodies (laboratories, institutes, etc.) • Making BDS programs sustainable should be pursued; once a market is established, the role of the Government could diminish over time • Target establishment of backward linkages from the tourism sector to local agriculture and agro-processing • Address other bottlenecks related to transportation and distribution, which make OECS products uncompetitive internationally. The ECCB and the OECS Secretariat are currently exploring the establishment of an OECS Distribution and Transportation company.

	Issues in Access to Finance	Ongoing and short term measures	Ongoing and Future Possible Actions Medium to long term measures or considerations
Supply Side	<ul style="list-style-type: none"> • Need to broaden financial instruments both for working capital and long-term finance. The lack of financial instruments available to SMEs limits their capacity to diversify. • Need to unify and strengthen the supervision of the non-bank financial institutions (credit unions, insurance companies, off-shore banks) • The SME segment is not yet considered a strategic sector neither by commercial banks nor credit unions. <p><i>Development Agenda</i></p> <ul style="list-style-type: none"> • DBs have not been a successful instrument in providing SME finance • DBs remain tied to the governments and lack information transparency and adequate regulation and supervision • The financial performance of DBs has been generally poor • The ECCB is working towards the establishment of the ECCF 	<ul style="list-style-type: none"> • Recent cases of increased competition in the mortgage market could be explored to extend competition to other segments (e.g., SME finance). • <i>Establishment of regulatory bodies for non-bank financial institutions (SRUs) across the OECS. This has already been initiated. See the case of Grenada (GARFIN)</i> <p><i>Development Agenda</i></p> <ul style="list-style-type: none"> • St. Lucia and St. Vincent and the Grenadines merged/are merging the DBs with commercial banks. Other Governments are discussing alternatives sources of finance (e.g., taking deposits from the public) to make DBs compete on a sustainable basis with other financial sector providers 	<ul style="list-style-type: none"> • It would be recommended to follow the case of Grenada that established the GARFIN (Grenada Authority for the Regulation of Financial Institutions) Act in Parliament in order to strengthen the supervision of the non-bank financial sector. • Provide consistent and targeted technical assistance to the SME sector together with a qualitative improvement in the enabling environment in order to increase the number of projects that will be considered bankable by financial institutions. <p><i>Development Agenda</i></p> <ul style="list-style-type: none"> • The lack for adequate financing instruments may justify a short-term pro-market activism from the authorities taking into account: i) the need for an integrated financial sector and economies of scale to reduce transaction costs; and ii) the transitory and market-incentive nature of intervention. • If DBs are continued to be used, the following changes are needed: <ul style="list-style-type: none"> ○ Define mandates in narrow and dynamic terms ○ Improve governance through independent and more accountable Boards, increased transparency, and risk management ○ Focus on innovative instruments to broaden access, not activities already covered by CBs such as mortgage lending ○ Measure success in terms of the mandate

		Ongoing and Future Possible Actions	
Issues in Access to Finance		Recent/ongoing and short term measures	Medium to long term measures or considerations
Enabling Environment	<p><i>Tax System</i></p> <ul style="list-style-type: none"> Delays in processing VAT refunds cause cash flow problems for exporters 	<p><i>Tax System</i></p> <ul style="list-style-type: none"> CARTAC-IMF have working closely with OECS members on VAT design and implementation Monitor performance of VAT in order to remedy refund problems Dominica intends to conduct a comprehensive review of VAT performance by September, 2007 	
	<p><i>Contract Enforcement, Collateral Registration and Repossession</i></p> <ul style="list-style-type: none"> Wide disparity in the number of days to resolve a debt collection case No specialized collateral registry 	<p><i>Contract Enforcement, Collateral Registration and Repossession</i></p> <ul style="list-style-type: none"> OECS are reviewing rotating judge arrangements Improvements in registries automation 	<p><i>Contract Enforcement, Collateral Registration and Repossession</i></p> <ul style="list-style-type: none"> Need to work toward improving the administration of courts, through better case management Full Automation and rationalization of registries
	<p><i>Benchmarking, Information Transparency and Credit Reporting Systems</i></p> <ul style="list-style-type: none"> Lack of common approach for the application of accounting standards and audited financial statements Borrowers highly dependent on “physical collateral” versus “reputation collateral” 	<p><i>Benchmarking, Information Transparency and Credit Reporting Systems</i></p> <ul style="list-style-type: none"> Authorities in the OECS countries should take a leadership role in motivating the development of credit information systems 	<p><i>Benchmarking, Information Transparency and Credit Reporting Systems</i></p> <ul style="list-style-type: none"> Improve accounting, financial reporting and auditing practices and effectively aligning them with international standards ECCB is well positioned to serve as the coordinator for a reform agenda in credit reporting Improvements in the companies’ registries.
	<p><i>Retail Payments System Development</i></p> <ul style="list-style-type: none"> Mainly based on cash and cheques Low interconnectivity among networks increasing transactions costs Absence of a direct debit instrument makes payroll payments more inefficient and limits retail banking competition. 	<p><i>Retail Payments System Development</i></p> <ul style="list-style-type: none"> ECCB has embarked on a comprehensive payments system reform 	<p><i>Retail Payments System Development</i></p> <ul style="list-style-type: none"> Pursue automated clearing house (ACH) for the broad use of new payments instruments. The ECCB should take a leadership role to help achieve the necessary agreements among banks and other major stakeholders

References

- Allan Williams and David Stanfield, Paper presented at the Workshop on Land Policy, Administration and Management in the English Speaking Caribbean held in 2003 under the auspices of the Land Tenure Center, University of Wisconsin.
- Ashley, Caroline, Harold Goodwin, Douglas McNab, Mareba Scott and Luis Chaves (2006), "Making Tourism Count for the Local Economy in the Caribbean: Guidelines for Good Practice", Pro-Poor Tourism Partnership and the Caribbean Tourism Association, online at http://www.propoortourism.org.uk/ppt_pubs.html
- Caribbean Community Secretariat, (2003), "The CARICOM environment in figures 2002", March 2003.
- Caribbean Tourism Organization (2006), "Guide to the Caribbean: what to do in the Caribbean?"
- Caribbean Tourism Organization (2007), "Latest statistics 2005", 1 May 2007.
- Caribbean Tourism Organization (2008), "Latest statistics 2007", 2 January 2008.
- CARICOM, "The concerns of shippers and other issues that impact on the transportation of agricultural and other products within the Caribbean community and beyond", July 2006
- ECCB (2007), National Accounts Statistics
- Economic Commission for Latin America and the Caribbean (2002), "St. Vincent & The Grenadines: the yachting sector", 8 November 2002, GENERAL LC/CAR/G. 707.
- Economic Commission for Latin America and the Caribbean (2002), "Antigua & Barbuda: the yachting sector", 1 November 2002, GENERAL LC/CAR/G. 704.
- Economic Commission for Latin America and the Caribbean (2003), Report of the sub regional meeting on the contribution of yachting to development in the Eastern Caribbean, 25 April 2003, GENERAL LC/CAR/G. 737.
- Economic Commission for Latin America and the Caribbean (2003), "Grenada, Carriacu and Petite Martinique: the yachting sector", 25 April 2003, GENERAL LC/CAR/G. 738.
- Economic Commission for Latin America and the Caribbean (2003), "Dominica: the yachting sector", 1 December 2003, GENERAL LC/CAR/G. 762.
- Economic Commission for Latin America and the Caribbean (2004), "Yachting in the Eastern Caribbean: a regional overview", 9 January 2004, GENERAL LC/CAR/G. 775.
- FAO (2005), "The Future for Agriculture in the OECS Countries", Unpublished draft, Food and Agriculture Organization of the United Nations and the World Bank, FAO/World Bank Cooperative Program, Rome and Washington D.C.

- FAO (2005)/World Bank Cooperative Program, “The future for agriculture in the OECS countries”, Unpublished technical paper, Rome, Italy
- FAO, FAOSTAT database (www.fao.org/faostat)
- FIAS (2007), “Moving towards competitiveness: A value-chained approach”, Washington, DC
- Meyer, Dorothea (2006), “Caribbean Tourism, Local Sourcing and Enterprise Development: Review of the Literature”, Pro-poor Tourism Partnership Working Paper No.18, online at http://www.propoortourism.org.uk/ppt_pubs.html
- The Mind Company (2008), “OECS backward linkages in tourism”
- Tourism Global Inc. (2006), “The Caribbean Accommodation Sector as a Consumer of Locally Produced Goods and Services and Contributor to Government Revenues”, a report prepared on behalf of the Caribbean Tourism Association.
- UN Statistics Division, COMTRADE database (<http://comtrade.un.org>)
- World Bank (2004), Achieving Environmentally Sustainable Tourism in the OECS Sub-Region”, Caribbean Country Management Unit, Environmentally and Socially Sustainable Development, Latin America and Caribbean Region. Food and Agriculture Organization, WB/FAO Cooperative Program.
- World Bank (2007), “OECS Private Sector Financing: Bridging the Supply-Demand Gap”, Latin America and Caribbean Region, Caribbean Country Management Unit and Finance and Private Sector Development Cluster, Poverty Reduction and Economic Management.
- World Bank, “Rising Global Food Prices: The World Bank’s Latin America and Caribbean Region Position Paper”, unpublished draft
- World Travel & Tourism Council (2008), “Grenada, The 2008 Travel & Tourism Economic Research”, Tourism Satellite Accounting.
- World Travel & Tourism Council (2008), “St Kitts and Nevis, The 2008 Travel & Tourism Economic Research”, Tourism Satellite Accounting.
- World Travel & Tourism Council (2008), “St Vincent and The Grenadines, The 2008 Travel & Tourism Economic Research”, Tourism Satellite Accounting.
- World Travel & Tourism Council (2008), “Antigua & Barbuda, The 2008 Travel & Tourism Economic Research”, Tourism Satellite Accounting.
- World Travel & Tourism Council (2008), “St Lucia, The 2008 Travel & Tourism Economic Research”, Tourism Satellite Accounting.
- World Travel & Tourism Council (2008), “Dominica, The 2008 Travel & Tourism Economic Research”, Tourism Satellite Accounting.

