RNM/OECS COUNTRY STUDIES TO INFORM TRADE NEGOTIATIONS: GRENADA

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TABLE OF CONTENTS

GRENADA

INTRODUCTION

The economy of Grenada exhibits greater diversification that most of the other OECS countries and hence can be more resilient than the others. In particular, the importance of bananas is much less than the other Windward Islands and hence would be least affected by the results of WTO dispute over bananas. There is a fairly even balance between agriculture tourism and manufacturing accounting for 9%, 8% and 8% of GDP, respectively. However, the traditional exports of cocoa, nutmeg and mace account for a significant portion of export revenues.

The recent economic performance of the economy can be divided into three distinct periods. From 1986-1989, the economy grew at an average rate in excess of 6% annually continuing the relatively high growth rate experienced in the mid 1980s. The period 1990-1994 was marked by a period of lower growth averaging about 3%. Since then growth has resumed and upward trend averaging just over 4% annually.

The economy grew at an average annual rate of 6.1% during the period 1986-1989 fuelled largely by expansion in agriculture and tourism. In particular exports of nutmeg and mace increased rapidly as a production agreement between Grenada and Indonesia, the largest producers of nutmegs forced the world market price for that commodity up. Total tourist arrivals increased by 7% annually as both cruise ship (8.3%) and stay-over arrivals (6.1%) contributed to the increase. Substantial growth also occurred in the communications sector growing by as much as 62% in 1986 and 56% in 1989 in real terms. Over the period growth in the Communications sector averaged 32% annually.

The balance of payments improved significantly over this period buoyed by higher export receipts from nutmeg and mace as the prices soared as a result of a cartel arrangement between Grenada and Indonesia to restrict output. Export revenues from nutmeg and mace peaked at EC$34m and EC$7m respectively in 1988. Additionally, visitor expenditure grew at an average rate of 5% to average EC$100m. Never the less the current account balance widened to 21% of GDP in 1989 from 15% in 1986 as the rate of growth of imports outpaced the rate of growth of imports. The growth rate of imports was related to the increase in inflows on the capital and financial account which averaged about 30% of GDP during that period. Foreign direct investment (FDI) averaged about 6.3% of GDP during this period while capital transfers averaged about 12%. These were largely related to the government Public Sector Investment Programme (PSIP).

The period 1990-94 was a period of slower growth. A growth rate of 5.3% was achieved in 1990 but declined steadily to -1.2 in 1993 and recovered to 3.3% in 1994. The average growth rate for that period was 1.7% annually. The period of slower growth was led by the decline in the agricultural sector which recorded negative growth that ranged from -1.9 in 1990 to -6.2 in 1994. Over the period the agricultural sector declined an average of 4.2% annually. This decline as largely related to the fall in prices of nutmeg and mace resulting in a decline in export revenue by almost two thirds. The prices of nutmeg and mace plunged sharply as under an IMF stabilisation programme Indonesia was required to liberalise the market for nutmeg and mace and the cartel agreement with Grenada was scrapped in 1989.

The decline in the agricultural sector was partly moderated by growth in the tourism sector, communications and to a lesser extent, the manufacturing sector. The hotels and restaurant sector grew at an average of approximately 16% annually and at time achieved growth rates in excess of 40% (45.55 in 1994). The growth in the sector was fuelled by an approximately 20% growth in stay-over arrivals while at the same time cruise ship arrivals was growing at a rate in excess of 30x%. Similarly the communications sector grew at an average of 11.6% annually during the period 1990-94.

Export receipts plummeted from EC$ 34.9m in 1987 to EC$9.5m in 1991. The current account balance widened to 25% of GDP in 1990, however by 1994 had narrowed to 14% of GDP by 1994 as a result of a contraction of the import ratio from 78% of GDP to 76% and recovery of export receipts from cocoa and nutmeg and mace. Meanwhile FDI inflows increased to 7.9% of GDP while capital transfers declined to about 9% of GDP.

Since 1995 the Grenadian economy has staged a recovery growing at an average of 4.5% annually. The agricultural sector turned in a mixed performance during that period. It grew by 6.9% in 1995 but declined by 7.8% and -0.89% in 1996 and 1997 before growing by 2.3% in 1998. While communication continued to give a strong performance though somewhat reduced from the 11.6% achieved in the earlier period, the performance of the tourist sector was patchy. The sector recorded declines of -5.3% and -0.3% in 1995 and 1997, respectively. However, growth rates of 45 and 2.1% were recorded in 1996 and 1998. There was significant expansion in the construction sector as the government embarked on a vigorous Public Sector Investment Programme. These included roads, Ministerial complex and the National Stadium. In addition, private sector construction of office buildings and housing contributed to the growth in the construction sector which averaged about 11.1% during this period.

By 1998 the current account of the balance of payments had deteriorated to about 32% of GDP as the vigorous PSIP and continued inflows of FDI contributed to rapid increases in imports. FDI flows averaged 10.7% of GDP during the period 1995-1998. Additionally capital transfers amounted to EC$77m in 1998 of which migrant transfers were EC$50m (net) amounting to 6.6% of GDP. Migrant transfers have increased steadily since 1994 and the government has enacted legislation to provide incentives for return migration to Grenada.

RECENT FISCAL PERFORMANCE

After a period of persistent current account deficits during 1984 to 1992, Grenada's fiscal performance strengthened with current account savings of 4.1% of GDP in 1994, but weakened thereafter as current account savings dropped consistently to 0.9% of GDP by 1997. Despite substantial grant inflows and the proceeds from the divestment of assets the overall balance deteriorated to a deficit of more than 5.0% of GDP by the end of 1998 as a result of high levels of investment expenditure. Most of the fiscal deficit incurred during 1997 and 1998 was financed from non-concessional borrowing, both domestic and external.

Revenue performance was unsteady during the period with an annual average growth of 7.3%. Taxes on international trade showed a particularly high rate of growth at an average annual rate of 13.2% as compared to 7.7% for total tax revenue. However, revenue flows from international trade declined during the period 1991 to 1998 to an annual average of only 3.6% as compared to an annual average rate of 24.2% for the earlier period due to the problems experienced with the introduction and subsequent redesign of VAT and the low rate of collection arising from generous incentives and concessions. It is estimated that only about 40% of revenue potential from that source is realised as a result of concessions and incentives to the private sector and the exemption of government imports and the imports of other public sector bodies. Despite these problems revenue buoyancy remained relatively high during the period 1991 to 1998 averaging slightly less than 1.0 although taxes on international trade declined substantially with a buoyancy ratio of only 0.6. The contribution of the offshore sector was particularly significant during 1998. Revenue from this sector increased from $0.7 million in 1997 to $6.0 million in 1998 ($4.9 million from the economic citizenship programme).

Recurrent expenditure grew at an average annual rate of 7.5%. Growth in salaries and wages averaged 7.6% as compared to average annual GDP growth of 8.5% during the corresponding period. The rate of growth in salaries and wages declined during the period 1990 to 1998 as government embarked on a programme to rationalise employment in the civil service. There were marked fluctuations in the rate of growth of expenditure on goods and services which averaged 9.6 during the period 1984 to 1998. Similar fluctuations occurred in interest payments which averaged an annual growth rate of 10.2% as well as in transfers which averaged an annual growth rate of 7.1%.

Recurrent expenditure as a per cent of GDP declined from 39.1 in 1994 to 29.5% by 1997. Sectoral allocation of expenditure showed no significant changes during the period under review with moderate shifts towards education and towards social security and welfare.

Recurrent revenue as a per cent of GDP also declined during the same period from 35.5 to 29.5. This decline was particularly marked in domestic taxes and non-tax revenue which fell from 20.3% and 4.1% of GDP to 9.4% and 2.9% of GDP respectively. Taxes on international trade, on the other hand, increased as a per cent of GDP from 11.1% to 17.2%.

The stock of external debt outstanding for Grenada declined between 1990 and 1993 following a debt write-off by the U.K; but rose again during 1993 to 1998 as government negotiated new loans (including non-concessional borrowing) to finance its investment programme. It is estimated that at the end of 1998 the stock of public debt stood at 46.4% of GDP of which external debt accounted for 29.7% and domestic debt 16.7%. As part of the external debt, borrowing under lease own arrangements was equivalent to 15.4% of GDP. Despite debt forgiveness, the stock of arrears remained high at 2.0% of GDP at the end of 1998.

STRUCTURE OF REVENUES

Grenada increased its reliance on taxes from international trade after it abolished personal income tax in 1986. Although the tax on personal income was restored in 1991, its base has been narrowed considerably to exempt incomes below a threshold of $60,000. Domestic taxes and charges at the end of 1997 were at 12.3% of GDP as compared to 24.4% in 1984 while taxes from international trade increased from 11.1% of GDP to 17.2% of GDP during the same period.

Basically, Grenada's revenues fall into two major categories – taxes and charges on domestic goods and services and taxes and charges on international trade and transactions. Included in the former are:

- personal income tax levied on incomes over $60,000 at a single rate of 30%;
- corporation tax on net profit at 30%;
- property tax on properties over $100,000 in value at 0.15% of market value and transfer tax at 5% of value or sale price (excluding transfers or sales of values below $20,000);
- a consumption tax applied to hotel room sales and restaurant sales at 8%, locally manufactured goods at 10% and other domestic goods and services at 5%;
- a VAT on overseas telephone calls at 10%;
- a number of licenses including vehicle, trade and professional licenses.

Taxes on international trade and transactions consist of:

- a general consumption tax on imports at a basic rate of 15%, with varying rates between 0 and 55% on selected imports (including petroleum);
- import duties at rates varying from 5 to 30% rising to 40% on agricultural and agro-processed goods;
- a customs service charge at 5% on all imports;
- a petrol tax at 11 cents per litre;
- taxes on travel including embarkation tax at $35.00 per head, ticket tax at 10% of the value of tickets sold, security tax at $10.00 per passenger and cruise ship passenger tax at $8.10 per head;
- various fees, charges and licenses on offshore services, including economic citizenship, bank and trust applications and licenses, international business corporations and internet gaming;
- withholding taxes on dividends, royalties, management fees and other incomes accruing to non-residents.

Grenada's tax structure is broadly consistent with WTO standards except in two particulars. There is a customs service charge at 5.0% of C.I.F which is in excess of the limit allowed for cost recovery. Revenues derived from this source exceeded $21.0 million in fiscal 1998. A downward adjustment of this tax would be at considerable cost to Grenada's revenue. In the context of a general trade liberalisation, it should be done within the framework of a comprehensive tax reform programme designed to shift taxes towards expenditure rather than directly on imports.

As with most OECS states, Grenada requires a 10.0% license fee on land transactions by non-nationals. While the discriminatory nature of the tax may be inconsistent with MNF principles of the WTO, there are critical social implications in deregulating land transactions in terms of the price/demand spiral that could occur in an environment where basic shelter and food farming are still an urgent need. A phased approach to deregulation should be devised so as to prevent immediate alienation of deserving nationals from lands needed for both basic shelter and food farming.

RECENT TAX CHANGES

Grenada has made bold attempts to restructure its tax system to remove barriers to economic growth and expansion. Major concerns have been to:

- provide incentives for growth in investment and employment;
- enhance revenue flows by simplifying the system and improving administration;
- ensuring equity and efficiency in the design and application of the tax code.

This has led to attempts to realign the tax system form direct towards broad-based indirect taxes with the virtual elimination of direct taxes on income. These attempts have had to be modified to take account of internal capacity both within the public and private sectors to manage the more demanding complexities of the new tax handles introduced such as the VAT. The modifications made have non-the-less reduced Grenada's dependence on domestic (and especially direct) taxes in favour of taxes on international trade and transactions.

Since the major reforms implemented between 1985 and 1993, a number of changes have been introduced including:

- the extension of the corporate tax to sole traders;
- extension of the general consumption tax to telephone rentals and electricity services;
- a lowering of the CET to Phase III of the CARICOM adjustment programme;
- an increase of the customs service charge from 2.5 to 5%.
- a number of fees, licenses and charges for offshore services as a means of broadening the revenue base;
- increases in user fees, including registry and hospital user charges.

FISCAL PROSPECTS

Current trends indicate that there will be a worsening of the fiscal situation as grants and privatisation inflows continue to decline, especially if the current high level of public sector investment continues. Furthermore the high cost of commercial borrowing under lease own arrangements will put additional pressure on debt servicing costs, eliminate the current account surplus and increase the need for non-concessional domestic financing or increase the stock of external arrears. Some measure of stabilisation can be achieved if government:

- maintain control of recurrent expenditure, in particular, wages and salaries, by further reviewing government employment and wage policy;

- rationalise and prioritise investment spending;

- improve tax collection by strengthening the legal and administrative framework to support compliance and enforcement;

- improve the incentive framework to make its application transparent, automatic and effective so as to reduce ad hoc concessions and rationalise exemptions.

There are a number of ongoing initiatives designed to strengthen fiscal management, including:

- systems and procedures to strengthen the administration of income tax and other domestic taxes (SIGTAS);

- improvements to customs administration, including the legal framework, technology, skills enhancement, customer relations, accounting and reporting (CRM and ASYCUDA);

- budget reform to rationalise the allocation of financial and human resources and eliminate wasteful spending;

- enhancing the regulatory and procedural framework for procurement, payments, accounting and reporting, including computerisation of government budgeting and accounting.

However, much more needs to be done to make that tax system more efficient and remove rigidities in the system for allocating expenditure to the various programmes annually so as to improve the fiscal account on a sustainable basis. Although revenue buoyancy has been maintained at a satisfactory level (averaging 1.0), there is considerable scope for increasing revenue by broadening the tax base, reducing leakages and encouraging compliance.

Grenada carried out major tax reforms in the mid-eighties which was designed to increase private savings, broaden the coverage of indirect taxes and simplify the tax system by reducing the range of taxes and charges. However, administrative difficulties have reduced the effectiveness of these reforms. Moreover, there are inequities in the distribution of the tax burden. This, coupled with the weakness of the administration to enforce tax laws, results in non-compliance and costly attempts to recover taxes due. The incentive regime also creates inequalities in burden-sharing as well as opportunities to divert taxable income from the tax net. Additionally, lack of transparency in the incentives policy and the virtual absence of accountability on the part of recipients of concessions to account for benefits received erode the authority of tax officials.

The situation is particularly serious in the case of customs revenue where it is estimated that only 40.0% of potential revenue is actually realised. Smuggling and undervaluation of goods also erode the revenue base despite the introduction of ASYCUDA and institution strengthening assisted by a DFID programme. Customs administration has coped reasonably well with most of these problems; but the increasing diversion of customs personnel to preventive work involving the complicated and sensitive area of drug import surveillance has put a strain on their ability to manage the revenue functions.

There is need for a further review of the tax system to improve efficiency and reduce leakages. The distortions created by the unequal distribution of the tax burden among sectors affects the efficiency of the allocative process and drives investment where rents in the form of incentive support are more readily available. In particular government exemption and concessions policy should be re-examined to rationalise the granting of incentives and concessions. The current incentive scheme was designed to support investment in the goods producing sector and in the hotel sector. With the increasing awareness that diversification of the economy must include all sectors, the present scheme should be redesigned to remove the bias against other sectors of the economy especially the service sector given its growing significance.

As regards expenditure, the share of wages and salaries in total recurrent spending and the allocation to administrative services as compared to allocations to education, health, economic services and social services and welfare indicate a need to re-examine the allocative process and the efficiency of the use of resources, especially manpower resources, although it should be noted that such allocations are more balanced than in other OECS countries. Both public sector reform and budget reform have assisted in the rationalisation of expenditure allocations; but both have been conducted within the narrow limits of existing organisations and the current regulatory framework. For meaningful reform to take place there is need to step back and take a fresh look at government's plans and objectives to determine what needs to be done, what is required to do it and the most appropriate regulatory framework for conducting government business efficiently and effectively.

Under a structural adjustment programme implemented between 1995 and 1998, Grenada has been able to reduce the size of its staff complement without significant social adverse effects. There is still scope for reducing employment in the central administration and generally to upgrade skills and improve the compensation package in order to be competitive in the market for skilled personnel. Policies for wage setting and adjustments need to be reviewed. The approach taken for wage setting has been more inward looking and focusing more on relativities between grades. There is no systematic approach to wage bargaining that takes account of macro-economic indicators as a guide. Wage setting should be done within a broader market environment so as to attract required skills at mid and upper management levels. Wage adjustments should also be done within a transparent framework that is predictable and consistent for the benefit of both the employer and the representative unions. Overall, such an approach may not generate savings in the short term; but greater efficiencies will be realised that should have beneficial results in the medium term.

The introduction of programme and performance budgeting and the standard integrated government financial information system (SIGFIS) should facilitate proper costing of government services. Unit cost of service delivery should help to revise user charges especially for economic services provided to the public and other government departments by service agencies. This could in turn lead to decisions regarding the commercialisation or divestment of services where these are appropriate.

Although Grenada has progressed rapidly in its divestment programme as far as public enterprises are concerned, the substantial share of transfers in recurrent expenditure brings to the fore the need to adjust public utility tariffs to economic levels and to review the operations of loss making enterprises.

Grenada's public sector investment programme in 1998 was equivalent to 10.7% of GDP. At the same time its current account saving was only 0.9% of GDP and grant funding was 4.3% of GDP. Its borrowing requirement for that year, therefore, was equivalent to 5.5% of GDP. There is need to both increase the savings level and make more careful selection and programming of projects if the debt situation is not to return to unmanageable proportions.

SECTORAL STRATEGIES

The economy of Grenada is more diversified than most of the other OECS Economies and hence there is a wider range of economic activities. There is potential for development in Agriculture, Agro-processing, light manufacturing, tourism, informatics and offshore financial services. These areas will be discussed under the appropriate heading later in this section but there are a number of cross-cutting issues that need to be addressed if the economy is to achieve its full potential. These include economic infrastructure, social infrastructure and the environment.

ECONOMIC INFRASTRUCTURE

Over the past five years the Government of Grenada with the assistance of the Republic of China on Taiwan has significantly up grade the road network throughout the country. These roads have facilitated agricultural output and other forms of economic activity, while at the same time has improved the quality of life of the citizens of the country.

The passage of hurricane Lenny in 1999 and the tidal waves associated with this storm destroyed or extensively damaged major parts of the road network, bridges and sea defences around the country. Significant amounts of financial will have to be allocated the rehabilitation of these bridges and roads.

The Pointe Salines airport is capable of taking all sizes of jet aircraft and hence is adequate to meet the countries air transport needs to service the tourism industry. The terminal building has bee recently rehabilitated to provide enhance service and more counter space for additional airlines.

The shortage of water to the South-eastern area of Grenada which has the highest concentration of hotels has been a perennial problem. During the dry season there is rationing of water in this area. To address the shortage of water a number of short-term measures including a water-metering programme and the upgrade and installation of new water mains. The latter would also improve the finances of the National Water and Sewage Authority and make it more capable of investing in the sector. Over the long-term there are a number of Caribbean Development Bank and the European Union that would improve water catchment and distribution in the country.

Electricity in Grenada was privatised in 1995. Since then the electricity company has invested heavily in improving the electricity generation and distribution capacity. The company has invested over $35 million to modernise the power generating capacity. The new Queen's Park power station is equipped with two 5.5 megawatts generators and the Cariacou power station has be commissioned. These developments have resulted in improved reliability of electricity and a reduction in load-shedding and down-time. This improvement augurs well for the attraction of foreign investment in the country.

SOCIAL INFRASTRUCTURE

The development of human resources has been identified as a critical prerequisite for the improvement of the competitiveness of the economies. In addition, it is also a social service to the society and one of the more effective avenues for the redistribution of wealth. The output of the education system - both in terms of quantity and quality - is inadequate to build sustainable competitiveness. Hence much effort and finance would need to be expended to upgrade the quality of the education system. The Government of Grenada spends approximately 20% of its recurrent budget on education but most of it is on personnel emolument and hence much resources are not left over to provide supplies and materials. Additional resources would have to be found to provide equipment and supplies which are necessary for a modern education system. Thus education reform was high on the agenda for the authorities. A basic education reform project is being implemented which will enable the system to equip school-leavers with the skills necessary to make the country more competitive while at the same time improve the quality of life The project has the following components:

(i) the provision of additional training for teachers and improved remedial education and training facilities;

(ii) construction of two new schools

(iii) construction of a new Ministry of Education building;

(iv) converting the management of the T. A. Marryshow Community College into a statutory corporation and the introduction of user fees;

(v) computerisation of all public schools;

(vi) curriculum development; and

(vii) the introduction of a skills training scheme with the support of the private sector and the trade unions to provide on the job training for students.

The weaknesses in the public finances suggest that the government would need to use the resources in the sector more efficiently and mobilise external resources to finance the additional requirements of the sector.

The provision of adequate level of primary health care at a reasonable cost is one of the major challenges of the authorities. It would require significant enhancement of the healthcare delivery system. This would involve improvement in both, the management of the system, and the physical infrastructure. At present expenditure on health accounts for approximately 13% of the recurrent budget and is the second largest component.

In order to improve the management of the health system the authorities have established a statutory body to manage the acute care hospitals. This would assist in the implementation of cost recovery measures in the health sector. Community health care services are also to be reviewed as part of the reform process. The phased construction of a new hospital is also planned.

THE ENVIRONMENT

Like most small island economies, Grenada must always be aware of the fragility of its ecosystem. This is particularly so since one of its major industry, tourism, is heavily dependent on the preservation of the environment but at the same time can be heavily destructive of the environment. Thus greater attention has to be paid to environmental issues including protection of the fragile ecosystem, bio-diversity, environmental impact assessment and general environmental issues. It is possible to turn the emphasis on environmental issues into profitable opportunities for these economies.

The environmental problems experienced in the country are related to the use of its natural resources for agriculture and tourism. Some of the specific issues highlighted in the National Environmental Action Plan (NEAP) are solid waste management, land use and coastal zone management, forestry and protected areas management, water supply and liquid waste management and the reduction of man-made hazards.

The implementation of the World Bank Solid Waste project and the environmental levy for its finance, the passage of umbrella environmental legislation and coastal management in conjunction with the OECS Natural Resource Management Unit are positive steps being taken by the authorities to try to preserve the environment. In addition user fees for national parks and garbage collection are also contemplated.

1. AGRICULTURE SECTOR

Contribution and Performance

For many years the agriculture sector was considered the backbone of the Grenadian economy. Approximately 46% of the arable land in Grenada is used for agriculture, most of which is located in difficult terrain. The availability of agricultural land and labour has been receiving increasing competition from construction and urban migration. A major competing sector has been tourism, which has experienced more rapid growth than agriculture. This notwithstanding, agriculture remains a dominant economic activity in Grenada and currently accounts for about 17% of employment and 43.8% of total exports.

Output in the agricultural sector is heavily dominated by the production of crops, particularly traditional crops of nutmeg, cocoa and banana. Most farms, usually less than 3 acres in size, are inter-cropped with traditional crops. Crop production accounted for three quarters of the activities in the agricultural sector. Within recent years, however, expansion in the fisheries sub-sector has increased its contribution to both agricultural and total GDP. Although output in the livestock and forestry sectors has remained relatively small, there have been some signs of increase.

Between 1978-1989 the sector's contribution to GDP averaged 18.8% while for the same period real growth in the sector averaged 7.2%. In the 1990s, agriculture represented a declining share of GDP, averaging 11% between 1990-1999. This was due to more rapid growth in other economic sectors, as well as negative growth in agriculture. In fact, the period of the 1990s represented a period of negative growth in agriculture, at an average rate of -1.02% per annum, between 1990-1999 (Table 7). The steady decline in gross agricultural output in the latter half of the 1990s was due to mixed performance in the traditional crop industries. Growth in 1995 was largely led by significant growth in non-traditional crops due to the progress under the agricultural diversification programme. After favourable growth in crop production 1995, the sector experienced a number of setbacks, not the least of which was infestation by the Pink Hibiscus Mealy Bug. This, combined with low international prices for cocoa, bananas and the suspension of banana exports, and the inadequacy of agricultural inputs resulted in decreased productivity and negative overall growth of –1.03% in 1996. The other sectors recorded moderate but variable growth over the 1995-1998 period.

Table 7: Grenada: Share and Growth Indicators, Agriculture Sector

Real Prices (1990)	**1990-94 Avg**	**1995**	**1996**	**1997**	**1998**	**1999**
Agriculture share in GDP Per Cent	12.14	10.34	9.95	9.47	9.16	8.86
Agriculture GDP growth Per Cent	**-3.83**	**-0.46**	**-1.03**	**-0.89**	**2.38**	
- Crops	-5.62	8.81	-10.94	-2.03	22.35	
- Livestock	2.01	1.90	2.93	3.11	4.02	
- Forestry	3.07	0.79	4.88	5.12	5.31	
- Fishing	2.76	0.85	0.96	1.07	0.94	
Real GDP Growth	**1.71**	**3.09**	**2.86**	**4.21**	**5.80**	

Despite declines in traditional crop production, improvement in prices led to increases in export earnings for bananas, cocoa, mace and nutmeg. Banana production, in particular, has been on the decline since the mid-1980s. Production continued to decline sharply between 1990-1999 due to poor fruit quality, as well as in response to the uncertainty in the industry as a consequence of the resolution of the preferential arrangements within the framework of the Lomé Convention (Table 8). As a result many farmers abandoned their fields and those who remained had difficulty in meeting quality standards set by the Windward Islands Banana Development Company (WIBDECO).

Table 8: Selected Agricultural Production 1995-1999

Tonnes	**1995**	**1996**	**1997**	**1998**	**1999**
Bananas	4,559	1,866	102	94	584
Cocoa	1,355	1,906	1,014	1,419	974
Nutmeg	2,097	2,081	2,398	2,095	3,018
Mace	100	119	203	152	277

Cocoa production fell from 1,355 tonnes in 1995 to 974 in 1999. In spite of improved plant husbandry and higher demand on the external market, the problems faced by the industry are similar to that experienced in the banana industry, namely labour shortages, low productivity and low yield per acre, the prevalence of pest and diseases and a reduction in the acreage under cultivation due to increased competition for land for housing. Low prices paid to farmers have also led to the abandonment of cocoa fields.

In contrast, nutmeg and mace are the only traditional crop reporting favourable growth over the last five years. Grenada is cooperating with Indonesia, the world's other leading nutmeg producer to firm up prices and develop strategies for penetrating new markets in the US and Europe. As a result, this has led to higher prices and increased demand on the export market over the review period. In an effort to raise the quality and price of nutmeg exported, a reconditioned nutmeg plant commenced operation in 1998. The plant is used for the semi-processing of nutmeg to reduce the existence of pest and diseases in nutmeg exported.

The fisheries sub-sector expanded slightly during the late 1980s and early 1990s. Output, which has tended to increase over the last five years, exhibits some instability, with growth averaging 0.96% between 1995-1999. This notwithstanding its percentage share in agricultural GDP has increased from an average of 13% between 1990-94 to 15% between 1995-1999. This increase in relative share occurred in part, to the reduction in the share of crop production. For a number of years local fishermen were provided with technical assistance and infrastructural support from friendly governments. From July to September 1999, a mysterious "fish kill" brought production to a halt, and in November of the same year, Hurricane Lenny did further damage to most of the infrastructure.

The non-traditional sector, based on golden apple, mango, hot pepper, avocado, soursop and breadfruit, began to show some prominence in the 1980s with the implementation of an Agricultural Rehabilitation and Crop Diversification Project. Production is generally undertaken by small farmers with plots averaging 0.35 acres. The targeted linkages between agricultural production and the tourism sector continue to exhibit growth, and it was estimated that almost 80% of the vegetable needs to hotels in 1994 was supplied from local production. A 1997 study indicated that the non-traditional domestic market stands at $15.4 million with significant potential for growth and development. However, the market has been stagnant for the past five years due to the shortcomings of the marketing of non-traditional crops. The development of the non-traditional sector was also encouraged by facilitation of access to commercial bank credit, which has been relatively stable over the 1990-1998 period, averaging $12 million per annum, with some growth in 1999. A significant share of this credit was allocated to the fishing sub-sector, which is reflective of its relative financial viability.

In spite of the inadequacy of production data on non-traditionals, indications are that the agricultural diversification programme is progressing and has registered positive economic impact, particularly evidenced in the non-traditional exports sub-sector. Exports of mango, avocado, golden apple and papaya and vegetables were valued at US$862,560 in 1994. Domestic exports in Grenada have grown during the period 1995-1999 with revenue from the export of some traditional crops contributing substantially to this growth (Table 9). In 1996, revenue from agricultural exports accounted for 57% of total exports. In 1999, this figure fell to 43.76%, due largely to a more rapid rate of growth in non-agricultural exports.

Table 9: Agricultural Exports 1995-1999

Tonnes & EC$M	**1995**	**1996**	**1997**	**1998**	**1999**
Total Export	**53.27**	**55.94**	**60.39**	**112.26**	**134.30**
Agricultural Exports	**NA**	**31.91**	**37.57**	**42.67**	**58.77**
Banana ($)	5.20	1.64	NA	NA	0.34
Volume	4514	1851	102	96	570.38
Nutmeg ($)	9.13	11.27	19.0	23.0	40.79
Volume	2,086.0	1,951.0	2,856.26	2,328.78	2,694.67
Mace ($)	1.64	2.70	3.0	4.0	4.19
Volume	62.0	119.0	154.53	149.53	166.93
Cocoa ($)	8.96	6.99	5.0	6.0	3.75
Volume	1425	1593	1329.66	1105.55	848.63
Fish	NA	8.54	9.76	9.26	8.38
Fresh Fruits & Vegetables	NA	1.54	0.89	0.84	0.78

Revenue from the export of nutmeg and mace increased during the period associated with higher prices and demand on the external market. The fall in revenue from the export of cocoa reflected unfavourable conditions of demand and prices externally. The loss of a major external buyer in 1995 resulted in a decline in international prices, which in turn was translated into relatively low advance payments to farmers. As was previously noted, export of banana was affected by WIBDECO decision to suspend the export of the crop to the UK due to low domestic quality.

Revenue from the export of fish and non-traditional crops averaged EC$8.99m and EC$1.01m respectively during the period 1996-1999. The fisheries sector is expected to receive a boost with the completion of the St. Georges' Artisanal Fisheries Complex. Phase I of the project entailed the construction of a jetty and sea defense wall, while Phase 2 included the construction and equipping of the building. In 1999, Japan extended Grenada a $5.1 million grant for the construction of the Melville St. Municipal Market, a fish market which is to be equipped with cold/chilled and dry storage facilities as well as ice-making machines and equipment.

Policies and Prospects

The Government of Grenada has recognised the need to strengthen the agricultural sector, in particular, those sub-sectors that have been manifesting declining performance in recent years. Government's long-term objectives for the sector are to increase production and export of traditional and non-traditional crops and to obtain self-sufficiency in selected foods. With regards to the traditional agriculture, emphasis is concentrated on increasing output of banana and cocoa.

Traditional Sector

Banana

The Government of Grenada has indicated that in terms of its employment, social stability and income generation, the banana industry is deserving of efforts to arrest the demise of the industry. Prior to July 1993, the banana industry was an important contributor to gross agricultural production and exports. Since the early 1990s, the Grenada banana industry has been confronted by many challenges which impacted on industry viability. A significant challenge to the industry came in the form of the introduction of the new banana regime in 1993, where Grenada's duty free quota for the banana exports to the UK was limited to 14,000 metric tonnes. As with other Windward Island, this quota was non-transferable, and could have resulted in a reduction in subsequent years if Grenada failed to achieve this quota.

The new regime of protection to Windward Island banana engendered strong external opposition from Latin American producers, from US based large multinational trading corporations and from some EU member countries whose tariffs on bananas were traditionally low or zero. In addition, it was generally felt that the new banana regime was running counter to the principles of the General Agreement on Tariffs and Trade (GATT). This resulted in concerted efforts over the next years to reform the preferential arrangements in keeping with free trade principles. Another factor which impacted negatively on the banana industry in Grenada and the Windward Islands was the periodic fluctuation in the exchange rate between the Pound Sterling and the US dollar. Of note was the year 1992, when producers suffered from a loss in revenue resulting from a depreciation of the pound sterling. In an effort to maintain high price support to farmers the Grenada Banana Cooperative Society (GBCS) drew down its reserves and incurred loans from commercial institutions.

At the domestic level, the Grenada banana industry has been plagued with problems of poor and variable fruit quality. The inability of Grenadian producers to achieve a certain quality level under various WIBDECO-implemented fruit quality programmes to improve competitiveness of Windward bananas, led to an eventual suspension of the export of Grenada's crop to the United Kingdom market in the first quarter of 1997. This resulted in financial bankruptcy for the GBCS.

Against the backdrop of the imminent demise of the banana industry, Government embarked on an industry recovery plan in May 1997. Valued at $1.8m, the plan made provisions for additional extension services and financial and material support to a select group of farmers whose plantations were located in areas most suited for the crop. Moko-resistant banana seedlings were imported to supplement local production. Further support was provided by the European Union in 1998, through the provision of financial assistance for a Windward Islands Banana Recovery Plan (WIBRP). While under suspension, Grenada was unable to participate immediately in the plan. However, with noticeable improvements to fruit quality, WIBDECO approved the resumption of export in the last quarter of 1998 and the Grenada then became eligible to participate in the Recovery Plan.

The industry is therefore expected to benefit from a grant of $7.5m from the STABEX-financed WIBRP. The plan seeks to commercialise banana operations on the island by providing credit to a select group of farmers for irrigation facilities, technical assistance and other inputs. Credit will be facilitated through the establishment of a Trust, run by a Board of Directors who will report to the Minister of Agriculture. It is expected that by 2001, approximately 210 farmers would be cultivating 1000 acres of land and producing 15,050 tonnes of bananas for the UK market.

Cocoa

A fundamental problem affecting cocoa production in Grenada is the high operating cost of the Grenada Cocoa Association (CGA). A recent study (The Cargill Report) on the organisational, operational and financial operations of the sub-sector pointed to the liberalisation of the post-harvest operations so as to reduce cost and to place the industry on a more viable footing. In this regard, the GCA is seeking to privatise the fermenting and drying operations, and a number of farmers are being identified to buy wet cocoa and undertake drying operations on behalf of GCA, based on an agreed price. The GCA will, however, remain the sole exporter of cocoa in order to ensure the control and maintenance of high quality cocoa standards. The privatisation of the post harvest operations is expected to result in a substantial reduction in operating expenses. This will translate into higher prices for farmers and an increase in production. The Association is however, faced with the problem of financing the renovation of drying facilities islandwide and of providing severance pay for all workers becoming redundant at GCA operated fermenteries.

Efforts at resuscitation of the cocoa industry should also focus on inter-planting with such crops as vanilla and Asian fruits (rambutan, mangosteen and lychee), which can be marketed as organic products. In addition, present efforts at diversification through the manufacturing of cocoa, nutmeg and other spices by-products should be accelerated.

Non-traditional Production

There are a number of factors affecting non-traditional agricultural production in Grenada. The utilisation rate of technology is very low, thus contributing to the high cost, low quality and inefficient production structure. Marketing of non-traditional commodities also continues to be deficient, and this is further compounded by inadequate transportation services, particularly to the external market. The outbreak of the Pink Mealy Bug in the latter half of the 1990s severely curtailed activity in the non-traditional sub-sector.

Given the rapidity with which trade liberalisation and gobalisation are proceeding, it is recommended that efforts be concentrated on producing agricultural crops that are of high quality and stable prices. A recent study indicated that the following crops have good market prospects: avocado, mango, papaya, cherry tomato, assorted legume, pepper and herbs. However, the ability of these crops to make a meaningful contribution to agricultural GDP and exports hinges on the provision of requisite institutional support for the production and marketing of these commodities. A recommended approach to facilitate the development of high quality non-traditionals is through the operation of the contractual system, whereby the hospitality sector (hotels, restaurants) and Marketing Boards, enter into supply contracts with farmers. This approach can reduce both supply and income uncertainty and irregularity to these consumers and farmers, respectively. It is also recommended that the contract system be extended to the non-traditional export sub-sector. In this regard, the ongoing programme of the National Marketing Board for the production of hot peppers for exports should be encouraged and expanded to include other crops, such as sweet potatoes, carambola and avocado.

The future of the agricultural sector in Grenada also warrants that government takes certain measures to institutionalise certain land use policies. Given the competition the sector has been receiving from construction, the demarcation of specific areas for agriculture, urbanisation, manufacturing, tourism and forest reserve should auger well for agricultural development. In this regard, far-reaching land reform needs to be undertaken with a view to:

- discourage encroachment in agricultural designated area;

- review of the land use management legislation with the objective of:

- facilitating the transfer of title of lands so that abandoned lands can be more easily brought into cultivation,

- reducing the improper exploitation of hillside lands in catchment areas, and

- ensuring that agricultural lands are not diverted into non-agricultural use.

In order to boost agricultural production in Grenada, government needs to improve the infrastructure in areas earmarked with potential for immense production.

2. MANUFACTURING SECTOR

The manufacturing sector in Grenada accounts for approximately 7% of GDP rising from 6.4% in 1986. It has fluctuated between that range over the period 1986-1998. The sector produces largely for the domestic market – a small proportion of which is exported. The range of products from the manufacturing sector include soft drinks, beer, malt, stout, rum, flour, animal feed, garments, paper products and paints and varnishes. The fortunes of the sector were closely tied up with intra-CARICOM trade. Like intra-CARICOM trade, it went through a period of rapid growth during the seventies, peaked in 1983 and since then the sector has been relatively stagnant, contributing on average 6-7% of GDP.

The manufacturing sector in Grenada can be broadly divided into three sub-sectors, the traditional import substitution and the agro-processing and the enclave sector. They vary in their potential to be internationally competitive and contribution to the real output of the local economy. The import substitution sector which produce assembly type products does not have much potential to be internationally competitive and its net contribution to the local economy is also small. The agro-processing sector has strong linkages with the agricultural sector and has the potential to be competitive in selected niche markets.

The agro-processing sector is characterised by home based family production and small processing employing 5-20 employees. In addition, the Grenada Agro Industries Limited grew out of an agro-laboratory established under the People's Revolutionary Government to experiment with the production of processed foods from local products. The technology in the sector is characterised by varying degrees of sophistication, but in general there is little modernisation of equipment and facilities. The local raw material content ranges from 80 to 100%. Surplus agricultural output is the main component of local raw material.

The import substitution manufacturing sector consists of paint and varnishes and household goods. It is characterised by a high import content in the production process. Not only are capital goods imported; but in some cases up to 100% of raw materials are imported from extra-regional sources. Production is geared mainly to local and regional markets and very little is exported extra-regionally. World Bank (1990A) asserts that the sector is highly uncompetitive internationally and can only survive with excessively high amounts of effective protection. Moreover, they argue that this is compounded by industrial incentives which have a high anti-export bias. The granting of blanket duty-free import of inputs, untied to export performance only encourages inefficient production for the local market.

Most of the plants are built for minimum efficiency scale of production and still operate with excess capacity as high as 60 to 70%. Regional trade and payments problems have pushed capacity utilisation to even much lower levels.

The almost static share of agriculture in GDP suggests that growth in the manufacturing sector mirrored growth in the economy as a whole. It grew at an average of 6% annually over the 12-year period.

There was an exodus of many of the enclave firms during the late eighties and early nineties (MTESP for 1998) and consequently many of the spaces in the Frequente Industrial Park are occupied by small, local service-oriented business. The other industrial park – Seamoon – is reported to have an occupancy rate of only 18%. In recent times, there has only been one major addition to the industrial sector in Grenada. This is an electronics firm producing for the United States market which relocated from Montserrat after the volcanic eruptions in that country.

Contribution and Performance

Manufacturing firms in Grenada are generally small and underdeveloped. Manufacturing firms in Grenada can be classified into two main types: (i) enclave industries serving U.S. markets; and (ii) agro-processing and related industries serving CARICOM and domestic markets. Extra-regional exports are almost exclusively by enclave enterprises under the 806/807 regulations, while most of the output from the agro-processing and related industries is oriented towards the domestic and regional markets. The enclave firms produce garments and electronic equipment. Agro-processing firms are involved in the production of food and beverages, furniture, white goods and paint. While data on employment in the sector are unsatisfactory, in 1994 it was estimated that the sector employed 2,000 workers. Indications are that this figure has more than doubled in current times, suggesting an increase in manufacturing activities. There are no free zones in Grenada and a significant part of the manufacturing activity, particularly export-oriented firms are located in two industrial parks with a combined size of 231,000 square feet.

The share of the manufacturing sector in GDP may also be used as a partial indicator of size. The manufacturing sector in Grenada is generally considered to be small in relation to its contribution to GDP. During the decade of the 1980s the sector's contribution to real GDP averaged 4.9%, experiencing high real growth averaging 20.9%. Efforts at economic diversification during the 1990s led to relatively high levels of investment in the sector, than in agriculture or tourism. By 1992, manufacturing activity had doubled in size compared to 1984, but contributed only 6% of GDP and 17% of merchandise exports. In 1995, through the establishment of the Micro enterprise Development Project, the number of small firms operating in the industry increased. Though small, their contribution to employment and output was importance, and partially explains the sector's increased percentage share of real GDP averaging 7.1% for the period 1990-99. Over the same period, however, there was general slowdown in real growth in manufacturing, averaging 6.2%. Towards the end of the period, however, expansion in the sector is reflected in growth averaging 13.1% between 1998-1999 (Table 10).

Table 10: Grenada Selected Manufacturing Indicators 1995-1999

	1990-94 Avg.	**1995**	**1996**	**1997**	**1998**	**1999**
Manufacturing in GDP %	6.80	7.11	7.31	7.39	7.86	8.1
Manufacturing GDP growth Per Cent	**3.08**	**7.71**	**5.77**	**5.30**	**14.14**	**12.05**
Manufacturing Output ($M)	na	37.46	39.62	41.72	47.62	53.36

About 40% of total manufacturing output, particularly from the agro-processing industries, is exported primarily to other CARICOM countries. Only few U.S. offshore firms are operating on the island. Chemicals and paints reported strong growth in the 1996-1997, with marginal growth in beverages and tobacco and declines in grain mill (flour) and bakery products in 1997. Export revenues have grown in recent years with the establishment of new enclaves firms. As indicated in Table 11 the value of output of the major manufacturing firms recorded marginal growth in 1999 relative to 1998. The value of toilet paper and grain and mill products grew by 45.1% and 22.2%, respectively in 1999 relative to 1998, reflecting in part, increased demand on the external market. Increases in the value of output of other products were minimal due to declining demand on the domestic market.

The value of manufactured exports recorded positive growth in nominal terms, moving from EC$17.9m in 1996 to EC$62.5m in 1999 (Table 12). At the same time the contribution of the revenue from the export of manufacturing products to total export earnings grew from 32% 1996 to 46.5% in 1999. A major factor accounting for this increase was the export revenue from electronics following the establishment of such a firm in 1997.

Table 11: Selected Manufactured Production 1998-99

EC$M	1998	1999
Grain Mill & Bakery Products	11.7	14.3
Macaroni	0.3	0.4
Flour	11.4	13.9
Prepared Animal Feed	6.7	6.3
Feed	6.0	5.6
Wheat Bran	0.6	0.8
Beverage & Tobacco	32.6	32.7
Rum	4.6	4.7
Soft Drink	10.1	10.0
Tobacco	1.3	1.3
Beer	7.3	7.8
Malt	3.7	3.6
Stout	5.7	5.2
Chemicals & Paint	6.3	6.6
Oxygen	0.1	0.1
Acetylene	0.1	0.1
Paint	6.1	6.4
Toilet Paper	5.1	7.4

Table 12: Selected Manufactured Exports 1996-1999

EC$M	1996	1997	1998	1999
Total Exports	55.9	8 0.4	112.3	134.3
Manufactured Exports	17.9	30.7	56.5	62.5
Flour	4.9	4.9	7.6	9.0
Wheat Bran	0.1	0.03	0.02	0.3
Clothing	2.5	3.7	3.8	2.2
Paints /Varnish	1.0	2.5	1.4	1.3
Paper Products	3.6	3.7	5.0	4.7
Malt	1.4	1.1	1.3	1.0
Animal Feed	1.5	1.6	1.7	2.1
Roofing Sheets	1.3	0.7	0.9	1.4
Stout	1.4	1.5	1.6	0.9
Nutmeg oil	0.2	0.7	1.4	1.6
Electronic Components	0.0	10.5	32.0	38.4

The manufacturing sector suffers from high unit cost of production arising from a significantly high proportion of imported inputs, high overhead costs, the application of inappropriate technology and high cost of borrowing for initial investment and working capital. Very few firms make use of locally produced raw materials, and there appears to be no direct link with the tourism sector. Nevertheless, the industry has been granted high level of subsidy in the form of duty free importation of inputs and corporate tax exemption.

Technology and technical skills are two other sources of concern. The rapid pace of technological development worldwide hastens the obsolescence of capital and erodes the competitiveness of less technologically dynamic countries. The high cost of upgrading capital and the inadequacy of technical capability to speed up the transfer and diffusion of technology retards the export competitiveness of the firms. Hence their inability to penetrate extra-regional markets and even its ability to hold on to domestic markets. The paucity of technical training results in wastage of raw materials, inadequate maintenance leading to loss of production during down times, and the need for foreign technical assistance to diagnose and solve some very simple problems.

High labour costs. Grenada is by no means a low wage area. The boom in prices of traditional agricultural exports during the 1980s pushed up the price of agricultural and had a demonstration effect on the other sectors. Thus the type of manufacturing sector which emerges in the post liberalisation period must take this as a given. Moreover higher remuneration in the tourism sector has tended attract workers away from manufacturing.

Inadequate transportation links. The paucity and reliability of transportation links is another constraining factor. Sea transport is not only scarce but sometimes unreliably. In addition, the cost of sea transport is not significantly lower than air transport which is usually more reliable. Due to the relatively high value to volume of the products it produces, the enclave sector depends heavily on air transport to get raw materials in and the final product out. Even though Grenada has superior air access through its international airport, it still suffers from a shortage of dedicated air cargo space.

The size of firms and local market. As mentioned earlier, most of the manufacturing firms in the country employ less than 20 employees. This limits the ability of the firms to reap economies of scale and spread overheads. Moreover the majority of indigenous firms are contented to produce for protected local markets which are extremely small. The markets are protected by the CARICOM CET and in some cases by Article 56 of the CARICOM treaty[1].

The regulatory framework for businesses. The regulatory and legal framework in which business operate may have impeded the development of the manufacturing sector. The process by which projects are approved is too long and circuitous. In addition, there is the perception that the process favours foreign investment over local investment. Nuisance regulations and onerous legal requirements impede the flexibility of the firms.

[1] Article 56 allows the less developed CARICOM countries to impose quantitative restrictions and suspend origin treatment for goods of the more developed countries in an effort to develop the manufacturing sector in the less developed countries.

The effects of protection. The protection accorded by the CET along with an incentive regime which treats production for the local market and production for export in the same way create an anti-export bias. There is no incentive to produce for the more competitive, more risky export market, while production for the protected local market is quite profitable. The reduction in the CET would tend to redress this bias to some extent but specific incentives have to be put in place to encourage production for export. However the regime of quantitative restrictions is being studied with a view to being phased out via a process of tariffication which would initially increase the import duty. The incentives regime reflects the earlier inward looking policy of industrialisation and need to be given a thorough overhaul to reflect an external orientation.

Fiscal charges. The size of the country and the inadequacy of transportation links already impose severe disadvantages on the countries in terms of their ability to compete internationally. Thus it is essential that no inordinate charges are imposed to prevent the firms from sourcing their inputs at international prices. Additionally high port charges impose further restrictions the ability of the firms to compete internationally. The consumption tax on inputs which is not rebated on export goods creates a disadvantage for Grenada firms vis-à-vis their CARICOM counterparts whose exports are zero-rated under the VAT.

Non-tariff barriers in export markets. The existence of non-tariff barriers in the export markets especially the USA has tended to impede the growth of manufacturing exports. Grenadian exports face a myriad of regulations which only experience in the markets can help to get around. Many firms are seeking ISO and other international certification to facilitate entry into international markets. Although the greater transparency under the new WTO rules may have reduced the uncertainty of entry, many indigenous firms may be unable to finance the cost of the barrage of legal challenges which they may face in these markets.

Knowledge of export markets. The paucity of knowledge about export markets is another significant obstacle to export development. Basic information regarding the structure of markets, changes in taste, import regulations in the foreign country, appropriate technology, new processes, new products and potential competitors has to be assembled. Market intelligence is a costly exercise for the individual producer and there are also externalities associated with this activity. This suggest the need for co-ordinated action at the OECS level. The activities of Export Development and Agricultural Diversification Unit (EDADU) are aimed at reducing some of these difficulties, but the organisation remains largely under-funded and suffers from a lack of clear commitment and strategic focus. In addition tapping into international producer and market information networks would reduce significantly the cost of gathering market intelligence.

Policies and Prospects

Government concessions for industry remain fairly generous and a Trade Centre has been established to promote and facilitate manufacturing activities. An OECS Export Capability Project, funded by the Caribbean Regional Indicative Programme under Lomé IV is expected to improve the environment for industry in Grenada.

Grenada, like other CARICOM countries, has attempted to take advantage of preferential trading arrangements available for manufacturing. Garments benefits from U.S. 806/807 Customs regulations, in which duty in the U.S. is payable only on the OECS value-added where the raw material is of U.S. origin. Under the CET, all manufacturing firms in the non-enclave industries enjoy high levels of effective protection, whether or not they export within the region. This is the case in spite of the new CET introduced in 1993 that sought to reduce the tariff on goods produced outside of the region but competing with goods produced within the region. OECS firms were also eligible for preferential benefits under the CBI and the CARIBCAN programme from Canada. CARICOM Article 56, that has been extended to 2002, also seeks to help OECS manufacturing firms become competitive by restricting imports into the OECS from extra-regional producers.

Given the long history of protectionism and support to the local manufacturing sector, the single greatest challenge now confronting that sector is how to survive in a competitive and open market environment. To date, NAFTA has posed the most serious threat to the erosion of the preferences enjoyed by the OECS manufacturing sector, since Mexico, a major producer in both enclave and agro-processing industries, receives duty free access to markets in the US and Canada. Moreover, wages are lower in Mexico than in the OECS. Reducing the impact of such threats would require that immediate measures be taken to improve production efficiency and worker productivity, by way of introducing appropriate technology and human resource development, as part of an overall strategy for the development of the industrial sector.

As part of this strategy, the redesign and implementation of a new industrial policy, which identifies activities with growth potential, as well as the necessary support and incentives required, is recommended. The importance of ensuring a service-oriented focus, an adequate supply of highly skilled labour, adoption of state-of-the-art technologies and the capacity to generate high local value-added should be among the selection criteria for the promotion of industrial activity. An example of such an industry is electronics, which offers countless opportunities for employment generation, particularly in informatics (data processing, editing, accounting and software development). Citrus-based processing, for example citrus concentrates, and pepper-based processing industries, also offer income and employment opportunities for Grenada. Although the local art and crafts segment continues to be a small aspect of the domestic industrial sector, it has the potential to become an important source of employment and income generation.

In general, the development of the manufacturing sector, and in particular the agro-processing and handicraft sub-sectors, requires that urgent consideration be given to modernising agricultural production, as well as raising productivity within this vital sector. There is also need to have qualified human resources in public institutions and the productive sectors. In this regard, additional support is required for the upgrading of technical and managerial skills, training and the introduction of new and appropriate technology. The restructuring of the fiscal incentive program could provide much needed and greater support to export-oriented industries. The export sub-sector could be facilitated by financing, continued duty free imports for exports, continuation of tax incentives and the development of export support institutions (marketing agencies, etc.).

Other areas in need of reform to facilitate expansion in the manufacturing sector include:

- modernisation of the legal framework, aimed at updating existing, and developing new incentive legislation which is responsive to, and accommodating of the rapidly growing information technology industry;

- cost structure of essential utilities, including a revision of the pricing policy to facilitate improvements in cost competitiveness and provide an incentive for expansion of industrial activity. For example, the unit cost of consumption of utilities should be allowed to decline with increased consumption; and

- development of technology watch information systems to keep abreast of the latest developments within the sector.

A well-conceptualised and effectively implemented industrial policy also requires continued macroeconomic stability, fiscal transparency and the continued provision of an economic infrastructure conducive to industrial development. The development of manufacturing will also benefit from increased inflows of direct foreign investment which will accelerate the technology transfer process and lead to improvements in micro economic efficiency. The forging of strategic international alliances could also result in mutually reinforcing benefits and a more even distribution of the gains from economic growth.

Given the imperatives of trade liberalisation, human resource development, particularly among entrepreneurs, is critical to enable the domestic manufacturing sector to operate within the new and dynamic business environment. The nature of the new global environment increasingly dictates that businesses be managed and operated along strict commercial principles to enhance and sustain competitiveness. In this regard, there is need for a transformation of the "culture" of domestic "family-run" business, which favour the commercial import trade. To facilitate the emergence of a new breed of entrepreneurs, the redesigned industrial policy should include the provision of some form of risk capital and provision of concessionary financing.

TOURISM

The tourism industry has emerged as the lead sector driving economic activity in the Grenadian economy in terms of foreign exchange earnings and employment. Stay-over visitors that account for the majority of visitor expenditure grew on average by 6.1% to 57,858 during 1986-89. The number of cruise ship passengers also grew during this period by 8.2% to 124,438. Visitor expenditure during 1986-89 grew on average by 5.0% to $100.0m

Stay-over growth accelerated during 1990-94 to 10.8% with a substantial increase in stay-over visitors to 90,376. This period also coincided with the increase in hotel capacity from 411 rooms in 1986 to 1011 in 1994. Cruise ship passengers also demonstrated robust growth on average of 12.2% during this period. Visitor expenditure grew by 14.0% to $162.6m in line with the increase in the number stay-over and cruise ship passengers.

By 1995-98, there was a decline in both stay-over and cruise ship passengers by 1.6 and 7.9% respectively. This slower growth contributed to lower rate of accumulation in travel expenditures (2.6%) to $217.2m. The increasing role of services in the economy was reflected in a penetration index which rose from 1.7 in 1986-89 to 2.0 by 1995-98.

The major market for tourists was the USA whose market share rose from 19.9% during 1986-89, to 28.5% by 1990-94 and then declined slightly to 26.9% during 1995-98. The Caribbean market which ranked second during 1986-89 at 28.5%, has gradually lost market share to the UK which now ranks second by 1995-98 (18.3%). The share of Canadian visitors in stay-over arrivals has never risen on average above 5.0%. This may be one market that may warrant additional marketing and promotion.

CONTRIBUTION TO GDP

The tourism industry's contribution to real GDP rose from 5.1% in 1986-89 to 7.0% during 1990-94 and to 8.0% by 1995-98. The growth in real GDP reflected in part the increase in stay-over visitor arrivals as well as the increase in room capacity as the industry. The industry grew from 7.3% during 1986-89 to 13.9% by 1990-94. The average growth in room capacity during the former period was 8.1% in contrast with 15.7% during the latter period. Major projects in the 1990's included La Source and the Rex Grenadian that significantly added to plant capacity. By 1995-98 growth in the industry had slowed to less than one% reflecting a reduction in both stay-over and cruise ship passenger arrivals.

Constraints to Tourism

Inadequate marketing and promotion of the tourism product continue to constrain the full potential of the industry. The weak fiscal position of Central Government finances over time since structural adjustment programme in the early 1990's prevent the ideal allocation of funds for marketing and promotional activities. The characteristics of the product are not well defined and have changed over time. The establishment of a commercial district in the heart of the Grand Anse area where the majority of the properties are located has altered the traditional characteristics of the tourism product. Opportunities for differentiating the product of the mainland from that of Carriacou and Petit Martinique can be found. These two destinations can be marketed with the Grenadine chain as part of a packaged tour to high net worth individuals.

In terms of human resources there is a dearth of managers and chefs among the local workforce. The training needs of the industry given the leading role of tourism must form part of a wider manpower audit.

CONSTRUCTION

Recent Economic Developments

The relative contribution of the construction sector is linked to major private and public sector investment projects. The construction sector contribution to real GDP fell from 8.4% during 1986-89 and remained relatively steady at 7.2% and 7.6% during 1990-94 and 1995-98 respectively. During 1986-89 there were a large number of public sector investment projects in social and economic infrastructure which contributed to real GDP growth of 7.3%. Major public sector projects during this period included the rehabilitation of the Eastern and Western main roads. Private construction also provided the impetus for growth with significant increases in the number of housing starts. However with the deterioration of the fiscal position of the entire public sector real GDP growth slowed to less than one% during 1990-94.

The implementation of a structural adjustment programme during 1990-94 resulted in the improvement in the fiscal position that facilitated an expansion in the public sector investment programme. By 1995-98 the construction sector grew by 8.3%. The construction business cycle also mirrored inflows of FDI into the tourism sector. In the public sector activity was boosted by the construction of booths for tourist vendors and the Eastern Main Road rehabilitation project. Major private sector projects included the construction of the national stadium, the Ministerial Complex and residential home construction.

TRANSPORTATION

The transportation sector plays a significant role in the Grenadian economy. Its average contribution to real GDP averaged 14.0% during 1986-89, dipped to 13.3% during the period of economic adjustment (1990-94) and regained its former level at 14.5% during 1995-98. Real growth in this sector was strongest during 1986-89 at 10.0% reflecting favourable terms of trade for primary exports related to road and sea transport. Real growth slowed to 2.5% during the period of economic adjustment during 1990-94 but accelerated to 6.4% during the post adjustment period of 1995-98.

COMMUNICATIONS

The liberalisation of basic telecommunications under the General Agreement on Trade in Services (GATS) signed in 1997 has unleashed a wave of competitive pressures which has resulted in a spate or international mergers, as formerly protected national telecommunications companies scramble to position themselves to be players in the global market. No doubt this development has forced the monopoly provider of telecommunications services in the Organisation of Eastern Caribbean States (OECS) countries to soften its stance and agree to renegotiate its contract with five of the independent OECS countries[2]. Many of these contracts date well into the new millennium.

At the same time, technological advances in the telecommunications industry is threatening to create a glut of bandwidth internationally that would force the price of telecommunications services to near zero levels. These advances are taking place at all three critical points in telecommunications networks, i.e., international/long distance carrying capacity, switching gear and the local loop. Cost reduction in the local loop is critical for 75.0 to 80.0% of the cost of a call consists of the cost of the link in the last couple of miles. About two thirds of the assets of telephone companies is invested in this segment hence making them a candidate for natural monopolies.

[2] Five of the independent OECS countries are involved in a World Bank financed project to reform the telecommunications industry. The five countries are Dominica, Grenada, St Kitts-Nevis, St Lucia and St Vincent and The Grenadines.

The reform of the telecommunications sector in Grenada began in 1980s with the privatisation of the telecom services. The telecommunications reform occasioned by the re-negotiation of the licenses and continued advances in technology will usher in major changes in the industry for which the country needs to be prepared.

Recent Performance

The communications sector has increased its relative contribution to economy from 4.7% to 8.6% to 10.3% over the periods of analysis. Real GDP growth was strongest during 1986-89 at 36.3%, but slowed to 11.6% by 1990-94. By 1995-98 there was a further deceleration in growth within the sector to 6.3%. The need for a renewal of capital within the sector was reflected in the increased levels of re-invested earnings within FDI inflows to the economy. Re-invested earnings rose from 8.1% of all FDI inflows during 1986-89 to 23.8% by 1995-98.

Telecommunications is already the fastest growing area in Grenada and its increased contribution to GDP has largely offset the decline in the contribution of agriculture in recent years. For the OECS as a whole, over the period 1977 to 1998, the contribution of agriculture to GDP declined from 19.8% to 8.5% while the contribution of communications have grown from 2.1% to 9.7%. Hence any prices stimulus that increases demand and hence the equilibrium quantity of telecom services would be adding to an already dynamic leading sector. In examining the effect which the reform process would have on the GDP for the OECS, it is important to recognise the role which telecommunications play in economic development. In doing so, it is imperative that one examines the sector's contribution to GDP over a given period of time.

The information infrastructure is the pillar on which many other services are delivered. Therefore, the fall in the cost of international and regional communications which liberalisation of the telecommunications sector is expected to achieve, will in fact increase the potential for trade in services and consequently improve the regions value of services produced. As was mentioned earlier, expansion in areas such as the informatics industry would have a positive impact on the regions Gross Domestic Product.

FINANCIAL SERVICES

Offshore Financial Services

The term Offshore Financial Services refers to a variety of activities which take place between corporations registered in a country with residents in the rest of the world with little interaction with domestic residents. It is rather limiting for offshore financial services does not accurately describe the range of activities undertaken in these centres and may also limit the scope of opportunities considered when one is trying to visualise the future development of the industry. A more accurate descriptor would be International Business Facilitation Centres. Not only does this nomenclature cover the wide range of services provided by the offshore sector, it also makes for a much neater classification of the activities and would ultimately assists in resolving some of the ticklish regulatory issues, since different types of activities do not necessarily need the same level of regulation.

The offshore sector was developed to provide services which are normally provided in the domestic economy at lower cost or under a less demanding regulatory environment. Thus, all of the activities which take place in the offshore sector have counterparts in the domestic economy and it is quite natural that any such classification would be equally applicable to the offshore sector. The International Monetary Fund along with the other international institutions has recently revised its classification of financial institutions and this framework can be useful in the development a taxonomy of International Business Facilitation Services (IBFS).

The IMF Classification divides corporations/enterprises into five mutually exclusive sectors, Households, General Government, Financial Corporations, Non-financial corporations and Non-profit institutions. IBFS are concerned with Financial Corporations and Non-financial Corporations and the bulk of the activity is concerned with the former.

The offshore Services Sector in the OECS territories is currently at varying stages of development ranging from Antigua and Barbuda which is the most established, dating back to 1982 and St. Lucia where the legislation was passed in 1999 (see appendix I). The oldest offshore centre is St. Vincent and the Grenadines which had offshore banking and ship registry legislation enacted in 1976. However the activities, promoted by the St. Vincent Trust Authority Limited based in Liechtenstein have not really taken off. The legislation were modernised in 1996 to give the sector anew lease on life. The most dynamic centres are Nevis and Anguilla which have recently passed modern legislation which have created fiscal consumer products which are on the leading edge of the industry.

The legislation of most of the OECS countries is patterned on that of the British Virgin Islands which is reputed to be one of the most successful emerging offshore financial services centres. The sector is usually exempt from all forms of corporation taxes in the jurisdiction of incorporation. These include income taxes, corporate taxes, capital gains taxes, inheritance taxes, withholding tax, other indirect taxes levied on international business activity. Offshore activities are also exempt from indirect taxes such as stamp duties and customs duties. Government revenue from these activities is generated by modest licence fees.

Several opportunities exist for the countries in the ECCB jurisdiction to develop offshore financial centres. The opportunities can be discussed under seven broad categories:

Tax Advantages - Individuals of high net worth and multinational corporations are attracted to offshore jurisdictions because of the many tax advantages they offer. These jurisdictions offer legitimate deferment, reduction or avoidance of taxes on certain profits earned abroad. Most of the OECS countries have chosen to be no tax jurisdictions. This factor makes them attractive to external investors as possible tax havens. However, this non-tax situation may make these offshore jurisdictions reluctant to enter into bilateral double taxation agreements with other nations because the initial benefits are not always apparent. These bilateral agreements do however have certain distinct advantages for the developing financial services provider jurisdictions. Some of the benefits may be that the home country provides the developing host offshore jurisdiction with avenues for resolving disputes, procedures for exchanging information regarding drug abuse and other illegal activities, favourable tax treatments for residents or companies organised under signatory laws.

Product Development - Offshore financial product and laws can be viewed as fiscal consumer goods. The range of legal products offered can be as broad as the jurisdiction so desires and spans the fields of banking, brokerage and other "traditional" financial services, immigration and nationality, manufacturing and general law services. Emerging jurisdictions are advised that the more readable, and understandable the laws, the more saleable is the jurisdiction. Putting the appropriate legislation in place is a therefore a necessary, albeit not sufficient, condition for the development of the offshore sector. Jurisdictions have to be vigilant to ensure that their legal products always remain on the leading edge of the industry.

Niche Positioning - Since it may not be possible or advisable for an emerging centre to simultaneously develop the full range of financial services to the same degree, countries should seek to develop niches and therefore position themselves and gain an international advantage. In the development of a niche profile countries should seek to render quick, efficient and professional service, and be innovative in meeting the needs of a niche clientele in a changing and dynamic environment. It is advisable for emerging centres to develop niches and to seek to gain an international advantage in a particular segment of the market. This strategy may, however, prove difficult to pursue given that other more established and resourceful jurisdictions are competing to diversify into new and different products.

Marketing and Promotion - A continuous marketing and public relations programme is necessary to support the legislation in place.

Private-public Sector Co-operation - Other successful Caribbean jurisdictions have identified the need to have co-operation between the private sector professionals and government officials.

Communications Technology - Private banking and other financial services increasing utilise high technology communications systems and electronic payments systems, which offer opportunities for emerging centres to compete globally. Moreover an offshore jurisdiction cannot compete effectively if it does not offer twenty-four hour online searches and registration.

Supervisory and Regulatory System - Those jurisdictions with effective systems for supervision are increasingly the choice of reputable institutions and individuals. The threats of money laundering and other illegal activities require that countries put in place a competent and efficient regulatory system.

Among the major challenges facing the offshore industry in the OECS are the following:

Limited Professional Expertise - To attract desirable investors OECS countries must have in place an infrastructure accompanied by highly trained professional accountants, bankers, taxation specialists and legal experts.

Telecommunications and Air Transportation - The cost of telecommunication service in the region is generally regarded as high and in some cases prohibitive. The irregularity or unavailability of international flights also inhibits efficient travel services.

Regulation and Supervision - Unregulated or inadequately regulated financial services centres pose a threat to global financial stability. Hence the need for new regulatory standards for their operation. The new regulatory standards will constrain growth of new centres due to increased financial and human resources requirements. At the same time the need for a good reputation should ensure that laxity in regulation frameworks is not encouraged.

Financial Liberalisation in Developed Markets - In the 1980's many of the regulations which encouraged institutions to move offshore were dismantled as developed countries have liberalised and deregulated their economies. New threats are always emerging from the anti-tax haven posture of the U.S Government and new laws are being continuously passed which serve to restrict the development of offshore centres. The recent threat by the OECD countries on harmful tax competition follows in this same vein. Such challenges are likely to increase in the future. It is therefore incumbent on newly- emerging offshore centre like the OECS countries to maintain the highest standard of regulation and propriety

In spite of these constraints the offshore sector provides significant opportunities for economic diversification. The global offshore sector is growing at a rapid pace propelled by the growth in the world economic wealth. Countries embarking on this path however need to remain cognisant of the many responsibilities they face to uphold the integrity of the financial system.

Offshore Financial Services in Grenada

The development of the offshore financial services in Grenada dates back to the 1980s when a number of companies carrying with bank as part of their names were registered under the Companies Act. However, offshore activity started in earnest in1996 with the passage of what was described as the most modern offshore legislation. Since that time the offshore sector has taken off rapidly and only slowed slightly in 2000 as a result of the bad publicity associated with one the banks registered in that jurisdiction and the listing of the country by the OECD and its agencies.

The jurisdiction offers services in the area of insurance, banking, trust, international betting and economic citizenship. The sector contributed $8.9m in 1998 and $14.5m in 1999 to government revenue. Revenues of $35m were projected for 2000 but this had to be revised downward. In addition it is estimated to contribute about 1% to GDP in the form of fees to Registered Agents, employment creation and the procurement of goods and services including office space and accommodation. The law requires that offshore banks employ at least two staff members in Grenada.

In January 2000, the Offshore Financial Service Authority (FSA) was created as a Statutory Body offering online-registration. The FSA is also responsible for the regulation of the industry. In recent months the Authorities in Grenada have made several steps to reform the operations of the offshore sector to accord with international best practice. The legislation has been amended to strengthen the anti-money laundering provisions and one banks is in the process of being liquidated. The sector has some potential to contribute to the diversification of the economy if the threats discussed earlier can be addressed.

Grenada
Government Revenue from Offshore Financial Services
EC$ '000

	1996	1997	1998	1999	2000
Economic Citizenship					1,513
Offshore Banking					139
IBCs					
Internet Gaming					
Exempt Trust					
Exempt Insurance					
Management Companies					
Other Services					
Total			8,900	14,500	1,651

Source: Ministry of Finance

Offshore Companies

Types of Institutions	**Number**
Banks	42
Insurance	-
Trusts	4
IBC's	-
Exempt Companies	-
Internet Gaming	-
Economic Citizens	-
Registered Agents	-
Limited Liability Companies	-

Domestic Financial Services

The relative contribution of the banking sector has increased over time from 7.6% of GDP during 1986-89 to 8.1% during 1990-94 to 9.8% by 1995-98. Real GDP growth in the sector slowed from a high of 12.8% during 1986-89 to 3.9% during the period of economic adjustment (1990-94). Growth in the sector subsequently stabilised at 5.9% during the post adjustment period. Total assets of the banking system reflected a robust economy during the 1980s when the terms of trade for primary exports were favourable. These assets grew on average by 17.0% during 1986-89, slowed to 10.2% during 1990-94 and finally at 7.9% during 1995-98. Loans to the private and public sectors, which accounted for the majority of banking sector assets also, demonstrated a similar growth pattern to total assets.

Domestic credit grew on average by 21.3% during 1986-89 a period of strong growth in the economy. The majority of this credit was allocated to the private sector whose allocation grew on average by 26.0%. Growth in credit to the Central Government during this period averaged 1.9%. While non-bank financial institutions were net lenders to the banking system the other public sector corporations alternated between net lenders and borrowers. This outturn reflected Central Government's borrowing from statutory corporations to finance its savings-investment gap.

The implementation of a structural adjustment programme during the 1990-94 period resulted in a deceleration in the growth in domestic credit to 6.3%. Net credit extended to Central Government declined during this period in bringing about fiscal balance. Non-bank financial institutions were net depositors to the banking system during this period.

Having achieved an improvement in Central Government finances during 1990-94, the economy was returned to a stable growth path during the 1995-98 period. Domestic credit grew 14.0% on average with that allocated to the private sector and Central Government rising by 13.5 and 9.3% respectively. The rescheduling of Central Government debt to the National Insurance Scheme (NIS) restored the surpluses of the other public sector. This sector was along with the non-bank financial sector became a net depositor to the banking system.

Total monetary liabilities (M2) achieved double-digit growth across all three sub-periods. M2 increased by 18.5%, 11.4% and 10.4% during 1986-89, 1990-94 and 1995-98 respectively. Savings deposits accounted for the majority of quasi money followed by time and foreign currency deposits.

Structure And Financial Data
Of The Grenada Financial System

Financial Institution	**No.**	**Total Assets**	**Loans**	**Deposits**	**Loans/ Assets**	**Deposits/ Liabilities**
		$M	**$M**	**$M**	**%**	**%**
Commercial Banks	5	1,347.0	908.1	1,185.1	67.4	88.0
Non Bank Financial Institutions						
Development Banks	1	-	-	-	-	-
Credit Unions*	22	68.6	55.6	55.8	81.0	81.3
Insurance Companies/Agencies	27	-	-	-	-	-
National Development Foundations	1	-	-	-	-	-
Finance Companies	1	-	-	-	-	-
Building & Loan Associations	1	-	-	-	-	-

***As at 31 December 1999**

ROLE OF FOREIGN DIRECT INVESTMENT

The role of FDI inflows into the economy particularly into the tourism industry has increased over time. FDI averaged 6.3% of GDP during 1986-89 during the early stages of the development of the tourism industry. However these flows increased to 7.9% and 10.7% of GDP during 1990-94 and 1995-98 respectively. As a proportion of FDI inflows into the ECCB area these increased from over all sub periods from 10.0% to during 1986-89 to 14.3% during 1995-98. The composition of FDI inflows have also changed over time with equity inflows declining steadily over all sub periods from 81.0% during 1986-89 to 36.3% by 1995-98. The investment in retirement homes by Grenadians living in the USA and the UK have in part resulted in an increasing share of land sales over time from 10.9% of all inflows during 1986-89 to 36.9% during 1995-98.

TRADE LIBERALISATION

Grenada is simultaneously taking part in a number processes of trade liberalisation. The first results from the deepening of the CARICOM Integration movement which has resulted in a phased reduction of the CET. At the same time the country is participating in a number of international negotiations which would lead to freer trade. These include the FTAA, the post Lomé IV, the millennium round of the WTO and a number of CARICOM sponsored trade liberalisation negotiations.

STATUS OF THE CET

As part of the regional integration movement and towards the structural adjustment of the economies of the CARICOM countries, a common external tariff was adopted for implementation in 1991. The tariff was later reviewed in the light of developments in the international economic environment with greater emphasis on trade liberalisation and competitiveness as well as the formulation and expansion of regional economic groupings. A number of factors were taken into account in formulating policies for the new tariff structures:

- differences in the levels of development of member states;
- differences in their industrial structures;
- their respective exchange rate regimes; the nature of their fiscal regimes; their respective administrative capabilities.

These factors determined the principles guiding the design of the new tariffs:

i. international competitiveness;

ii. efficient production for the regional market;

iii. the preservation of government revenues;

iv. controlling inflation so as not to increase the price of basic foods and social services;

v. duty exemptions regime should be reduced/removed so as to foster uniform treatment of production inputs across the common market;

vi. there should be uniform rates for the same items notwithstanding their economic use;

vii. the special needs of the LDCs should be taken into account;

viii. the tariff structure should be simplified with fewer rate bands with less room for discretionary application.

The phasing of implementation of the new common external tariff for the OECS was as follows:

January – June, 1993	0 – 5% to 30/35%
January – June, 1995	0 – 5% to 25/30%
January – June, 1997	0 – 5% to 20/25%
January – June, 1998	0 – 5% to 20%

Grenada is at the third phase of adjustments towards the CARICOM common external tariffs. The prevailing basic tariff rates are set at 5 to 25% with special tariffs on selected items and a system of licensing in respect of items falling under Article 56 of the CARICOM Treaty. It is the intention to move to Phase IV of the CET during 2000.

Except in 1995 when the first adjustment to the CET was made and the customs service charge was increased from 2.5 to 5.0% to compensate for revenue losses, reductions to the CET have been made without any compensatory adjustments to other taxes. It has been reported that all later adjustments have resulted in positive revenue flows. Nevertheless the authorities are concerned about the impact of future adjustments on revenue and trade and have identified the need for a study to determine the marginal point at which revenue flows could become negative.

With regard to the final phase of the CET, no compensatory revenue measures are contemplated. The authorities believe that measures to enhance revenue collection and reduce concessions will yield sufficient returns to compensate for any potential revenue loss. A committee has already been set up to review the framework for the granting and administration of concessions and incentives.

TRADE LIBERALISATION NEGOTIATIONS (FTAA & WTO)

Grenada is to conduct negotiations on trade liberalisation through the regional Negotiating Machinery established by CARICOM to represent the interest of the region at WTO and FTAA. As reported above adjustments towards the CET have been made without significant losses of revenue up to Phase III mainly due to the effects of demand elasticity and in some cases trade diversion to third country goods where higher revenue yields were realised.

Trade liberalisation on a global scale takes on much greater significance as far as Grenada's fiscal situation is concerned. In this situation there are a number of factors to be taken into account:

- the importance of import duties to Grenada's revenue;
- the deficiencies in the current fiscal regime;
- the market structure of the import trade and its response to border price changes;
- possible contraction in the economy arising from negative sector response to external competition which could have an impact on revenue generating capacity.

Import duty as a share of total recurrent revenue is as high as 11.8%. Grenada's total dependence on international trade is already at 57.4%, the highest in the sub-region. The magnitude of the adjustment required if import taxes were removed and the implications for other tax adjustments, including the consumption tax as well as the implications for the competitiveness of domestic production, create special difficulties especially given the deficiencies of the fiscal regime as mentioned above. For one thing they could trigger increased demand for more concessions or the demise of marginal goods producing firms with consequential contraction in the revenue and the economy as a whole.

Although in general lower tariffs should have a beneficial effect on prices and reduce incentives to evade taxes, the degree of price competitiveness that exists in the economy determines the response to trade liberalisation as far as demand elasticity is concerned. If firms treat tariff reductions as windfall profits, long-term gains may not be realised. Indeed there could be a net loss of revenue as direct tax on windfall profits will fall below the value of tariff revenues lost.

Moreover, while price elasticity of demand could stimulate short term demand for imported goods with beneficial effects on the revenue, they could also reduce demand for import substitute goods and cause the domestic economy to contract in the long term unless exchange rate adjustment complements fiscal adjustment. Even so the import content of domestic production may make any competitive gains so marginal as not to be significant.

Tax reform, public sector reform and budget reform as discussed above with complementary policies and programmes will together strengthen the fiscal regime to better withstand the shock of trade liberalisation. Restructuring the tax system and reformulating the budget will carry short-term costs which will require extensive support both technical and financial.

Ideally, such a programme of reform should be implemented in two distinct phases:

1. A comprehensive reform of the present fiscal regime including tax and budget reform to strengthen the fiscal structure in particular tax efficiency and expenditure control towards achieving a satisfactory level of savings and investment on a sustainable basis.

2. A phased approach towards elimination of tariffs so as to minimise disruptions to revenue

In order to address the latter simulations of the effect of the reduction in tariffs were conducted using the World Bank 123 model.

TRADE REVENUE EFFECTS OF THE CET

The following simulations were undertaken to determine the impact of varying the rates of the CET on the agricultural sector.

The Common External Tariff (CET) represents an attempt by CARICOM countries to promote industrialisation in the region and to harmonise their trade policies as a first step in meeting the challenges of global competition and trade liberalisation. The CET proposes that all CARICOM members should apply common tariffs on imports from non-CARICOM countries. Starting in 1993, the CET was to be implemented in four phases.

By the end of the last phase, which was adopted for implementation by 1998, all CARICOM countries should have the following CET rates (on non-CARICOM imports) in place: (1) a 0-5% import tariff on non-competing, primary, intermediate, and capital inputs; (2) a 10% tariff on competing primary inputs and capital goods; (3) a 15% tariff on competing intermediate inputs; (4) a 20% tariff on non-competing final goods; and (5) a 20% tariff on garments, general manufactures and agro-industry commodities. For most CARICOM countries to meet the requirements of the CET, they would need to decrease import tariffs on some items and increase it on others. Declines in imports arising from tariff rate increases may suggest the extent to which CARICOM production is being substituted for non-CARICOM imports. On the other hand, tariff rate decreases imply loss of tariff revenues that member countries may need to make up for by increasing non-CET import taxes.

This study analyses the effect of changes in CET rates on OECS tariff revenues, and non-CARICOM agricultural imports. OECS imports were grouped in accordance with seven CET rate brackets: 0%, 0-5%, 5-10%, 10-20%, 20-30%, 30-45%, and >45%. The Analysis will help OECS policy planners to anticipate, in the presence of CET rate changes, the extent to which CARICOM production would substitute for non-CARICOM imports, and the amount by which non-CET import taxes would have to rise to keep net import tax revenues unchanged. To conduct the analysis, the study employed a simulation exercise in which the CET rate on non-CARICOM agricultural imports was increased by 5, 10 and 15%. Next, CET rates were adjusted to ensure that commodities in each rate group faced a CET rate of 100%.

For the purposes of this exercise, the CET rate increases and adjustments were applied only to commodities that fell within the CET rate brackets of >20% (20-30%, 30-45%, > 45%). The study assumes that non-CARICOM imports entering the OECS face symmetric unitary import demand elasticities. The elasticities are symmetric in that a given percentage increase or decrease in CET rates (or in import prices) would produce the same magnitude of change.

In 1997, OECS (excluding Antigua) imports of agricultural commodities from non-CARICOM countries amounted to $232.62 million. About 54% of these imports faced no import tariffs, 21.4% faced import tariffs of 5% or less, 4.9% faced rates ranging between 5 and 10%, 4.2% faced rates between 10 and 20%, and another 15% faced tariff rates in excess of 20%. Over $15 million in CET revenues were collected, representing 41% of all import taxes. Commodities falling in the >20% rate groups accounted for a disproportionate 80% of the CET revenues.

The simulation results suggest that the CET rate increases on commodities in the >20% rate groups would cause imports to fall, CET tariff revenues to rise, and the resulting decline in imports would cause non-CET import tax revenues to decline. However, increases in CET revenues would more than offset non-CET revenue losses. For example, a 10% increase in the CET rate would cause OECS imports to fall by 1.2%, CET revenues to rise by 15.3%, or $2.40 million, and net import tax revenues to rise by 6%, or $2.25 million.

Grenada's imports of agricultural commodities rose from $38 million in 1996 to $41 million in 1997, and the share of these imports facing duties of less than 5% increased from 82.3% to 89.6%. In contrast, the share of the >20% rate groups fell from 5.7% to 3.8%, or from $2.2 million to $1.5 million. The shift of imports to lower tax brackets caused CET revenues to fall by 9.5%, and CET revenue declines along with declines in consumption service tax revenues caused total tax revenues to fall by 16%. CET revenues totaled $2.93 million in 1997, representing 38% of all import taxes. Of the CET revenues, 86% or $2.5 million were generated from imports falling in the >20% CET rate groups. Among these groups, the >45% rate group accounted for more than 50% of imports and 92% of CET revenues.

Among the >20% rate groups, the average tariff rate for the 20-30% rate group increased slightly from 23.8% in 1996 to 24.7% in 1997. On the other hand, the average tariff rate for the 30-45 rate group decreased from 36.5 to 35.8%, and that for the >45% group rose from 268.5 to 279%. A 5 and 10% increase in CET rates on commodities in the >20% rate groups would result in imports decreasing, respectively, by 0.12 and 0.23%, CET revenues increasing by 1.4 and 2.7%, and net import tax revenues increasing by 0.2 and 0.6%. Similarly, a 15% rate increase would lead to a 0.4% decrease in imports, a CET revenue increase of 3.9% and a net import tax revenue increase of 0.9%. For the 5% rate increase, the average tariff rate of both the 20-30 and the 30-45% rate groups remained within their ranges. In the case of the 10% increase the average tariff rate climbed out side of the range of the 20-30% rate group, and when the tariff rate was increased by 15% the average tariff rate of both tariff groups increased beyond their ranges.

To achieve the 100% CET rate, the CET on the 20-30% and the 30-45% rate groups was increased, respectively, by 75 and 64%, while that on the >45% group was decreased by 179%. Consequently, imports from the 20-30 and the 30-45% rate groups declined, respectively, by 60 and 47%, while imports associated with the >45% rate group rose by only 2.7%. Altogether, in response to imposing the 100% tariff, imports declined by 1.3%. Tariff revenues collected on imports falling in the 20-30 and 30-45% rate groups increased, respectively, by 60 and 47%, while tariff revenues on imports associated with >45% rate group fell by 63%. Since the >45% group accounted for the major share of imports among the >20% rate groups, there was a net decrease in tariff revenues of 46%. Likewise, there was a 21.7% decrease in total tax revenues.

Figure 2.a shows the import effect (by rate group) of the imposition of a 100% CET tax rate and a 15% rate increase. The baseline depicts the situation that existed before the simulation exercises. Among the 20-30 and 30-45% rate groups the 100% tariff scenario produced the greatest decrease in imports, while among the >45% rate group, the 15% tariff increase produced the greatest decline. Corresponding results for tariff revenues are shown in Figure 2.b. In the 20-30 and 30-45% rate groups, both tariff simulation exercises had slight effects on CET

revenues, but in the >45% rate group the 100% tariff imposition had a substantial negative effect on tariff revenues.

SIMULATIONS OF A REDUCTION IN TRADE TAXES

This section proposes to analyse the impact on the fiscal accounts, the sequential reduction in tariff rates based on trade liberalisation. The basis of the exercise is premised on a given set savings investment balance of the economies in question. By how much would indirect taxes have to increase in order to maintain this balance. The adjustment is therefore entirely fiscal and consistent with the economic foundations of the Eastern Caribbean Central Bank Currency Union. Given the limits placed on the degree of Central Government borrowing from the monetary authorities, there is a binding constraint on governments' ability to monetise their deficits. This adjustment is further reinforced by the choice of nominal anchor whereby the exchange rate is pegged at a fixed rate to the United States dollar. Given our degree of openness the economies of the Currency Union have been heavily dependent on taxes on international trade and transactions as a major source of revenue. This degree of dependence increases the vulnerability of the economies to shocks arising from increased trade liberalisation. The likely establishment of Regional Economic Partnership Arrangements (REPAs) under the new Lomé 5 protocol and accession to the Free Trade Area of the Americas (FTAA) will alter tariff rates among the membership in these regional trading blocks.

Member countries of the Currency Union therefore must take a proactive and anticipatory stance in mitigating the costs of adjustment arising during the transitional period.

<u>The One Country, Two Sector, Three Good (123) Model</u>

This model refers to one country with two producing sectors and three goods. The sectors are the traded and non-traded goods sectors while the goods produced are the export good, a domestic good and an import good. The three agents involved in the model are a producer, a household and the rest of the world. There are a total of twenty equations and two accounting identities. Five equations describe the underlying relationships that generate real flows. Six explain price relationships. Four describe nominal flows while the remainder describe equilibrium or market clearing conditions. These market clearing conditions state that supply must equal demand and that the balance of trade constraint must be satisfied. The model does not assume that all tradables are perfect substitutes with domestic goods. The model is static and does not yield a dynamic solution but a one period result based on the type of shock that is selected.

TRANSMISSION MECHANISM OF A REDUCTION IN TARIFFS

One of the key assumptions underlying the model is imperfect substitution between tradables and non tradables. This assumption enables deviations from the law of one price which is standard in classical trade theory. By relaxing the assumption of perfect substitution between traded and non traded goods the model reflects the body of empirical evidence that indicates that changes in the price of imports and exports are only partially transmitted to the prices of domestic goods. Product differentiation of both imports and exports given the level of aggregation permits an extension of the Salter Swan model and gives rise to normally shaped offer curves. All domestic goods that are not exported are effectively treated as non-tradables (semi-tradables). Another key assumption in the model is the small country assumption whereby the country is a price taker in both import and export markets.

In this model, consumers consume a composite good (Q) that is comprised of imports (M) and domestic good (D). Relatedly all income is spent on the composite good to satisfy the equilibrium condition that the value of goods demanded must equal aggregate expenditure. The desired ratio of imports to the domestic goods is a function of relative prices for a given degree of substitution. This allows for the relative demand functions to be linearly homogeneous of degree zero thus mitigating issues of “money illusion”.

When the import tariff rate is cut this changes the relative price of imports to the domestic good. Imports become cheaper and there is a real appreciation of the exchange rate. There are two effects that arise: the income effect and the substitution effect as imports become relatively more attractive. For a given propensity to import consumers maximise utility by consuming more of the import good as real income is now higher. For most developing countries such as those of the currency union the income effect is likely to dominate given low elasticities of substitution. Both exports and the domestic good will be more expensive relative to imports.

In the simulation the constraint that the overall savings investment balance should remain the same is imposed. The simulation basically asks the question how much would sales tax/value added tax or excise tax revenues have to be raised in order to ensure revenue neutrality. The current revenue has three components related to (a) tradable sector; (b) non-tradable sector and (c) overall income. Revenue is therefore a function of the product of the import tariff rate times the real exchange rate times the value of imports plus the product of the sales/excise/value added tax rate times value of demand for the composite good plus the product of the direct tax rate times total income. Hence when the import tariff rate is cut it, the income effect results in more imports hence the quantity effect dominates the price effect for a given propensity to import in the revenue function. The second effect is traced through the sales/excise or value added tax rate as it is applied to demand for the composite good which is comprised of both imports and domestic goods. The sales or excise tax provides a compensatory mechanism that ensures that the savings investment balance is maintained for a given cut in the import tariff rate. Walras' Law ensures that the sum of the price-weighted excess demands summed over all markets must be zero.

SIMULATIONS

The simulations were based on a 25.0%, 50.0% and 100.0% reduction of import tariff rates in the face of increasing trade liberalisation. The method of adjustment assumed was internal based on a change in the tax regime. It was assumed that given the reliance on trade taxes for most revenue that indirect tax rates would have to change in order to maintain the existing savings investment balance. The indirect taxes could take the form of a sales tax or some other form of indirect tax on consumption. The baseline year chosen was 1998.

Grenada's dependency on trade taxes has increased over time. These taxes accounted for 43.8% of current revenue during the 1980's and rose to 56.3% during the 1990's. As a per cent of GDP trade taxes accounted for 11.5% in the 1980's and rose to 13.7% in the 1990's. Although the revenue elasticity was lower in the 1980's compared with the 1990's the trade tax elasticity was very responsive to changes in GDP.

Grenada Revenue and Trade Tax Elasticities

	1980-98	**1980's**	**1990's**
Revenue	0.91	0.80	0.92
Trade Tax	1.34	1.55	0.81

The question that arises is by how much will domestic indirect taxes need to be raised in order to keep the current account from deteriorating while keeping the same level of productive investment in the economy. The average import tariff rate in the baseline year was 24.0%. For a 25% reduction in this rate indirect taxes would have to increase by 2.7%. For a 50% reduction the indirect tax rate would have to double to 5.5%. For full liberalisation these taxes would have to increase to 14.6% of GDP.

Grenada Simulations

Tariff Rate	Indirect Tax Rate Per Cent GDP
25% reduction in Import Tariff	2.7
50% reduction in Import Tariff	5.5
100% reduction in Import Tariff	14.6

Table 7:Grenada Baseline Indicators

	EC$M	1998 Baseline Per cent of GDP
GDP Market Prices	905.89	
Consumption	775.4	85.6
Private	630.4	69.6
Public	145.0	16.0
Domestic Saving	130.5	14.4
Investment	363.9	40.2
Imports of Goods	550.0	60.7
Exports of Goods	88.44	9.8
Foreign Saving	244.6	27.0
Av. Tariff Rate /1	0.240	-
Current Revenue	228.7	25.2
Trade Taxes	132.0	14.6
Current Expenditure	222.9	24.6
Current Account Balance /2	25.1	2.8
Overall Balance	-12.99	-1.4

1 /Defined as the ratio of Trade Taxes to Imports of Goods
2/ Denotes Current Account After Grants

LIBERALIZATION OF TRADE IN SERVICES

Grenada's international obligations for the liberalisation of trade in services are related to its commitments under the GATS and Protocol II amending the CARICOM treaty. The commitments under Protocol II represent advancement on the GATS hence this section begins with a discussion of the GATS

COMMITMENTS UNDER GATS AND TRADING ARRANGEMENTS

The general objective of the GATS is to develop as set of rules that would foster increased transparency, consistency, certainty and non-discriminatory norms and regulations in the governance of trade in services. The services not covered by the agreement pertain to transportation and airline services. With regards to modes of supply four specific mechanisms apply as follows:

(1) cross border supply;
(2) consumption abroad;
(3) commercial presence; and
(4) presence of natural persons.

The Most Favoured Nation (MFN) principle under the GATS dictates that trading partners whether with the Free Trade Area of the Americas (FTAA) or the Regional Economic Partnership Agreements (REPA) of the EU. Albeit temporary exemptions may be allowed for transitional purposes. The principle of National Treatment dictates that once a foreign entity supplies a service to WTO member country then there should be no discrimination between this entity and a local one.

Grenada has made commitments under GATS for the following services:
(1) Communication services, specifically courier services.
(2) Financial services, specifically insurance and insurance related services;
(3) Tourism and tourism related services; and
(4) Recreational, entertainment, cultural and sporting services;

COURIER SERVICES

There are limitations to market access or national treatment other than to commercial presence which is subject to exchange control, alien land holding regulations and withholding tax. With regards to the presence of natural persons these are subject to work permit and immigration regulations.

FINANCIAL SERVICES

Commitments under financial services are specific to insurance and insurance related services. Limitations to market access pertain to commercial presence which is subject to exchange control and alien landholding regulations. The presence of natural persons are also subject to work permit and immigration regulations.

TOURISM AND TOURISM RELATED SERVICES

Limitations to market access are unbound with respect to cross-border supply due to the lack of technical feasibility. Other commitments include commercial presence being subject to alien landholding regulations, exchange control and which is restricted to the construction of hotels in excess of 100 rooms. The presence of natural persons is also limited to managerial and specialist skills, which are subject to work permit and immigration regulations.

ENTERTAINMENT SERVICES

Restrictions to market access and national treatment pertain to the commercial presence and presence of natural persons. Foreign entertainers may be required to employ a national artist and are limited in scope to theatre, musical ensembles, bands and dance troupes. These entities are also subject to exchange control and alien landholding regulations. In terms of national treatment they are also subject to withholding tax. The presence of natural persons is also subject to work permits and immigration regulations.

SPORTING AND OTHER SERVICES

Commitments with regards to market access are unbound specifically to cross-border supply. Commercial presence and presence of natural persons have the following commitments which are subject to exchange control and alien landholding regulations and the need for work permits.

LIBERALISATION OF TRADE IN SERVICES IN CARICOM

If the CARICOM regime of free trade in services is to have meaning, it must provide for a greater level of liberalisation than is implied the current bindings of the countries under the GATS. Protocol II amending the Treaty of Chaguaramas provides the framework for the regime of free trade in services. However, in its current form Protocol II provides a statement of intentions and the elements of the regime will only be clearly defined when the implementation schedule is adopted.

Protocol II provides for Rights of Establishment, Provision of Services and the Movement of Capital. Article 35 provides for a standstill on restrictions to the rights of establishment and for member states to notify the Council for Trade and Economic Development (COTED) of the existing restrictions. It also provides for establishment of criteria to safeguard these rights. The Article also addresses the abolition of restrictions on the right of establishment on a phased basis. It also establishes a consultative mechanism for the establishment of a programme for the abolition of restrictions on right of establishment in progressive stages. COTED would identify the activities to which rights of establishment shall not apply; establish the conditions under which it would be achieved and the stages and time frames for the removal of restrictions. Article 35 also provides for access to land and buildings, free movement of skills, the treatment of monopolies and the mutual acceptance of certificates and other evidence of qualifications.

Article 36 provides for a standstill and the progressive removal of restrictions on restrictions on the provision of services within the community. It also mandates COTED in consultation with the competent organs of the community to establish a programme for the progressive removal of restrictions on trade in services. The Article does not explicitly mention the various modes of provision of services, together with the Article 35 and Article 37 which deals with the movement of capital all four modes would be covered. However, the right to exclude certain financial services from the provisions of this Article is given to the Council for Finance and Planning (COFAP). As with the WTO certain government services are excluded from Protocol II. These include the operations of Central Banks or monetary authorities, national security and the maintenance of public order, social security and public retirement plans.

Protocol II provides a framework for free trade in services, by providing for a standstill on current restrictions and a progressive liberalisation of the existing restrictions. The nature of the regimes which emerges depends on the strength of the programmes established for the progressive removal of restrictions. If the current WTO commitments are anything to go by, member states would have to improve significantly these if the trade in services regime is to be meaningful.

The completion of a regime in services would unleash competitive effects similar to goods with a consequent reduction in the price of these services. Because the use of services especially financial services permeates all types of production (including services themselves), there is a further knock-on boost for all types of businesses using these services. Competition in the provision of financial services can lead to the reduction in cost of credit if firms can raise their loans in other CARICOM territories. Similarly, the prices of insurance services can be reduced by increased competition.

CONCLUSION

Although the economy of Grenada went through the same periods as boom and bust as the other OECS countries, the recovery over the last three years has been more robust due to the strong growth in nutmeg earnings and increased visitor arrivals from Europe. Growth in Grenada has averaged about 5% over the last three years compared to slightly less than 3% during the period 1990-94 and 6.1% for 1986-89.

The competitive studies suggest that Grenada is most competitive in the production of nutmegs. This followed by Plantains, cocoa beans, cloves and bananas. Cinnamon and coconuts are also export competitive. In the area of processed foods wheat bran and wheat flour are also deemed to be export competitive.

Grenada's manufacturing sector has developed with the aid of high levels of protection. The agro-processing sector has strong linkages with the agricultural sector and has the potential to be competitive in selected niche markets but the survival of some firms in the sector may be doubtful without the protective arrangements. In this regard the authorities may need to allow the least efficient firms to exit the sector in an orderly manner while providing support to those firms that have the potential to be export competitive. A package of assistance would need to be provided to these firms and may include, finance and technical assistance in product development, factory layout, marketing etc. Given the tight budgetary constraints facing the country and the expected loss of revenue from trade liberalisation it may be necessary to access the required resources from external sources.

Increased dependency on services as the mechanism for economic transformation hinges on the ability to develop the tourism product in harmony with the resource endowments of the territory. While this industry will be at the core in terms of foreign exchange, employment and government revenues, other services with potential include the financial services sector, the insurance sector, business and professional services and cultural services.

Although an expansion in the tourism plant is projected for over the medium term commencing with an additional 1,850 rooms during 2000-2008, this should be phased to ensure economically viable occupancy levels. The adequacy of occupancy levels is also linked to the current subsidy being paid to American Airlines in ensuring a reliable service from North America. Given the degree of dependency on one major carrier, alternative carriers should be sought in mitigating vulnerability to strikes that may impair passenger services to the territory. Alternative areas for site development need to be sought to avoid congestion in the Grand Anse area. While the reliability in electricity supply improved with the privatisation of the electricity utility, there is a great need to improve water and sewerage services. There is considerable loss of water in the distribution network especially in the St. Georges area where the mains have existed since the 1800's.

The Offshore financial services sector is growing but its future is clouded by the OECD listing. Its development will depend critically on its ability to reform itself to meet international best practice. The presence of subsidiaries of a number of banks from Trinidad that have a longer tradition in financial engineering offers the opportunity for the development and marketing of new financial products to the rest of the currency union. These products would be timely with the advent of the Eastern Caribbean Securities Exchange (ECSE) which would offer a platform for secondary trading in the first instance and primary offerings at a later date.

Grenada's tax structure is generally in conformity with WTO standards except for two areas of concern: The customs service charge at 5.0% exceeds the permissible limit for cost recovery and should be adjusted downwards to 1.0%. Since the cost to the revenue will be considerable, any future adjustment (together with tariff reductions) should be done within the framework of an overall tax reform designed to shift taxes towards expenditure rather than directly on imports. The other area of concern relates to the aliens land holding license required of non-nationals before entering into land transactions. Deregulation in this area has social implications directly affecting the poorer segment of communities. A phased approach to deregulation should be followed so as not to alienate deserving nationals from lands required for basic shelter and food farming.

At the time of writing this report, Grenada's fiscal situation showed a declining trend. A reduction in the proceeds from the sale of assets and in external grants and concessional loans necessitated increased use of commercial borrowing that continued to push Grenada's external debt steadily upwards despite earlier debt write-offs and restructuring. Revenue buoyancy was good; but there is need to broaden the tax base, remove distortions and inefficiencies that discourage compliance, and improve tax administration. The incentive regime (in particular, ad hoc concessions) creates inequalities in burden-sharing and opportunities for tax evasion.

Grenada has taken steps to stabilise recurrent spending. However, major reforms are needed to rationalise consumption expenditure and place investment spending within a strategic planning framework. Careful selection of projects and the development of viable financing plans are needed to avoid further escalation of debt and debt servicing costs.

The reforms indicated should precede the move towards trade liberalisation so as to minimise the social and fiscal impact on the poorer segment of Grenadian society and to restructure the fiscal system to assist the economy to better withstand the challenges of external competition and changes in the external environment.

The study suggests that the market for services in Grenada is already characterised by significant liberalisation further liberalisation would benefit the country more than it would lose. Thus a negotiating strategy would move to further liberalise the services sector in exchange for concessions in agriculture. The study could not identify a case for the Grenada as part of the

OECS grouping to pursue a negotiating strategy that was different from the rest of CARICOM except in so far as the sequencing of adjustment measures and the transition period for liberalisation are concerned. Action to be taken and the transition period required are indicated in the Section on the Way Forward in the Overview.

Table 8: Grenada Tourism Statistics

	Mean 1986-90	Mean 1990-94	Mean 1995-98
Stay-overs	57,858	90,376	110,695
Cruise ship Passengers	124,438	195,213	257,337
Stay-over growth	6.12	10.76	1.55
Cruise ship Passenger growth	8.23	12.24	7.87
Total Visitor Growth	7.18	11.49	5.61
Visitor Expenditure $ECm	100.03	162.63	217.23
Visitor Expenditure Growth	4.97	13.98	2.60
Service Penetration Index /1	1.65	3.44	4.00
USA Market Share	17.92	28.45	26.93
UK Market Share	10.59	12.90	18.30
Caribbean Market Share	28.46	16.80	14.43
Canadian Market Share	4.79	4.99	4.50

1/ Defined as the ratio of service exports to merchandise exports

Table 9: Grenada Hotel Cap city

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Hotels	411	469	518	514	543	553	738	1027	1012	1064	1066	1136	1136
Cottages/Apartments	173	250	329	369	368	358	211	236	245	371	384	418	418
Guest Houses	59	103	172	202	194	207	165	165	171	217	219	221	221
Total	643	822	1019	1085	1105	1118	1114	1428	1428	1652	1669	1775	1775
							(Percentage Change)						
Hotels	8.73	14.11	10.45	-0.77	5.64	1.84	33.45	39.16	-1.46	5.14	0.19	6.57	0.00
Cottages/Apartments	-1.70	44.51	31.60	12.16	-0.27	-2.72	-41.06	11.85	3.81	51.43	3.50	8.85	0.00
Guest Houses	28.26	74.58	66.99	17.44	-3.96	6.70	-20.29	0.00	3.64	26.90	0.92	0.91	0.00
Total	7.17	27.84	23.97	6.48	1.84	1.18	-0.36	28.19	0.00	15.69	1.03	6.35	0.00

Table 10: Grenada Foreign Direct Investment (FDI) Profile

	Mean 1986-89	Mean 1990-94	Mean 1995-98
FDI as Per Cent of GDP	6.25	7.87	10.72
FDI as Per Cent of ECCB Inflows	10.03	11.41	14.34
Equity Share of FDI	81.03	50.81	36.28
Land Sales Share of FDI	10.88	17.73	36.85
Reinvested Earnings Share of FDI	8.1	9.04	23.76
Other Investment Share of FDI	0.00	22.42	3.12

Table 4: Grenada Real GDP Growth and Sectoral Contribution of Services

	Mean 1986-89	Mean 1990-94	Mean 1995-98
Tourism			
Contribution	5.12	7.04	8.01
Growth	7.31	13.86	0.06
Construction			
Contribution	8.39	7.24	7.63
Growth	7.39	0.64	8.26
Communications			
Contribution	4.69	8.55	10.29
Growth	36.26	11.58	6.29
Transportation			
Contribution	14.04	13.32	14.49
Growth	10.03	2.49	6.41
Banks			
Contribution	7.59	8.14	9.81
Growth	12.78	3.93	5.91

Table 5: Grenada Savings Investment Profile (EC$M)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Source of Funds	116.5	150.0	167.9	196.4	322.5	244.5	196.5	206.9	253.8	239.3	293.2	290.3	383.4
Gross National Savings	68.2	72.5	94.6	99.6	199.6	121.9	112.4	92.9	181.1	128.8	137.1	103.3	138.8
Gross Domestic Savings	36.9	55.9	78.6	80.8	106.0	110.0	94.4	78.5	162.2	119.0	113.9	95.3	130.5
Public Sector	5.6	-0.1	24.5	-17.0	4.6	9.5	10.1	35.2	28.9	38.5	42.6	26.1	26.1
Private Sector	31.3	56.0	54.1	97.8	101.4	100.5	84.3	43.3	133.3	80.5	71.3	69.2	104.4
Transfers from Abroad	46.2	34.5	33.0	44.6	30.6	30.5	32.4	37.0	42.7	46.1	64.0	53.1	72.1
Net Factor Income	-15.0	-17.9	-16.9	-25.7	63.0	-18.6	-14.4	-22.6	-23.8	-36.3	-40.8	-45.1	-63.8
Foreign Savings	48.3	77.5	73.3	96.8	122.9	122.6	84.1	114.0	72.7	110.5	156.1	187.0	244.6
Use of Funds													
Domestic Investment	116.5	150.0	167.9	196.4	322.5	244.5	196.5	206.9	253.8	239.3	293.2	290.3	383.4
Public Sector	40.7	38.5	48.6	68.3	82.7	66.1	37.8	31.5	51.2	72.0	71.7	60.2	60.2
Private Sector	75.8	111.5	119.3	128.1	239.8	178.4	158.7	175.4	202.6	167.3	221.5	230.1	323.2
						(In% GDP Market Prices)							
Source of Funds	30.0	33.2	33.7	34.1	54.0	37.5	29.0	30.7	35.8	32.1	36.9	34.1	42.3
Gross National Savings	17.5	16.0	19.0	17.3	33.4	18.7	16.6	13.8	25.5	17.3	17.2	12.2	15.3
Gross Domestic Savings	9.5	12.4	15.8	14.0	17.8	16.9	13.9	11.6	22.9	16.0	14.3	11.2	14.4
Public Sector	1.4	0.0	4.9	-3.0	0.8	1.5	1.5	5.2	4.1	5.2	5.4	3.1	2.9
Private Sector	8.1	12.4	10.9	17.0	17.0	15.4	12.4	6.4	18.8	10.8	9.0	8.1	11.5
Foreign Savings	12.4	17.2	14.7	16.8	20.6	18.8	12.4	16.9	10.3	14.8	19.6	22.0	27.0
Use of Funds													
Domestic Investment	30.0	33.2	33.7	34.1	54.0	37.5	29.0	30.7	35.8	32.1	36.9	34.1	42.3
Public Sector	10.5	8.5	9.8	11.9	13.9	10.1	5.6	4.7	7.2	9.7	9.0	7.1	6.6
Private Sector	19.5	24.7	23.9	22.3	40.2	27.3	23.4	26.0	28.6	22.4	27.8	27.1	35.7

Table 6: Grenada Monetary Survey

Monetary Survey
(in EC$ Millions)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Net Foreign Assets	48.76	44.77	51.72	59.07	7.57	42.95	37.03	64.48	68.41	113.09	153.34	126.91	84.97	88.16
Central Bank (net)	56.17	55.53	62.99	47.11	42.91	48.49	48.02	69.25	72.68	84.12	99.11	96.32	115.17	126.37
Commercial Banks (net)	(7.40)	(10.76)	(11.28)	11.96	(35.35)	(5.54)	(10.98)	(4.77)	(4.27)	28.97	54.23	30.59	(30.21)	(38.21)
External (net)	(7.49)	(12.90)	(13.36)	8.34	(28.51)	(11.46)	(8.40)	(22.51)	(20.82)	(2.02)	19.23	4.27	(42.62)	(59.89)
Other ECCB Territories (net)	0.09	2.14	2.09	3.62	(6.84)	5.92	(2.58)	17.74	16.55	30.99	35.00	26.32	12.42	21.68
Net Domestic Assets	103.72	162.35	182.93	209.4	288.61	285.72	309.04	311.86	385.57	391.43	397.35	473.82	586.56	662.28
Domestic Credit	148.55	197.94	233.38	250.5	317.37	321.70	346.64	354.83	438.86	423.52	432.62	504.68	617.98	707.76
Central Government (net)	55.71	57.36	53.71	64.40	58.59	66.86	77.21	54.83	54.49	52.27	48.09	61.04	76.17	71.25
Other Public Sector (net)	(7.00)	0.13	0.94	(3.90)	6.34	5.56	4.06	1.29	(8.90)	(19.68)	(25.09)	(24.62)	(20.74)	(24.78)
Non-Bank Financial Institutions (net)	(9.83)	(11.58)	(9.87)	(22.71)	(20.55)	(21.46)	(22.15)	(16.31)	(20.38)	(23.67)	(27.66)	(27.00)	(25.41)	(23.39)
Subsidiaries & Affiliates (net)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Private Sector	109.67	152.02	188.60	212.7	272.99	270.74	287.52	315.02	413.64	414.60	437.29	495.26	587.95	684.68
Other Items (net)	(44.83)	(35.59)	(50.46)	(41.08)	(28.76)	(35.98)	(37.61)	(42.98)	(53.28)	(32.09)	(35.27)	(30.86)	(31.42)	(45.48)
Money Supply (M2)	152.48	207.12	234.65	268.47	296.18	328.67	346.07	376.34	453.99	504.52	550.69	600.74	671.52	750.44
Currency	25.07	30.69	33.07	35.13	31.40	38.05	40.35	46.68	46.56	52.96	53.83	53.18	58.35	64.08
Demand Deposits	19.49	30.74	34.29	38.55	45.81	44.58	40.28	54.27	63.10	71.20	77.82	78.26	86.16	95.33
Savings Deposits	66.51	82.14	98.63	128.40	144.69	158.58	172.20	173.98	232.96	267.84	292.93	326.94	370.01	390.65
Time Deposits	38.55	58.24	63.45	62.99	67.84	80.77	83.90	91.41	97.60	94.66	108.06	114.07	123.85	170.81
Foreign Currency Deposits	2.87	5.30	5.21	3.40	6.44	6.69	9.34	10.00	13.76	17.86	18.06	28.29	33.17	29.57