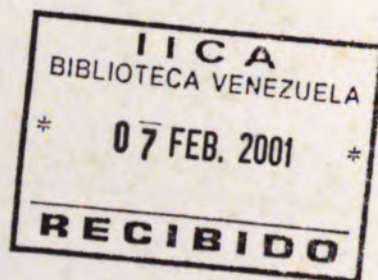


***A Review of the Macro-Economic  
Policy Environment  
of the OECS:  
1980-1995***



by

***Claudette Johnson (IICA)  
and  
Patrick A. Antoine (IICA)***

for the

***Study on the  
"Competitiveness of the Agricultural Sector  
in the Lesser Antilles"***

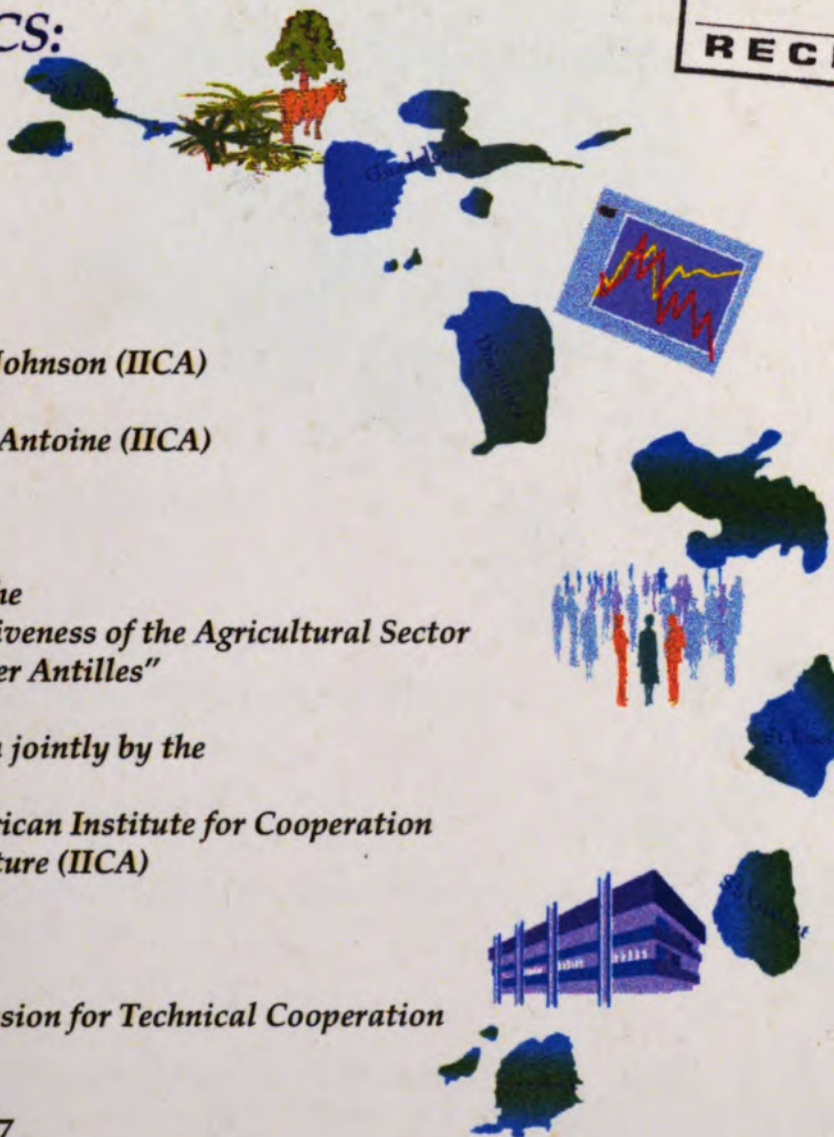
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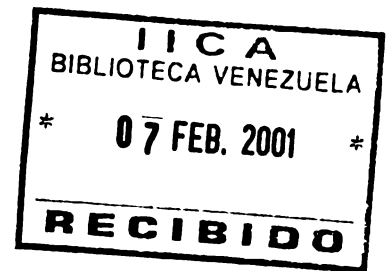
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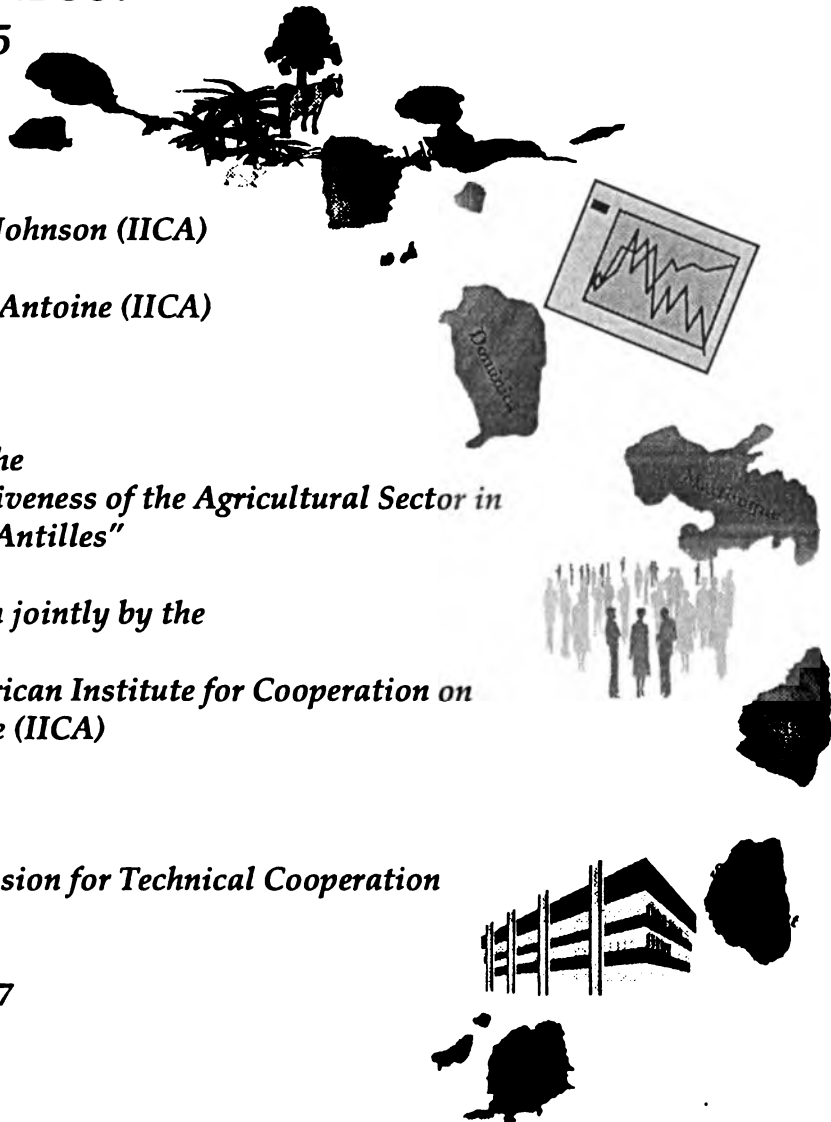
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**A Review of the Macro-Economic Policy Environment of  
the OECS Sub-Region, 1980-1995**

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**A REVIEW OF THE MACRO-ECONOMIC POLICY ENVIRONMENT  
OF THE OECS SUB-REGION, 1980-1995**

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**INTRODUCTION**

Macroeconomic policies (ie., those related to monetary, fiscal, trade and labour issues) impact on the entire economy by influencing the allocation of resources (mainly labour and capital) among competing economic interests. More and more it is being recognised that an important consequence of such policies is their indirect impact on the performance of the agricultural as well as other sectors of the economy. An understanding of the link between macroeconomic policy and agricultural performance allows not only for a better appreciation of the factors influencing the performance of the sector, but also contributes to the design of programmes for ameliorative action.

Macroeconomic policy must satisfy two basic criteria if it is to contribute to the development of a sustainable and competitive agricultural sector in the OECS sub-region.<sup>1</sup> First, policies must be stable and predictable, which is interpreted as not changing significantly from year to year; second, policies must also be neutral, that is they not be unduly biased against the agricultural sector.

The performance of the agricultural sector is influenced, both directly and indirectly, by macroeconomic policy through the economic incentives such policies provides for persons to engage in productive activity in the sector. This influence is by and large translated through the price of the factors of production and foreign exchange and ultimately determines the cost and profitability of engaging in productive agricultural activity. The impact of such policies on the agricultural sector is however not easy to sort out particularly since many of the influences are not quantifiable. Limitations of data also restricts the analysis in the OECS countries. Further, there is an interdependence between agricultural performance and policy and macroeconomic performance and macropolicy which makes the determination of impact difficult to isolate. Other factors such as external conditions and climatic factors further complicate the analysis.

This paper examines the objectives and instruments of macroeconomic policy and highlights important developments and policy changes over the period 1980-1995 in policy formulation and implementation for the five member countries of the OECS sub-region. While the interdependence of macroeconomic policies is recognised, the policies are analysed separately for simplicity. The data presented in this report were obtained from a number of sources both international and local. There were serious discrepancies in the data in some instances and complete lack of data in others. The analysis should therefore serve as indicative of trends rather than an accurate point estimate.

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<sup>1</sup> The countries which comprise this economic grouping are Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia and, St. Vincent and the Grenadines. Only five of the OECS countries were included in the study, Antigua and Montserrat, which do not fall within the French Missions activities in the region, were excluded.

## I. MACRO-ECONOMIC PERFORMANCE OF THE OECS

### 1.1 Overview of Economic Structure

The countries of the OECS sub-region display great similarities in terms of their economic and production structure, size, openness, and resource endowment. These economies can aptly be described as small, open, primary producing and exporting developing countries whose economic performance is

Country	Area (sq km)	mid-year Pop	Pop. Density	Current GDP EC\$M	Per capita GDP
Dominica	750	74,200	98.9	510.3	6,877.3
Grenada	345	97,400	282.3	623.1	6,397.3
St. Kitts	269	42,000	156.1	525.8	12,519.0
St. Lucia	616	145,300	235.9	1,287.8	8,863.0
St. Vincent	388	109,900	283.2	596.7	5,429.5

Sources: CDB, Social and Economic Indicators, 1994 - statistics on country area.; CDB, Economics and Programming Department - population 1995; OECS, Economic Affairs Secretariat. - GDP, 1995.

influenced significantly by the internal as much as the external environment (Table1). The OECS countries must therefore export in order to earn foreign exchange to import necessary goods and services. Smallness also makes trading an imperative since economies of scale are quickly achieved and hence firms must inevitably export if they wish to remain competitive. This is perhaps one reason for the limited large-scale expansion of the industrial sector in the region.

The OECS countries are also reliant on one or two major items of export, a feature which increases their vulnerability to changes in the external market, particularly since these countries are price takers. In the case of Dominica, St. Lucia and St. Vincent, the primary contributor to economic well being is the banana industry. While some diversification has taken place within agriculture, particularly in the nontraditional crops and in the expansion of the tourism and services sectors, the countries remain dependent on a very narrow range of traditional export commodities. The range of imports, however is more diversified and reflects a heavy concentration on consumer durables and capital goods. An indication of the degree of trade dependency is provided in Table 2.

TABLE 2: MEASURES OF OPENNESS

% OF GDP	Exports <sup>2</sup>	Imports <sup>2</sup>
Dominica	44.6	61.8
Grenada	42.5	55.2
St. Kitts	60.4	73.3
St. Lucia <sup>1</sup>	66.7	74.8
St. Vincent	57.5	68.7

Source: CDB

<sup>1</sup> Data refers to 1993.

<sup>2</sup> of goods and non-factor services

### 1.2 Trends in Economic Performance

#### 1.2.1 Output Growth and Composition

The primary indicators used as a measure of economic performance over the 1980-1995 period are trends in output (measured by the Gross Domestic Product), inflation, gross domestic savings and investment, balance of payments and external debt.

In terms of gross output, St. Lucia has the largest economy of the five participating OECS countries. GDP more than doubled in size from an average of EC\$224 million in 1980/2 to EC\$488 million in 1993/5, a growth rate of some 7% per annum (Table 3). The five OECS member countries may be grouped in three different categories on the basis of their output



performance - high performers with a growth rate exceeding that of the growth for the region as a whole, medium performers with growth rates over 3% and low performers with growth rates less than 3%. High performers included St. Kitts, St. Lucia and St. Vincent whose growth in GDP exceeded 6% per annum, with Dominica and Grenada classed as medium performers due to a GDP annual growth of just over 3% per annum.

TABLE 3: AVERAGE REAL GDP (1977)  
OECS, SELECTED PERIODS

	1980/2	1993/5	Growth/ annum
Dominica	96.9	155.7	3.8
Grenada	138.6	240.9	4.6
St. Kitts	84.8	171.7	6.4
St. Lucia	224.7	488.1	7.3
St. Vincent	106.0	210.1	6.1

Although for the individual countries there was a great deal of volatility in the growth of the economy with sharp swings year to year, two distinct periods of growth can be identified. At the start of the 1980s the OECS was faced with devastating hurricanes in 1979 and 1980 and an international recession which impacted negatively on agricultural production, export volumes, import prices and foreign exchange earnings. Although the international environment improved little over the period, the region recorded positive and high growth levels, averaging 6% between 1980-1989. The favourable performance of the OECS in light of the vagaries of the international environment has been attributed to concessionary capital inflows, the existence of preferential markets for its major crop bananas, the expansion in the tourism industry and tight fiscal management.

For the majority of the countries, while economic growth peaked between 1986-1989, there was a general slowdown in the rate of growth in GDP, which continued into the 1990s. In fact, between 1990-1995, the rate of growth in GDP slowed by half, to an average of 3% per annum. The slowdown in the latter half of the period was attributable to adverse climatic factors (including droughts and hurricanes which impacted negatively on agricultural production and exports and the tourism infrastructure), world wide recession as well as the general uncertainties of the banana export market. The decline in concessionary financing has also been a deciding factor.

### 1.2.3 Sectoral Trends

Economic growth has been mainly driven by expansion in agricultural production and export particularly bananas in the Windward Islands and increased tourist arrivals.

#### Agriculture:

While agriculture remains an important contributor to total output of the OECS countries, its importance, relative to other economic sectors, has declined. In 1980 OECS agriculture, which accounted for 15% of total output in real terms, declined to 11% by 1995. Among the countries, Grenada was the only country recording negative growth in the agricultural sector, a factor which did not, however, significantly affect overall economic performance. Only St. Vincent and St. Lucia showed significant signs of positive growth in the agricultural sector, of 8.5% and 5.5% per annum, respectively. In terms of agricultural sector growth (in value terms), the high performers, that is growth exceeding the average growth

in agricultural GDP for the region, were St. Lucia 6.4%) and St. Vincent (4%). St. Kitts and Dominica with growth rates of 1.6% and 1.8% respectively can be categorised as medium performers, while Grenada was low performer, recording agricultural sector growth of less than 1% (Table 4). The composition of the agricultural sector however remained largely unchanged with the crop sector increasing its contribution from 72.5% to 74% over the period.

TABLE 4: SHARE OF AGRICULTURE GDP IN TOTAL GDP

EC\$M	1980/2			1993/5		
	GDP			GDP		
	Agric.	Total	%	Agric.	Total	%
Dominica	27.4	96.9	28.28	35.3	155.4	22.72
Grenada	32.4	138.6	23.38	28.3	240.5	11.77
St. Kitts	13.9	84.8	16.39	17.4	171.7	10.13
St. Lucia	29.9	224.7	13.31	60.7	489.9	12.39
St. Vincent	16.3	106	15.38	26.8	210.1	12.76

### Tourism:

The tourism sector is not effectively captured in the national accounts of the OECS countries. At best the hotel and restaurant sector can be used as an approximation. In this paper however the trends in the tourism industry is assessed on the basis of trends in visitor arrival and expenditure.

TABLE 5. AVERAGE VISITOR

OECS	ARRIVALS	
	1980/2	1993/5
Cruise	229,473	1,000,514
Stayover	299,072	776,630
<b>Total OECS</b>	<b>528,545</b>	<b>1,779,110</b>

Source: ECCB,

Of the participating OECS countries, Grenada and St. Lucia accounted for the largest share of visitor arrivals. While visitor arrivals remained fairly stable in St. Lucia over the period, Grenada experienced a decline in arrivals by 9%. St. Kitts, although accounting for just under 7% of total arrivals in 1980 doubled this number in the 1990s. Cruise ship arrivals showed the more vigorous growth increasing its contribution to total arrivals from just under 40% in the early 1980s to an average of 51% for the remainder of the period. As is to be expected, the countries which accounted for the highest share in tourist arrivals also received the largest share of total visitor expenditure.

TABLE 6. AVERAGE VISITOR

US\$M	EXPENDITURE	
	1980/2	1993/5
<b>Total OECS</b>	<b>134.7</b>	<b>779.4</b>
Dominica	4.3	30.3
Grenada	16.4	55.0
St. Kitts	9.2	71.6
St. Lucia	30.6	235.7
St. Vincent	14.9	47.9

Source: CDB,

### Manufacturing:

The relatively undeveloped manufacturing sector in the OECS is comprised of two categories: the indigenous sector made up of relatively small scale businesses engaged in agroprocessing activities, beverages and other light manufacturing and the larger foreign owned businesses involved in the production of garments and the assembly of electronics for export mainly to the US market. Over the period the manufacturing sector as a percentage of total GDP virtually halved in four countries and stagnated in the remainder. In respect of Grenada, however the contribution of the sector improved from 4% to 7%. The manufacturing sector under performed the economy and factors influencing this lack lustre

TABLE 7. MANUFACTURING SECTOR IN GDP

Country/%	1980/2	1993/5
Dominica	7.6	7.6
Grenada	4.0	6.9
St. Kitts	16.0	7.6
St. Lucia	9.6	9.7
St. Vincent	11.0	8.3

performance of the sector include the lack of adequate infrastructural support and the vagaries of the US market (Table 7). St. Lucia has, by far, the most diversified manufacturing sector which includes the production of garments and electronic in its Free Zone and the production of agro-processing products and paper and paper board. St. Kitts is also an important producer of garments and electronics.

### 1.3 Inflation

Inflation is largely influenced by international movements in price given the high degree of openness of the economy. The OECS subregion has generally been characterised by a low rate of growth in the consumer prices index which is the measure of inflation particularly in the 1980s. This can be attributed to in large part by stability in the domestic exchange rate, controls on prices on the domestic level and a relatively low level of inflation in its primary trading countries. Inflation has however remained largely in check due to international recession in the industrialised countries (Table 8).

TABLE 8. INFLATION RATES, OECS

Country	1981	1985	1987	1990	1995
Dominica	4.4	2.1	2.9	3.2	1.4
Grenada	7.7	2.5	0.5	3.7	2.1
St. Kitts	5.9	2.2	1.5	3.7	2.6
St. Lucia	0.6	0.0	5.1	5.9	4.7
St. Vincent	...	2.0	2.9	7.2	3.1

Source: CDB, ECCB, OECS Economic Affairs Secretariat.

### 1.4 Savings and Investment

The data indicate that between 1981-1990, OECS countries attracted a fairly significant level of investment as measured by the gross domestic investment to GDP, which averaged over 30% for the period. While the countries are largely similar in terms of the contribution of investment to GDP, St. Lucia accounted for the majority of gross investment in the OECS sub-region (Table 9). The performance of the savings rate however has been far from impressive particularly since it has not allowed the OECS countries to finance their investment through domestic savings (Table 10). This has meant a heavy dependence on foreign savings to meet the developmental needs of the economies so critical to development. In terms of individual country Grenada and Dominica recorded improvement in domestic savings, moving from negative positions in 1981 to positive ratios by 1990. The increase reported for Grenada was particularly significant.

TABLE 9. GROSS DOMESTIC INVESTMENT AS % OF GDP

%	1981	1985	1990	1995
Dominica	33.95	28.47	40.79	26.2
Grenada	45.25	29.63	42.04	38.4
St. Kitts	30.19	30.34	55.27	44.0
St. Lucia	34.22	21.02	25.82	22.2
St. Vincent	32.74	28.28	31.76	42.0

Source: OECS, Economic Affairs Secretariat. CDB

TABLE 10 GROSS DOMESTIC SAVINGS AS % OF GDP

	1981	1985	1990	1995
Dominica	-10.20	5.08	3.90	5.9
Grenada	-3.83	0.96	17.97	30.1
St. Kitts	1.10	-7.83	22.56	17.0
St. Lucia	0.56	12.68	14.21	24.8
St. Vincent	0.69	22.54	19.58	10.9

Source: OECS-EAS; CDB

### 1.5 Trade and payments

The five OECS member states (influenced mainly by St. Lucia- the largest participant in terms of value in the external sector), incurred consistent deficits on its balance of trade for

the 1983-1994 period.<sup>2</sup> (Table 11). The performance in respect of merchandise trade balance reflects the vulnerability of these countries to the vagaries of the international environment and their high dependence on a narrow range of exports. The size of the trade deficit for the five countries examined has also increased over the period from US\$276 million in 1983 to US\$741 million in 1994. When viewed on an individual country basis, the performance of the external trade account can, at best, be described as mixed.

TABLE 11 BALANCE OF PAYMENTS, US\$M - OECS

	1983	1987	1990	1994
Current Account Balance	-45	51	-299	-244
Exports	188	270	361	291
Imports	-464	-705	-946	-1032
Balance of Trade	-276	-378	-585	-741
Services	131	201	267	468
Net capital movement	na	140	201	143
Change in reserves	1	-10	-14	-5
<u>C/A Bal. as % GDP</u>	<u>-8.1</u>	<u>-13.2</u>	<u>-23.0</u>	<u>-13.6</u>

Source: CDB

For the OECS, merchandise export expanded by some 4% from US\$188 million in 1983 to US\$291 million in 1994. The differential rates of growth in export of the individual countries is in large part a reflection of the composition of their exports. In countries where bananas account for a significant proportion of exports, the performance of exports reflects changes in international prices. This is also the case in Grenada for cocoa and nutmeg exports. There has been a steady expansion of total OECS imports from US\$464 million to US\$1032 million between 1983 and 1994, an increase of some 10%. The services account showed generally positive balance for the period 1983 to 1994 increasing from US\$131 million to US\$468 million. One of the major contributors to this performance has been the growing importance of the tourist industry as evidenced by the increase in visitor arrivals and expenditure.

The current account balance as a percentage of GDP has deteriorated over the period. With the exception of 1988 the deficit on the current account balance expanded steadily over the period 1986 to 1991 from 10.4% to 18.8%. There was some improvement in 1992 and 1993, when the ratios fell to 10.7 and 10.1, respectively. The net flow of capital has shown steady decline since 1989 from US\$222 million to US\$143 million in 1994 and thus has not contributed significantly to the improvements in the overall balance of payments. Net reserves also declined by more than 7%.

#### External debt

The total external debt outstanding of the OECS sub-region increased from US\$223.2 million in 1984 (where complete data on the total external debt outstanding for the OECS region is available) to US\$870.8 million in 1995, an increase of 24% (Table 12). The least indebted OECS country in terms of the value of external debt

TABLE 12 : TOTAL DEBT OUTSTANDING US\$M

	1984	1987	1990	1995
Dominica	43.2	54.1	84.7	100.9
Grenada	48.4	63.6	83.5	97.3
St. Kitts	16.5	21.3	36.4	48.9
St. Lucia	28	27.6	70.8	113.4
St. Vincent	24.8	34.9	56.4	87.0

Source: CDB and own country statistics

<sup>2</sup> Data on the balance of payments are published by various institutions which utilise differing methodology, presentation and units of currency which makes comparison difficult. This paper uses data compiled by the CDB. This data is mainly available from 1983 to 1994.

outstanding is St. Kitts, which in 1995 accounted for 5.6% of the total OECS debt obligations. The total debt service ratio as a percent of current revenue showed steady decline for all with the exception of St. Lucia. Dominica on the other hand showed little improvement over the period. For the remaining countries, the debt servicing appeared fairly manageable ranging in 1994 between 7.9% and 9.2%. The primary implication is that despite the expansion in external debt, the OECS economy has generated sufficient revenue (foreign exchange) to service the debt (Table 13).

**TABLE 13: TOTAL DEBT SERVICING AS % OF CURRENT REVENUE**

	1984	1987	1990	1995
Dominica	15.9	6.9	10.1	8.7
Grenada	18.4	13.9	5.3	6.1
St. Kitts	5.9	5.2	7.1	5.2
St. Lucia	6.1	3.8	6.2	8.1
St. Vincent	6.0	5.4	6.0	2.3

## II. MACRO-ECONOMIC POLICIES AND THE AGRI-FOOD SECTOR IN THE OECS

This section reviews the macroeconomic policies (monetary policy including that of the exchange rate and the interest rate, fiscal policy including the tax and economic incentives regime, labour market and trade policy regimes) for the OECS region for the period 1980 to 1995 and examines their impact on the performance of the agri-food sector.

### II.1 Monetary Policy

Monetary policy is a set of measures taken by a designated monetary authority and/or government with the aim of influencing the money supply, credit, interest rates and the exchange rate. In the OECS, monetary policy is largely controlled by the monetary authority, the Eastern Caribbean Central Bank, the ECCB. The OECS constitute a monetary union which limits the use of monetary policy by individual governments. Monetary policy has severe limitations in developing countries such as the OECS, due, in large part to the underdeveloped nature of the financial structure and institutions and as such the policy objectives tend to emphasise the regulation of money and credit conditions in order to promote stability of the exchange rate, price, monetary and balance of payments and the promotion of economic development.

The ECCB region for example does not have a stock exchange so that the conduct of open market operations is extremely limited. The ECCB recognising that that the effective use of monetary policy requires a developed money and capital market, has embarked on a programme aimed at developing the regions financial sector. This programme involves *inter alia* the establishment of:

- i. an OECS stock exchange;
- ii. a joint venture capital and equity fund, the Eastern Caribbean Enterprise Fund;
- iii. a Secondary Mortgage market via the Eastern Caribbean Home Mortgage Bank; and
- iv. a bond market

With the establishment of the ECCB in 1983 commercial banks were required to maintain a minimum reserve of 6% of deposit liabilities with the Central Bank. This requirement shifted the authority to prescribe reserve requirements from the individual governments to the monetary authority. The ECCA which operated prior to the coming into being of the

ECCB was not authorised to establish reserve requirements. This was the prerogative of the regional governments who with the exception of Montserrat required commercial banks to hold special deposits with the Treasury. All banks were also not necessarily subject to meeting the statutory reserves. One main exception were locally owned banks. The reserve requirement varied from country to country and ranged from 7.5% in St. Vincent to 20% in Grenada. While the commercial bank reserves held by the Treasury was important to the credibility of the commercial banking system it was also a source of deficit financing for government.

The ECCB reserve requirement was introduced in a phased manner over a period of three years for commercial banks which who did not have such deposits. However, 1% of the reserves had to be paid up immediately. Other commercial banks were able to use their treasury deposits to a limit of 5% to satisfy the reserve requirement, the remainder being paid in cash. The primary objective of setting the reserve was to establish a common reserve requirement throughout the monetary union, since it was recognised that given the large numbers of foreign banking institutions in the region the Central Bank's ability to control credit creation via the manipulation of the reserve requirement would be limited. The reserve requirement of 6% has not been revised to date. In 1985 regulations was introduced prescribing the rate of interest to be paid on savings deposits at commercial banks at 4%.

#### Interest Rate Policy

In 1985, regulations were introduced prescribing a 4% rate of interest to be paid on savings deposits at commercial banks. The objective of this policy, as in the case of the reserve requirement, was to engender a common rate in the monetary union. Additional objectives included the need to assist in financial intermediation and to reward and encourage savings by small deposits.

The ECCA had no power to impose interest rates on commercial banks and prior to the introduction of this measure, rates of interest on savings deposits remained fairly stable at 2.5%, for a number of years, on a minimum balance, credited quarterly. The minimum interest rate for depositors remains at 4% per annum and the interbank rate at 5% (This interbank market was established in 1986 to recycle liquidity while simultaneously providing earning opportunities for funds held in current account balances). A Treasury Bill market for the discounting and rediscounting of Treasury bill was also established in 1988.

Apart from the stipulation with respect to the interest on savings deposits, banks have been free to set their own interest rates. However, some moral suasion has been effected by both the ECCB and member governments to influence the interest rate. The trends in interest rates on deposits have tended to respond to changes in the liquidity position of banks.<sup>3</sup> This

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<sup>3</sup> "Up until 1976, commercial bank interest rates in the region were directly influenced by those in the UK market, as the EC dollar link with sterling facilitated capital movements. With the end of the EC dollar/sterling peg in 1976 and the extension of exchange controls to all foreign currencies, the relationship lapsed. Since then, interest rates in the region have shifted generally in line with the liquidity position of banks as measured by the loan/deposit ratio." Liburd and Tempro, 1989, P. 142.

effect was felt largely through time deposits. With respect to lending the factors influencing variations in the lending rate include - competition for funds and the target rate of return required on their operations.

The trends in interest rate correspond to the changes in liquidity. In the early 1980s, liquidity for the OECS area, as measures by the loans to deposit ratio, average close to 80%. This decrease in liquidity was accompanied by an increase in the average deposit rate from 4.9% to 7.2% between 1980-1985. Between 1986-1989, liquidity improved and interest rates declined by an average of 1%. In the post-1989 period, liquidity ratios increased to a range of 82%-84%. Progress has been made in establishing positive real deposit rate for the countries experiencing negative rates in the 1981/84 period (Table 14).

TABLE 14 - AVERAGE NOMINAL AND REAL INTEREST RATE

	1980/2		1981-2/1983-4		1981-2/	1993/5		Real Rate		
	Nominal Rate		Real Rate		1983-4	Nominal Rate		Loan	Deposit	Inflation
	Loan	Deposit	Loan	Deposit	Inflation	Loan	Deposit			
Dominica	9	4.7	51.60	-2.4	7.28	10.0	4.0	8.37	2.46	1.5
Grenada	9.8	4.5	2.04	-2.88	7.6	10.5	4.4	7.49	1.56	2.8
St. Kitts	-	-	-	-	6.23	12.9	5.5	10.2	3.00	2.43
St. Lucia	12.3	7.2	8.5	3.57	3.5	10.1	5.3	6.79	2.13	3.1
St. Vincent	10	4.8	1.38	-3.41	9.5	11.1	4.4	8.44	1.90	2.45

The trend in the interest rate charged for development loans by the Caribbean Development Bank between 1981-1995 has been largely downward, with the interest rate declining by 2.75 percentage points (Table 15).

Table 15 - Interest Rate Structure of the CDB, 1981-1995

1981-82	10.5% (for loans approved after October 1981 Board of Directors meeting)
1983	12%
1984	12% - First quarter; 11.25% for 6 months beginning April 1; 11% - final quarter
1985	10.75% - April-Oct; 10.5% - Oct 1985 to March 1986
1986	10.25% (April -Oct); 9.75% (Oct to March 1987)
1987	9.75% to September 30; 9.5% from Oct 1
1988	9.5%
1989-90	9.3%
1991-92	8.3%
1993	8.0% - first 6 months; 7.5% - last 6 months
1994	7.5% - first 6 months; 7.75% - last 6 months
1995	7.75%

Note: From 1984 a flexible interest rate policy was adopted and applied to loans approved after April 1, 1984. All loans approved directly to the private sector after March 15, 1991 were charged at higher rate- in 1991 this was 10.3% and 1995 - 9.75%.

### Discount Rate

The rate at which the Central Bank lends to commercial banks has been altered once for the period. In 1994 the discount rate was lowered from 10% to 9%. The reduction in the discount rate stemmed from the growing disparity between the lending and deposit rates. The discount rate has not been an effective instrument of monetary policy in large part due

to the underdeveloped nature of the OECS financial structure and the dominance of foreign owned banks. Banks thus have little recourse to make use of the central bank in meeting short-term liquidity needs. The influence of the ECCB on the structure of interest rates is therefore, fully limited. The major purpose of the bank rate therefore was as a penalty rate, to encourage banks to bring in funds from abroad rather than borrow from the monetary authority.

## II.2 Credit Policy

It is generally accepted that the traditional instruments of monetary control (reserve requirements, interest rates etc.) are largely ineffective in the OECS because of the underdeveloped nature of the financial market. Domestic credit therefore has become the main focus of the ECCB. The Central Bank has also taken initiatives in accordance with its commitment to promoting economic development in the area. Two such initiatives include the Export Credit Guarantee Scheme and Infrastructure for Productive Investment Project.

### Export Credit Guarantee Scheme (ECG)

Established in July 1984, the ECG scheme provided exporters with a pre-shipment export finance guarantee which was to be used to obtain financing from commercial banks. The guarantee covered areas such as the purchase, process or manufacture of goods to be exported. The use of the scheme was however below expectations and in 1988 a revised scheme was introduced. The trends over the period 1988 to 1995 are shown in Table 16.

The revised scheme included a post shipment guarantee which enabled exporters to introduce an element of suppliers' credit into their marketing strategy. Under this scheme exporters can discount a percentage of his export receivables. Levels of utilisation of the scheme has improved considerably and this has been attributed partly to increased awareness by manufacturers of the benefits of the scheme and less lender skepticism. There are also plans to augment the scheme even further with the development of an Export Credit Insurance Scheme which would provide exporters with coverage for political and economic risks. The major areas of activity funded by the scheme have been food processing, electronics and garments. Over the period 1993 to 1995 food processing accounted for 52%, 33% and 65% respectively of total guarantees. Dominica accounted for the major number of the guarantees.

Table 16: Export Credit Guarantee by Sector  
1988 to 1995. (%)

Sector	Amount of Guarantees Issued(EC\$)	(%)
Food Processing	6,659,827	(34)
Electronics	4,829,954	(24.9)
Garment	4,450,397	(22.9)
Candles	860,200	(4.4)
Footwear	663,000	(3.4)
Alcoholic Beverage	600,000	(3.1)
Heavy Engineering	594,000	(3.1)
Paper Products	400,000	(2.1)
Furniture	200,000	(1.0)
Plastic Products	100,000	(0.5)
Building Material	30,000	(0.15)
<b>TOTAL</b>	<b>19,387,378</b>	

Source: ECCB.

### Infrastructure for Productive Investment Project

In August 1984, the ECCB entered into a loan agreement valued at US\$13 million with USAID. The loan was used by the central bank to provide access to long term fund for the



development of industrial properties by private entrepreneurs with the commercial banks serving as an intermediary. While the initial response to this initiative was favourable, actual demand for loans was low, resulting in inadequate use of the facility.

### Credit Performance

Loans to the agricultural sector, relative to that of other sectors notably the distributive trades, government and consumer loans, represent a small proportion to total loans and advances for the ECCB area. The value of agricultural loans (defined as agriculture, fisheries, food and non-alcoholic drinks) however more than tripled from an average of \$52 million in 1980/2 period to an average of \$178 million in 1993/5. Despite this increase in value however, the contribution of agricultural loans to the total loan portfolio declined from 6.7% to 4.7% over the same period (Table 17). The primary agricultural sector accounted for the majority of loans and advances to the agri-food sector and while the contribution of the sector to total loans and advances declined, its contribution to primary agriculture increased from 64% to

TABLE 17: SECTORAL DISTRIBUTION OF LOANS AND ADVANCES, ECCB AREA

	1980/2	(%)	1993/5	(%)
Agriculture	33,307.7	(64.3)	128,473.3	(72.0)
Fishing	2,291.7	(4.4)	6,633.0	(3.7)
Food and non-alcoholic beverages	16,230	(31.3)	43,198.7	(24.2)
Total Agriculture	51,829.3	(6.7)	178,305	(4.7)
Total Loans and Advances	778,214.3		3,829,335.7	

72% over the period. Loans and advances to fisheries showed a marginal decline of less than 1%, while that to the food and non-alcoholic beverages sectors declined by 7%.

### Other credit policies

In the 1970s member governments also attempted to influence the allocation of credit through the establishment of government owned (in part or in whole) commercial banks. The commercial banking system is dominated by the branches of foreign owned banks which could not be influenced to any significant extent to adopt a credit allocation policy which is necessarily reflected in government objectives. The state also established Development banks for the specific purpose of providing finance for economic development an important aspect of which was then thought to be the provision of credit at subsidised interest rates. A similar rationale led to the establishment of Development Finance Corporations. The record of Development banks in financing viable development projects is a mixed one.

Emerging trend in terms of credit policies highlight the following:

- the move to reform lending policies of development banks
- that OECS countries have learnt from the lessons of the past
- a consensus towards lowering transactions costs.

### **ii.3 Exchange Rate Policy**

The exchange rate is a critical variable in influencing the competitiveness of a countries agri-food sector, particularly in trade dependent countries like the OECS. The primary influence that is highlighted is the case of the overvalued exchange rate which tends to benefit the non-tradeable sector and as a result limits the expansion of the export sector. For example,

by maintaining an over-valued currency through foreign exchange rate controls, developing countries confer benefits on the non-tradeable goods sector at the expense of the production of tradeable goods. The consequence is a contraction of the export sector and a reduction in the capacity to earn foreign exchange, adversely affecting the country's balance of payments.

Constraints on foreign exchange earnings cause a restriction of imports of all goods and related price increases. There is also likely to be a negative impact on investment, on human resource development and infrastructure. Agricultural production would be adversely affected because of the negative impact of these trends on inter-sectoral movements of factors, prices and critical support infrastructure in all its dimensions.

### Real Exchange Rates

Changes in the real exchange rate impacts the development of the agricultural sector since it directly affects the income generating capacity of the tradeable agricultural products that is export agriculture and import competing agriculture at the macro level. At the micro level the real exchange rate also influences the movement of resources within the domestic economy in response to changing profitability and thus impacts not only the tradeable but also the nontradeable agricultural sectors.

The OECS exchange policy has remained largely passive over the 1985-1995 period. The exchange rate, as part of the overall monetary policy of the OECS, is centrally managed and supported by injections of foreign exchange from constituent member states of the East Caribbean Currency Area. The exchange rate has remained fairly stable over the period due to two main factors:

1. the limitations on governments borrowing from the ECCB to finance deficits effected by restriction on the ECCB holdings of treasury bill to 10% of a governments revenue in the previous year and holdings of debentures to 15% of the demand liabilities for the central bank; and
2. the requirement that at least 60% of the demand liabilities of the ECCB be backed by hard currency assets.

These two factors, it is argued, by ensuring that increases in the money supply is supported by government revenue and hard currency assets, help to maintain the value of the EC dollar against the US dollar. The exchange control system of the OECS has not proven to be a barrier to trade and has been increasingly liberalised over the decade. The major change over the period has been a reduction in current account restrictions.<sup>4</sup> Overall while the trend is towards liberalisation, the pace of reform has been sluggish in most countries, with the possible exception of Grenada. A summary of changes in the exchange control system over the 1984-1994 period is provided in the Annex, Table1.

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<sup>4</sup> The surrender of export proceeds and capital account restrictions, however, remain in place.

### Implications for Agriculture

The exchange rate has remained relatively stable over the period which is a precondition for the growth and development of the agricultural sector. The question of the maintenance of export competitiveness is, however, also of paramount importance, since with a fixed exchange rate there is always the possibility of currency over-valuation. The growth trend in real exchange rates for the countries of the OECS are presented in Table 18. Based on the data, the pattern of real exchange rate movements varied significantly among countries.

Overall, however, all countries showed positive rates of growth over the period indicating some exchange rate appreciation (reflective of some loss of competitiveness and reductions in exports).

Country	1980/2		1993/5		1980/2 - 1993/5	
	RER	RER <sup>F</sup>	RER	RER <sup>F</sup>	RER	RER <sup>F</sup>
Dominica	-0.25	-1.81	0.88	2.55	0.12	0.33
Grenada	...	-5.09	-0.12	-1.59	0.36 <sup>2</sup>	-0.58
St. Kitts	0.14	-0.86	-0.36	0.26	0.89	0.71
St. Lucia	-1.03	-2.88	-3.0	-2.33	0.22	0.92
St. Vincent	-1.01	-1.20	0.76	0.53	0.14	0.23

The appreciation in the real exchange rate (RER) is also an indicator that the inflation rates in the OECS countries generally exceeded that of the United States (the competitor). Since overall average annual rate of growth did not exceed 1%, the impact of the appreciation in RER was deemed to be small. The real exchange rate for agriculture (RER<sup>F</sup>) was calculated using the food and beverage retail index (agricultural producer prices are unavailable). The results suggest that the price incentives to producers in Grenada improved over the period. For the other countries, however, the appreciation in the RER<sup>F</sup> exceeded that of the RER indicating that the competitiveness of the agricultural sector deteriorated more than that of the overall economy. Again, the growth in the RER averaged less than 1%. The RER<sup>F</sup> appreciation recorded for the earlier period for all OECS countries is noteworthy.

The floating of the OECS exchange rate and the liberalisation of the exchange management mechanism may, in theory, reduce the possibility of over-valuation of the currency and hence the loss of competitiveness for the agricultural sector. For small countries like the OECS with underdeveloped capital markets and general limitations in financial infrastructure, however, exchange rate liberalisation is a risky undertaking. Perhaps the major risks are currency instability and foreign exchange flight. While The ECCB recognises that financial liberalisation is inevitable, however its approach to the matter, has been one of phased introduction. The first phase involves the improvement of the financial market efficiency through the regulatory reform and the creation of new financial institutions such as a stock exchange.

### II.4 Fiscal Policy

Fiscal policy assumes greater relative importance (compared to the rest of CARICOM) to the individual governments of the OECS since the countries are members of a single monetary union. The limitations set by this monetary arrangement also directly restricts participating governments' fiscal policy, since limits are placed on their ability to finance their deficits via borrowing from the Central Bank. This has resulted in a rather tight fiscal policy being

pursued by most OECS governments over the period. Fiscal deficits have been financed through increased debt accessed from domestic commercial banks as well as from external sources of funding. Grenada and Dominica in particular have been forced to adopt structural adjustment programmes to address their fiscal problems.

Fiscal policy refers to the level and pattern of government expenditure allocation and revenue from taxation and other sources, the balance between revenue and expenditure, as well as the source of financing (including the economic and fiscal incentive framework operationalised via the budget). This section reviews the fiscal policy of the OECS and attempts to determine the consistency of these policies with the goal of developing dynamic export oriented agri-food firms. The impact of fiscal policy on agriculture is determined by assessing the level of bias in government expenditure in respect of the sector as well as the level of protection provided to the sector.

### Fiscal Performance

The approach to the assessment of the fiscal trends involves the calculation of indicators of fiscal adjustment. These indicators are calculated as the ratio of the fiscal variable to GDP and is adopted since it puts the absolute level of expenditure and revenue in perspective by examining changes in these fiscal variables in relation to trends in economy as reflected by the growth in output. Fiscal adjustment is calculated by comparing beginning of period and end of period ratios to determine whether there was any improvement (+sign) or deterioration (- sign) of the fiscal situation of the countries.

### Current Balance

Current balance is defined as current revenue excluding grants less current expenditure. The beginning of the 1980s saw the countries of the OECS still reeling from the negative impact of the oil shocks of the mid-1970s. The countries therefore, functioned in a state of fiscal crisis which emerged in the 1970s, a situation which was reflected in the negative current balance in the early 1980s. Dominica and Grenada were the most affected, with negative current account balances of 3.5%, 5.6% and 2.2% respectively (average for 1980/2). Comparable figures for the other countries were generally less than 2%.

Economic recovery of the islands was assisted by favourable external conditions. Consequently, the OECS countries managed to maintain a surplus on the current account for the most part of the 1983-1995 period, due to steadily declining expenditure alongside a fairly constant revenues. The 1993-1995 period, however, showed a sharp increase in both revenue and expenditure. On average the fiscal adjustment on the current account was of the order of 4.5%. The degree of adjustment however varied from country to country with Dominica, St. Vincent and St. Lucia showing the most significant levels of adjustment (Table 19).

TABLE 19: FISCAL ADJUSTMENT: CURRENT A/C BALANCE AS A % OF GDP		
<2	<5	>5
St. Kitts (1.1)	Grenada (3.8)	Dominica (5.6) St. Vincent (5.6) St. Lucia (7.1)

### Overall Balance

The OECS exhibited consistent deficits on the overall fiscal account for the period (Table 20). There was however a considerable improvement over the period with the average OECS overall balance as a % of GDP declining from -22.4% in the beginning of the period to -6.2% in the 1993/95. Only St. Kitts reflected a deterioration in the overall fiscal balance.

<2	>5
St. Kitts (-3.65)	Dominica (10.4)
	Grenada (25.3)
	St. Lucia (5.5)
	St. Vincent (6.6)

### Sources of Fiscal Adjustment

The improvements in the fiscal status of the OECS countries have been effected via expenditure reduction and revenue enhancing measures. Average OECS capital expenditure remained largely unchanged at 7-8% of GDP. The trend in capital expenditure adjustment is shown in Table 21. Three countries (Dominica, Grenada and St. Vincent) experienced reductions in capital expenditure, a factor which has far reaching implications for the infrastructural development. Perhaps the downward trend is also a reflection of the fact that most of the capital is sourced from foreign organisation at concessionary rates and that the flow of this capital is showing definite signs of decline.

<2	<5
Dominica (-5.3)	St. Kitts (4.4)
Grenada (-21)	
St. Lucia (-1.2)	
St. Vincent (-0.7)	

Recurrent expenditure has declined with the average OECS adjustment being 4.8%. The most important adjustments was that of St. Kitts and Dominica where declines of -10.8% and -6.6% were recorded. Personnel emoluments, which is the most important component of recurrent expenditure accounted for less than 1% of this decline. While the OECS countries began the period in a state of fiscal crisis, there has been fiscal adjustment on both the revenue and expenditure side, particularly current expenditure, which has enabled these countries to maintain a surplus on the current account. Overall, the countries have been incurring deficits on the fiscal account, the magnitude of these deficits have however declined considerably.

### **II.5 Expenditure Bias in Agriculture**

Using data for the 1990-1995 period, the recurrent expenditure bias in respect of agriculture was assessed. The measure of bias is determined as follows:

$$\text{GCEB} = \frac{\text{GCEag}/\text{GCE}}{\text{GDPag}/\text{GDP}}$$

where: GCEB is government current expenditure bias,

GCEag is government current expenditure on agriculture,

GCE is total government recurrent expenditure,

GDPag<sup>5</sup> is the contribution of agriculture to total GDP.

<sup>5</sup> GDPag is defined as actual GDPag net of direct intervention in the agricultural sector. Data availability precludes the determination of net intervention and actual agricultural GDP is used as a proxy for GDPag.

A value less than one indicates a bias against agriculture, zero reflects no bias and a value greater than one indicates a bias towards agriculture (Table 22). The estimates of expenditure bias show that there was a pronounced bias against agriculture in the pattern of recurrent government expenditure between 1990-1995. All OECS countries, however, showed an improvement (ie. a reduction in the estimated) in the level of bias against the agriculture however. The coefficient has several limitations and is used simply as an indicator that the agricultural sector is not unduly favored in terms of government expenditure.

TABLE 22: BIAS IN GOVERNMENT RECURRENT EXPENDITURE ON AGRICULTURE

Country	1990	1991	1992	1993	1994	1995
Dominica	0.18	0.20	0.19	0.19	0.21	0.20
Grenada	0.38	0.40	0.49	0.50	0.52	0.46
St. Kitts	0.35	0.39	0.37	0.33	0.41	0.47
St. Lucia	0.34	0.35	0.32	0.41	0.46	0.00
St. Vincent	0.20	0.20	0.00	0.21	0.22	0.27
OECS	0.34	0.36	0.30	0.37	0.38	0.29

Source: CDB, Economics and Programming Department

## II.6 Incentives to the Agricultural Production Sector

The countries of the OECS as members of CARICOM are subject to a common fiscal incentive regime termed the Harmonised Fiscal Incentives to Industry. This regime applies to agroprocessing, deep sea fishing and shrimping) as well as industry. As obtains with the CET described earlier there are some exemptions particularly for the OECS and Belize which makes each country's incentive legislation to diverge sufficiently for the incentive policy to be termed uncommon.<sup>6</sup>

For the majority of the OECS countries the tax and economic incentive regime has undergone slight to moderate changes over the period. Grenada was an exception, with significant reductions in the economic regime to the agricultural sector, reflective of the fiscal crisis facing the state and the consequent adoption of a structural adjustment programme.

The incentive regime of the individual countries though similar, contains a few distinct differences. A summary of the incentives and support system by individual OECS member state may be obtained from the study of the impact of macroeconomic policies on incentives to agriculture, Antoine and Pemberton (1996), (also see Annex, Table 3). The major conclusions of the study were:

- i. economic incentives to the agricultural sector did not impact significantly on investment and export performance. This, it is posited, may be attributable to, among other things, the adoption of a policy of industrialisation which was biased against the development of the agricultural sector. The impact has been the transfer of resources out of agriculture .

<sup>6</sup> Summary tables of the fiscal incentives for the OECS under CARICOM's harmonisation scheme and the Tax and Economic Incentives Regime by country are provided in the Annex, Table 2.

- ii. macroeconomic instability, proxied by variations in the terms of trade and the real exchange rate, however, proved to have a significant impact. Where instability was present it had a negative impact on performance

### II.7 Effective Rate of Assistance

The Effective Rate of Assistance(ERA) is a measure of the degree of protection afforded to the agricultural sector which assesses "the combined effect of price and non-price policies on income transfers between producers and the rest of the economy".<sup>7</sup> The ERA is calculated for Dominica, Grenada and St. Vincent (Table 23). In all three cases the ERA is positive indicating that producers benefited from the policies of their respective governments which were supportive of agriculture. The areas of assistance emphasised by the countries are largely similar and include extension, plant and animal protection, crop and livestock production, research and produce chemist laboratory services. Extension is by far the most important area of assistance. In 1995 extension services as a percentage of total non-price assistance was 54% in Dominica, 33% in Grenada and 41% in St. Vincent.

	1990	1991	1992	1993	1994	1995
Dominica	1.78	1.79	1.78	1.79	1.80	1.79
Grenada	1.87	1.86	1.91	1.90	1.86	1.87
St. Vincent	...	1.78	1.77	1.78	1.80	1.81

In respect of Dominica and St. Vincent, non-price assistance increased over the period from \$2.9 million and \$2.5 million respectively in 1991 to \$3.3 million and \$3.4 million in 1995 respectively. This represents a 2.7% per annum increase over the period for Dominica and 7.2% for St. Vincent. Grenada, while providing a higher level of non-price assistance (\$4.2 million in 1991), experienced marginal decline over the period, led by reductions in extension services, agronomy and livestock and veterinary services, again, reflective of the fiscal crisis and the adoption of a 'home grown' structural adjustment programme.

Given the above ERA results, it was concluded that reform of the existing system of incentives to the agriculture was needed. This would involve:

- i. a reorganisation of the entire regime of incentives to all sectors and the selective targeting of industries; and
- ii. the development of export incentives to offset domestic market biases resulting from border protection measures.

These recommended changes however need to be supported by an active programme of industry targeting.

### II.8 Trade Policy Regime

Trade policy is generally defined as measures adopted with the objective of limiting the free movement of goods and services between and among trading countries. The countries of the OECS have pursued an import substituting commercial policy to encourage domestic production, supported by a system of tariffs and quotas. Such protection can, negatively

impact agricultural production since it increases the prices of inputs to the sector and consequently, reduces the profitability of investment in the sector.

The OECS trade regime is governed by the CARICOM External Tariff (CET), which removed all import duties on inter-CARICOM trade following its institution in 1973. Over the years, the application of the CET has been fraught with difficulty, stemming in large part, from the wide range of exemptions permitted. Partly in response to the growing trends in trade liberalisation in the international economy and the implications for economic survival of small open economies, renewed efforts were made by CARICOM to further the process of economic integration.<sup>8</sup>

The introduction and effective implementation of the CET particularly in the context of the OECS is necessary if the subregion is to retain or even gain competitiveness. This is a direct result of the openness of these economies and the international movement towards trade liberalisation and the concomitant threat to preferential trading arrangements particularly in respect of bananas.

- **Non-Tariff Barriers to Trade and Other Charges**

The OECS countries still maintain a number of restrictions to trade. A summary of (a.)the changes that have occurred over the period in import and import payments and export and export proceeds and b) the current status of the trade regime as of December 1994 is provided in Table 5 and 6, respectively, in the Annex.

The implementation of the CET and the move towards greater integration within the OECS and CARICOM has provided impetus for the removal of some of the nontariff barriers to trade. The pace of such reform in the OECS however lags behind that of the other CARICOM countries in particular Trinidad and Tobago and Guyana. The OECS under the CARICOM agreement however are permitted to impose some restrictions on trade. The present framework allows the OECS to maintain fairly free trade among the subgrouping, with special restrictions which vary for CARICOM vis a vis non-CARICOM trade.

The presence of marketing boards in all OECS countries also pose a potential source of trade restriction. These agencies are usually owned by the state and have the legal right as sole importer of a limited list of products mainly that of food such as sugar and flour. There are however no export marketing boards.

Another form of nontariff barrier is the CARICOM Oils and Fats agreement which establishes the framework for trade in vegetable oils, copra and derivative products. The agreement which was initially set up to hedge against shortages of these products on the international market has "evolved into a scheme for aiding CARICOM's 'less developed' members (LDCS, which are the major surplus countries in these products), by forcing the

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<sup>7</sup> Valdes and Schaeffer(1995), p1.

<sup>8</sup> A summary of the implementation schedule and exceptions of the 1992 revised CET is provided in the Annex, Table 4 .



other CARICOM countries to purchase their excess production at prices significantly above world market levels" ( p57 World Bank(1994)).

## **II.9 GATT Commitments of the OECS**

The OECS countries have a common position with respect of GATT however each countries exceptions list is different. A binding of 100% ad valorem is adopted by all OECS countries for all items in chapters 1-24 (less fish and fish products) as well as those of HS code: 29.05.43; 29.05.44; 38.08.10; 38.23.60; HS Headings: 33.01;35.01 to 35.05; 41.01 to 41.03; 43.01; 50.01 to 50.03; 52.01 to 52.03; 53.01; 53.02. Exceptions are bound above 100%. Rates are phased in over a ten year period to the bound rate of duty. Domestic support measures of the OECS countries are also exempted from reduction commitments under GATT given their importance to agricultural and rural development. The countries of the OECS are unaffected by commitments in respect of export subsidies since subsidies of the kind detailed under GATT are not in force in these countries.

## **II.10 Overview of the Labour Market**

An important precondition of the policy environment in the engendering of the development of competitive dynamic export-oriented agri-food firms, is a labour market policy which promotes flexibility, dynamism and efficiency. Rigidities in the operation of the labour market (effected through laws governing for example the free movement of skills and the payment of minimum wage as well as through labour market practices in respect of, among others, the hiring and dismissal of workers), together with policies that favour the use of capital, create a bias against the development of labour intensive activities and limit the possibilities for employment generation. These restrictions, while protecting the rights of workers, may impact negatively on certain sectors of the economy, particularly that of primary agriculture.

More specifically, labour market policies impact on agriculture by influencing the relative attractiveness of the sector and hence the availability or supply of persons willing to work in the sector. On the demand side, the policy influences the cost of production through wage and consequently overall cost increases. Maintaining too high a minimum rate for example could impose undue costs on producers. Similarly, too high a differential among economic sectors in the economy can negatively impact on the availability of labour particularly skilled labour to the sector. The consequence therefore of maintaining an inappropriate labour market policy will be an agricultural sector which is uncompetitive and unsustainable. A detailed assessment of the performance trends in respect of the labour market of the OECS is not attempted in this report in large part due to limitations of data. For the purposes of this paper therefore labour market policy is narrowly defined as wage policy.

In general, the total population of 15 years and over, of the OECS countries, declined by approximately 3% between the two census (1980/81 and 1991) periods, reflective of the growing trend in external migration. In addition, the unemployment rates for the OECS

region virtually halved over the period, from 17.9% to 9.1%. St. Vincent however remained the country with the highest unemployment rate, 23.5% in 1980 and 19.8% in 1990. The countries experiencing the most significant reduction over the intercensal period were St. Lucia and Grenada where the unemployment rate fell from 17.2% and 17.4% respectively to 3.4% and 6.1% respectively. There are a number of implications of this trend in population for the supply of agricultural labour in the OECS subregion. The decline in the adult population reduces the pool of labour available to the agricultural sector, particularly the labour intensive forms of agriculture. Additionally, there is a tendency for the workers remaining in the industry to demand higher wages and this has implications for wage-led inflation.

Declining labour population therefore impacts negatively on the promotion of a competitive agricultural sector primarily through wage inflation and low productivity. Actions to alleviate this element of inefficiency in the operation of the labour market include the importing of labour, continuous skills training and the promotion of employment creation programmes in the agricultural sector which may result in intersectoral transfer of labour and the retention of the existing agricultural labour force (Table 24).

TABLE 24 PERCENTAGE CONTRIBUTION OF AGRICULTURE TO TOTAL EMPLOYED

	1980/1	1990/1	Change
Dominica	29.2	30.8	↔↔
Grenada	23.7	16.9	↓
St. Kitts	26.1	13.8	↓
St. Lucia	25.5	25.7	↔↔
St. Vincent	25.7	24.8	↔↔

A World Bank study on Caribbean Countries Policies for Private Sector Development concluded that the Caribbean labour market suffers from a number of distortions which impact on private sector investment. Among the distortions identified were the high level of indirect non-wage costs, regulations regarding work permits for non-nationals and the limitations in respect of the free movement of labour within the OECS region. The coexistence of high rates of unemployment alongside shortages was also highlighted. This phenomenon was examined in the case of Dominica (The Supply of Labour for Agricultural Production in Dominica, 1991) and it was concluded that this results in part from the rugged terrain and structural rigidities in the economy.

In Dominica, the shortage of agricultural workers (mainly in the banana industry), has resulted in workers demanding higher wages. Banana producers have countered with reducing the size of their holdings and increasing the use of family and casual labour with direct implications for the productivity and competitiveness of the sector. More specifically, the use of casual labour increases the cost of production since wages paid are higher. The labour relations also tend to be a bit more unstable compared to permanent employees.

### Wage Policy

Legislation governing the payment of minimum wages exist in all of the OECS countries. Such legislation is however largely restricted to low income occupations - domestic, shop/catering workers, manual workers and agricultural workers. The approaches to the provision of minimum wages however differs. In the case of St. Kitts this is undertaken via

a national minimum wage which operates for all types of employment. For St. Lucia and Dominica regulation of the minimum wage is conducted via the fixing of minimum wage for specific industries. In St. Vincent and Grenada the setting up of the minimum wage is done by collective agreement or by wage councils. The revision of minimum legislation is also varied with some countries having fixed rates which have been eroded over time by inflation and are now meaningless. The Minimum Wages laws impact negatively on the efficient functioning of the labour market through:

- i. restricting the adjustment to changes in relative prices. Wages cannot be altered in response to changing economic circumstances. The alternative therefore is the reduction in employment;
- ii. constraining the hiring of apprentices which are a source of relatively cheap labour for the sector; and
- iii. discriminating against less productive and small scale business enterprises.

While the comparison across countries and time is limited due in part to differences in definition and data availability, this section attempts to provide an indication of the general trend in the payment of wages to the agricultural sector and its implication for the sector.

In Dominica, the minimum wages set in 1989 and which continued to prevail in 1995 showed that of the occupations for which minimum wage is paid, agricultural workers are fairly well treated. Agricultural workers thus earned a wage of EC\$2.20 which exceeded that of the factoring and tourist workers as well as salespersons, whose minimum wage was set at EC\$2.00 per hour.

<b>Dominica</b>	
Worker Occupation or category	1989
EC\$ per hour	
Agricultural/other unskilled	\$2.20
Daily paid (factory/tourism)	\$2.00
Juveniles	\$1.50
Cashiers and receptionists	\$3.00
Sales persons/cashiers	\$2.00
Shop assistants	\$2.00
Home assistants (with meals)	\$1.00
Home assistants (without meals)	\$1.25
Home assistants (living in)	\$54.00/6 day week

*Source: Labour Standards (Minimum wage).*

St. Kitts data on wages rates relate to 1990. While agricultural labour compares favourably in terms of comparable occupational wage rates with respect to the hotel, garment, electronic and electricity sectors, the major source of competition appears to be from the construction sector. An agricultural labourer in 1991 earned an average wage of EC\$3.17 per hour and this compares favourably with the confirmed workers in the garment and electronic industry which was EC\$2.50 and EC\$2.80

<b>St. Kitts- Wage Rates for Selected Sectors, avgEC\$/hr 1990.</b>			
<u>Agriculture:</u>		<u>Electronic Ind.</u>	
Labourers	\$3.17	Trainee	\$1.95
Tractor drivers	\$4.25	Confirmed	\$2.80
Private farms	\$3.3-\$4.16	Supervisor	\$4.97
		Secretary	\$5.75
<u>Hotel:</u>		<u>Garment Ind.</u>	
Supervisor	\$5.02	Trainee	\$1.86
Secretary	\$4.50	Confirmed	\$2.50
Receptionist	\$3.86	Supervisor	\$4.18
Gardener	\$3.04	Secretary	\$4.90
Security Guard	\$2.86		
Maid	\$2.67	<u>Construction</u>	
Chef	\$8.35	Mason /Carpenter	\$7.00-\$10.00
Cook	\$4.27	Steel bender	\$6.00-\$9.00
Bartender	\$3.80	Labourer-	\$5.00-\$7.00
Waiter	\$2.82	Painter/Plumber	\$7.00-\$9.00
Kitchen help	\$2.42	Electrician	\$6.00-\$9.00
Dishwasher	\$2.15		

respectively and with gardeners in the hotel industry who earned EC\$3.04 per hour. Labourers in the construction sector however earned close to twice that of the agricultural worker an indicator of a possible labour supply problem.

In the case of Grenada agricultural labourers based on 1993 figures earned between EC\$12.50 to EC\$15.50/EC\$16.50 per day. Comparable figures for labourers in the industrial sector showed a packer in the meat processing industry earned between EC\$25-EC\$40 per day while a labourer in the electricity and construction sector earned EC\$47-EC\$53.71 and \$25-\$35 respectively. The divergence between agricultural labour and other workers is of some significance and has implications for attracting labour supply while on the other hand likely to be a barrier for firms wishing to compete at a low cost.

Grenada - October 1993 EC\$ per month		
Agriculture	Industrial	Electricity/construction
Farm supervisor - \$25-\$30 per day	Butcher-\$35-\$50 per day	<u>Electricity</u>
Field crop farm worker-\$12.50-\$15.5/day	Packer -\$25-\$40 per day	Office clerk-\$1555-\$2119
Plantation Supervisor-\$20-\$25 per day	Baker -\$30-\$50 per day	Lineman-\$1987-\$2222
Plantation worker -\$12.5-\$16.5 per day	Garment Cutter- \$800-\$1000	Labourer - \$47-\$53.71/ day
Forest supervisor - \$1073-\$1404	Sewing machine operator - \$500-\$700	<u>Construction</u>
Forestry worker -\$833-\$1249		Labourer \$25-\$35
Deep-sea fisherman - \$900-\$1200		
Inshore maritime fisherman -\$600-\$800		

e: ILO, Statistics on Occupational Wages and Hours of Work and Food and Prices, 1995.

Data for St. Lucia on the trends in agricultural daily wages over the period 1980 to 1993 showed that wages have virtually doubled over the period. Assuming an 8 hour day this translates to an increase in wages per hour from less than \$2.00 in 1980 to over \$3.00 in 1993. St. Lucia's agricultural wages are however broadly similar to what obtains in the countries of the OECS.

#### St. Lucia - Daily Wages in Agriculture

EC\$/Day	Men	Women
1980	10.50	12.00
1981	12.08	13.80
1982	13.50	15.50
1983	14.00	16.00
1984/85	15.75	18.00
1986	17.35	19.80
1987/88	19.08	21.78
1989	21.23	24.24
1990	21.87	24.95
1993	26.00	29.00

In October 1981 minimum wages for St. Vincent and the Grenadines - daily wage rates for agricultural and industrial worker was raised by 30% to an average of EC\$9.10 and EC\$11.96 respectively. By 1989 minimum wages for agricultural workers had increased to EC\$18.00 per 8 hour day. These wages have been in effect to date. Agricultural labour are paid the lowest wages with the labourer in the industrial/manufacturing sector earning EC\$2 to EC\$5 more. Again this indicates a possible economic disincentive for workers although it represents a possible source of cost benefit to the producer.

#### St. Vincent/Grenadines

Worker category	1995/6 EC\$/ day
Agriculture labourers	\$18-\$20
Furniture makers	\$20-\$55 daily
Bakers	\$100-\$150 wkly
Packers	\$100-\$120 "
Cashiers	\$100-\$155 "
Drivers	\$150-\$180 "
Mason (skilled)	\$40-\$65 daily
Carpenter (skilled)	\$40-\$75 "
Painter	\$35-\$50 "
Labourer	\$20-\$25 "
Foreman	\$65-\$80 "
Plumber	\$40-\$55 "

### **Implications for Agriculture**

Given the foregoing the major conclusions that can be derived based on the limited data available are as follows:

- i. that the OECS labour market with its declining adult population resulting largely from external migration has negative implications for the future supply of agricultural labour particularly skilled labour. To counter this, labour policy initiatives should focus on among other things the free movement of labour;
- ii. the legislated minimum wage has serious implications for the competitiveness of the agricultural sector. Emphasis should be placed on mechanisms such as the payments to trainees as exceptions to the minimum wage;
- iii. other restrictions in the labour market such as the freedom of movement, labour practice in terms of hiring and laying off workers has negative implications for the development of a dynamic, responsive, efficient labour market and should also be addressed;
- iv. disparities in wages paid to the agricultural sector vis a vis the other sectors of the economy lead to an intersectoral transfer of labour against the agricultural sector. The establishment of a wage determination policy on the basis of productivity and profitability could serve to reduce the wage spread among the different sectors.

The major conclusion that can be made is that the labour market of the OECS presents a serious number of restrictions which undoubtedly limit the development of an agricultural sector which is internationally competitive. A detailed analysis of the changes required to engender the development of an efficient labour market is beyond the scope of this paper however perhaps the main suggestion that can be pursued is the improvement of the labour market database. Efforts at harmonising labour legislation which is a critical factor in the formation of the OECS single market is already underway.

### **SUMMARY AND CONCLUSIONS**

Agriculture is one of the most important sectors of the OECS economy accounting for some 11% of GDP(1995) and an average of 17.5% of total employment(1990). The ability of the sector to maintain or achieve international competitiveness and perhaps its very sustainability is however being threatened by a number of global, international and regional developments, the major ones being:

- the General Agreement on Tariffs and Trade(GATT),
- the formation of global and hemispheric trading blocks such as the North American Free Trade Area(NAFTA) and the European Community,
- the implementation of a revised Common External Tariff(CET) and
- the movement towards a reduced role of the state in economic activity.

In the 1994 Uruguay Round of the GATT, the agricultural sector was, for the first time, included in the trade liberalisation agenda in accordance with the WTO. This has implications for the ability of OECS agricultural commodities to compete in a liberalised world agricultural market. More importantly, perhaps, is the erosion of preferential trading arrangements, such as those accorded under Lomé (for sugar, rice and bananas), the CARIBCAN and CBI initiatives.

The formation of the European Union Single Market is critical to the agricultural sector in the OECS because of its implications for the future of the banana industry. This industry which forms the foundation of the Dominican, St. Lucian and St. Vincent agricultural sectors, is threatened as a result of the liberalisation of the EU market. This affects the profitability of the sector since the price received may be reduced and consequently export earnings decline.

The CET has been discussed in detail above. Suffice it to say however that in the CET due recognition was given to the importance of the sector to the OECS and CARICOM as a whole. Indeed the rates are consistent with the policy of promoting international competitiveness in the sector.

One important reality of the global economic climate and which is also relevant to the countries of the OECS is the withdrawal of the state from directly productive economic activities and the promotion of private sector investments. Studies have shown that the transfer on government's productive activities to the private sector, can be beneficial. The formulation of an appropriate policy environment is, however, vital. The trends present a number of challenges to the development of internationally competitive export oriented agri-food firms in the OECS agricultural sector. An important element to cope with these changes is the development of a flexible and facilitatory policy environment which eliminates anti-export and anti-agricultural bias where they exist and which also promotes private sector investment.

#### **CONCLUDING OBSERVATIONS**

The impact of macroeconomic policy on the agricultural sector can at best be described as mixed. The monetary environment remained relatively stable over the period with the real exchange rate showing little loss of competitiveness for the export sector. There was some increase in the interest rate which may have impacted negatively on the sector however with concessionary lending available from the development banks this impact may not have been significant. In respect of fiscal policy there was a greater deal of variability however while some countries did experience severe fiscal distress, overall for the region there was a generally positive adjustment in this policy variable. While there was a major change in the trade policy with the implementation of the CET the progress of trade reform has been slow and many restrictions remain.

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**Table 1**  
**OECS : Changes in Exchange Control Systems, 1984-1994**

**1. Exchange Arrangements**

***Grenada***

- Transactions of the Grenada Development Bank with the European Development Bank exempted from foreign exchange tax
- Transaction by any person or corporate body approved under the Hotels Ordinance exempted from foreign exchange tax.
- Remittances to cover the cost of medical services and related expenses and imports of inputs by local manufacturers certified by the Industrial Development Corporation were exempted from foreign exchange taxation.(1989)
- Sales of foreign exchange repatriated by Grenadians living abroad exempted from foreign exchange tax
- Exchange tax levied on certain sales of foreign exchange by commercial banks reduced from 5% to 2.5%(1993)
- 2.5% exchange rate tax eliminated(1994)

***Dominica***

- Levy of 1.5% on sales of foreign currency was increased to 2.5% and imposed on all sales over EC\$100, with the exception of payments for the importation of goods which are exempt from the levy (1985)

***St. Vincent***

- 1% tax on transactions conducted through non-resident accounts eliminated

***St. Kitts***

- The 2% tax on gross sales of foreign exchange eliminated

***St. Lucia***

- The 1% tax on sales of foreign exchange eliminated

**2. Capital**

The annual limit on funds an emigrant is allowed to transfer abroad was increased to EC\$100,000 from EC\$20,000

***Dominica***

- An investment tax credit of 10% introduced (1988).

**3. Foreign Currency Accounts**

***Grenada***

- Authorisation granted for the opening of foreign currency and external or nonresident accounts (1984).

**4. Payments for invisibles**

*Grenada*

- Outward remittances for medical, educational, gift and family maintenance purposes liberalised (1984)
- Limit of foreign exchange sales for tourist and business trade increased from EC\$3000 and EC\$7000 respectively to EC\$5000 and EC\$10,000 respectively. Outward remittances from profits, dividends and insurance premiums were liberalised.(1984)
- Outward remittance of proceeds from sales of local property and legacies were liberalised as were those of royalties and management fees.(1984)

*Dominica*

- The ad valorem tax of 10% on all travel tickets abolished(1985)
- Withholding tax on profits, dividends and other income accruing to nonresidents was made applicable only when these earnings are transferred abroad (1988)
- The 1.5% tax on sales of foreign exchange for invisible transactions abolished/(1985)

**5. Administration of Control**

*Dominica*

- Revision of exchange control regulation with commercial banks given new instructions on their delegated authority to approve sales of foreign currencies(1985)

**Table 2: CARICOM Harmonised Fiscal Incentives for the OECS**

Type of Incentive	Duration
<b>Profit Tax Holiday</b>	
<ul style="list-style-type: none"> <li>• if 100% of sales are exported extra-regionally</li> </ul>	15 years
<ul style="list-style-type: none"> <li>• if the local value added                             <ul style="list-style-type: none"> <li>- exceeds 50% of total sales</li> <li>- is between 25% and 49%</li> <li>- is between 10% and 24%</li> </ul> </li> </ul>	15 years 12 years 10 years 15 years
<ul style="list-style-type: none"> <li>• if the industry is highly capital intensive (initial investment exceeds EC\$25 million)</li> </ul>	For the duration of the above tax holiday, inputs, machinery and spare parts can be imported duty free; all material and equipment for new factories can be imported duty free
<b>Tariff Exemptions</b>	
<b>Export Allowance</b> for extraregional exports after tax holiday expiration	
<ul style="list-style-type: none"> <li>• if exports products exceed 61% of total</li> <li>• between 41% and 61% of total profits</li> <li>• between 21% and 41% of total profits</li> <li>• between 10% and 21% of total profits</li> </ul>	<ul style="list-style-type: none"> <li>• tax relief of 50% for up to 5 years</li> <li>• tax relief of 45% for up to 5 years</li> <li>• tax relief of 35% for up to 5 years</li> <li>• tax relief of 25% for up to 5 years</li> </ul>
	For the duration of the above tax holiday dividends paid to shareholders are tax exempt
<b>Dividend Payments</b>	
	Can carry forward losses for up to 5 years after the tax holiday expires
<b>Loss carry-forward</b>	
	After the tax holiday expires, a deduction of up to 20% on any capital expenditure incurred
<b>Depreciation Allowance</b>	

Source: Antoine and Pemberton(1996).

4: Macro-Economic Environment of the OECS, IICA @ June 1997. ANNEX

TABLE 3 SUMMARY OF ECONOMIC INCENTIVES REGIME

	Direct Government Support-Budgetary/Services	Credit	Fiscal Concessions	Marketing	Change 1980 to 1995
Dominica	Extension, livestock development, laboratory services, tractor pool, plant protection and quarantine, veterinary services, meteorological unit	Concessional credit provided by the AIDB	Tax free agricultural income, import duty waivers, price control, quantitative restrictions	the Dominica Export Import Agency (DEXIA) is the state marketing agency, and the Dominica Banana Marketing Corporation provides marketing and other services to banana farmers	Not changed much. Reductions in services provided by government
Grenada	Animal stock for breeding and planting material at subsidised prices, farm machinery pool, extension, plant propagation	GDB provides loans at concessional rates of interest 2-3% below commercial rates. Grace period of 2-4 years	Duty free agricultural imports, import licenses, subsidised inputs, price control	Limited purchase of farmers produce by the CMC	Government services limited by funding constraints. Significant decline in support
St. Kitts/ Nevis	Extension services, veterinary and animal production, land preparation, provision of planting material	Department of Agriculture provides interest free loans, DBSKN low interest rates	Duty free concessions on agricultural imports, import licensing on agricultural imports	CEMACO (St. Kitts) buys farmers produced and operates a retail outlet Nevis Growers' (a farmers group) - marketing of vegetables and fruits	Declining but remains moderately high
St. Lucia	Extension, veterinary, engineering, fisheries and forestry development	St. Lucian Development Bank provides loans at concessional rates, The St. Lucia Banana Growers Association also provides concessional credit to members	20% waiver on consumption tax for vehicles.	No state marketing agency	No major changes
St. Vincent and the Grenadines	Extension, veterinary service, plant propagation, soil conservation	The Development Bank of St. Vincent and the Grenadines provides agricultural loans at concessional rates of interest	Duty and consumption tax exemption on imports for agriculture Import licenses required Export duties are also charged on selected items	The St. Vincent Marketing Corporation is involved in purchase of agricultural items as well as the sale of inputs at subsidised prices	Remained constant

**Table 4: Summary of Implementation Schedule and Exceptions  
of the 1992 Revised CARICOM CET Rates**

Category	2/1/91- 1/1/93	1/1/93- 12/31/94	1/1/95- 12/31/96	1/1/97- 12/31/97	From 1/1/98
Non-competing inputs:					
Primary	0-10 (0)	0-5	0-5	0-5	0-5
Intermediate	0-10 (0)	0-5	0-5	0-5	0-5
Capital	0 (0)	0-5	0-5	0-5	0-5
Competing Primary Inputs	30	20	15	10	10
Competing capital goods	30	20	15	10	10
Selected exports	30	20	15	10	10
Competing intermediate inputs	30	25	20	15	15
Noncompeting final goods	30	25	25/30	20/25	20
Agro-industry	45	30/35	25/30	20/25	20
Garments	45	30/35	25/30	20/25	20
General manufactures	45	30/35	25/30	20/25	20
Sensitive Goods					
List A		Susp.	Susp.	Deleted	Deleted
List B		Susp. -LDCs	Susp. -LDCs	Deleted	Deleted
List C		Mini	Mini	Min.	Min.
List D - parts 1 and 11		Susp -LDCs	Susp -LDCs	Deleted	Deleted
Safety		0	0	Deleted	Deleted
Cost of Living		0-20	0-20	Deleted	Deleted
Social, economic, cultural		0-20	0-20	Deleted	Deleted
Agriculture		40	40	40	40
Agriculture inputs		0	0	0	0

( ) LDCs, 2./25 etc lower of two rates refers to countries implementing the trade reform on a fast-track basis - St Vincent, Antigua

Source: World Bank, *Coping with changes in the External Environment*, 1994. p. 58.

**Table 5: Summary of Exchange Control Systems as of December 31 1994**

	<b>Imports and Import Payments</b>	<b>Export and Export proceeds</b>
<b>Dominica</b>	Imports of specified goods originating outside the OECS and CARICOM require a license. The CET is applied to all imports	<p>Specific licenses required to export certain goods to any destination</p> <p>Conversion of export proceeds to an ECCB currency account mandatory unless exporter has a foreign current account</p> <p>Bananas exported by the DBMC at levy of 1% if the export price is between \$0.55 and \$0.60 a pound: if export price exceeds \$0.60 a pound an additional levy equal to 25% of the excess is imposed.</p>
<b>Grenada</b>	<p>Most goods freely imported. Others are prohibited, or are subject to quantitative restrictions and require a license. Non-CARICOM restriction include milk, sugar, rice, a variety of tropical fruits and vegetables, and carbonated beverages. CARICOM restricted items include curry products, various fruits and vegetables</p> <p>Exemptions from import duty_ *imports by domestic associations involved in the production of major crops provided that such imports are intended for quality improvements in the growing or packaging of bananas, nutmeg, and maize</p> <p>*Imports of fuel by the Grenada Electric Company, several enterprises in manufacturing and hotel sectors exempted from customs duty</p> <p>Imports not exempt from customs duties are subject to a VAT of 15%, 20% or 55%. All imports subject to a customs service charge of 2.5% and all non-CARICOM goods subject to CET of 35%</p> <p>Goods imported under open general license. Individual licenses required from extra CARICOM imports that compete with local products. CET of between 0 and 30 %</p>	<p>Specific licenses required for the exportation of certain goods to any destination. A short list of items require license - exotic birds, coral, mineral products and live sheep and goats</p> <p>No formal regulation to ensure that export proceeds are surrendered with a certain period after the date of shipment, but export proceeds must be repatriated</p>

7: Macro-Economic Environment of the OECS, IICA @ June 1997. ANNEX

St. Kitts	<p>All goods, except certain agricultural and manufactured products, may be imported without a license. Other extra CARICOM imports require individual licenses</p>	<p>Specific licenses are required for the exportation of certain goods to any destination.</p> <p>Export proceeds must be deposited into an ECCB currency account or an approved US dollar foreign currency account. Export duties are levied on a few products</p>
St. Lucia	<p>The importation of selected consumer items (rice, flour &amp; sugar) in bulk is a state monopoly.</p> <p>Goods produced in CARICOM imported duty free. Imports of live animals, milk, meat, fish, eggs, fertilizers and most agricultural and industrial machinery are exempt from import duties. Other exempt items include</p> <ul style="list-style-type: none"><li>* most imports from CARICOM, OECS</li><li>* certain imports for use in agriculture, fishing, and air and sea transport (under industrial incentive legislation)</li><li>* items exempted under the Hotel Aid Ordinance and Fiscal Incentives Ordinance</li></ul> <p>First stage of CET implemented. Customs service charge of 2% of cif value levied on all imports except fertilisers(0.2%). Certain imports are subject to a consumption tax that is based on the cif value plus import duty</p>	<p>Certain commodities may be exported to any destination without a license.</p> <p>Proceeds must in principle be surrendered</p> <p>A duty at the rate of 2.5% is levied on banana export. A special fee of US\$0.02 a barrel is applied on re-exports of petroleum</p>
St. Vincent	<p>Most goods are freely imported. Licenses for some goods that compete with typical exports of CARICOM or OECS, prohibition of some good which compete with locally made products.</p> <p>Import tariff ranges from 0 to 35%. In addition to customs duties, imports are st a consumption tax which ranges from 5-50% and is levied on the tariff inclusive value of imports.</p> <p>Goods imported from CARICOM exempt from import tariffs and are only at consumption tax. A customs service charge of 2% is imposed on the cif value of all imported goods with certain exceptions.</p>	<p>Specific licenses required for exportation to any destination of some agricultural goods included in the CARICOM marketing protocol and in the CARICOM Oils and Fats Agreement.</p> <p>Export of goats, sheep &amp; lobsters st licensing to prevent depletion of stocks</p> <p>Proceeds surrendered within 6 months.</p> <p>A 2% export duty is levied on bananas</p>

**Table 6: Selected Exchange Arrangement and Exchange Restrictions (at 1994)**

**Import and Import Payments**

**Grenada**

- Liberalisation: import licensing removed from 20 consumer goods(1986)
- Imports of certain basic consumer items, brewery products and cigarettes from countries outside of CARICOM were subject to special surcharges of 10%, 25% and 35% respectively. Customs tariffs on biscuits, domestic refrigerators, electric accumulators, chairs and mattresses were abolished(1989)
- Beer and mattresses became subject to import license(1989)
- Elimination: 15% stamp tax on imports removed
- (1986) 10-45% consumption duty on imports removed  
5% international airport levy on imports removed
- CET implemented(1991)
- Mops and children's garments placed on negative list (1991)
- Import license requirement for goods originating from OECS countries eliminated(1991)
- Exemption from import taxes for most statutory bodies removed except for fuel imports by the Grenada Electricity Company(1992)

**Dominica**

- Ten items were added to the negative list of goods requiring a license for importation from outside the OECS area.(1989)
- Import from member countries of CARICOM of some 18 products on the negative list no longer subject to a license(1990)
- Tightening: taxes on imports of petroleum and motor vehicles increased(1986)
- CET implemented, quantitative restrictions on certain imports removed(1991)

**St. Kitts**

- CET reduced to range of 0-30%, the number of goods on the negative list of imports was reduced from over 100 to a few items(1994)

**St. Lucia**

- Stamp duty replaced by a 2% customs service charge(1989)

**St. Vincent**

- The 1% tax on exportation domestic bank notes abolished(1993)
- A customs service charge of 2% of cif value of all imports introduced(1993)
- Phase 1 of CET imposed, highest tariff reduced to 35% from 45% (1993)
- Banana industry exempted from 2% customs service charge(1994)

**Export Taxation**

**Dominica**

- Elimination: export taxes and stamp duties on export sales abolished(1986)
- A levy on export of bananas imposed (July 1) -levy was suspended in September 1990

**Grenada**

- Elimination: Duty on export removed(1986)

**St. Vincent**

- export duty on bananas reduced to 2%

Source: IMF, Exchange Arrangements and Exchange Restrictions, Annual Report 1980-1995.

All countries were not included for all the years



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