A REPORT TO THE CARIBBEAN GROUP FOR COOPERATION IN ECONOMIC DEVELOPMENT BY THE TASK FORCE ON PRIVATE SECTOR ACTIVITIES

Measures to Promote the Role of the Private Sector in Caribbean Development

June 1980 , Washington, D.C.

CARIBBEAN

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ACRONYMS

CARICOM	Caribbean Community and Common Market
CDB	Caribbean Development Bank
CGCED	Caribbean Group for Cooperation in Economic Development
CIC	Caribbean Investment Corporation
DFCs	Development Finance Companies
ECCA	Eastern Caribbean Currency Authority
ECCM	Eastern Caribbean Common Market
EEC	European Economic Community
GSP	Generalized System of (Tariff) Preferences
IDB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development ("World Bank")
IDA	International Development Association
IFC	International Finance Corporation
LDCs	Less Developed Countries of CARICOM
MDCs	More Developed Countries of CARICOM
OPIC	Overseas Private Investment Corporation
USAID	United States Agency for International Development
UNDP	United Nations Development Program

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I. INTRODUCTION AND TERMS OF REFERENCE

The Caribbean Group for Cooperation in Economic Development (CGCED), at its 1979 meeting, established a "Task Force on Private Sector Activities" to review and recommend measures to encourage more effective private sector participation in the development of the region.

Ten individuals were appointed to the Task Force by the Ad-Hoc Advisory Committee of the CGCED:

Arthur Brown (Chairman)
Deputy Administrator
United Nations Development Programme
New York, New York 10017

Carlton Alexander, President
Private Sector Organization of Jamaica
Kingston, Jamaica

Courtney Blackman, Governor
Central Bank of Barbados
Bridgetown, Barbados

Lionel Capriles, Managing Director
Maduro and Curiel's Bank
Willemstad, Curacao
Netherlands Antilles[1]

Timothy Donaldson, Governor
Central Bank of the Bahamas
Nassau, New Providence
The Bahamas

Guy Douyon, Economic Consultant
Port-au-Prince
Haiti

Francis Gobin, President
Guyana Manufacturer's Association
Georgetown, Guyana

Sidney Knox, Chairman and Managing Director
Neal and Massy Holdings Ltd.
Port-of-Spain,
Trinidad and Tobago

Fred Toppin, Managing Director
Jonas, Browne & Hubbard, Ltd.
St. George's, Grenada

Bernardo Vega, Economic Consultant
Santo Domingo,
Dominican Republic

Richard W. Richardson, Director, Development Department of the International Finance Corporation (IFC) acted as Executive Secretary for the Task Force. The IFC was executing agency for the project, which was funded by the United Nations Development Programme (UNDP) and the Caribbean Development Bank (CDB).

Wilfred Lewis, Jr. served as Project Coordinator with the assistance of Benjamin Gomes-Casseres.

The Task Force met three times in 1980: in Washington, D.C. on January 7, in New York City on April 14-15, and in Nassau, the Bahamas, on May 5-6. Aside from members, secretariat and consultants, the meetings were attended by observers from the World Bank (IBRD), the UNDP, the Inter-American Development Bank (IDB), the CDB, the Caribbean Community and Common Market (CARICOM), the Caribbean Association of Industry and Commerce (CAIC), and the International Monetary Fund (IMF).

[1] *Replaced by Ronald Gomes-Casseres, President of the Curacao Trade and Industry Association, for the first and third meeting of the Task Force.*

At its first meeting, the Task Force discussed the general state of the private sector in the region, and identified a number of questions for closer examination. Each of the 16 Caribbean countries[1] participating in the CGCED was then visited by one or more economic consultants.[2] This final report is based on the consultants' findings and on the Task Force's discussions. The Task Force hopes to discuss these findings with respective governments.

[1] *Antigua, the Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, Netherlands Antilles, St.Kitts-Nevis, St. Lucia, St. Vincent, and Trinidad and Tobago. Unless otherwise specified, conclusions in this report refer only to these countries, and phrases in the text like "Caribbean countries" refer only to this group. The "CARICOM countries", are all the above except the Bahamas, Dominican Republic, Haiti and the Netherlands Antilles. The "LDCs" are the smaller countries in CARICOM (Antigua, Belize, Dominica, Grenada, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent), while the ECCM includes all LDCs minus Belize.*

[2] *Consultants retained by the Task Force were: Michel Amsalem, Carmen Campbell-Belton, Paul Chen-Young, Marshall Hall, Wilfred Lewis, Jr., Rene Monserrat, Samuel M. Rosenblatt, and Dhiru Tanna.*

The Task Force recognizes that it is the responsibility of the individual governments to decide upon the most appropriate development strategy for each country and to determine the roles of the private and public sectors in such a strategy. At the same time the Task Force firmly believes that the private sector can contribute substantially to Caribbean economic and social development, and is encouraged by the important roles in fact assigned to the private sector by all governments in the region. This report aims to point out how the private sector role can be best promoted, and the private sector stimulated to contribute more effectively to development. The Task Force does not claim to be offering a comprehensive development strategy. Any such strategy would need to be looked at in a wider framework than was the mandate of the Task Force, and should reflect the concerns and contributions of all sectors of society.

The Caribbean countries differ in the responsibilities they assign to the public and private sectors in their national development strategies. But all have predominantly market-oriented economies, and all include among their policies support for private sector development and all promote its contribution to national development. The governments of the region reaffirmed these objectives when the CGCED unanimously decided to establish the present Task Force.

The Task Force fully agrees with the objectives of these policies, and furthermore believes that the experiences of countries in the region suggest that a dynamic private sector is essential to economic growth. Growth in turn is essential to solving the pressing social problems of unemployment and poverty. The Caribbean countries, because of size and level of development, will find it difficult to achieve their growth objectives without major contributions of managerial and financial resources from the private sector. Favorable conditions for increased private activities should thus be a vital part of development strategy in the Caribbean.

Private sector development cannot, by itself, meet all the social and economic goals of the Caribbean countries. The persistence of high rates of unemployment, even where there is relatively rapid growth, calls for active cooperation between the public and private sectors. In the design and implementation of employment strategies and of programs to improve housing, health care, education, and other social conditions, the public sector should play the leading role. The

Task Force believes that the private sector has a responsibility to society to conduct its activities in ways that promote equitable social and economic development. The Task Force also believes that private sectors everywhere in the region are prepared to support governments in these efforts and are willing to commit their own resources to helping solve pressing social problems.

This report offers a brief review of the actual and potential role of the private sector in Caribbean development, identifies the major obstacles and facilities for private activities, and presents specific recommendations on measures to further stimulate private sector development. These recommendations are addressed, depending on the problem, to local governments, donor countries, international organizations, and to the private sector itself. The Task Force hopes that the CGCED can provide the forum for new commitments and actions by all these participants.

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II. THE ROLE OF THE PRIVATE SECTOR

In a world of slow growth, increasingly costly energy, and worsening inflation, the Caribbean countries face unprecedented challenges in the 1980's. Governments in the region are struggling, like developing countries elsewhere, to expand employment opportunities, improve living standards, and bring about the conditions for self-sustaining growth. They are having to do so, in most cases, under conditions, dictated by geography, history, and natural resource endowment, that are perhaps less favorable than in many other areas of the world.

The Task Force has found, through its careful country-by-country review, that despite these difficulties and limitations, every one of the Caribbean countries has the potential for faster economic growth—an indispensable precondition for solving the pressing problems of unemployment and poverty. Private sector initiatives have in the past contributed greatly to economic growth in the Caribbean, and can continue doing so in the future. With the appropriate public programs and incentives, private sector development will not only improve the growth performance of the Caribbean countries, but will also help alleviate unemployment and improve social conditions.

Thus, there exists the need for close attention to the conditions for encouraging private sector initiative. This can be done within the framework of each country's objectives regarding the balance between public and private activities. All governments of the region practice a "mixed economy" approach to development, in which significant responsibilities are assigned to both the public and private sectors. Each country must decide for itself, in the light of its own internal political requirements, what roles it wants to assign to the public and private sectors. In this respect, the private sector has demonstrated its ability to adjust to widely different environments.

At present, there are few major differences among countries with respect to public and private ownership roles in the various economic sectors. The economies are largely market-oriented, and private ownership predominates in productive sectors. The extent of public regulation and control through means other than ownership does vary more from country to country. The Task Force has examined, on a sector-by-sector basis, the current roles of public and private sectors in the ownership and control of productive activity in the Caribbean countries.

In *agriculture*, the private sector in most cases has a dominant role in production. In the special case of the *sugar industry*, public sector ownership of productive enterprise predominates in Guyana, Jamaica, St. Kitts, Trinidad and Tobago, Antigua and the Dominican Republic. Public ownership of *lands and forests* is significant in Guyana, Belize, Trinidad and Tobago, St. Kitts, Antigua, the Dominican Republic, and Montserrat. The two countries with the largest forest resources—Guyana and Belize—assign important roles to both public and private sectors in exploiting these resources.

Manufacturing activity (excluding agroindustries) is predominantly private in every country of the region. In Guyana, private ownership still predominates, but the Government has nationalized a number of private firms, and seems to be expanding its role. Public sector ownership in industry is largest in the Dominican Republic and Trinidad and Tobago. In the former case, public ownership reflects historical circumstances rather than fundamental philosophy. In the latter case, the government has taken an active role in the development of new industries whose initial capital requirements are too large for the local private sector, with the intent of later divesting ownership to the private sector.

In *mining, petroleum,* and *natural gas,* the public sector predominates in Guyana and in Trinidad and Tobago, but in Jamaica and the Dominican Republic both the private and the public sectors are important.

Commercial banks and *insurance companies* are everywhere predominantly private, and often foreign-owned. There are one or two government-owned commercial banks in Barbados, Trinidad and Tobago, Jamaica, Haiti, St. Kitts, Grenada, St. Vincent, Dominica, Guyana, Dominican Republic, and prospectively in St. Lucia.

Aside from public low cost housing in many countries, the *construction industry* is everywhere mostly private.

Tourism is dominated in most countries by the private sector, although there is significant, and sometimes predominant, government ownership of hotels in Jamaica, St. Kitts, the Bahamas, the Netherlands Antilles, Antigua, and the Dominican Republic. In most of these cases, the government became involved by trying to develop the industry and/or maintain employment in periods of low demand, rather than by a desire to control the industry.

Telephone, telegraph and public utilities are mostly government owned. However, telephone and telegraph facilities are owned wholly or partly by private foreign companies in Barbados, Dominican Republic, Dominica, St. Vincent, and Grenada. Private ownership of public utilities is pronounced in Barbados. *Radio and TV broadcasting* are mostly government controlled, but radio is privately owned in the Dominican Republic and the Netherlands Antilles and partly so in Barbados. The *printed news media* are mostly in local private hands, except in Guyana, where public ownership prevails, and Barbados, where foreign private ownership is significant. *Air transport* is mostly public, while local transport is frequently a mixture of public and private ownership.

The sector with the largest differences among countries, in terms of the balance between public and private activities, is *trade and distribution.* Public sector ownership in trade and distribution is predominant only in the case of Guyana, where there are not only public sector marketing entities for major commercial crops, but also for a number of imported staples and basic raw materials and even a certain amount of retailing. Public sector agricultural marketing boards also play a significant role in Jamaica, Haiti, St. Kitts, the Dominican Republic, and Belize. Public sector ownership in distribution is negligible in the case of Trinidad and Tobago, Dominica, the Bahamas, the Netherlands Antilles, St. Vincent and St. Lucia.

As a consequence of the private sector's important role in all the Caribbean economies, the development of these economies depends in no small measure on investment and production by private entrepreneurs. In every country, with the possible exception of Guyana, the private sector accounts for the bulk of investment in productive sectors; it produces a large part of exports and employment; and it provides the economy with managerial and technical skills. Future growth, therefore, continues to depend on a vigorous private sector.

The Task Force has not conducted a technical appraisal of the relative advantages of public versus private sector in each activity, but feels on the basis of its own varied experiences that for some activities the private sector is better equipped than the public sector. If the latter undertakes too many diverse activities, it may stretch its managerial resources beyond what is technically feasible. In highly decentralized, small-scale, and service-oriented activities, the private sector has a comparative advantage because of the need for individual attention and management. Activities such as retail trades can be important training grounds for small businessmen; public ownership of this sector may therefore constrain the development of local entrepreneurs. Public control of distribution and trade also affects production in other sectors, sometimes in unintended ways, and may have an adverse economic effect if not exercised carefully and efficiently.

Aside from these observations, the Task Force does not feel the scope of its study warrants any general statements on what the respective roles of public and private sectors should be: this must be decided by each country. However, the Task Force expects that in almost all cases the role of the private sector will be exceedingly important, and that the analysis and recommendations in the rest of this report can assist in promoting that role.

III. OPPORTUNITIES FOR PRIVATE INVESTMENT

The Task Force's country-by-country review has shown that every Caribbean country has promising opportunities for economic growth and expanded private investment. In no country have profitable investment opportunities been exhausted, nor are natural resources inadequate for further development. Thus there is economic scope for increased private sector activity in support of national economic development. This section briefly outlines these opportunities, after which the major obstacles to future private activities will be analyzed.

Although many of the Caribbean countries have limited natural resource endowments, others have significant mineral, land and forest resources. In Trinidad and Tobago, petroleum and natural gas resources form the basis for rapid expansion of heavy industry. The Dominican Republic, Jamaica, Guyana, and probably Haiti, also have significant mineral resources. Guyana and Belize, and to a lesser extent Dominica and the Bahamas, have commercially exploitable forest resources.

Virtually all the Caribbean countries also have a considerably greater agricultural potential than is presently being realized. The only exception is Netherlands Antilles, where only horticulture on a limited scale has potential. Many countries in the region have allowed agricultural production to run down dramatically compared to earlier periods, while countries such as Guyana, Belize, Dominican Republic, and to a lesser extent, the Bahamas—have significant agricultural potential that has never been developed. In addition to the export potential of agriculture and agro-industry, there are opportunities in most countries of the region for domestic production of a greater part of the tourist industry's food requirements.

The Caribbean countries generally have high literacy rates compared to most other developing countries, giving them an advantage in terms of the quality of their human resource base. This factor, if properly utilized, could benefit productivity, labor costs, and export competitiveness.

Practically all the Caribbean countries have distinctive advantages as tourist destinations. Tourism, being relatively labor-intensive, can be a good source of employment, and there is significant potential for further growth of this industry almost everywhere in the region.

For many of the Caribbean countries, the structure of wages, combined with proximity to U.S. markets and special trade relations with Europe, add up to significant comparative advantages in a number of export categories. But capturing the full benefit of this potential will require in many cases a reorientation of investment and trade incentives. In most countries, there has been primary emphasis on light manufacturing or processing, based largely on imported raw materials, and oriented to domestic or regional markets. This strategy has been supported by high levels of protection for domestic producers by duty-free access to imported raw materials, capital goods, and spare parts and, in many cases, by extending quasi-monopoly status to existing producers. One result of this strategy has been industrial structures often composed of inefficient and uncompetitive firms which contribute to high economy-wide costs and prices, thus hampering the country's general export potential. Given the need for increased exports, a shift in these policies towards more export promotion is urgently needed, especially in the Dominican Republic and Jamaica. Barbados has already been shifting in this direction, and the Netherlands Antilles, Haiti and the Bahamas have never aggressively pursued import-substitution strategies.

In the larger economies, growth of domestic markets will create new opportunities for import substitution of increasingly sophisticated consumer goods, intermediate products, and even capital goods. The Dominican Republic and Trinidad and Tobago are already poised for that possibility; Jamaica will be as soon as growth of the economy resumes; and Guyana and Haiti can look forward to that possibility at a later stage of development. For the smaller economies, there are still opportunities for efficient import substitution at the CARICOM level, if the economic integration of the CARICOM countries can be further intensified and barriers to regional trade reduced. The increased use by Caribbean industries of regionally produced raw materials and intermediate goods can be further encouraged. However, given the still small size of the regional market and the growing foreign exchange needs in all countries, efficient industrial development in the future will have to be based increasingly on exports to the rest of the world.

Because of their foot-loose nature and low wages, export assembly industries based on imported materials should probably be regarded only as stop-gap means of generating employment, and not as a sound basis for long-term growth and development. However, such activities have provided significant employment notably in Haiti, the Dominican Republic, Barbados, and to a lesser extent in Guyana, St. Kitts, and others. Successful examples include locally-owned as well as foreign-owned ventures. Offshore assembly has a considerable potential for further expansion in almost every country. To get the most out

of this strategy, countries must pursue incomes policies in which labor costs are in line with productivity, adequate infrastructure must be provided, and better promotion must be done among the foreign investor community. For the longer run, there should be efforts to increase local participation in these industries, and to deepen technology and upgrade skills so as to remain competitive at progressively higher wage levels. Opportunities for developing backward linkages between the export assembly industries and a local source of raw materials, intermediate products, and services should also be exploited.

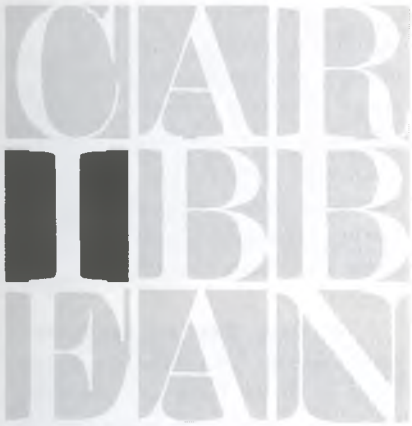
Both the United States and the European Economic Community (EEC) have special exemptions to their regular import duty schedules for the benefit of developing countries. Many of the Caribbean countries have not adequately explored the export potential they may have under the U.S. General System of Preferences (GSP) and the comparable European preference scheme. The initiative to do this has to come from the exporting countries, and technical assistance in exploring this potential might prove valuable.

Export industries designed to take advantage of these import preference schemes differ from, and should not be confused with, offshore assembly operations motivated by headnotes 806 and 807 of the U.S. Tariff Code, for which the U.S. importer can be expected to take the initiative. In the latter type of activity, a U.S. manufacturer avoids having to pay mainland wages on the labor-intensive assembly phases of his activity by shipping his parts abroad for assembly. He pays U.S. import duty upon re-entry only on value added abroad (e.g. Caribbean wages). The U.S. importer has every incentive to minimize foreign value added, and will not be interested in backward linkages. In the case of export industries aimed at GSP opportunities, by contrast, the higher the local value added, the better the product will comply with the requirements of the scheme.

Existing U.S. and European trade preference schemes for developing country exports are available only for exports in which a significant percent of total value is added in the exporting country. These value added tests are difficult to meet for small countries with few local resources, as is characteristic of the smaller Caribbean countries. The present may not be an opportune time to reopen the question of developed country trade preferences. However, when these preference schedules are next being negotiated internationally, the Caribbean countries should request more liberal value added tests.

Some countries presently derive significant income, foreign exchange, and employment from a range of service activities, such as free-trade-zone transshipment and associated services, and offshore financial activities. Opportunities for further expansion clearly exist in some Caribbean countries.

In short, there are significant opportunities for productive investment in all the Caribbean countries. With the appropriate investment climate and facilities, the private sector can successfully exploit these and help increase the countries' employment, foreign exchange earnings, and productive capacity. The Task Force has concentrated its work in the following analysis on why the private sector does not everywhere take advantage of the existing economic opportunities, and what can be done to improve this situation.



IV. THE INVESTMENT CLIMATE

In the course of its studies, the Task Force encountered low rates of private investment in some countries, which are in part due to low levels of "investor confidence" and to an unfavorable "investment climate." These factors are difficult to define concretely and impossible to quantify, but they refer to the willingness of private investors to place their capital at risk in the expectation of future returns. As such the investment climate is inherently judged by the perceptions of investors and cannot always be explained by a set of objective conditions. What is important, nevertheless, is whether the government and the general public support private activities and whether businessmen expect this support to persist in the future. The Task Force firmly believes that the climate for private investment will respond positively to the adoption of rational and consistently applied economic policies based on a collaboration between the public and private sectors.

The Caribbean countries differ greatly in terms of their investment climates, ranging from quite positive in a few countries to poor in a number of others. These differences cannot be adequately explained by differences in official policy, incentive legislation, or patterns of public ownership. Even in countries where investor confidence is currently low, governments have expressed a desire for greater private investment, and in fact have on their books a broad range of incentive legislation in the form of tax holidays, waivers of duties on imported machinery and intermediate and raw materials, protection from import competition, and related measures designed to encourage local and foreign private investment. Nor is the investment climate determined simply by the distribution of ownership and control of the means of production between the public and private sectors; some countries have good investment climates together with substantial public ownership of productive enterprise.

The "investment climate" is a complex combination of objective "incentive" factors, and more subjective "confidence" factors. The lack of confidence seems to be related in a number of countries not to present policies and practices, but to fears that these policies may change for the worse in the future. These fears or uncertainties in turn seem to be based on a mixture of factors which varies from country to country. The concern frequently starts with large public sector deficits which carry the threat of future credit stringency, tax increases, foreign exchange shortages, and a redistribution of resources from the private to the public sector. In some countries, the lack of clearly articulated economic policies is a very negative factor. Private sector confidence flags when public policies do not clearly address the problems of unemployment, poverty, and growth.

Another adverse factor is the tendency of some politicians in the region to blame unemployment and poverty on the private sector's failure to invest, or otherwise to use the private sector as a rhetorical "whipping boy". Also, governments and politicians may fail to express their development strategies in ways that show sophisticated understanding of the role and requirements of the private sector, giving rise to the feeling, whether justified or not, that public commitments to the private sector may be purely expedient and therefore reversible.

Secondly, the investment climate is adversely affected when legislation designed to encourage investment is administered in slow and sometimes obstructive ways as a result of bureaucratic inefficiency or even hostility. Frequently, the approval of applications for permits or benefits is reserved to too high a level in the government, where the volume of responsibility resting on a few individuals leads to long delays. In other cases, there is overlapping, unclear, and inconsistent jurisdiction by more than one agency, and poor coordination among them.

Thirdly, the overall policy environment in which the private sector has to operate, and within which investment decisions are made, includes a host of other public sector policies and practices affecting costs and prices. Many of these originated in a piecemeal fashion, and were not designed to affect private investment one way or the other, but often have the actual effect of raising costs or squeezing profits. Chapter VI of the present report describes more fully some of these policies and practices, and the Task Force has assembled more detailed descriptions of such conditions in each country.

Finally, the Task Force points out that economic activity outside the region affects the investment climate in the Caribbean. The Caribbean tourism industry, for example, one of the main sources of foreign exchange earnings, began to become profitable again in several countries only in 1979 after a long slow recovery from the 1974-75 world recession. Investment in that industry, and indeed in other Caribbean industries which depend on continued high levels of economic activity in the developed countries, is bound to proceed very slowly and cautiously until present world-wide economic uncertainties abate. Caribbean exports also detect signs of growing protectionism in the developed countries that can adversely affect their export markets. The investment climate will also be adversely affected if threatened cutbacks in official development assistance to the region forces cut-backs on needed investments in infrastructure. Skyrocketing energy prices have also had an adverse impact on virtually every country of the region, forcing many of them to adopt restrictive measures to cope with growing balance of payments difficulties, thus adding a further negative influence on the climate for private investment.

Given the multiple factors which affect it, improving the investment climate where it is currently unfavorable will require a variety of actions by governments and private parties. The object of these actions, in general, should be to (a) reduce uncertainty about the future course of policy and the economy, (b) clarify the role of the private sector and minimize contradictory policies that impede that role, and (c) improve the social and economic conditions in which the private sector must function. More specifically, the following would be useful in most countries:

(a) Regular consultation between governments, business and labor on broad social and economic issues should be instituted. In some countries, part of the present uncertainty is caused by lack of mutual understanding and communication, rather than by fundamental differences in objectives or philosophy. The proposed consultations could be institutionalized through National Economic Advisory Councils. In some countries, implementing this proposal will require improved organization of the private sector itself. Moreover, both trade unions and business organizations in most countries will need more professional staff to participate fruitfully in such consultations. Since the investment climate within each country also reflects events in other countries of the region, these tripartite consultations may also occasionally be held on a regional basis.

(b) In a few countries, notably Guyana, Grenada, and Dominica, the most important need is for a clear statement by the government, in operational terms, of the responsibilities and roles of the public and private sectors. Governments such as those of Guyana and the Dominican Republic, which have acquired enterprises in the productive and distributive sectors, should reconsider on a case-by-case basis whether that is the most effective means of achieving their objectives. Private enterprise can adapt to a variety of ownership conditions as long as there is a coherent

strategy, and a minimum of policy uncertainty. But selective divestiture of public ownership, where efficiency conditions so dictate and equity considerations permit, could be an effective way for a government to signal a desire to improve relations with its private sector and to restore private sector confidence.

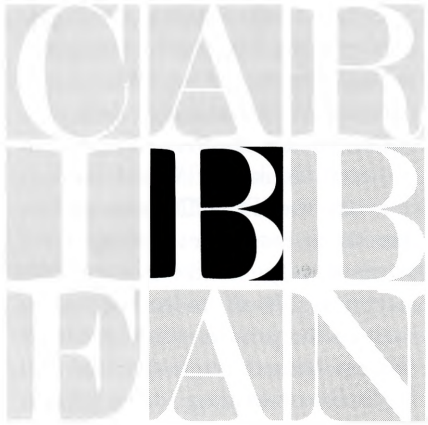
(c) Governments should prepare realistic multi-year development plans or coherent detailed statements of development objectives and strategy that have a plausible chance of success in terms of growth, employment and income distribution. Such plans should be communicated effectively to the major economic participants, and would in fact be more realistic and convincing if worked out with the active collaboration of the main economic groups. The credibility of a national development strategy is perhaps equally as important in establishing investor confidence as the precise role assigned to the private sector. Every government of the region should make a careful re-examination of its policies and practices as they affect the private sector, in an effort to achieve greater consistency between these and their official development goals and strategies. The Task Force hopes that its work can be a useful starting point for such re-examinations.

(d) Politicians in a number of countries of the region have too frequently, in the course of vying for electoral support, fallen into the practice of villifying the private sector when in fact their policies and those of their parties call for continued reliance on private investment as an integral part of their development strategy. Although experienced businessmen can usually distinguish between rhetoric and policy, this practice hardly inspires confidence about future government policies. The private sector has a right to expect that political leaders and parties whose development strategies depend on private investment will try to educate the general public on the role of the private sector.

(e) Given the compelling needs to conquer unemployment and poverty, business should be prepared to cooperate with governments in the design and implementation of effective measures to maximize employment, broaden participation in the development process,and achieve an equitable distribution of income.

(f) The care with which governments manage the public sector's finances is an important element in the overall investment climate. That in turn requires efficient tax collection, revenue systems that respond buoyantly to economic growth, efficiency in all branches of the public service and in the design of social programs, and caution in making new program commitments so as to hold expenditures within expected revenues.

(g) The overall investment climate cannot be disassociated from the prevailing levels of employment and income, and these are importantly influenced by policies of countries outside the region. The developed countries which represent the main markets for Caribbean goods and services must be reminded of the heavy burden that their own economic problems place upon small and highly dependent trading partners. They should resist protectionist pressures that threaten Caribbean exports, including tax and other provisions that discourage tourism to Caribbean destinations other than Puerto Rico and the U.S. Virgin Islands. The U.S. and the EEC should be prepared to re-examine and liberalize the value-added tests in their import preference schemes as they apply to small developing countries with meagre resources the next time these schemes come up for international negotiation. Also, the Task Force believes it extremely untimely for donor countries to reduce economic assistance to the Caribbean countries under existing circumstances. Oil price increases bear no small responsibility for the difficult economic situation that many Caribbean countries find themselves in; concessional financing to deal with this problem will continue to be needed by most of the non-oil producing Caribbean countries.



V. FACILITIES FOR FINANCING PRIVATE ACTIVITIES

The Caribbean region is relatively well endowed with financial institutions to serve the private sector. There are many long-established commercial banks and insurance companies with good international connections; there are national and international development finance institutions; and the more developed countries of the region—Jamaica, Trinidad and Tobago, the Dominican Republic—have relatively sophisticated equity capital instruments and institutions.

Commercial banking is dominated by a number of large British and North American banks which can call on their regional and home offices for both funds and expertise. There are at least four commercial banks in even the "less developed countries" (LDCs) of CARICOM. In the larger CARICOM countries there are more; Trinidad and Tobago has nine commercial banks with 99 branch offices. Although private (often foreign) ownership of commercial banks predominates in all countries of the region, there are also one or more government-owned commercial banks in eleven of the countries. Haiti has ten commercial banks, of which six are foreign and one government-owned. The Netherlands Antilles have 10, all but three of which are majority foreign-owned. The Dominican Republic has 11 (with 25 branches), five of which are foreign-owned and two joint ventures.

Development banks or finance companies (DFCs) exist in every country except the Netherlands Antilles, while many countries have more than one. A number of official international institutions supply loans or equity capital directly or in-

directly to the private sector, such as the Caribbean Development Bank (CDB), the International Finance Corporation (IFC), and the Venezuelan Trust Fund (VTF) administered through the Inter-American Development Bank (IDB). A number of bilateral official agencies also deal directly with the private sector, such as the Netherlands Finance Company for Developing Countries (FMO), the Commonwealth Development Finance Company (CDFC), and the Overseas Private Investment Corporation (OPIC). Finally, the World Bank, the IDB, the European Investment Bank (EIB) and a number of bilateral donors make, or plan to make, funds available to local DFCs or to the CDB for on-lending to the private sector.

The Caribbean Investment Corporation (CIC) was established in the early 1970s with joint public-private ownership to make development finance available to private firms. While membership included all the CARICOM countries, CIC's activities were limited by its charter to the LDCs. Its activities were heavily concentrated on equity investments which account for about 80% of its total portfolio. This factor, and its exclusive concentration on the LDCs, resulting in too small an average size of project, seriously compromised the financial viability of CIC from its inception. More over, CIC never obtained all its initially authorized capital, never recruited a large enough technical staff, and suffered from poor management and inadequately prepared projects. As a result, CIC is experiencing fundamental problems and its future is in question.

The CDB—while it is not primarily in the business of aiding the private sector—has both funds and a mandate to extend either debt or equity finance to private enterprise projects. Unlike the World Bank (but like the IFC) CDB can lend directly to enterprises without a government guarantee. Since CDB's inception, 22% of its lending has been to the private sector. Most of this has been through the local DFCs for on-lending to the private sector. The CDB very recently approved $7 million in new direct loans to private sector projects. CDB lacks the numbers of technical staff with relevant experience that would be required to undertake a major promotional effort, without which CDB's direct private sector lending is not likely to expand significantly. It does, however, have funds to finance more projects if they could be identified and properly prepared.

The international financial institution with the strongest capability to undertake detailed preparation and finance of private sector projects is the IFC, the World Bank affiliate wholly specialized in private sector development. IFC has intensified its efforts in the Caribbean in recent years, and is prepared to finance projects in the Caribbean of a smaller size than is typical of its general operations. However, project preparation of the kind that IFC does is very expensive, and IFC can only afford to assist the smaller projects that are characteristic of the region in the context of a portfolio that also contains considerably larger projects. This poses some constraint on IFC's operations in the Caribbean.

There is thus an ample number of financial institutions and multiple sources of funds for financing private enterprise. Consequently, commercial and development lenders, both domestic and international, are virtually unanimous in asserting that adequate private sector financing is available for sound "bankable" projects. At the same time, there are would-be borrowers who claim to have profitable, worthwhile projects for which they cannot find adequate financing. Thus, the perceptions of lenders on the one hand and prospective borrowers on the other differ sharply as to whether or not there is a "financing gap" for the private sector. These different points of view can be reconciled by recognizing that many project proposals that were not initially "bankable" could become so if would-be borrowers received assistance in financial structuring of the projects, technical engineering studies, identification of prospective suppliers and markets, and determination of key personnel staffing requirements.

Commercial banks rarely have the personnel or the financial incentive (i.e. some way of recouping costs) to do this *project identification and development activity*, but this is the distinguishing characteristic of development finance institutions. The general shortage of experienced entrepreneurs, managers, and private equity, coupled with the weakness of available technical support, is what makes development finance institutions important in developing countries. The national DFCs were created to meet these gaps, but do not always have the resources to do so.

Particularly with regard to large and medium-scale investment projects, the Task Force finds it misleading to speak of "financing gaps" when the main bottleneck is project identification and preparation rather than the supply of finance *per se*. This shows up as a shortage of promising projects in the private sector, and the Task Force feels that with more adequate project identification and development, much more use could be made of existing financial institutions. Such efforts are also needed for small projects. But the special problems of small enterprises cannot be dealt with directly by international lending agencies, which are more effective in dealing with larger projects. The discussion which follows deals first with medium-sized enterprises, and then with small enterprises.

A. MEDIUM-SIZED ENTERPRISE

The Task Force believes that a significant number of medium-sized private sector development projects (i.e., total investment costs of US$500,000 to about US$4-5 million) could be made ready for financing if there were facilities for project identification and development similar to those available through IFC for larger projects. In designing an appropriate response, the Task Force notes that not all the countries of the region are members of CDB, and are therefore not eligible for assistance from that institution. To fill this gap a project identification and development facility should be created for the region that could extend to medium-sized enterprises the approach presently used by IFC for larger projects, including, if possible, the use of IFC and/or IFC-trained staff. Such an approach should result in the identification and preparation of an enlarged stream of private sector projects for funding by public and private institutions. One of the activities of this facility would in fact be to help identify sources of financing for the projects it prepares. Existing financial institutions may have to improve their project financing capacity in some cases.

The Task Force therefore proposes a three-point plan for encouraging medium-sized private sector projects:

> **(a) A region-wide program for project identification and development** to increase the supply of "bankable" private sector projects which could then be funded by existing institutions. This effort will usefully include the participation of the CDB, the UNDP, and the IFC, assisted by IDB, the EEC, and other interested donor agencies. Since the type of project promotion required is so much like IFC's, the IFC may be best placed to act as technical back-up and executing agency for the program. The CBD can offer an excellent regional home-base and is connected with a large number of DFCs and other national institutions which can indirectly contribute to the program. The UNDP has a regional network of representatives which can act to provide local contacts and support services. Local private sector groups, including trade associations, should be included in the effort as they have invaluable knowledge of local conditions. What is clearly needed is the organization of these forces into a practical promotion program. Such a program will also need adequate staffing, and should be funded by grants from other donor agencies. The Task Force recommends that IFC, CDB, UNDP, and IDB prepare a project for multilateral funding along the above lines.

(b) Since the **financing** of projects originating from the above program will be left to existing financial institutions, these institutions also have to take special actions to improve their capability to serve the private sector. Thus:

(i) the IFC may be able to consider funding a greater number of smaller projects than in the past, since much of the "promotion overhead" will be borne by the above program;

(ii) the CDB should examine the need for further strengthening, in addition to steps taken last year, that section of the Bank which deals directly and indirectly with the private sector. In this, they may wish to seek the advice of IBRD and IFC;

(iii) the CDB should take steps to make its facilities better known to the private sector, and at the same time should seek more advice from the private sector, perhaps by the creation of a formal Advisory Panel made up of private sector representatives;

(iv) term lending and equity financing by DFCs, the commercial banks, insurance companies, and unit trusts should be assisted through rediscounting schemes, central bank guarantees, access to long-term capital on soft terms, creation of security markets and other instruments described more fully in the two following sections of this chapter.

(c) The promotion program should be experimental, in the sense that after five years a decision will have to be made as to whether it should be terminated or continued, and if continued, what modifications might be advisable. It is difficult to speak with much certainty before the results of the experiment are known. If successful, the effort might be made permanent as an independent institution, or by incorporating the program into existing institutions. At that time it will be appropriate to ascertain the need for additional financing that may in part be generated by the promotion program. To anticipate these questions the program should include a mid-term evaluation not more than three years down the road, and the Task Force hopes that the private sector will again be consulted formally on this matter.

B. SMALL ENTERPRISE

The new promotional facility proposed above for medium- and large-sized enterprises will not help small businesses. For these, more localized facilities are needed, at the national or even subnational level. The lack of appropriate financial and technical facilities is a major obstacle to the development of small enterprises in almost every country of the region, as is true elsewhere in the world as well.

The lack of facilities for small enterprise is a serious problem because of the special social, political, and developmental importance of the small enterprise sector. Small enterprise is the primary training ground for entrepreneurs and managers for the whole private sector. Competition is a spur to productivity and efficiency, and governments are more likely to find it politically feasible to pursue policies favorable to the private sector as a whole if the private sector is not overly concentrated in the hands of a few large firms. Moreover, experience in many countries suggests that small enterprise is often a source of dynamism, innovation, and employment.

Finance, in the narrow sense of credit availability, is not the main problem of small enterprises in the Caribbean. As stated previously, there are strong, well-established commercial banks throughout the region, and in most of the countries these banks have had no major liqu-

idity problems. But comercial banks are seldom able to meet the needs of small enterprises for several reasons. First, many small firms which apply for loans frequently lack such business capacities as accounting, marketing, inventory controls, and the like, without which even promising new activities are not bankable. Second, most commercial banks do not have the facilities to appraise and process medium-term project loans in the productive sectors. For the most part commercial banking practice in the Caribbean is concentrated on consumer lending and lending to the distributive sector. When commercial banks do lend to productive enterprise, loans typically require heavy personal collateral to offset the risks involved in lending to enterprises in the absence of analysis of the long-term basic soundness of the venture itself. Moreover, term lending is rare: funds are usually made available in the form of short-term lines of credit, suitable for working capital but not for expansion or for the purchase of new machinery or equipment. If a firm rolls over its credit line for expansion, it risks a shortage of working capital. Third, the risks involved in lending to small enterprises are simply too great for many commercial banks in the light of legally permissible or politically feasible rates of interest. Finally, some small enterprises do not have a large enough equity base to support increased debt burdens. Because of factors such as these, the commercial banks in some of the LDCs, where the needs are greatest, collect more local savings than they are able to lend back to the local economy, with the result that the commercial banks in such countries have become intermediaries for transferring savings to their head branches overseas.

In short, the main needs of small enterprises unmet by the commercial banks are the following: (a) long-term lending via non-revolving lines of credit; (b) technical assistance in developing projects; (c) some way around the problem of high risk; and (d) in some cases supplementary sources of equity finance. There are broadly four lines of action to be considered in addressing these problems: (i) public and private sector development finance companies (DFCs); (ii) subsidies or other assistance designed to alter commercial bank practices; (iii) various means of providing equity capital; and (iv) assistance in project preparation and training. A concerted effort involving all four of these areas is required. The fourth area—technical assistance to small business—can be approached by separate promotional institutions, but is perhaps best dealt with through the DFC's and commercial banks as described below.

Development Finance Companies. As mentioned previously, all the countries in the region, except the Netherlands Antilles, have at least one DFC, and several countries have more than one. But the experience has been mixed. In some countries, notably Jamaica, Barbados, and Trinidad and Tobago, DFCs have been active and successful sources of both finance and technical assistance for small firms in a broad range of sectors. Guyana's DFC has also been relatively successful, but primarily in the field of agriculture, rather than industry. Belize also has a successful DFC, but it is small and also more active in agriculture than in industry. Any significant expansion of its activities in the industrial field would require additional staffing. The DFC in the Bahamas appears off to a good start, but it is still new and very small. In this latter case, any significant expansion would require major additions to capital as well as staff.

The Dominican Republic is unique in having a large number of development finance institutions which are privately rather than publicly owned. They are on the whole successful and perform a useful service, but as profit-making institutions, they can give only limited technical assistance to smaller enterprises. The Corporacion Financiera Industrial has been lending to small businesses; this public sector institution has been relatively successful. Haiti's DFC, the Institut de Developpement Agricole et Industriel, has experienced serious operational difficulties.

The DFCs in the Eastern Caribbean LDCs—Antigua, St. Kitts, St. Lucia, St. Vincent, Grenada, and Dominica—are all at this moment illiquid, unprofitable, and drastically understaffed. Most of them used to operate primarily in the agricultural sector, and were never well staffed to process development loans in other productive sectors. These "problem DFCs" are suffering from one or more of the following: undercapitalization, understaffing, overly rigid regulations, too small a volume to pay overhead costs, interest rate ceilings that affect their financial viability, and lack of operational autonomy. There are allegations with respect to a number of DFCs of undue political involvement in day-to-day operations. In the smaller economies there is a special problem of critical mass: the volume of lending that would be required to support the staff and administrative overhead of a viable DFC is relatively large in comparison with the size of the local economy in its present state of development.

In the long run, the successful development of the small enterprise sector will require every country to have at least one efficient DFC. Many of the DFCs, including some presently successful ones, could benefit from more outside assistance in building up the required staff and receiving an infusion of capital. The Task Force is encouraged to hear that the IDB is scheduled to furnish technical assistance to the DFC in Guyana to permit it to expand its activities on the industry side; that the World Bank has recently extended a sizeable line of credit to the Barbados Development Bank, and is working on a program of assistance to the Jamaica Development Bank; and that bilateral assistance has been offered to strengthen the management of the DFCs in the LDCs.

In the LDCs, recapitalization of the DFCs is needed, but this will have to be accompanied by a number of complementary steps, including changes in government interest rate and subsidy policies, reconstitution of management, expansion and training of staff, and a strategy for overcoming the problem of critical mass. With respect to the latter problem, some of the LDCs have more than one DFC which might be combined for greater efficiency. Also, to be efficient at present levels of development in the LDCs, these DFCs probably cannot afford to limit their lending to development projects in the productive sectors. They will probably have to expand their sphere of activity to include lending to the distributive trades, and refinancing and/or takeovers of existing enterprises, if they are to obtain a sufficiently large portfolio.

Individual governments and the CDB have the primary responsibility for rehabilitating the DFCs in the LDCs. The CDB, which was instrumental in creating most of them, has recently received funds from both the U.S. Agency for International Development (USAID) and the International Development Association (IDA) for this purpose. The IDA credit, for example, was intended to be used *inter alia* to make long-term soft loans to national governments which would use the proceeds to strengthen the equity base of their DFCs. This would eliminate debilitating dependence of some of them on allocations of funds through the annual government budget process, and would provide capital which could be put into safe, relatively high yielding financial instruments as a means of underwriting operating costs on an ongoing basis. CDB's effort to help rebuild various DFCs necessarily entails case-by-case negotiations with the national authorities to eliminate present sources of weakness; this process has been going on for some time and is likely to continue. The Task Force hopes that IBRD can increase its assistance to CDB in these efforts.

Commercial Bank Lending to Small Enterprises. Since commercial banks are well established, special efforts should be made to encourage their more active lending to small enterprises. In this connection, commercial bank practices do vary somewhat. At least one commercial bank in Trinidad and Tobago has a successful small business lending program, including technical assistance; the Dominican Republic has had a similar experience. However, ordinary commercial bank practice throughout the region is to concentrate on lending to consum-

ers and the trade sector: loans to enterprises mostly take the form of short-term lines of credit suitable only for working capital.

Both Jamaica and Barbados have recently instituted programs to encourage expanded commercial bank lending to small businesses. In Jamaica's case, the Premier Investment Corporation (PIC), a subsidiary of the Bank of Jamaica, provides funds to commercial banks at four points below their lending rate, and guarantees the resulting loans to the extent of 50 percent. So far only two commercial banks have come into this program. It is reported that the banks may have difficulty obtaining the necessary staff expertise to participate in this program.

The Barbados program provides an 80 percent guarantee by the Central Bank for commercial bank lending to small business. The success of this program instituted only last fall will undoubtedly depend on how the guarantee provisions are administered in the event of defaults. Experience with similar programs elsewhere engenders this concern. If there are long delays in processing applications for recovery in the event of default, the program is not likely to prove popular with the commercial banks. Haiti is presently scheduled to receive World Bank assistance to develop a similar program of commercial bank lending to small enterprises backed up by a central bank rediscount facility.

The Task Force recommends for all countries of the region which do not currently have such schemes, a three-point program to stimulate small business investment through commercial banks wherever such programs can be effectively negotiated with the banks: (a) provision of subsidies to permit the commercial banks to acquire the requisite additional staff expertise; (b) some form of loan guarantee to help overcome the risk factor; and (c) a special window at the Central Bank to allow the banks to rediscount small-business loans in the event of a liquidity squeeze. This latter provision is appropriate even in countries where there is no present liquidity problem, because the commercial banks almost invariably express concern about possible future liquidity problems, and it appears that a rediscount facility would be crucial in attracting widespread commercial bank participation. These facilities should also be made available to the DFCs.

For the countries of the Eastern Caribbean which do not have central banks, governments could provide interest subsidies and guarantees, but it is not obvious what might be substituted for a rediscount facility unless the Eastern Caribbean Currency Authority (ECCA) could take on that responsibility.

C. THE SUPPLY OF EQUITY CAPITAL

Only the Dominican Republic, Jamaica, Trinidad and Tobago, and Barbados have large enough economies to support organized securities markets, and in none of these are such markets yet very highly developed. Trinidad and Tobago and Barbados are in the early stages of creating stock exchanges. Jamaica has had the most highly developed stock market in the region, but at present it is in almost total disarray. There is a serious need on the part of Jamaican enterprises for equity funds to restructure their capital bases.

Most of the countries could not support highly organized securities markets at present. The Task Force believes there is an excellent case for the establishment of a regional stock exchange, and recommends a review of any national barriers to the functioning of such an exchange. It also thinks that, in some of the larger countries, unit trusts or mutual funds could be established as a means of channelling savings into equities.

The Task Force believes that the insurance companies could play a larger role in the provision of equity funds, both through their support of security markets where there are such, and through direct placements where there are no markets. Insurance companies necessarily follow conservative portfolio policies, and in some cases there may be legal barriers to their acquiring equities. But a very small fraction of the financial resources of the insurance companies would go a considerable way towards meeting equity capital requirements of medium-sized businesses. The Task Force recommends a review of legal and other barriers to acquisition of equities by insurance companies.

Organized stock exchanges or unit trusts would be of limited assistance to smaller enterprises which do not offer publicly traded shares. While lack of equity capital is not as serious a problem for small enterprises as some of the technical problems mentioned above, some small enterprises with potential for expansion have too small an equity base to safely take on additional debt. This is not an easy problem to solve since in many cases the enterprise itself is reluctant to dilute ownership, particularly in the case of small family-owned businesses.

A number of the DFCs can provide equity funds, but most of them rarely do. There are few alternative sources of equity funds for small enterprise unless the DFCs can assume a more active role in providing this kind of finance. The Task Force therefore recommends a review of the reasons why DFCs do not do more funding of this kind. To be successful in providing equity funds, the DFCs will have to be perceived as less political than some of them now are perceived. Private entrepreneurs in a number of the countries, even where they appear willing to dilute ownership, express strong reluctance to take in the government as an equity partner. As an alternative to ordinary equities, the DFCs might also consider taking preferred shares or extending unsecured loans as part of a total financing package.

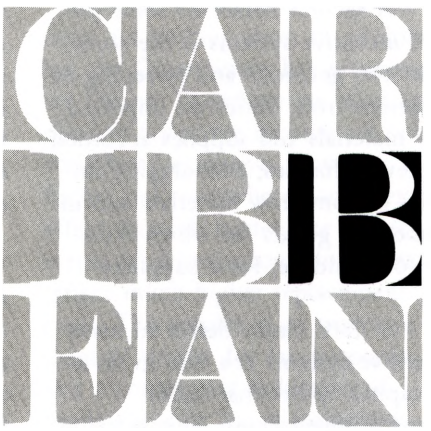
D. FOREIGN EXCHANGE AVAILABILITY

In a few countries, notably Jamaica and Guyana, the inability of private enterprise to obtain foreign exchange to import supplies and spare parts is perhaps the single largest obstacle to private sector activity at the present time. This is one reason why a number of firms are operating well below their existing capacity, and a firm with excess capacity on its hands has little incentive to undertake expansion or new investment.

When there is a shortage of foreign exchange, all sectors have to economize on use of imported goods. For enterprises that export, and whose activities can therefore help solve the underlying balance of payments problem, a scheme to provide revolving foreign exchange credits against export orders has been developed in Jamaica with World Bank assistance, and a similar scheme is under preparation in Guyana. It would be desirable to investigate the feasibility of similar facilities for other import-dependent enterprises which produce vital products at competitive prices. It may also be possible to extend these schemes beyond their present scope, to include export agriculture and tourism, for instance.

E. EXPORT CREDITS AND GUARANTEES

Given the importance of exporting in almost all the countries of the region, export credit facilities, in the form of government guarantees and/or outright loans to exporters, are surprisingly underdeveloped. This can and should be remedied, perhaps along the lines of the Export Credit Insurance facility that has been in operation in Barbados for some time under the auspices of the Central Bank, or the similar facilities in operation in Jamaica and Trinidad and Tobago. The CDB reportedly drew up a proposed scheme some time ago for Guyana and the LDCs along the lines of the Barbados facility, but elicited little interest on the part of the LDC governments at the time. It is recommended that CDB renew these efforts. From the standpoint of the private sector, pre-export financing, as a form of working capital, is equally as important as export guarantees.



VI. INCENTIVES AND DISINCENTIVES

Every country of the region employs an array of fiscal concessions, subsidies, protection, and other "incentives" aimed at stimulating foreign and domestic private investment. At the same time, private investment is also subject to a large number of other tax, legal, regulatory and administrative provisions the impact of which, though generally unintended, are often negative. The net effect of these is an important determinant not only of the overall level of private investment, but also its direction.

The present study and other recent studies have found that in several of the Caribbean countries, the net effect of the overall incentive system is to encourage private sector investment, but not necessarily in the most desirable directions. One of the most serious defects is a frequent tendency to protect import-substitution industries, rather than, or even at the expense of, promoting export activities. The typical incentive system includes tax holidays, duty-free import of inputs, high levels of protection at the final stages, and quasi-monopolistic privileges in the home market. This combination tends to allow the survival of high cost, inefficient firms that are not themselves able to compete in export markets, and whose high selling prices adversely affect the country's export competitiveness in other sectors. By the very nature of the business, some of these incentives could not be made available to exporters, and a bias against export activities results.

At the same time, opportunities for efficient import substitution at national levels have become lim-

ited. While there are somewhat greater opportunities for efficient import substitution at the CARICOM level, this is still a rather small market and an insufficient basis for future economic growth. Growing energy import bills and debt service burdens require a major effort to expand exports to countries outside the region. A restructuring of incentives to encourage export rather than import-substituting industries is needed in a number of countries, and very urgently so in Jamaica and the Dominican Republic.

A second defect of some present incentive systems is the somewhat too generous and sweeping exemptions from duties on imported raw materials and supplies accorded to new industries, encouraging imports of some raw materials and intermediate goods for which there are, or could be, local suppliers.

A third major defect in many incentive systems is a bias in favor of capital- rather than labor-intensive investments. This is the result of relating benefits to the amount of investment rather than the amount of employment generated or local value added. The system in effect until recently in the Dominican Republic—it is currently under review and revision—can be used for illustrative purposes since it represented an extreme case of this bias. The level of investment tax credits was extremely generous, reducing the cost of new capital investment by half. Combined with the denial of benefits for new investment if domestic capacity in the industry was deemed "adequate," this has had the effect of stimulating vast overinvestment and excess capacity in some industries. Firms tended deliberately to install more capacity than they planned to use, as an effective barrier against future competition from new entrants. This is one of the factors that has given the economy of the Dominican Republic a high marginal capital-output ratio: a relatively large amount of new investment has been required for each increment to national output. This system also resulted in a relatively high cost to government in terms of foregone tax revenues for the amount of economic growth stimulated.

The Task Force is not advocating that fiscal incentives be scrapped as a means of attracting industry. However, it would be desirable for investment incentive systems to put more weight on the number of jobs created, for example by extending training grants geared to employment levels to help offset a new firm's manpower costs. This is presently done in Barbados and Trinidad and Tobago.

Few governments have made an adequate study of the efficiency of their incentive systems. As a result, some of them are probably incurring larger costs in the form of foregone revenues than is warranted by the benefits in terms of new investment. For instance, company planning horizons for investment recovery purposes are usually shorter than income tax holidays granted, and the public sector foregoes revenues for more years than is necessary.

Where new investments are likely to come from an expansion of existing firms, a different and more powerful form of incentive than income tax holidays can be used, namely investment tax credits to encourage investment in priority areas. Benefits to the firm from the tax holiday approach do not materialize until the firm begins to make profits from its investment. However, if the firm has taxable profits from other sources, tax credits provide immediate benefits, and also facilitate the financing of investment projects by providing firms with larger retained earnings.

The **administration** of incentive systems can be as important as the nominal benefit formulas in actually stimulating investment. The potential stimulus is often seriously eroded by long delays in processing applications; overly complicated formulas and procedures; duplication and conflicts between different government agencies; and complex, unclear, arbitrary or changing criteria for approval. In Guyana, for example, although the package of benefits potentially available to new investors is comparable to that of other CARICOM countries, it reportedly takes a year or longer for some applications to be acted upon. In the Dominican Republic, investors complain of extremely long delays and uncertain decision criteria that tend to vary from agency to agency and from official to official.

In a number of Caribbean countries, there are high rates of personal income taxation, e.g. marginal rates of 70 percent or more on incomes of US$20.000 to US$30,000. Although complaints about tax rates are common in many other countries, the rates in some of the CARICOM countries are in fact quite high by international standards. These are believed to be among the factors, along with uncertain economic conditions, that encourage emigration and slow the return flow of managerial and highly skilled manpower—precisely the grades of manpower in shortest supply in all countries of the region. Tax structures have generally not been adjusted for the high rates of inflation during recent years, so that real taxes have moved sharply upwards with inflation.

In St. Kitts-Nevis, corporate taxes are nothing short of punitive, but the Government has promised tax reform. Elsewhere tax rates applied to corporate income are not considered excessive. However, inflation has everywhere had a serious effect through inadequate adjustments of depreciation allowances to reflect much higher replacement costs. This results in an overstatement of profits for tax purposes, and a consequent reduction of funds available for reinvestment. The question of appropriate accounting practices under inflationary conditions is a difficult and highly technical one that affects all companies in and out of the region. This would be an appropriate topic for an international comparative study.

Any consideration of the overall incentive system also has to include exchange controls, import licensing, and price controls. The Task Force believes that at least some countries could achieve their objectives at lower administrative cost and with greater simplicity for business firms by dropping exchange controls and import licensing, and shifting to import duties in their place. Such a change seems advisable for Trinidad and Tobago. Where such controls remain in effect, there is a general need for simpler, faster, and more predictable administration.

Price controls are in use in practically all of the Caribbean countries. The stated objectives of the various national systems are usually to eliminate excessive profit margins in markets in which there may be a small number of suppliers and an absence of competition, and to help control inflation. However, the way in which they are structured and administered differs widely in the region, with correspondingly different effects on profits, production, and the overall investment climate. In some countries, the price control system is singled out by businessmen as one of the most negative features of the investment climate. In Guyana and the Dominican Republic, for example, price controls are described as inflexible and arbitrary, and established on criteria which are more political than economic. In Belize, price controls are said to be set in such a way as to favor importers over domestic producers. In the Bahamas, on the other hand, there are few complaints about price controls, and they are generally credited with helping control inflation.

Some countries attempt to control many more prices than do others, and the Task Force feels there is a general tendency to make too heavy a use of direct price controls. For less essential commodities, at least for countries large enough to support active trade competition, reduction of import barriers would be a more effective way of controlling inflation.

One of the important differences among the price control systems of different countries is the use of specific price ceilings that can be changed only on appeal and after review, as compared to systems that employ formulas based on mark-up over cost. The latter are regarded by businessmen as much more equitable, and they appear to be just as effective. The Task Force believes that a comparative study of price controls in different countries could prove useful in helping countries find an optimal scope for price controls, and the least burdensome way of administering them.

The conduct of Government Marketing Boards is also sometimes a negative factor in some countries. When these are given monopoly buying powers which are then used to control producer prices and restrict exports for the benefit of consumers, there is certain eventually to be a negative effect on investment and production. Also, these Boards are often inefficient in their grading practices, with a consequent erosion of incentives to produce higher grades and an inevitable decline in quality standards.

Finally, all but a few countries lack effective industrial promotion agencies to attract potential foreign investors by reaching them in their home countries, and having available informative and persuasive materials with which to respond to inquiries. For the smaller countries, technical assistance in this field is needed, and the LDCs should consider pooling promotional costs by doing the work collectively. Also, a number of the Caribbean countries who have not done so will find it advantageous to establish tax treaties with the U.S. and the major European countries as part of their efforts to attract foreign investment.

VII. HUMAN RESOURCES AND EMPLOYMENT

In practically every Caribbean country, a shortage of entrepreneurial talent and managerial and skilled labor is one of the major if not the single most important obstacle to private sector development. This is so in spite of the high levels of unemployment in most countries. Thus, a two-pronged manpower strategy is called for: (a) action to expand the supply of managerial and skilled manpower; and (b) policies to increase employment opportunities. These two problems are integrally related: if there is not an adequate supply of managers, it will be hard to expand employment-generating industries.

A. MANAGERIAL, ENTREPRENEURIAL AND SKILLED MANPOWER

There exists a tremendous need for expanding and upgrading facilities for the development of management and technical skills throughout the region. The need is particularly felt in middle-management categories (supervisors, foremen etc.). The CARICOM secretariat administers a small (US$2-3 million) program which provides local and overseas training to nationals of its member countries. But much more is needed. There should be a major technical assistance program at the regional level to upgrade management and technical training institutions at all levels: (a) the management studies programs at the University of Guyana and the University of West Indies branches in Jamaica and Trinidad and Tobago; (b) technical institutions like the College of Arts, Sciences and Technology (CAST) and the School of Agriculture, both in Jamaica, and the Community College in Barbados; (c) various management institutions such as the Barbados Institute of Management and Productivity (BIMAP), the Management Development and Training Center in Guyana, and the Small Business Development Centre in Jamaica; and (d) technical schools. In many of these training programs it would be useful to include more work/study, on-the-job training, and other direct contact with the business world.

In designing an expanded regional program, special space should be allocated in training institutions for trainees from the less developed countries and the pool of scholarship funds for this purpose expanded. Comparable needs to upgrade training facilities exist in the non-CARICOM countries; these could be tackled on national levels, but cooperation and exchanges with CARICOM programs would be useful.

As important as institutional training is the introduction of in-plant technical assistance programs covering areas of frequently recurring need such as: cost accounting, marketing, product engineering and hotel management. These programs can be combined with the work/study elements of training institutions. Technical assistance to existing enterprises should be given with the advice of appropriate private sector organizations; the latter could play a key coordinating role after undertaking inventories of technical assistance needs of the enterprise sector.

Shortages of managerial and skilled manpower are more acute in in some countries than in others. It would be worthwhile for the governments of the region to examine means for liberalizing present work permit policies, which are too restrictive, and to otherwise reduce barriers to intra-regional movement of these resources, both within CARICOM and more widely.

Another proven method of expanding the supply of managerial and technical expertise to local enterprises is through joint ventures with foreign investors. In formulating policies towards foreign investment, the potential manpower development benefits should be kept in mind.

Entrepreneurship is usually in even scarcer supply than managerial and skilled manpower. Most entrepreneurs have learned by doing, and it is difficult to say how to cultivate entrepreneurship in a society or

among groups which do not have strong entrepreneurial traditions. In some of the countries, enthusiasm is expressed about "young achievers" programs, in which business leaders are helping public school students develop entrepreneurial attitudes and practices. A comparative review of experience with this and other approaches and methods would be informative and may lead to new ideas. The private sector could initiate such review and exchange of ideas.

It is often pointed out that the attitudes and skills required to manage an industrial establishment are different from those required to manage trade and service establishments. In most developing countries, most entrepreneurs still belong to the latter category. However, the pattern of development in many countries seems to have been that industrial managers grow out of trading backgrounds; the first industrial entrepreneurs are often traders who integrate their businesses backwards into manufacturing. If valid, this thesis may provide some clues on where to seek to expand the cadre of industrial entrepreneurs.

Most Caribbean countries have Industrial Training Boards for developing skilled labor. Nevertheless, only a few countries in the region make use of a manpower development technique that has proven highly successful in other countries, namely, public subsidies for apprenticeship programs and labor training in new enterprises. These could be part of the package of start-up incentives aimed at attracting new industries, and would also help reduce the capital-intensive bias currently prevailing in the incentive systems of many Caribbean countries.

B. THE UNEMPLOYMENT PROBLEM

Although unemployment is one of the most pressing problems of the Caribbean, there are no easy solutions to it. Unemployment is concentrated particularly among young people and the less well educated. Also, in many of the countries, there are large seasonal swings in employment as a result of heavy dependence on tourism and certain kinds of agriculture. Reducing the amplitude of seasonal swings would thus be highly desirable, but presents a formidable challenge to development planners. The Task Force is concerned that unemployment may not be automatically eliminated by economic growth, and believes that special measures are required to assure that employment increases sufficiently with growth.

Employment planning, with cooperation between public and private sectors, should be an integral feature of each country's planning process, both on a short-term basis and as part of longer-term strategic planning. As part of this process, the Task Force recommends consideration of a device proposed to a number of Caribbean governments some years ago by the OAS, namely, that each country make an annual "employment budget," laying out quantitative employment targets along with realistic measures for reaching these targets.

Regular ongoing employment planning calls for:

(a) Better labor force statistics covering employment by industry and skill, unemployment and underemployment, job vacancies and migration.

(b) Short-, medium-, and longer-term forecasts of the supply/demand balance for different skills, based on the overall economic strategy and sectoral plans and inputs from the private sector, leading to the design and redesign of vocational education and training facilities and programs. Surprisingly little forecasting of this type is now going on anywhere in the region.

(c) Improved labor market information and employment service facilities (i.e., job search and job matching assistance).

(d) Analysis of the labor content of different industries and processes, review of the structure of economic incentives to avoid encouraging excessively capital-intensive methods of production, and the adoption of overall development strategies that favor labor-intensive rather than capital-intensive industries.

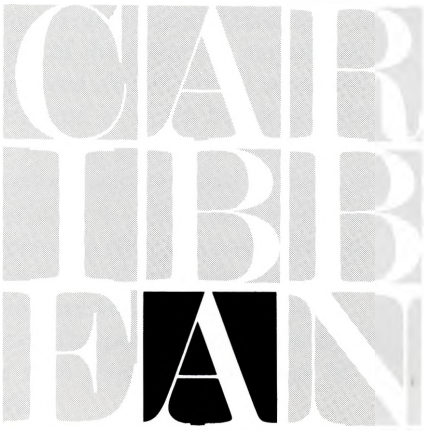
(e) Study of means for adapting imported technology to reflect local conditions of relative supply of labor and capital, and encouraging the private sector, both foreign and local, to be sensitive to the employment implications of alternative technologies. A program along these lines recently started within CDB should be a useful first step.

(f) Avoiding inflating wages faster than productivity, and avoiding other policies, such as excessive reliance on payroll taxes, that artificially increase labor costs and thereby reduce export competitiveness in labor-intensive industries.

(g) Review of collective bargaining institutions and practices to try to maximize attention to the employment dimension by trade unions as well as firms.

A review was conducted for the Task Force ot programs concerned with each of the above-mentioned elements of employment policy in the Caribbean. It revealed that there are many institutions and a large legacy of research concerned with the above issues. However, actual strategic planning for employment by governments is conspicuously missing. There is also very little international exchange of information and experience at governmental levels.

The Task Force recommends a major effort in each country to systematize employment policy planning, and promote ongoing surveillance, technical assistance, and exchange of experience at the international level. This should be backed up by adequate professional staff, attached perhaps to CARICOM, the CDB, or the UNDP and perhaps with ILO assistance. The private sector in the region should be prepared to assist these efforts.



VIII. REGIONAL TRADE, PAYMENTS, AND FACTOR MOBILITY

The Caribbean Community and Common Market (CARICOM) was created in 1973 under the Treaty of Chaguaramos. It has 12 member countries, divided into two economic affinity groups: the "big four" MDCs (or More Developed Countries): Barbados, Guyana, Jamaica, Trinidad and Tobago and eight smaller LDCs (or Less Developed Countries): Antigua, Belize, Dominica, Grenada, Montserrat, St. Kitts-Nevis, St. Lucia and St. Vincent. CARICOM's treaty objectives were threefold: economic integration through the Caribbean Common Market, cooperation in non-economic areas and common services, and coordination in foreign policies among independent member states. The treaty provides for the introduction of a Common External Tariff, a common system of protection, progressive coordination of external trade and economic policies and development plans, and the harmonization of fiscal incentives to industry, with special concessions to the LDCs. CARICOM had its roots in two earlier regional bodies: the Caribbean Free Trade Association (CARIFTA) created in 1968, and in the East Caribbean Common Market (ECCM) founded by the LDCs (except Belize) in the same year.

Existing ties among the CARICOM group of countries give a special importance to CARICOM regional issues. But some questions of regional trade, payments, and factor mobility also have a broader significance in the Caribbean. Up to the present, no region-wide understandings have been reached within CARICOM to facilitate the mobility of labor, capital, and entrepreneurship. However, these are among the topics on the agenda of the Group of Caribbean Experts recently appointed to examine opportunities for closer economic integration within the CARICOM region.

Greater mobility of capital and entrepreneurship within the Caribbean region would bring a number of benefits to both capital-exporting and capital-importing countries; perhaps the greatest benefits would go to the less-developed members which need an infusion of capital and entrepreneurship from outside. One device for doing this, which would not necessarily be limited to the CARICOM countries, would be an agreement to provide "national treatment" to companies of the other nations, i.e. the same treatment, under the same laws, as that country's own companies. The recent bilateral agreement between Barbados and Trinidad and Tobago is a useful prototype of this type of agreement. For the CARICOM region, a slightly different approach to the same question would be to ratify and implement the already existing concept of a "Caribbean Enterprise", that is, a company which would be chartered to do business in all CARICOM countries.

Even if it is not feasible in the near future to liberalize national laws regulating intra-regional investment, it is important to avoid backsliding. In this connection, Trinidad and Tobago's recent steps to increase national control of companies doing business there was unfortunate in that, initially, no distinction was made between regional and other foreign companies. This has since been modified by bilateral agreement, but only for Barbados. The Task Force understands the desire to try to assure the greatest possible participation of nationals in the benefits of economic growth, but when doing so preference should be extended to regional as compared to extra-regional foreign businesses.

CARICOM is at an economic and political crossroads. The restrictive reactions by Jamaica and Guyana to their balance of payments problems—subsequently lifted by Jamaica for its CARICOM partners —put a damper on trade and investment flows within the region. Other CARICOM countries are facing decisions on whether their policies regarding external trade and investment should continue to include special regional preferences, or be oriented solely towards broader international horizons. The Task Force hopes that the above-mentioned high-level group can help CARICOM move forward towards better regional integration.

Trinidad and Tobago has the largest single market within CARICOM and also an extremely strong balance of payments position. Trinidad and Tobago represents a potential market for, among other things, expanded exports from both CARICOM and non-CARICOM countries in the region. This is perhaps of greatest significance to the LDCs who could expand exports of less sophisticated light manufactures to Trinidad and Tobago.

Capital exports from Trinidad and Tobago to other countries in the region would simultaneously relieve inflationary pressures in Trinidad and Tobago, and help maintain growth and employment in the borrowing countries. Both IDB and CDB have recently floated loans in the Trinidad and Tobago capital market, with the cooperation of the local authorities. There is still a large untapped capital export potential in Trinidad and Tobago which could, with the development of appropriate policies and institutional arrangements, help that country develop into an important regional financial center. This would bring employment benefits to Trinidad and Tobago in service industries as well as development benefits in the capital receiving countries.

A good case can be made for considerable liberalization of immigration laws in the Caribbean countries as they apply to nationals of the region. It is ironic that nationals of most of the CARICOM countries, for example, can move back and forth between their own country and the United States for employment and residency more easily than between CARICOM countries. Given the region-wide scarcity of managerial and skilled manpower, this is an undesirable state of affairs.

Alien Landholding Acts in effect in several of the CARICOM countries also serve as powerful barriers to intra-regional mobility. An international conference aimed at concrete agreements for mutual liberalization of these laws would be desirable.

CARICOM has not achieved any success in harmonizing national company or personal tax structures, although this was initially one of their objectives. Given the reliance on different kinds of taxes in the various countries, tax harmonization would appear to be a rather ambitious goal for the near future. However, it would certainly be desirable, and long overdue, to review international tax agreements between and among the Caribbean countries, with a view towards removing double taxation among a broader group of countries than now have such treaties. There appears to be widespread agreement by a number of governments on the need for such action.

One area in which a degree of success in regional cooperation has been achieved is the harmonization of fiscal incentives under CARICOM. By putting some agreed upper boundaries on tax holidays and other incentives offered to foreign investors, the CARICOM countries acquired some protection against being "whipsawed" by prospective investors, who would otherwise be able to play one country off against another to get higher concessions. The Netherlands Antilles has indicated interest in participating in regional harmonization of incentives, and it would appear to be in CARICOM's interest to take the initiative in broadening affiliation to the scheme if other countries are so inclined.

The Caribbean business community has a strong interest in regional economic integration. The business community would be in a better position to take advantage of such opportunities as already exist, and to press for further liberalization, if they were themselves better organized regionally. In this connection, the Task Force recommends that national Chambers of Commerce, Manufacturers' Associations, Employers' Federations, and similar bodies make more effort to strengthen links with their counterparts elsewhere in the region, and organize themselves regionally.

CARIBBEAN

IX. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The Task Force believes that the social and economic challenges that confront the Caribbean countries are serious, and can be properly addressed only if there is: (a) close cooperation, based on mutual trust, between business, labor, and government; (b) appropriate policy and institutional support and guidance for private enterprise; and (c) favorable economic policies in, and continued assistance from countries outside the region.

The following is a recapitulation of the most important conclusions and recommendations contained in this report:

A. OPPORTUNITIES FOR PRIVATE INVESTMENT

(1) In most countries, the direction of development efforts should be shifted to place greater emphasis on export promotion. In terms of sectors, agriculture and agro-industry deserve much higher priority than they are now getting in many of the Caribbean countries.

(2) Export assembly industries based on prevailing low labor costs and imported materials, while not a sound basis for longer-term development, represent an important interim source of employment. This strategy should be accompanied by efforts to improve productivity and deepen technology over time in order to remain competitive at progressively higher wage rates, and to increase local value added through backward linkages to the local economy.

(3) The next time developed country import preferences vis-a-vis the developing countries are up for international re-examination, the Caribbean countries should be prepared to argue for more liberal local-value-added tests in the case of small resource-poor developing countries.

B. THE INVESTMENT CLIMATE

(4) Regular consultations between government, business, and labor should be initiated to discuss major social and economic issues and policies. Labor and private sector organizations need to be better organized, with professional staff, to participate in such consultations. These consultations could also from time to time be held at the regional level.

(5) Governments should strive to remove ambiguities about the expected role of the private sector.

(6) Governments that have acquired enterprises engaged in production or trade should consider divesting ownership in selected cases, both to economize on scarce managerial skills, and as a signal to the private sector of their interest in improving confidence and morale in the private sector.

(7) Business and government should cooperate in the design and execution of policies to expand employment, broaden participation in the development process, and improve income distribution.

(8) Governments should devise—preferably with the participation of trade unions and the private sector—realistic multi-year development plans and/or coherent and plausible development strategies.

(9) Governments should review all legislation and regulations affecting the private sector, with a view towards removing inconsistencies and unintended disincentives, and to otherwise improve the design and administration of these systems. The private sector should be consulted in this process. A description of some of the specific areas needing such review is set out in Chapter VI and summarized in Section D below.

(10) Political leaders and parties should resist making undue public criticisms of the private sector if in fact they plan to lean on private investment as part of their development strategies. At the same time, the business community must demonstrate social responsibility and a willingness to work with governments in solving pressing social problems.

(11) Public sector finances should be managed with a view to their consequences for tax policy, investment decisions, and private sector attitudes.

(12) Developed countries should preserve open markets for Caribbean exports and be sensitive to the consequences of their own internal policies on the Caribbean economies.

(13) The private sector in the developed countries should actively support the growth of the Caribbean private sector through joint-ventures and technical assistance.

(14) Most non oil-producing Caribbean countries will continue to need concessional financing to cope with oil price increases.

C. FACILITIES FOR FINANCING PRIVATE SECTOR ACTIVITIES

(15) IFC, CDB, IDB, and UNDP, with assistance from other interested agencies, should be asked to collaborate in the design and implementation of an experimental facility to develop private sector investment projects suitable for funding by existing local and international lending agencies.

(16) IFC should, to the maximum extent possible, seek out and undertake smaller worthy projects in the Caribbean than it has in the past.

(17) The CDB should, possibly with assistance from IBRD and IFC, examine the possibility of further improving its procedures and staffing for handling private sector projects, and consider the establishment of an advisory panel of private sector representatives. It also needs to make its facilities better known to the private sector.

(18) For small enterprises, which would not be directly benefited by the above-described activities, a two-pronged approach is required involving both national development finance companies (DFCs) and the commercial banks:

(a) The DFCs in all but the two or three countries where they are now functioning reasonably well, need to be strengthened on a case-by-case basis through a cooperative effort between national governments and external donors—especially by the CDB with the World Bank's assistance in the case of the LDCs.

A number of things need to be done:

(i) expand their equity base and/or access to long-term capital on soft terms, and reduce dependency on annual national budgetary allocations;

(ii) expand and upgrade staffing, including experienced expatriate management where necessary;

(iii) remove impediments to their successful operation such as interest rates that compromise the viability of their operations, and regulations which impose arbitrary limitations or excessively cumbersome procedures;

(iv) in smaller countries where there is a problem of "critical mass," avoid multiple DFCs when there is barely enough business for one, and expand their investment activities to include less conventional, more profitable fields.

(b) Greater commercial bank lending to small business should be stimulated through:

(i) central bank or national government guarantees of term loans to small business to reduce the risk impediment;

(ii) the banks should have access to funds at a sufficient spread below their lending rates or other subsidies to permit adding staff or otherwise procuring the expertise needed for more intensive preparation of projects;

(iii) there should be a rediscount facility available through the central banks (or the Eastern Caribbean Currency Authority in the case of the ECCM countries), to permit the banks, and the DFCs as well, to reduce their portfolios of small business loans in the event of future credit stringencies.

(19) There is a need to examine various ways to increase the supply of equity capital for medium and small business, including through DFCs, stock exchanges, insurance companies, and unit trusts.

(20) For countries with extreme balance-of-payments difficulties, it would be desirable if a way could be found to provide foreign exchange facilities, such as those recently established with World Bank assistance for industrial exporters, for other import-dependent enterprises which produce vital products at competitive prices. The technique might be applied also to other activities generating identifiable foreign exchange earnings, such as agriculture and tourism.

(21) Financial assistance to exporters, through post-export guarantees and pre-export financing by governments or central banks, should be established in more countries than the few that now have such facilities.

D. INCENTIVES AND DISINCENTIVES

(22) The incentive systems aimed at attracting private investment should be reviewed and where necessary amended to correct the present structure of incentives to place more emphasis on exports and employment.

(23) There should be an analysis, both for CARICOM and for non-CARICOM countries, of the efficiency of present incentive systems, as a step towards improving the ratio of benefits to costs.

(24) The administration of investment incentive systems needs to be improved to reduce delays and remove uncertainties from the approval process.

(25) For established enterprises that already have income that is taxable by the country, governments should consider introducing investment tax credits in priority sectors. These potentially provide powerful incentives to investment, and also lend themselves to relatively automatic administration.

(26) The possibility of downward adjustment of personal and corporate tax rates to take account of the impact of recent inflation on effective taxes should be studied. It would also be desirable to study, on a regional basis, the possibility of more realistic company tax accounting rules appropriate under inflationary conditions.

(27) The administration of import and exchange controls should be streamlined, and the possibility of liberalizing these policies kept under continual review.

(28) A comparative study is needed of the scope, administration, and effects of different national systems of price controls, looking towards reform of the less efficient and more burdensome systems.

(29) Industrial promotion activities should be strengthened by more professional preparation of information for prospective foreign investors and by shifting from passive to more active efforts to reach prospective investors.

E. HUMAN RESOURCES AND EMPLOYMENT

(30) External donors should help strengthen educational and training institutions for managerial and technical manpower, especially middle management and supervisory personnel. For the LDCs that cannot themselves support university and higher level technical training institutions, expansion of CARICOM regional

programs is proposed in which an expansion and strengthening of institutions in Barbados, Jamaica, Guyana and Trinidad and Tobago would be accompanied by the allotment of more training slots and funds for trainees from the LDCs.

(31) There needs to be more work/study programs, on-the-job training, and in-plant advisory services in management, coordinated through private sector organizations, and supported by international exchange of experiences with different techniques for providing these services.

(32) Governments of the region should hold discussions on means for mutual reduction of barriers to the intra-regional migration of managerial and skilled manpower.

(33) Governments should study means of obtaining from joint ventures with foreign investors a maximum inflow of transferable managerial and technical skills.

(34) Vocational training both on the job and in the secondary schools needs to be strengthened.

(35) Business sector organizations should consider mounting seminars on industrial entrepreneurship, including a review of techniques for cultivating entrepreneurial attitudes such as "young achievers" and other similar programs.

(36) With external technical assistance, governments should, in their development plans and strategies, pay more systematic attention to the employment dimensions of alternative plans and policies, and should undertake employment planning, including annual and longer term employment targets.

F. REGIONAL TRADE, PAYMENTS, AND FACTOR MOBILITY

(37) Countries of the region starting with CARICOM but eventually extending more broadly, should move towards international agreements to mutually extend "national treatment" to regional companies.

(38) Countries imposing restrictive conditions on foreign ownership of enterprises should consider making exceptions for their regional trading partners.

(39) Alien landholding acts in effect in a number of CARICOM countries should be mutually liberalized among regional trading partners by bilateral or multilateral negotiations.

(40) Trinidad and Tobago should consider liberalizing access to its capital markets by private firms in other countries of the region.

(41) Caribbean countries should exempt regional exports, particularly LDC exports, from any restrictive licensing and exchange control measures adopted to conserve foreign exchange.

(42) CARICOM should initiate discussions with non-CARICOM governments in the region on issues of broader interest, starting with the CARICOM system of harmonized fiscalincentives.

(43) Attempts should be made to conclude double taxation agreements for more countries than now have them.

(44) Countries that do not have tax treaties with the United States and the major European countries should negotiate such treaties in order to encourage foreign investment.

(45) Ties should be strengthened between national private sector organizations in the region to give the private sector a stronger voice in regional issues affecting the private sector.

TABLE 1
Caribbean Countries Size and Income

Countries	Area (Km_2)	Population[a] ('000)	Population Density[a] (inh/Km_2)	GDP[b] (Million US$)	GDP Per capita[b] (US$)	Annual Growth in Real GDP 1975-78	Annual Growth in Real GDP 1979[c]
Bahamas	13,939	226	17	677	2,620	7.0%[d]	8.0%[d]
Dominican Republic	48,443	5,260	109	4,785	933	4.9%	5.0%[c]
Haiti	27,749	4,950	178	1,308	271	5.0%	1.8%
Netherlands Antilles	961	253	263	864	3,472	5.2%	N.A.
CARICOM MDC's							
Barbados	430	260	605	509	1,940	4.1%	5.0%
Guyana	215,000	830	4	479	550	-1.0%	-4.3%
Jamaica	11,424	2,130	186	2,509	1,110	-3.6%	-1.0%
Trinidad and Tobago	5,128	1,140	222	3,851	3,403	5.8%	1.0%
LDC's							
Belize	22,965	136	7	120	886	4.9%	3.3%
ECCM							
St. Kitts-Nevis	396	60	152	35	660	2.0%[c]	2.0%
Antigua	443	75	169	74	950	0.7%	0.0%
Montserrat	104	14	135	10	970	0.0%	5.2%
Dominica	790	82	104	38	440	3.8%	-17.0%
St. Lucia	616	120	195	87	630	13.1%	-0.6%
St. Vincent	388	111	286	46	436	8.8%	-0.6%
Grenada	344	110	320	62	530	6.5%	1.9%

[a] *1979 estimates*
[b] *1978 current prices*
[c] *Preliminary*
[d] *Rough estimates by IMF in the absence of national accounts.*
N.A. Not available
SOURCES: **World Bank and IMF**

TABLE 2

Caribbean Countries Structure of GDP and Trade

(1978 shares)

Countries	Agriculture as % GDP[a]	Tourism as % GDP	Manufacturing as % GDP	Mining as % GDP	Exports as % GDP[b]	Imports as % GDP[b]	Balance of payments Current account % GDP	Gross external Capital inflow % GDP
Bahamas	3[h]	32[h]	7[h]	*	117	96	10	-5
Dominican Republic	21	N.A.	19	4	17	28	-10	7
Haiti	39	N.A.	11	1	27	48	-6	10
Netherlands Antilles	2	17	22[d]	1	95	88	-3	4
CARICOM								
MDC's								
Barbados	10	12	12[c]	*	69	73	-1	8
Guyana	24	N.A.	12	15	63	63	-6	10
Jamaica	10	3[f]	19	11	40	39	-6	9
Trinidad and Tobago	3	N.A.	14[d,e]	39	41	37	2	4
LDC's								
Belize	54	N.A.	15[c]	*	86	98	-13	9
ECCM								
St. Kitts-Nevis	19	2	16[c,g]	*	53	76	-17	18
Antigua	4	18	8	1	51	69	-11	13
Montserrat	5	8	2	1	39	96	-43	39
Dominica	38	1	4	1	52	76	-14	14
St. Lucia	14	7	7	1	56	98	-32	33
St. Vincent	20	2	13[c]	*	55	84	-8	8
Grenada	34	4	3	*	56	71	-9	10

[a] *Includes livestock, forestry, and fishing*
[b] *Including non-factor services*
[c] *Includes mining*
[d] *Includes petroleum refining*
[e] *1977 figure*
[f] *Hotels only*
[g] *Includes sugar refining*
[h] *Rough estimates by IBRD in the absence of national accounts*
N.A. *Not available*
* *Less than 0.5%*

SOURCE: World Bank

TABLE 3

Caribbean Countries
Public and Private Sector Comparative Statistics

(1978 shares)

	Gross Fixed Investment % of GDP		Savings % GDP		Government Revenue	Consumption % GDP		Outstanding Bank Credit % GDP[b]	
	Public	Private	National	Public Sector[a]	% GDP	Public Sector	Private Sector	Public Sector	Private Sector
Bahamas	4.8[c]	10.2[c]	17.6[c]	4.5[c]	24.3[c]	19.5[c]	49.0[c]	14.6	45.7
Dominican Republic	7.1	12.5	N.A.	4.1	13.2	5.1	79.1	8.6[g]	28.8[g]
Haiti	8.0	4.4	3.7[d]	N.A.	33.6	11.2	88.7	10.0[e]	11.9[e]
Netherlands Antilles	4.6	7.7	9.1	-3.2	37.6	25.5	54.8	8.5	39.4
CARICOM									
MDC's									
Barbados	5.5	18.7	21.1	5.4	30.6	16.9	71.6	7.3	38.2
Guyana	17.2	3.8	13.6	5.5	41.1	23.8	56.4	52.2	9.6
Jamaica	5.5	9.3	9.3	2.3	28.2	21.3	66.9	22.7	13.8
Trinidad and Tobago	19.1	10.2	31.5	N.A.	33.8	11.7	54.4	-35.6	24.5
LDC's									
Belize	16.8	11.7	12.4	4.0	23.0	16.0	71.4	8.8	36.0
ECCM									
St. Kitts-Nevis	14.6	3.7	1.3	4.1	36.2	29.1	75.9	15.4	43.7
Antigua	6.2	10.4	6.7	-0.9	19.9	20.9	79.0	18.0	41.8
Montserrat	7.9	47.6	11.5	2.8	28.5	27.4	74.6	-3.9	42.5
Dominica	14.1	6.7	7.8	1.3	31.5	37.2	64.8	11.2	47.1
St. Lucia	7.1	52.1	30.8	3.7	24.9	19.0	59.5	5.1	50.4[f]
St. Vincent	6.2	10.6	8.9	0.0	28.8	31.0	78.6	7.4	52.6
Grenada	2.4	4.5	1.4	-4.6	27.2	27.4	77.4	13.7	35.9

[a] *Current account surplusses*
[b] *End 1978 figures, divided by 1978 GDP at market prices*
[c] *Rough estimates by IBRD in the absence of national accounts*
[d] *1977*
[e] *Mid-1978 figures*
[f] *Includes public sector enterprises*
[g] *Includes credit extended by non-bank financial institutions*
N.A. *Not available*

SOURCES: World Bank and IMF

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