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PRIVATE SECTOR ASSESSMENT OF ANTIGUA AND BARBUDA



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Executive summary

The Private Sector Assessment Report (PSAR) provides a comprehensive overview of the private sector in Antigua and Barbuda. It draws on both primary and secondary data sources. Primary data analyses were derived from interviews with key stakeholders from the domestic private and public sectors as well as interviews with regional and international agencies. A listing of the main stakeholders interviewed is documented in the original country report¹. Secondary data were utilized to describe the state of the country at both the micro and macro levels. In addition to these specific elements of the research, the development of the PSAR was assisted by consultations organized under the Caribbean Growth Forum² (CGF).

The PSAR evaluates the primary components of the productive sector, the key challenges that it faces, potential emerging sectors, and finally, policy recommendations for priority areas. The PSAR identifies improvements in the areas of general governance, access to finance, general costs, and transportation and trade as being vital in terms of driving future growth.

Small companies largely dominate the private sector in Antigua and Barbuda. In relation to the employed labour force, the majority of people (both employees and self-employed people) find jobs in the private sector, which accounts for 64% of total employment. Government and statutory corporations account for 28% of employment. The industrial structure of Antigua and Barbuda is dominated by services, namely hotels and restaurants; wholesale and retail trade; real-estate, renting and business activities; transport, storage and communications; and financial intermediation, which together account for over 50% of GDP, while manufacturing and agriculture together account for only 4% (2013). Median firm size is quite small: the World Bank's Enterprise Surveys (2010) note that around 62% of firms employ fewer than 20 persons, with most of the remainder (34%) employing between 20 and 99 persons.

The Enterprise Surveys identify a number of challenges facing small firms on the island. The surveys note that tax rates, customs and trade regulations, access to finance and the high cost of electricity act as major constraints to doing business. Antigua and Barbuda is ranked 71st out of 189 countries for the aggregate ranking in the World Bank's Ease of Doing Business index for 2014. In the Caribbean region, only St Lucia (64th) and Trinidad and Tobago (66th) rank higher. The global economic slowdown has severely affected Antigua and Barbuda's economy through its impact on tourist arrivals, foreign direct investment inflows and remittances, and fiscal revenue. Real GDP contracted for three straight years in 2009-11, shrinking by 10.3% in 2009, 8.9% in 2010 and

¹ The original reports can be found on Compete Caribbean's website: <https://www.competecaribbean.org>.

² The CGF is a facilitated methodology for public-private dialogue around issues central to private-sector development and growth. It brings a non-traditional approach to the greatest challenge currently faced by the region: creating sustainable and inclusive growth. The Forum also aims to facilitate an action-oriented dialogue around key policy reforms needed across three thematic areas: investment climate, skills and productivity and logistics and connectivity. The CGF is a joint initiative by the Compete Caribbean Program, the Inter-American Development Bank, the World Bank and the Caribbean Development Bank. It is supported by the Department of Foreign Affairs, Trade and Development Canada (DFATD), the United Kingdom's Department for International Development, the CARICOM Secretariat and the University of the West Indies.

3.2% in 2011. The economy returned to growth in 2012, growing by 2.1%, before slowing again, to 1.7%, in 2013. The state of the public finances and debt profile remains the most critical factor in terms of economic stability and growth.

The 2014 budget speech entitled “Building a New Economy for Growth and Prosperity” for Antigua and Barbuda placed a heavy focus on economic stabilization and on improving the systems of fiscal management. The speech identified small business development, agriculture, tourism, and investment for growth and development as priority areas to support the new economy. In addition, the CGF has identified a number of key sectors for development: the offshore education industry, agriculture and agro-processing, and sustainable tourism.

The PSAR identifies improvements in the areas of general governance, access to finance, general costs, and transportation and trade as being vital to boost private-sector development, and offers recommendations and action plans that include increasing efficiency and the use of technology in both the private and public sectors. The PSAR concludes that the private-sector development policy framework must include a long-term planning component that enables the public sector to co-ordinate its activities in the pursuit of goals shared across agencies and ministries. Similarly, the private sector must co-ordinate itself in order to interact with the government in a more coherent manner.

The PSAR recommends that the government of Antigua and Barbuda seek to assist the private sector to exploit domestic market opportunities as well as to look to overseas markets, in the areas with the most promising growth prospects, namely health and education services, energy development, agro-processing and ICT.

I. Private sector assessment

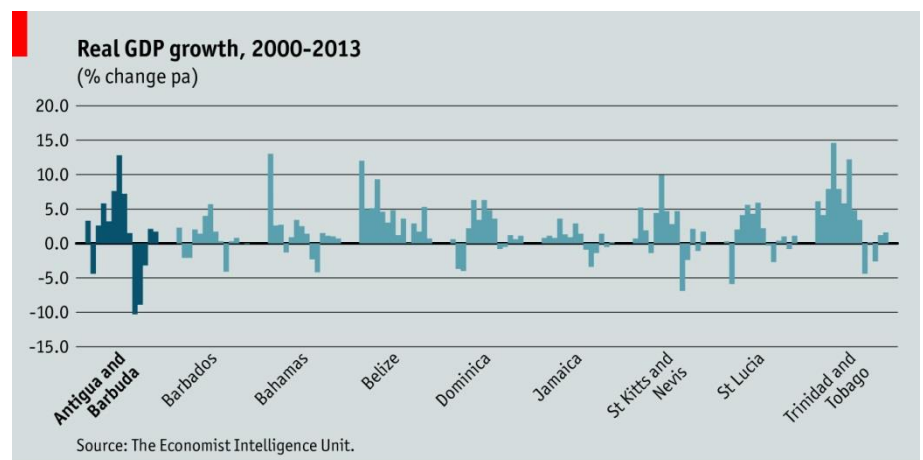
Background The government of Antigua and Barbuda exhibits a two-fold focus in its activities to promote private-sector development: to promote economic growth in its own right, as well as to create jobs. The government has continuously emphasized its commitment to private sector development as evidenced in many of its budget speeches.

For example in the budget of December 2012, in terms of private-sector development the government of Antigua and Barbuda indicated that it would focus on creating a business- and investor-friendly environment, and also on tourism, agriculture, and investment for growth and development. Through the Investment Authority Act 2006, the government established a regime for the development of the private sector. The Antigua and Barbuda Investment Authority (ABIA) has four operational areas that interface directly with the private sector:

- Investment Promotion Area—This area focuses on both domestic and foreign investors.
- Facilitation Department—This focuses on due diligence and assessment of business plans, along with the size of investments and job-creation opportunities.
- Enterprise Development Department—This section focuses on the delivery of training courses to small enterprises. Some 20 courses are offered across a number of areas.
- Business Climate Enhancement.

In addition, the government also implemented a National Economic and Social Transformation (NEST) plan to deal with the issues arising from the contraction in economic activity owing to the global recession. This plan attempted to deal with the fallout from the global economic crisis, and is to be superseded by a Medium-Term Strategic Development Plan (MTSDP) once this has been finalized and approved by stakeholders. The main components of the MTSDP are: fiscal balance; education for all; enhancing the social development agenda; preserving the environment and building stronger physical infrastructure; economic sustainability; and the development of Antigua and Barbuda as a superior tourism destination.

Macroeconomic overview The global slowdown severely affected Antigua and Barbuda's economy, and real GDP contracted by 10.3% in 2009, 8.9% in 2010 and a further 2% in 2011 before slight growth returned in 2012, followed by a marginal contraction in 2013 (see Figures 1 and 2). As a result of the crisis, the current-account deficit narrowed, reflecting a decline in foreign direct investment (FDI) inflows; the large current-account deficits that had been reported since 2005 were largely financed by FDI inflows, and to a lesser extent by remittance flows and overseas development assistance, or ODA (see Figure 3). After reaching US\$359m (equivalent to 31.4% of GDP) in 2006, FDI inflows declined, and stood at an estimated US\$56m (5.6% GDP) in 2011. Remittance flows usually amount to around US\$12.5m per year.

Figure 1**Figure 2**

Given the openness of the Antigua and Barbuda economy, international economic developments also have a significant impact on the domestic economy. There are three key potential external threats to future development: (1) weak growth in more developed economies, (2) fluctuations in commodity prices and (3) lower FDI flows. Moreover, given the small size of the domestic market, most growth opportunities are related to the international economy. Future prospects for tourism, for example, are largely driven by economic developments in key source markets. Commodity prices have a significant impact on domestic prices and also current-account sustainability. Should FDI inflows continue to decline, Antigua and Barbuda will need to accumulate an even larger amount of external debt to finance its sizeable current-account deficit.

Figure 3

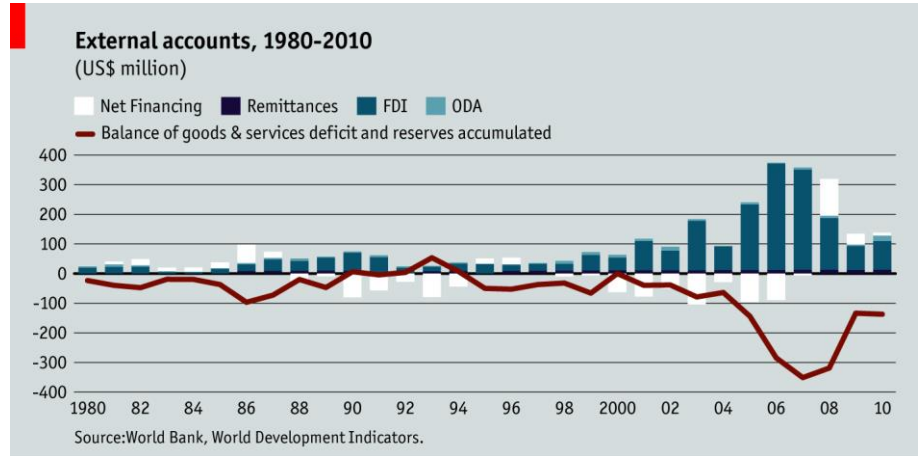


Figure 4

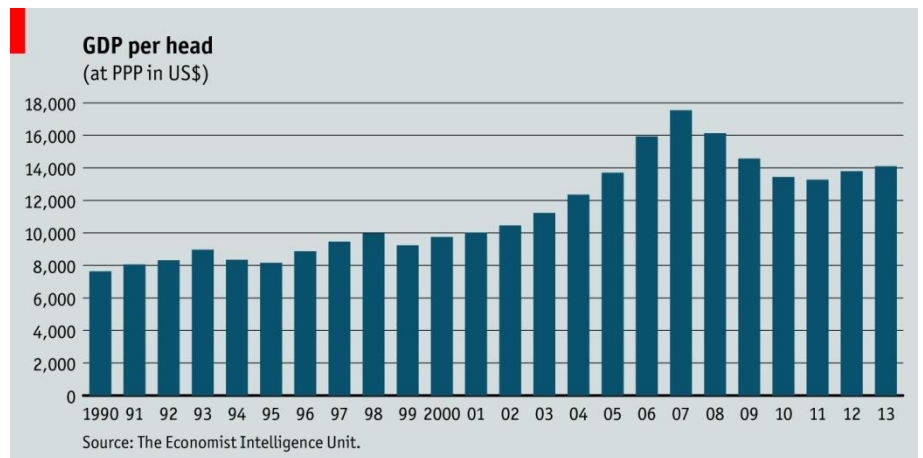
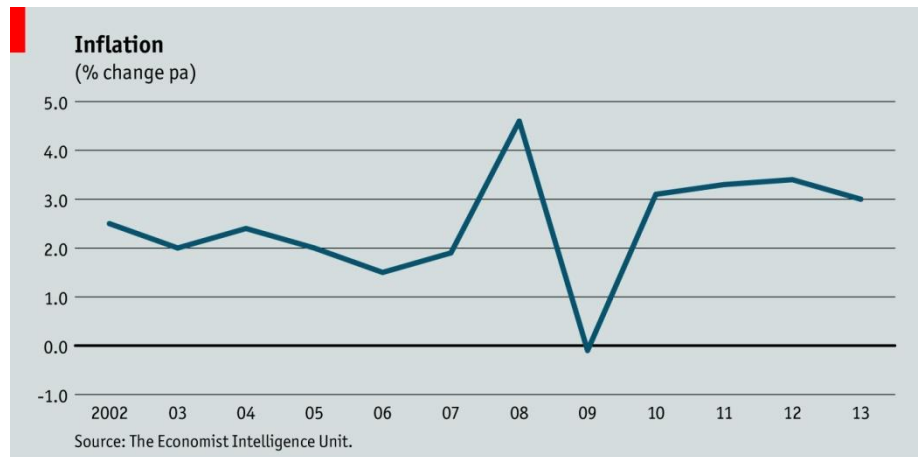
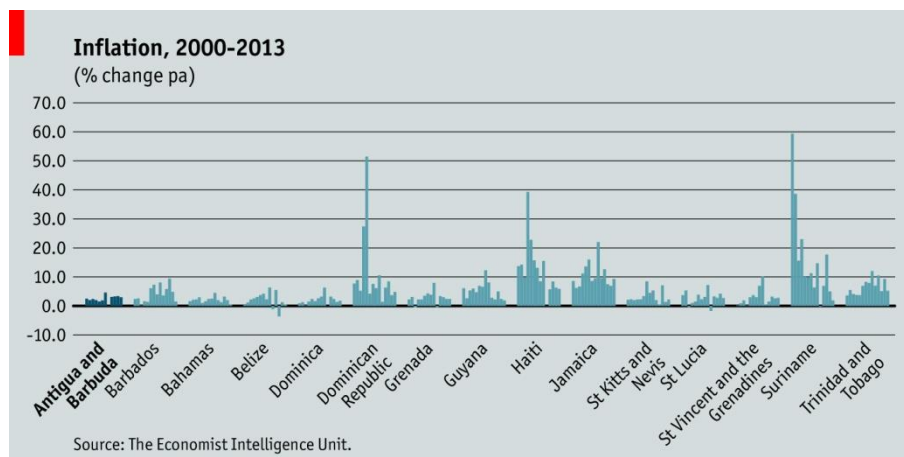


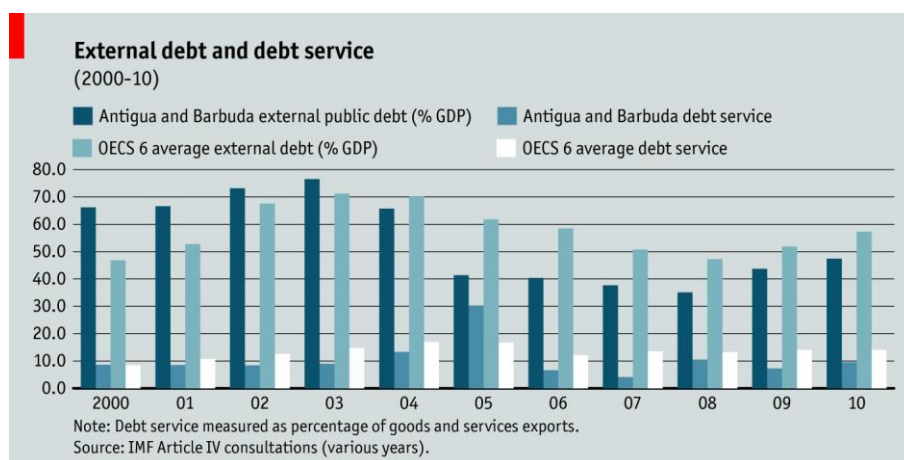
Figure 5



Inflation in Antigua and Barbuda tends to be relatively low. The average annual rate of inflation stood at 2.5% in 2007-13 (see Figure 5). The country has enjoyed significantly greater price stability than its neighbours in the Caribbean in that period (see Figure 6).

Figure 6

After years of accumulation of arrears to domestic and external creditors, the fiscal situation turned critical in 2009 as the recession led to a 20% decline in tax revenue. Subsequently, government debt has alternated between decreasing and increasing annually, but between 2010 and 2013 it fell by an annual average of around 2.3% to 92% of GDP. The overall fiscal deficit widened from 6% of GDP in 2008 to about 19% in 2009 but is estimated at around 2% over the period 2010-2013. The islands' external indebtedness improved steadily from 2003 to 2008, falling from around 77% of GDP to around 35%. However, beginning in 2008 external indebtedness again began to rise, reaching 47.5% of GDP in 2010 (see Figure 7).

Figure 7

Fiscal imbalances and the nation's current debt profile remain the most critical factors that could hinder future economic stability and growth. Until the situation is resolved, there is little scope for countercyclical fiscal policies and additional public investment, as this would lead to a further deterioration to the public-sector accounts. The authorities have implemented a three-pronged approach to restoring fiscal and debt sustainability, comprising front-loaded adjustment measures, debt restructuring to eliminate arrears and provide

interest-flow relief, and structural reforms to strengthen further the fiscal position and to address financial sector vulnerabilities.

Institutional effectiveness

The Worldwide Governance Indicators Project of the World Bank and the Brookings Institution (see Figure 8) suggests that Antigua and Barbuda possesses some strengths in the area of government effectiveness. This indicator captures perceptions of the quality and independence of public services and the civil service, the quality of policy formulation and implementation, and the credibility of the government’s commitment to these policies. In 2012 the score for government effectiveness in Antigua and Barbuda was in the 68th percentile for all countries evaluated and above the median for the group of comparator countries.

Figure 8

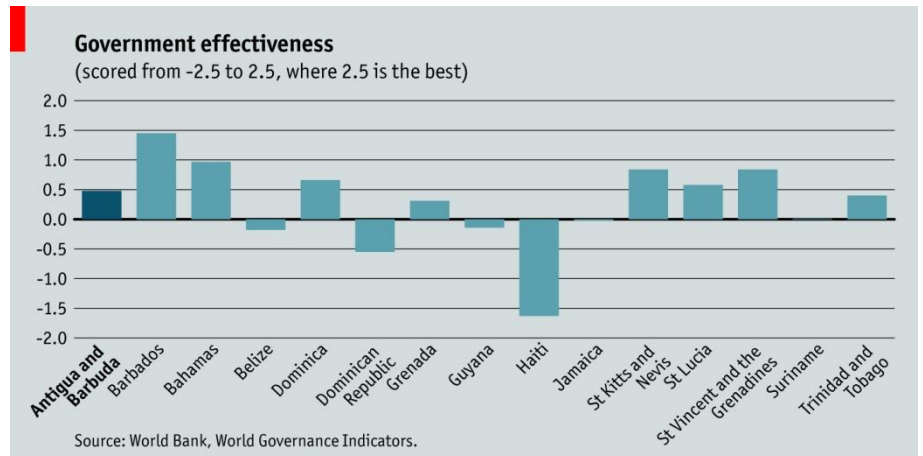
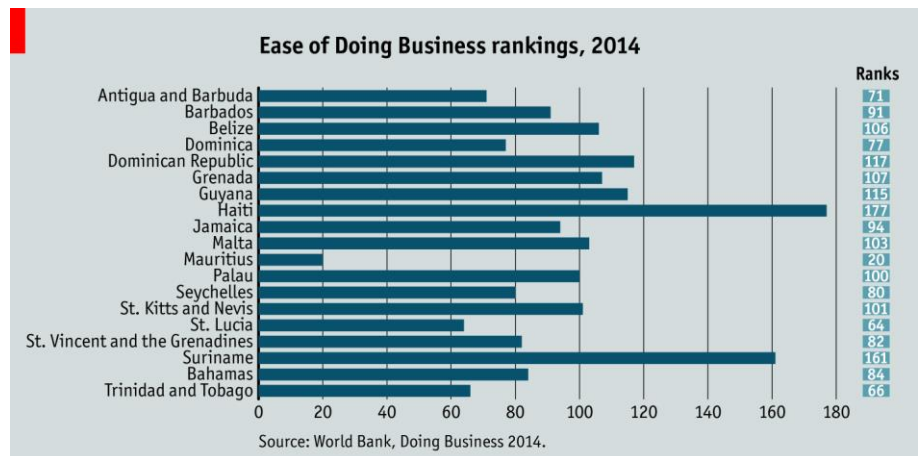


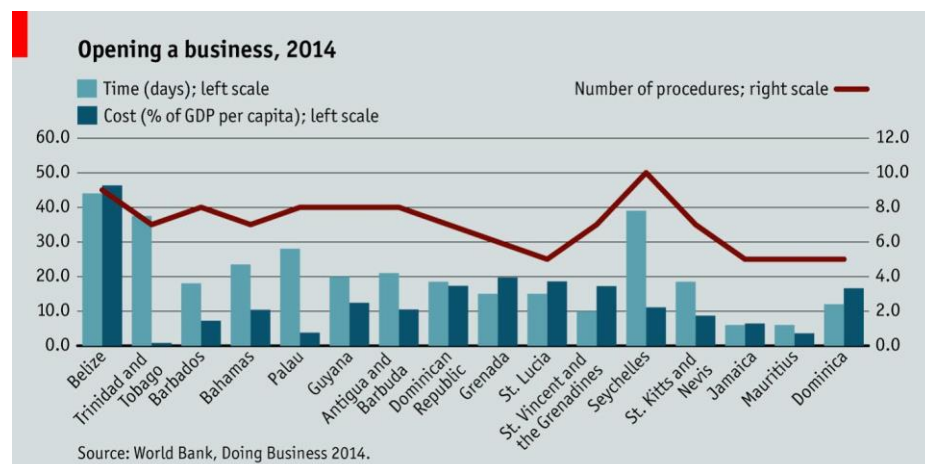
Figure 9



Antigua and Barbuda has several institutions to support business development, as well as a fairly transparent system for doing business. The relative ease of doing business in the country is reflected in its rankings in the World Bank’s Ease of Doing Business index (see Figure 9). According to the 2014 Ease of Doing Business assessment, Antigua and Barbuda was ranked 71st out of 189 nations. In the Caribbean region, only St Lucia (64th) and Trinidad and Tobago (66th) ranked higher than Antigua and Barbuda. Antigua and Barbuda’s performs less

well in terms of the time and cost involved in starting a business (see Figures 9 and 10). In terms of time, it normally takes 21 days to start a business—eight more days than in the leader on this measure among the comparator countries, Dominica, and 20 more days than in the world leader on this measure, New Zealand, where the process can be completed in a single day. As with most comparator countries, the islands' ranking for ease of doing business has improved in recent years. Nevertheless, there remains significant scope for further advances.

Figure 10



Components of the productive sector

Overview of the sector

The private sector in Antigua and Barbuda is largely dominated by small companies, although in some important areas of activity, such as tourism and utilities, large firms play a key role. In terms of the employed labour force, the majority of employment (both employees and self-employed persons) is in the private sector, which accounts for 64% of total employment. Government and statutory corporations account for 28% of employment³. The industrial structure of Antigua and Barbuda is dominated by services, namely hotels and restaurants; wholesale and retail trade; real-estate, renting and business activities; transport, storage and communications; and financial intermediation, which together account for nearly 65% of GDP, while manufacturing and agriculture together account for only 3.4%.

Median firm size is quite small: the World Bank's Enterprise Surveys (2010) note that around 62% of firms employ fewer than 20 persons, with most of the remainder (34%) employing between 20 and 99 people. Given the small size of firms, it is not surprising that many of them (70%) choose either sole proprietorship or partnership as their ownership structure. There is insignificant ownership of firms by the public sector, and fewer than 10% of all firms are foreign-owned.

³ The remaining percentage reflects respondents who indicated they are unpaid family workers, in "other" types of employment, or who did not respond to the question.

The best information available on employment characteristics is from the Enterprise Surveys. Based on a representative sample survey of firms in Antigua and Barbuda, the average small business employed ten people full-time and one part-time in 2010. Ownership by gender was fairly uneven, with 25% of small firms having some type of female ownership. Meanwhile, 44% of permanent full-time workers were female. In 2005/06, around 77% of the private sector could be classified as providing some kind of service, and this is also reflected in the employment profile, although this information was gathered prior to the recent crisis.

Table 1 Contribution to GDP by sector in Antigua and Barbuda 2013

| Sector | Share (%) |
|---|-----------|
| Transport, storage & communications | 9.3 |
| Education | 5.4 |
| Wholesale & retail trade | 12.7 |
| Agriculture, livestock & forestry | 0.9 |
| Real estate, renting & business activities | 12.3 |
| Public administration, defence & compulsory social security | 8.2 |
| Financial intermediation | 7.9 |
| Construction | 8.4 |
| Electricity & water | 3.8 |
| Manufacturing | 2.6 |
| Health and Social Work | 2.8 |

Source: ECCB (29 August 2014)

Antigua and Barbuda has traditionally depended on tourism to spur growth and development. As such, hotels and restaurants accounted for approximately 11% of GDP in 2013 (see Table 1). In recent years, this has been expanded to include the health and wellness industries, as well as medical education and medical-tourism services. Education, in particular, has grown every year since 2001; in recent years, the industry has been the only segment of the economy not to have been significantly affected by the global economic downturn (5.4% of GDP, in 2013). Most of this growth has been due to activities at the American University of Antigua, which started as an offshore medical university providing training for medical careers in the US. As such, the contribution of private and public educational institutions contributed 3.3% and 2.1% of GDP in 2013.

Agriculture and manufacturing

There is very little activity in agriculture or manufacturing in Antigua and Barbuda, but some efforts have been made recently to boost both agriculture and manufacturing production through the provision of specific incentives offered to both domestic and international investors to develop enterprises within these sectors. Nevertheless, in contrast to the trend in neighbouring countries, the contribution of agriculture to GDP in Antigua and Barbuda has always remained below 5%. Despite the measures implemented recently, in the past few years agricultural output has fallen, and the industry now accounts for less than 1% of GDP (2013).

It should be noted that goods exports contribute only marginally to the Antigua and Barbuda economy, at around 4% of GDP; this pattern is characteristic of the

OECS in general. There has been a change from the situation in 1995, when primary products (including crude petroleum, rice and raw cotton) dominated the top ten export products and accounted for 38% of all exports, to one in which there were no primary products in the top ten exports in 2010. In that year and for subsequent years up to 2013 most of Antigua and Barbuda's top ten exports were in higher-value-added areas.

Construction in Antigua and Barbuda is largely driven by infrastructure investments in the local tourism industry, followed by housing programmes and transportation. The industry's contribution to total value added in the economy is estimated to have averaged just over 15% in 2006-09. However, since 2009 its contribution has dropped to around 9%, a figure consistent with pre-2006 levels. Most of the firms in the industry are privately owned and cater primarily to the domestic market. Foreign direct investment (FDI) inflows support growth in the construction industry, making any rebound in growth in this sector dependent on a recovery in FDI.

Services The industrial structure of Antigua and Barbuda is dominated by services, namely hotels and restaurants; wholesale and retail trade; real-estate, renting and business activities; transport, storage and communications; and financial intermediation, which together account for nearly 65% of GDP. The economy continues to depend on tourism to generate most of its growth. The sector is largely dominated by arrivals from the UK, the US and the rest of the Caribbean, and is dependent on the economic fortunes of these source markets. The World Travel and Tourism Council (WTTC) estimates the direct contribution of travel and tourism to the economy of Antigua and Barbuda at 18.5% of GDP in 2012, providing 18.8% of national employment, or around 5,000 jobs. The island has a vibrant yachting segment that supports overall tourism development. On average, tourism services account for about three-quarters of services exports, with communications services making up most of the remainder. Travel services is the only category of services trade in which the islands has a trade surplus; in all other segments of services trade, payments far exceed earnings. Thus, Antigua and Barbuda relies heavily on the fortunes of the tourism sector as its key foreign-exchange-earning industry.

Wholesale and retail trade in Antigua and Barbuda is one of the largest sectors followed by hotels and restaurants. Total value added for the sector is estimated at around 15% of GDP in 2013, but was as high as 18% in 2008. The industry is highly competitive and largely price-driven, due to the fact that many small traders operate beside larger, established entities. Activities related to real-estate, renting and business activities contributed around 12% to economic activity between 2006 and 2013. These activities are largely associated with the construction sector and the hotels and restaurants industries. The ECCB estimated that by 2014-15 the real-estate, renting and business activities industry would have increased its contribution to around 14% of GDP, owing to the slowdown in the wider economy.

The financial sector in Antigua and Barbuda is dominated by four large foreign commercial banks (Canadian- and Trinidadian-owned), three indigenous banks and six credit unions representing nearly 26,000 members in 2011 (giving a 44% penetration rate). The National Development Foundation and the Development

Bank also provide credit facilities for microenterprises. The international financial industry in Antigua and Barbuda is largely made up of firms involved in Internet gaming and international business.

The Caribbean Development Bank's Country Poverty Assessment (2007) for Antigua and Barbuda notes that, while the country's services industry does provide substantial employment, the quality of such jobs may not be sufficient to raise households out of poverty on a sustainable basis, given that poorer residents are more likely to work in hotels and restaurants, which face seasonality based on tourist demand patterns, thereby exacerbating poverty during the low season. This problem may affect women in particular, as significant numbers of females are employed in this industry.

II. Key challenges for private sector development

Antigua and Barbuda demonstrates a number of strengths in the potential for growth in its private sector. However, the World Bank's Enterprise Surveys (2010) identify a number of constraints on doing business facing small firms on the island. They include tax rates, customs and trade regulations, access to finance and cost of electricity. Additional major challenges flagged by surveyed companies included corruption and long delays in the courts system. Transportation inadequacies were also noted as a hindrance in relation to intra-regional travel and freighting. Unlike many other countries in the region, an inadequately trained workforce was not ranked as one of the most significant obstacles to doing business in Antigua and Barbuda (although 28% of respondents noted it as a major constraint). This may be due in part to the modest demand for skilled labour from enterprises in Antigua and Barbuda, given the dominance in the economy of tourism and wholesale and retail trade.

Table 1 Biggest obstacle to business in the OECS, 2010 (% of respondents)

| Obstacle | Antigua and Barbuda | Dominica | Grenada | St. Kitts and Nevis | St. Lucia | St. Vincent and Grenadines |
|---------------------------------|---------------------|----------|---------|---------------------|-----------|----------------------------|
| Access to finance | 15.3 | 44.0 | 12.8 | 20.9 | 35.0 | 20.6 |
| Electricity | 13.0 | 29.7 | 2.7 | 15.2 | 22.4 | 10.6 |
| Transportation | 3.9 | 3.5 | 4.1 | 3.4 | 10.7 | 1.0 |
| Inadequately educated workforce | 1.3 | 2.1 | 15.4 | 10.0 | 7.4 | 12.8 |
| Tax rates | 18.2 | 8.6 | 17.6 | 20.0 | 6.0 | 11.0 |
| Labour regulations | 0.0 | 4.4 | 2.9 | 0.0 | 5.6 | 0.0 |
| Crime, theft & disorder | 7.9 | 3.6 | 10.2 | 13.4 | 5.1 | 11.3 |
| Customs & trade regulations | 16.1 | 0.9 | 2.1 | 5.2 | 4.0 | 9.9 |
| Practices of informal sector | 4.8 | 3.1 | 8.4 | 5.8 | 2.7 | 7.8 |
| Corruption | 7.7 | 0.0 | 1.4 | 3.5 | 0.9 | 1.5 |
| Political instability | 6.1 | 0.0 | 12.3 | 0.5 | 0.2 | 10.2 |
| Tax administration | 2.4 | 0.0 | 5.7 | 1.4 | 0.0 | 2.6 |
| Access to land | 0.7 | 0.0 | 3.9 | 0.7 | 0.0 | 0.0 |
| Business licensing & permits | 2.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 |
| Courts | 0.0 | 0.0 | 0.8 | 0.0 | 0.0 | 0.3 |

Source: World Bank, Enterprise Surveys 2010.

In addition to these umbrella issues, the background research also revealed a number of specific problems, including a lack of effective representation of the private sector, high corporate taxes and a complex tax system, and general political and governance issues (including government bureaucracy, political patronage and a "silo mentality" in government departments). Although the overdependence of the local economy on tourism can be considered a weakness, the country has a well-established reputation in tourism and has the appropriate environment to be successful in this industry.

The PSAR identified a number of challenges for private-sector development, six of which it deemed to be "critical":

- Lack of effective representation of the private sector

- Taxes
- Customs and trade regulations
- Access to finance
- Electricity costs
- Limited intra-regional transport options

The following is a summary of the issues noted, including those deemed to be critical.

Lack of effective representation of the private sector

During interviews and at the Private Sector Assessment (PSA) consultation, representatives from individual enterprises identified the lack of effective representation by various private-sector associations to the government as one of the main issues. There was a strongly held view that this lack of representation resulted in a situation in which the government dominates national consultations to the point where many actors in the private sector feel that decisions have already been taken before they are consulted. It was recommended on several occasions that the development of any national strategic plan involve greater private-sector engagement at all levels.

There are several representative associations and support organizations in Antigua and Barbuda, but there is no umbrella representative organization for the private sector. The Business Alliance (BA) fulfils this role to some extent by representing the interests of its members. These consist mainly of associations from the tourism industry, meaning that other sectors—such as wholesale and retail trade, the next largest contributor to GDP—are omitted. Nonetheless, given the dominance of tourism in the local economy, the BA is probably the most comprehensive of the country's representative associations.

Access to finance

Antigua and Barbuda is ranked 130th (out of 189 countries) in the World Bank's 2014 Doing Business report in the "getting credit" category. The local credit market is relatively inefficient when measured by the spread between lending and deposit rates. Given the important role played by finance in the development process, the country's poor ranking in terms of access to credit represents a significant risk to private-sector development and growth. Antigua and Barbuda is served by seven commercial banks and six non-bank financial institutions; however, at roughly 8 percentage points, it has one of the widest interest-rate spreads among its comparator group of countries, although the Seychelles, Guyana, Jamaica and Haiti have significantly wider spreads. Antigua and Barbuda has attempted to fill the credit void through the establishment of a national development bank, but the credit needs of the private sector significantly outstrip the available resources. Key policy interventions that are required include setting up a public credit registry and support for the establishment of a private credit bureau. The lack of information on creditors means that risks are perceived as higher than they might otherwise be, and banks therefore demand higher interest rates and collateral requirements. Legislative changes are also required to provide greater protection for creditors.

Domestic savings play a key role in terms of the availability of credit in Antigua and Barbuda. At the end of 2010 deposits were equivalent to just over 98% of

annual GDP, giving the country a ranking of fourth among its comparator group. Similarly, bank credit as a ratio of bank deposits stood at 77%—the median among Caribbean comparators. This figure suggests that most savings in Antigua and Barbuda are utilised to finance credit. The data show that 60% of firms' investments are financed by internally generated cash, while almost all of the remainder comes from debt; insignificant amounts also come from supplier credit and from equity (see Figure 11). Firms' overreliance on internal sources of finance has traditionally been seen as a constraint on their growth, as it limits their ability to exploit profitable investment opportunities⁴. This is particularly the case with younger and smaller enterprises.

Figure 11

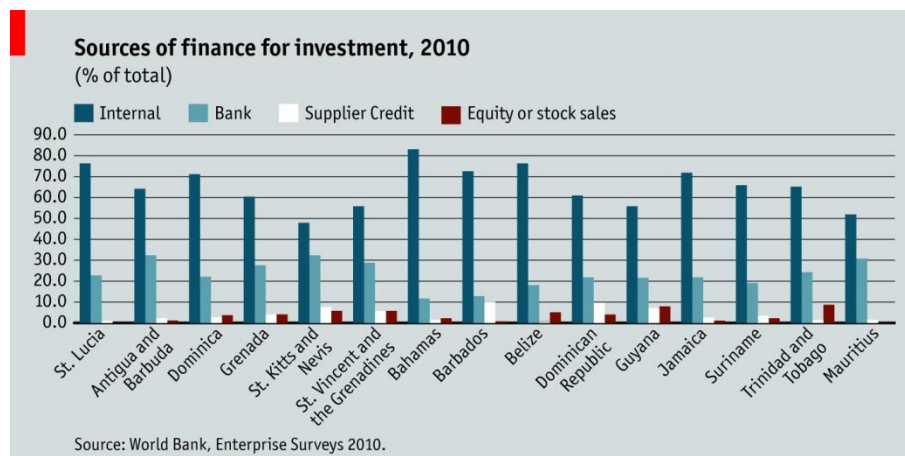
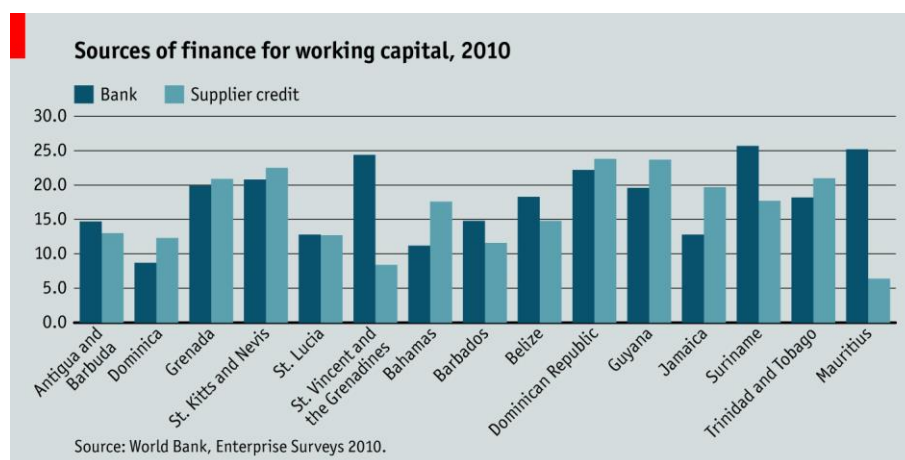


Figure 12



Besides investment opportunities, firms also require funds for working-capital purposes. The relatively even split in terms of working-capital financing between bank and trade credit (see Figure 12) could be indicative of difficulty in obtaining bank credit. Indeed, Figure 13 suggests that collateral requirements are low in Antigua and Barbuda by the standards of the comparator countries, at 177% of loan value. Nevertheless, this level still constitutes a significant burden

⁴ Moore, W. and Craigwell, R. (2000), *Market Power and Interest Rate Spreads in the Caribbean*, Central Bank of Barbados.

for any business. Only Barbados (at 138%), Suriname (140%) and Trinidad and Tobago (150%) have lower collateral requirements in the Caribbean. These high collateral requirements exist despite the high level of penetration of banking services among businesses on the islands: virtually every business in Antigua and Barbuda has a cheque account, and almost one-half utilise either loan or line-of-credit services (see Figure 14).

Figure 13

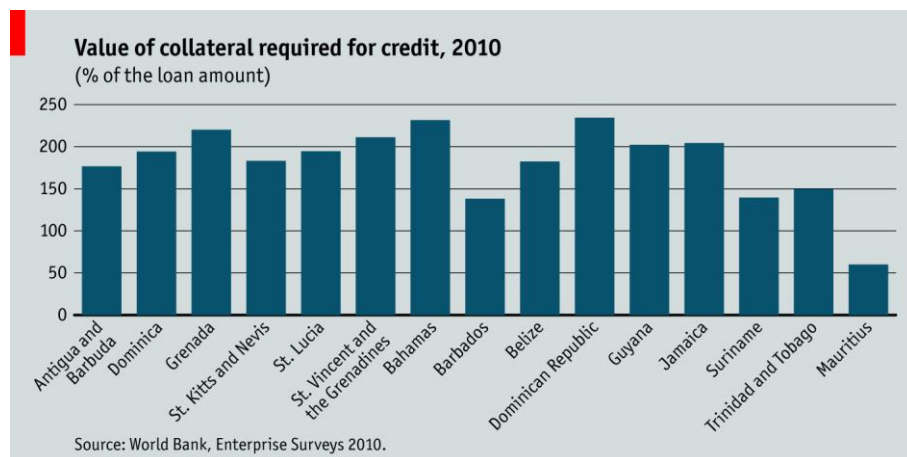
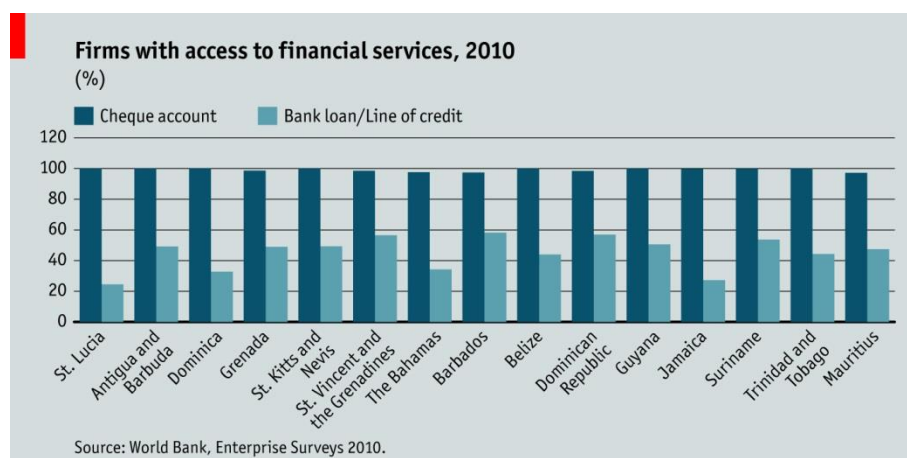


Figure 14



Corporate taxation

Antigua and Barbuda has one of the highest rates of profit tax among the comparator countries. Companies domiciled in the country pay income taxes on all non-exempt income, no matter what the source. The rate of tax on profits for resident companies is 25%, and companies are assessed based on all income earned during a given calendar year. However, the World Bank's 2014 Doing Business survey calculates that total taxes on firms' profits amount to 41% on average when taxes on profits, salaries, property transfers and vehicles are taken into account (see Figure 15). The corporate tax rate is prohibitively high (see Figure 16), particularly for exporters.

Figure 15

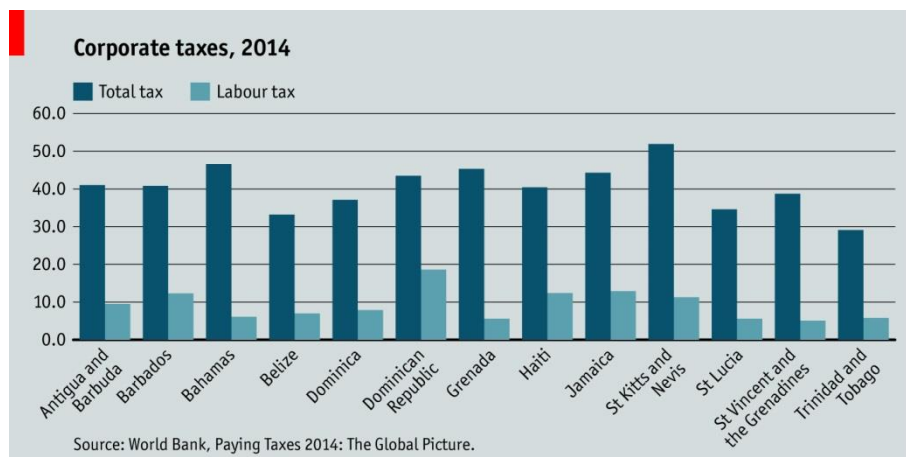
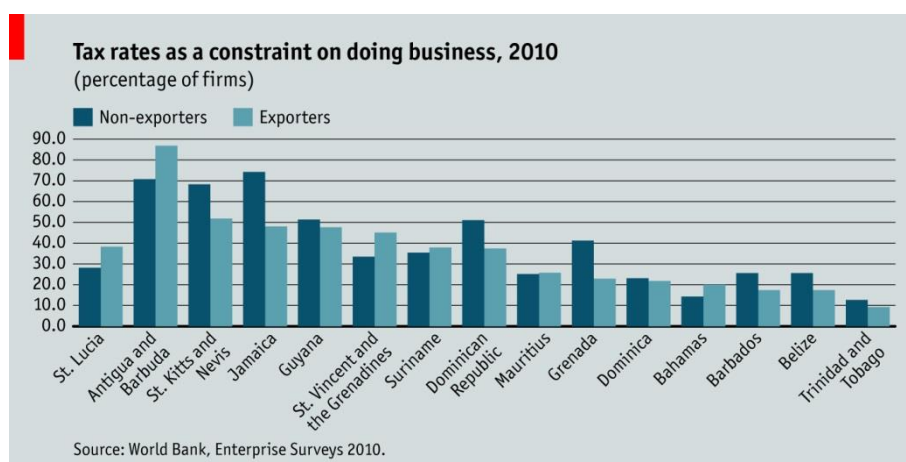


Figure 16



Moreover, the World Bank's Enterprise Surveys for Antigua and Barbuda report that more than 40% of companies find tax administration a major constraint on doing business. This may be due to the large number of payments (57) required each year on average. There are capital allowances for depreciation, as well as a wide variety of fiscal incentives for potential investors in tourism, manufacturing and a broad cross-section of other areas. There is no income tax on capital gains or dividends. There is, however, a transfer tax of 4.5% of the value of property sold. In 2006 Antigua and Barbuda introduced a value-added tax of 15% on the sale of goods and services.

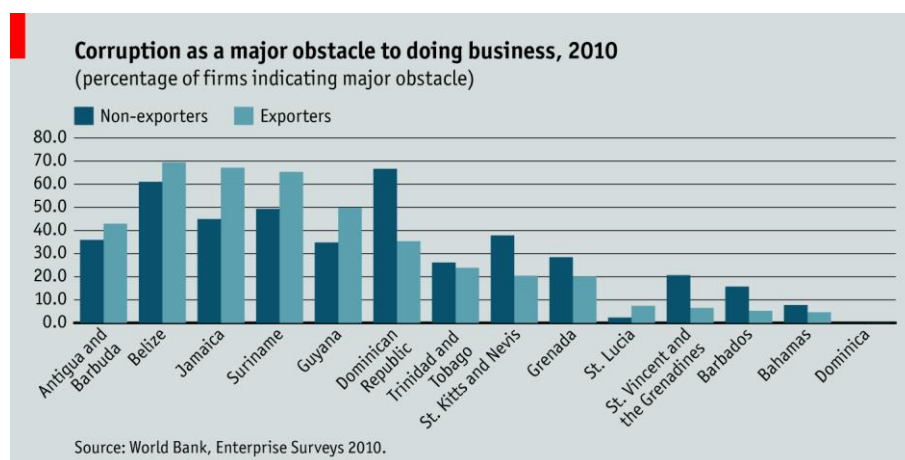
General political and governance issues

In general, private-sector representatives noted the government's lack of a long-term vision for the development of the private sector and therefore also for that of the country. There appears to be a significant disconnect between the vision for the country's future as expressed by the government and that expressed by agents within the private sector. The latter are of the view that long-term strategic planning in Antigua and Barbuda tends to be side-lined in favour of short-term electoral objectives. This approach impairs the private sector's ability to plan effectively, given the limited degree of policy consistency.

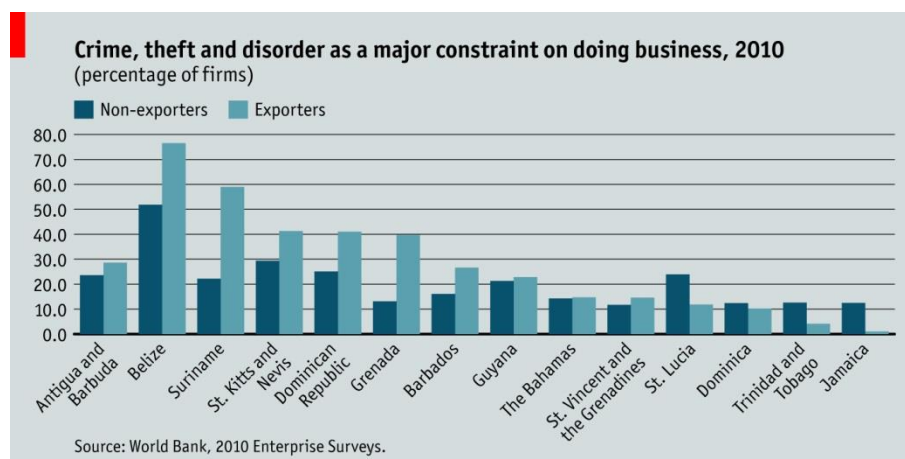
Private-sector interviewees also noted a "silo mindset" in the public sector, resulting in a lack of co-operation and cohesion between government agencies. Particularly, a lack of information-sharing between government agencies has had a direct impact on the cost of doing business as well as that of compliance with the tax authorities' requirements. Enterprises also noted that they have to plan for public-sector inefficiencies when interfacing with government agencies, resulting in additional costs due to the high level of bureaucracy.

However, interviewees and consultation participants noted that the blame does not lie solely with the public sector. Within the private sector there exists a high level of dependence on government to provide fiscal incentives to conduct almost any kind of business. This attitude inhibits the private sector from taking calculated risks to take advantage of opportunities where there is clear evidence of the potential for above-normal profits.

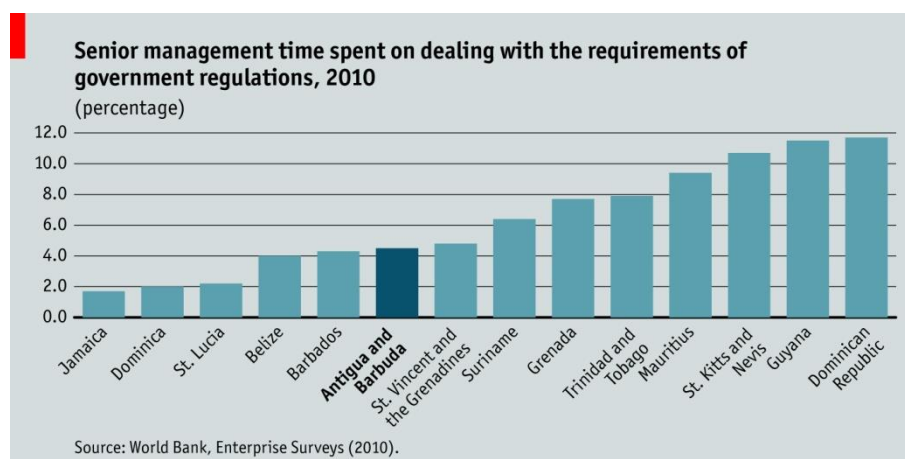
Figure 17



In addition to the lack of co-ordination and leadership in terms of private-sector development, Antigua and Barbuda scored poorly on the level of corruption (see Figure 17). The 2010 Enterprise Surveys suggest that one in every three non-exporters and two out of five exporters believe that corruption is a significant constraint on doing business. The reported level of corruption is particularly problematic in the area of arranging water connections and obtaining construction permits. Small firms were more likely to identify corruption as a constraint on doing business. Along with corruption, many exporters identify crime, theft and disorder as key constraints on business activity (see Figure 18).

Figure 18**Customs and trade regulations**

Customs and trade regulations were highlighted by nearly 60% of firms in Antigua and Barbuda as a major impediment to doing business—the highest reported rate among the comparator group of countries. Firms also expressed concerns over the absence of a well-documented export regime and about the customs department’s inability to facilitate the export process. In addition, senior managers reported that they spent almost 5% of their time dealing with government regulations, compared with just 2% in Jamaica, Dominica and St Lucia (see Figure 19).

Figure 19

Tariffs on most categories of goods imported into Antigua and Barbuda are relatively low. This is perhaps not a major issue for the country, given its heavy reliance on tourism and other services and the relatively small size of its agricultural and manufacturing sectors. Low tariffs are thus unlikely to have a significant effect on the overall economy. The average applied tariff in 2009 was 9%, in line with the average among the comparator countries. The level of protection for the agricultural sector is also relatively low, with import tariffs in this sector averaging 15%, the second-lowest level among the comparators (agricultural tariffs in Mauritius stand at 2%).

Infrastructure: high electricity costs and limited intra-regional transport options

The high cost of electricity was identified as a major constraint on doing business in Antigua and Barbuda, as noted by 45% of respondents to the World Bank's 2010 Enterprise Surveys. Reliability of supply is better than average, but the cost of electricity in Antigua and Barbuda is among the highest in the region. Based on interviews and the results of the Enterprise Surveys, high electricity costs are one of the biggest obstacles to doing business across the Organization of Eastern Caribbean States (OECS). As shown in Figure 20, in 2010 the cost per kilowatt-hour exceeded 30 US cents in almost all of the OECS countries included, but was below 5 US cents in Trinidad and Tobago. Given that it has few options for expanding its limited production of fossil fuels, the best alternative for Antigua and Barbuda in terms of achieving a balance between power demand and supply is to contain demand growth by increasing energy efficiency, and at the same time to expand production from alternative-energy sources and natural gas.

Figure 20

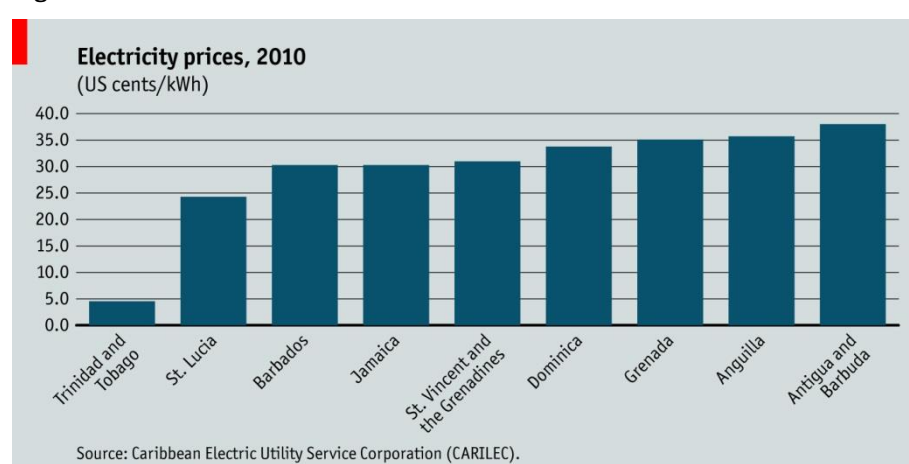


Table 2: Electricity indicators for Antigua and Barbuda and comparator countries, 2010

| | Antigua and Barbuda | Average for comparator countries |
|---|---------------------|----------------------------------|
| Number of outages in a typical month | 2.8 | 3.5 |
| Average duration of a typical outage (hours) | 2.2 | 2.5 |
| Losses due to outages (% of annual sales) | 0.2 | 0.6 |
| Average losses due to outages (% of annual sales) | 0.3 | 1.2 |
| % of firms owning or sharing a generator | 22.4 | 37.4 |
| Average proportion of electricity from generators (%) | 3.3 | 13.0 |
| Days to obtain an electricity connection (from application) | 6.7 | 19.2 |
| % of firms identifying electricity as a major constraint | 45.1 | 39.5 |

Source: Enterprise Surveys (2010).

Problems with transportation were also noted as a hindrance to intra-regional travel and freighting. According to the 2010 Enterprise Surveys, transportation was a major constraint on doing business, reflecting a lack of availability as well as high cost. These issues severely hamper business-to-business travel and hence have a direct negative effect on productive investments. In interviews with business people, the main issues that emerged were problems with intra-regional exports and a lack of vessels operating between islands in the Caribbean. Indeed, it was noted that it was often easier to ship goods to Miami,

in the US, and then back to their target jurisdiction in the region, instead of shipping directly between islands.

Given the inefficiencies noted by interviewees, full assessments of transportation and import systems are needed in order to identify specific bottlenecks and opportunities to introduce lower, more efficient travel taxes. Research has identified slow transport network connections, poor maintenance, and resistance to learning new systems and processes as significant bottlenecks that delay trade. In addition to the PSAR's findings, the results of the Caribbean Growth Forum's working group on logistics identified a number of constraints in relation to air and sea connectivity within the region related to the cost of travel and the availability of travel options.

Technology and innovation

Companies in Antigua and Barbuda have full access to technological platforms that can enhance the efficiency of their enterprises. Internet coverage and mobile-phone usage is high in Antigua and Barbuda, although fixed broadband Internet has yet to establish a foothold in the region. Antigua and Barbuda has the highest number of Internet and mobile-phone users per 100 persons of any of the comparator countries.

There is a relatively high level of technology use in most enterprises in Antigua and Barbuda. Given the fairly high level of Internet penetration, most enterprises use e-mail to interact with clients and suppliers. However, according to the 2010 Enterprise Survey less than one-third of these companies have developed a web presence by investing in their own websites. Only St Lucia (15%), Suriname (11%) and Dominica (2%) have smaller business web presences than Antigua and Barbuda. The other area in which Antigua and Barbuda lags behind its peers is in the use of technology licensed from foreign companies. This could suggest that there are opportunities for greater collaboration with foreign companies.

Labour

Given the relatively transparent approach to labour market regulations in Antigua and Barbuda, most businesses did not identify this as a significant hindrance to doing business. Instead, the most important issue concerned access to skilled employees. In 2008 the Caribbean Development Bank reported that 65% of heads of households said that primary education was their highest level of educational attainment, with just 19% having some level of secondary education. There is therefore a need for greater investment in the islands' human-resources capacity if companies are to take advantage of the opportunities that may arise in areas such as information and communications technology, offshore financial services, health and wellness, education and training facilities, agro-processing and light manufacturing.

Gender

Analysis of institutions in Antigua and Barbuda reveals that the country has a framework for addressing the issue of gender and is a signatory to relevant international conventions, including the Convention on the Elimination of All Forms of Discrimination Against Women (1990), the Beijing Declaration and Platform for Action (1995) and the Inter-American Convention on the Prevention, Punishment and Eradication of Violence. The notion of gender equity is also enshrined in the country's constitution. The Division of Gender Affairs is the government's focal point for the implementation and monitoring

of policies and programmes pertaining to gender and development. Employment legislation also ensures that there is equal pay for equal work, regardless of gender.

According to the World Bank's 2010 Enterprise Surveys, small-firm ownership was uneven in gender terms, with 25% of small firms having some type of female ownership. Meanwhile, 44% of permanent full-time workers were female, compared with an average of 42% in comparator countries. The only comparators with lower female representation in the ownership of small firms were Suriname and Mauritius. Women are also not well represented as managers, the only countries with lower levels of such representation being Suriname and the Dominican Republic. Overall, it appears that Antigua and Barbuda underperforms in the area of female representation in terms of ownership and management in the private sector.

Environment Antigua and Barbuda's environmental policy framework is overseen by the Ministry of Agriculture, Lands, Housing and the Environment through the Environment Division. The maintenance of the environment, and especially the marine environment, is vital to the local economy, given the country's reliance on tourism, which is founded on the marine environment. The economy and quality of life in Antigua and Barbuda is largely dependent on the capacity of its terrestrial and marine ecosystems to continue to provide ecosystem services. Provisioning from natural systems consists of seafood, wood, and plants from gully ecosystems. Meanwhile, reefs and coastal vegetation provide seashore protection, while reefs generate sand. In addition, these natural endowments can support income-generating activities such as snorkelling, scuba diving, hiking and sightseeing; and, finally, the creation of opportunities for recreation.

Given the country's high reliance on fossil fuels, annual carbon dioxide (CO₂) emissions per head in Antigua and Barbuda are comparatively high, at 5.2 tonnes—the second-highest level of emissions in the region after the Bahamas. As it has few options for expanding its own limited production of fossil fuels, the country's most effective alternative in terms of achieving a balance between demand and supply is to contain demand growth by increasing energy efficiency, and to expand production from alternative energy sources and natural gas.

III. Emerging sectors

While the largest sector of Antigua and Barbuda's economy is tourism, the 2010 budget speech identified a number of areas with the most promising growth prospects, namely health and education services, energy development, agro-processing, and information and communications technology (ICT). These priority areas were added to and altered slightly in subsequent budget cycles to include the most recently identified priority areas for the new economy (see Budget Speech 2011, 2012, 2013 and 2014). In addition, the Caribbean Growth Forum (CGF) has also identified a number of key sectors for development: the offshore education industry, agriculture and agro-processing, and sustainable tourism.

| | |
|--|---|
| Health and education services | The expansion of the American University of Antigua fits the strategic goal of marrying tourism with international medical tourism and education on the island. Naturally, growth prospects for this sector will depend heavily on economic circumstances in the UK and the US. |
| Energy development | Building a framework for the development of alternative energy is not an overnight process. Incentives and support in this area will act as both a cost-reduction tool and an opportunity for investment and enterprise development in the renewable/alternative-energy sector. Meanwhile, developing the sector could have a positive impact on the overall economy, given that firms have identified the high cost of electricity as a constraint on doing business and that more than one-third of the country's imports are energy-related. To facilitate investment in the sector, in the final report of the Anguilla Renewable Energy Integration Project, Castalia Strategic Advisors note that there is a need to undertake resource assessments and regulatory reforms. |
| Agriculture and agro-processing | Some efforts have been made recently to boost both agriculture and manufacturing production through the provision of specific incentives offered to both domestic and international investors to develop enterprises in these sectors. The Antigua and Barbuda Investment Authority is the agency responsible for overseeing the new policy. The relevant CGF working groups have identified the need for an electronic market-information system and for training in good agricultural practices and business management as important steps towards boosting growth in this sector. In addition, internal demand needs to be stimulated via links between the tourism industry and the agricultural, agro-processing and manufacturing sectors. These connections need to be developed, and strategies to address this need should be included in a national strategic plan. |
| Information and communications technology (ICT) | <p>In 2010 most enterprises in Antigua and Barbuda were using e-mail to interact with clients and suppliers (see Table 4), but less than one-third of companies had invested in their own website. The country also lags behind its peers in the use of technology licensed from foreign companies, suggesting that there are opportunities for greater collaboration with such firms.</p> <p>Growth in this area of the economy will depend in some measure on increasing technological uptake in the public and private sectors. Both sectors would benefit from more effectively exploiting technology, in relation to data mining and data collation in the public sector and improving productivity in</p> |

the private sector. Demand from the financial sector will be driven by banks' desire to use technology to reduce their transaction and interest costs.

Table 4: Technology use by manufacturing firms in selected countries (% of firms)

| | Using technology licensed from foreign companies | Internationally recognised quality certification | Own website | Use of e-mail to interact with clients/suppliers |
|--------------------------------|--|--|-------------|--|
| Antigua and Barbuda | 0.0 | 3.7 | 28.3 | 87.9 |
| Barbados | 6.8 | 18.3 | 68.2 | 100.0 |
| Bahamas | 20.1 | 31.1 | 50.1 | 89.5 |
| Belize | 16.7 | 0.7 | 27.8 | 85.0 |
| Dominica | 10.3 | 1.3 | 1.8 | 70.8 |
| Dominican Republic | 24.1 | 11.8 | 48.9 | 85.3 |
| Grenada | 15.2 | 32.6 | 42.5 | 80.6 |
| Guyana | 17.4 | 29.5 | 46.0 | 92.5 |
| Jamaica | 14.6 | 16.5 | 36.4 | 72.6 |
| Mauritius | 14.4 | 11.1 | 35.9 | 69.3 |
| St. Kitts and Nevis | 9.6 | 19.4 | 40.4 | 91.5 |
| St. Lucia | 0.0 | 0.6 | 15.4 | 53.9 |
| St. Vincent and the Grenadines | 24.6 | 20.9 | 32.3 | 82.2 |
| Suriname | 5.4 | 11.1 | 11.0 | 58.5 |
| Trinidad and Tobago | 2.2 | 16.9 | 30.8 | 81.2 |

Source: World Bank, Enterprise Surveys (2010)

Sustainable tourism

Tourism continues to be the focal point for economic growth in Antigua and Barbuda and still receives the bulk of domestic and foreign direct investment. There is tremendous scope for growth in the sector if hoteliers, tour operators and other stakeholders are able to broaden source markets in the North as well as significantly develop markets in the South over the next 10-15 years. Some of the industry's infrastructure is dated and requires refurbishment. In addition, efforts need to be made to ensure that hotel capacity utilization is maximised all year round, rather than relying solely on winter tourism from the North Atlantic countries.

IV. Priority areas and action plan

The Antigua and Barbuda Private Sector Assessment Report (PSAR) identifies a number of key challenges to private-sector development and several sectors that have the potential to drive growth in the future. The report emphasizes these interrelated issues, and uses them to develop recommendations and action plans to address issues relating to governance, access to finance, general costs, and transportation and trade.

Background Along with a desk review of key private-sector development challenges, interviews were conducted with a wide variety of persons and entities, designed to capture views of the challenges to private-sector development from various perspectives. The interviewees included officers from relevant government departments; private-sector firms, conglomerates and other business entities; organizations representing labour, firms and employers; public-sector organizations that provide support to the private sector; civil-society organizations; non-governmental organizations; financial institutions; and academic institutions. The following subsections (which are not arranged in order of priority) identify the critical issues that emerged from the interviews and consultations, and present a series of required actions to address these issues.

General political and governance issues The interviews and stakeholder consultations identified general political and governance issues as critically impacting private-sector development. Stakeholders were of the view that there was limited use of strategic long-term planning, and that a "silo mentality" existed in public-sector business-support organizations, with agents operating autonomously without an explicit relationship with other public-sector entities or a unified strategic vision. These constraints suggest the need for greater communication between the public and private sectors, and for the establishment of strategic development plans that address the needs of government and the private sector. However, the private sector needs to raise its level of engagement with the government in order to achieve meaningful results.

Action 1: Establishment of a Tripartite Committee (consisting of representatives of government, employers and labour) to identify the needs of all bodies and guide and oversee private-sector development strategies.

At present, there is no single voice for the private sector in Antigua and Barbuda, although there is a Business Alliance (BA), which primarily represents tourism associations. The BA will need to seek to attract a wider membership in order to represent more effectively the views of the private sector as a whole. Once this issue has been addressed, Antigua and Barbuda could learn from the experience of the Social Partnership (SP) model in Barbados. The SP draws members from labour and private-sector representative bodies. There are sub-committee meetings, which feed into sessions chaired by the prime minister. Added to this consultative process, SP members also sit on the boards of various government agencies and key policymaking committees.

Action 2: Rationalization and streamlining of the public sector's business-support framework through the work of the Tripartite Committee, to create a

revised system that addresses the needs of the private sector (in terms of access to finance and reduced costs) as well as the wider obligations of government.

It was noted in the Caribbean Growth Forum (CGF) that there was a need for the development of a "one-stop shop" for business registration and support, as well as to update the registration process from mainly manual to computerised. Other issues related to the institutional framework include the need to increase the efficiency of customs and trade procedures, and to develop electronic market information in agriculture.

Action 3: Development of a National Strategic Plan that seeks to integrate private-sector development into mainstream practice in the country. The plan should include a human-resources strategy. Through the lobbying efforts of the government, plans for the development of the private sector should also be included in any regional strategic plans at the level of the Organization of Eastern Caribbean States (OECS)/Eastern Caribbean Currency Union (ECCU) and the Caribbean Community (CARICOM).

A national strategic plan can ensure that national policy planning is continuous and not subject to the electoral cycle. Such an approach to development planning would also enhance the transparency of government policy formation, as well as reducing business uncertainty. Rather than focusing on departmental or ministry-specific objectives, technocrats would be working towards national objectives. Information and communications technology and knowledge platforms could then be used to facilitate communication between various departments and ministries.

Access to finance

Across the OECS, the issue of access to finance and the cost of finance is one of the biggest barriers to doing business, mainly due to the underdeveloped nature of capital markets. The situation is no different in Antigua and Barbuda. Private-sector stakeholders interviewed stated that finance was either difficult to obtain due to collateral prerequisites or too costly in terms of interest rates. Individuals noted that the high cost of finance was a key hurdle limiting the formation of new firms and the expansion of existing enterprises. Added to this, they said that access was also limited due to a lack of information on potential borrowers, and that financial sector regulators lacked an appreciation of the special circumstances of smaller enterprises.

It should, however, be noted that these limitations on accessing finance are not purely institutional, and that frequently entrepreneurs also either propose impractical projects or present poorly constructed business plans due to poor skills and a lack of data.

In drawing together all of these issues related to the lack of access to finance, there is a need to reduce the cost of finance and increase the ability of firms to access finance by increasing the formality of enterprises.

Action 4: Reduce the cost of finance through the reduction of transactional and operational costs in financial institutions via the use of technology and the monitoring of efficiency levels; the reduction of risk and risk-aversion through the establishment of a credit bureau and a collateral registry; and the

introduction of alternative financial products and greater competition in the financial sector.

Information asymmetries directly affect the levels of collateral required by commercial banks in the region, as they increase the degree of risk attached to lending. This uncertainty is passed on to customers through collateral requirements. According to the World Bank's Enterprise Surveys for 2010, average collateral required in Antigua and Barbuda was 177%, while the world average was 168%. Any measures to reduce information asymmetries and increase formality among firms should therefore assist in reducing the cost of, and improving access to, commercial finance.

In 2012 the Eastern Caribbean Central Bank collaborated with the International Finance Corporation (the World Bank's private-sector financing arm) in a conference entitled Wider Access to Credit and Consumers' Empowerment through Credit Information Sharing. Representatives from regional central banks, ministries of finance, other government agencies, and financial institutions from the ECCU and the wider Caribbean region met to discuss credit-information-sharing systems (credit bureaus) in the Caribbean. The conference fell under the umbrella of a Canadian International Development Agency now DFATD-funded project aimed at establishing a private credit bureau in the ECCU and developing credit bureau legislation for the region. This would be the first step of many that are needed to rectify information asymmetry in the OECS.

Given that inefficient operation of financial institutions results in increased costs to consumers, it is also recommended that a quarterly assessment be taken of the overall efficiency rate of commercial banks to ensure that they are running efficiently and that, as a result, they are benefiting consumers (individuals or enterprises) via competitive prices.

Action 5: Increase the capacity of businesses to access finance, through the provision of support (technical assistance and training) for the adoption of accepted business practices (notably record-keeping) and the skills to develop business plans for funding and strategic planning.

Cost of electricity

The cost of electricity in Antigua and Barbuda is among the highest in the region. Based on interviews and the results of the 2010 Enterprise Surveys, electricity costs were ranked as one of the biggest obstacles to doing business across the OECS. The cost per kilowatt-hour exceeded 30 US cents in almost all of the OECS countries included in the surveys. By contrast, the cost was less than five US cents per kilowatt-hour in Trinidad and Tobago, the largest producer of fossil fuels among the English-speaking Caribbean countries.

Action 6: Provide incentives for energy conservation and frameworks for the exploitation of renewable/alternative energy. Incentives and support in this area will act as both a cost-reduction tool and an opportunity for investment and enterprise development in the renewable/alternative-energy sector.

To address the issue of the high cost of electricity (and of energy in general), the two main options involve conservation of energy and exploitation of alternative-energy options. In terms of conservation, the adaptation of

behaviour to reduce usage and the adoption of energy-efficient technologies, along with retrofitting, provide avenues to reduce costs in the short to medium term. In Antigua and Barbuda the possibilities for exploiting alternative-energy sources are not as extensive as elsewhere in the region, given the absence of such renewable sources as geothermal energy. There are, however, options in the areas of solar and wind power. Antigua and Barbuda has a new energy policy and regulatory framework that will allow renewable-energy systems to be tied to the grid.

Incentives in this area could include concessions related to duties on imports of materials, technical assistance, and the development of special funds for investments in alternative-energy projects and enterprises supplying complementary services, such as retrofitting.

Transportation and trade issues

Transportation issues in Antigua and Barbuda mainly relate to a lack of availability of transport, as well as cost despite the country being a hub for the regional airline LIAT. It is considered that these issues severely hamper business-to-business travel and hence have a direct effect in terms of impeding productive investments. In relation to trade, the main issues relate to monetary costs, as discussed above. However, there are also time costs to business, due to the bureaucratic burden inherent in the system.

Action 7: Conduct a broad-based assessment of transportation and trade systems to identify opportunities for: productivity improvements in customs and immigration; implementation of more efficient taxes on travel; introduction of alternative transport options (for example, the establishment of a ferry service); and the establishment of a single airspace for the OECS.

Given the inefficiencies noted by interviewees, full assessments of transportation and import systems are needed to identify specific bottlenecks and opportunities for the introduction of lower, more efficient travel taxes. To date, the research has identified slow network connections, poor maintenance, and resistance by stakeholders to learning new systems and processes as significant bottlenecks that cause trade delays.

In addition to the Private Sector Assessment findings, the results of the CGF working group on logistics provided the following recommendations:

- Replacing current immigration procedures through ports, which currently seek to identify "undesirables".
- Undertake research to explore opportunities for reducing the cost of travel, such as through tax cuts. It is considered that by studying the correlation between travel taxes and travel volumes, the most efficient tax rate can be identified—a rate that would increase both volumes and tax revenue.
- Explore the creation of a single OECS air space to assist in reducing costs.
- Explore the development of a ferry service to cater to the OECS.

Conclusions It should be noted that the various elements of the Action Plan seek to provide a conducive environment for private-sector development in Antigua and Barbuda. However, this does not mean that the implementation of the plan will automatically lead to growth in the private sector. There must also be entrepreneurial action in terms of exploiting opportunities in the local, regional and global market. This is especially to be emphasised in light of anecdotal evidence which emerged during interviews throughout the region, that the private sector demonstrates a lack of interest in looking "beyond their borders" (i.e. overseas) and instead seeks to grow domestic market share.

In Antigua and Barbuda, and across the region, the private sector is relatively underdeveloped and is limited in its ability to cope with current developments in trade and the financial sector. Any interventions should therefore seek to assist the private sector to build domestic market opportunities, and should provide special and differential treatment for export goods in the short to medium term rather than exposing the private sector to the full rigours of international competition.

The Caribbean needs to exploit those resources in which it has an advantage and a brand, suggesting a concentration on alternative energy (geothermal, solar); specialist agricultural products and agro-processing; ecotourism; education (drawing on human resources in the region); heritage tourism; health and wellness (both product-specific and related to tourism); and financial services, among others.

As another caveat, the implementation of the Action Plan cannot be undertaken in isolation from regional integration efforts at the OECS and CARICOM levels. In relation to the development of a national strategic plan with a regional focus, attention should be paid to the specific recommendations that have consistently emerged from research in the region, namely niche-market development; moving up the value chain; development of strategic alliances and joint ventures for knowledge and technology transfer; and the development of clusters, both vertical and horizontal. It is also important to be aware that many of the recommended actions will not produce results in the short term: building frameworks for the development of the alternative-energy sector and enhancing the productivity of the public sector is not an overnight process and requires an element of structural change.

Finally, private-sector development cannot be separated from the overall sustainable development of the country. This implies that social issues such as poverty and unemployment, as well as environmental vulnerabilities, should be considered in any plan to enhance private-sector development. These issues can often show up in the bottom line for businesses via higher security and insurance costs. It is imperative that these issues be kept in mind during the development of strategic plans to support the private sector.

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