



In partnership with



PRIVATE SECTOR ASSESSMENT OF GRENADA



Contents

Executive summary

I. Private sector assessment

- 5 Background
- 5 Macroeconomic overview
- 8 Institutional effectiveness
- 9 Components of the productive sector
- 11 Agriculture
- 11 Manufacturing
- 12 Services

II. Key challenges for private sector development

- 15 General political and governance issues
- 16 Access to finance
- 18 Cost of doing business
- 20 Labour market issues
- 21 Trade issues
- 21 Environment
- 22 Gender
- 23 Analytical remarks

III. Emerging sectors

- 24 Tourism
- 25 Agro-processing
- 25 Education

IV. Priority areas and action plan

- 26 Background
- 26 General political and governance issues
- 27 Access to finance
- 28 Cost of doing business
- 30 Labour market issues
- 30 Trade issues
- 31 Conclusions

References

© 2013 Inter-American Development Bank. All rights reserved.

Whilst efforts have been taken to verify the accuracy of this information, neither the Inter-American Development Bank nor any sponsor or provider of financing of this information (nor their affiliates) can accept any responsibility or liability for reliance by any person on this information, opinions or conclusions set out herein. The ideas and opinions expressed in this publication belong to the authors and do not necessarily reflect the official opinion of the Inter-American Development Bank, or of any of its employees, agents, member countries and executive directors.

The Private Sector Assessment Report for Grenada was authored by the Special Studies Unit (SSU), Sir Arthur Lewis Institute of Social and Economic Studies (SALISES), University of the West Indies, Cave Hill Campus, Barbados. The lead authors were Winston Moore and Jonathan Lashley, with contributors Dr Judy Whitehead, Ryan Straughn, Mitch Hartman, Carol Ann Blenman and Beverley Hinds. The report was commissioned by the Inter-American Development Bank (IDB), with funding from the Compete Caribbean Program, a regional private sector development, technical assistance initiative financed by the IDB, the United Kingdom Department for International Development (DFID) and Foreign Affairs, and Trade and Development Canada (DFATD), and executed in partnership with the Caribbean Development Bank (CDB) (for more information and access to the full document visit Compete Caribbean www.competecaribbean.org).

This report, based on the Private Sector Assessment Report for St. Kitts and Nevis, was formatted and edited by the Economist Intelligence Unit at the request of the Compete Caribbean Program, but was not authored by the Economist Intelligence Unit, and neither the Economist Intelligence Unit, nor its affiliates, accept any liability or responsibility for the content of this report or how it has been formatted.

Executive summary

The Private Sector Assessment Report (PSAR) provides a comprehensive overview of the private sector in Grenada. It evaluates the primary components of the productive sector, the key challenges that it faces, potential emerging sectors, and policy recommendations for priority areas. 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 report.¹ 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).

Given the openness of the Grenadian economy and the small size of the domestic market, international economic developments have a significant impact on the local economy. Over the past decade Grenada has suffered major setbacks as a result of two major hurricanes and then the slowdown in the world economy, and these challenges have heavily impacted the country's macroeconomic fundamentals. After contracting by 6.6% in 2009, the economy grew by an annual average of just 0.7% in 2010-13. This slowdown in economic activity has had a significant effect on the government's finances, and as a result Grenada is now one of the most indebted small-island developing states in the world. Although strongly negative net exports are a general feature of the Caribbean region, Grenada's export structure has not changed significantly since 1995 and is considered relatively weak. The PSAR suggests that there is a need to ensure that export development is given a central position in the development of any strategic plan for the development of the private sector.

Since the slowdown in world economic growth, key industries, such as construction and tourism, have experienced double-digit year-on-year rates of decline in output, resulting in a significant deterioration in the country's employment profile. As a result of the deterioration in economic conditions, gross government debt has started to expand again, after falling under an IMF-led programme that saw the introduction of a value-added tax in 2010 and included other initiatives that were aimed at enhancing the ease of doing business in the country. In 2013 growth returned to key industries, with the construction industry expanding by 28% and tourism growing by 3%.

The main challenges to economic development in Grenada are sustaining investment, economic growth and social progress in the face of an uncertain

¹ The original report 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 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.

international environment and possible new shocks; reducing poverty and unemployment; improving access to good-quality healthcare; developing human resources; modernizing the public sector; and improving environmental management. The key obstacles to doing business in Grenada—and thus the main threats to private-sector development—identified in the World Bank's 2010 Enterprise Survey are high tax rates, an inadequately educated workforce, problems with access to finance, political instability, and lastly crime, theft and disorder.

The government faces a number of social issues that stronger economic growth would enable it to address more effectively. These include unemployment, poverty, and the consequences of poverty (in terms of crime, poor health and social unrest). The PSAR concludes that the government has developed domestic institutions that are supportive of private-sector development. Human-resources capacity-building is receiving significant attention, with the aim of achieving higher levels of technical and vocation training and facilitating high-skill, high-wage jobs. The PSAR notes the similarity of its findings and recommendations to those of the Caribbean Growth Forum consultations, which focus on reforms in the areas of governance, business finance and costs, trade issues, market expansion issues and labour market issues. Both sets of findings highlight the need for the creation of a forum for collaboration between key stakeholders and representatives of labour, the private sector and the government. Implementation of such a mechanism should take place within the framework of a long-term action plan for private-sector growth.

I. Private sector assessment

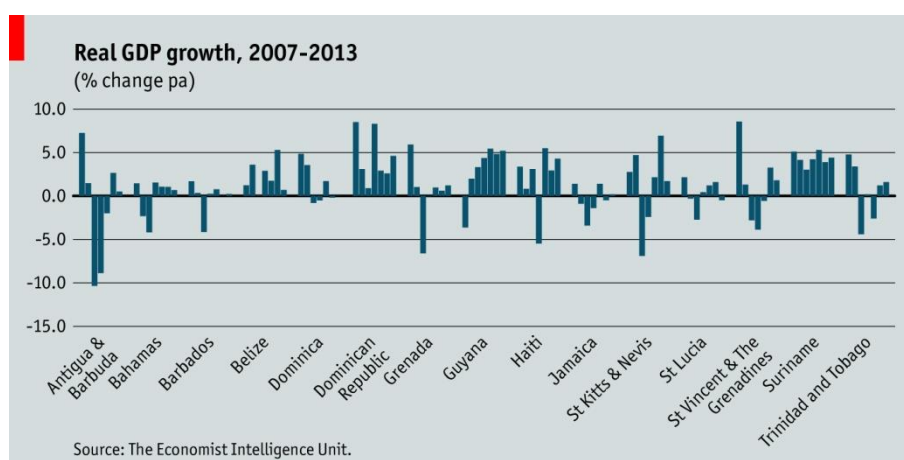
Background The government of Grenada faces a number of social issues that stronger economic growth would enable it to address. These include unemployment, poverty, and the consequences of poverty (in terms of crime, poor health and social unrest). In seeking to address the need to promote growth in the economy, the government's 2013 budget was themed "Restoring Hope, Building the New Economy and Empowering our People". The key elements of this "new economy" were categorized as:

- Fiscal and debt sustainability
- Lean government
- Private sector as the key driver
- Technical and vocational education and training
- Life-long learning and high-wage employment
- Innovation and knowledge
- Information and communications technology applied to all aspects of development
- World-class service industry, especially in tourism
- Green business, industries and lifestyles
- Sustainable development
- Developing agriculture along the value chain
- Efficient light manufacturing
- Dynamic export industries
- Lucrative oil, gas and renewable-energy industries

These elements indicate that future growth in the Grenadian economy will be clearly centred on the development of the private sector, while the aim of the adoption of this "new economy" model is to tackle the "twin challenges of continued high unemployment and low economic growth"³. The main industries of the new economy are envisioned as agriculture; light manufacturing; renewable energy; and other dynamic export industries. It appears that the government sees growth in the private sector as a means of addressing wider social issues, and it has developed domestic institutions to support private-sector development.

Macroeconomic overview The Grenadian economy grew modestly between 1980 and 2010. Nominal GDP (measured in US\$ at purchasing power parity exchange rates) in 2013 is estimated at just over US\$1bn, over six times its size in 1980. On a per-head basis, GDP stood at US\$7,320 in 2013. Annual economic growth in Grenada between 1981 and 2013 averaged 3.4%.

³ 2013 budget statement, p.57.

Figure 1**Figure 2**

The Grenadian economy is driven by services, which in 2012 value added accounted for around 83% of GDP, the greatest proportion recorded since pre-1980. Tourism is the main driver of activity in the services sector. Travel services, a segment of the tourism industry, accounted for 70% of Grenada's services exports in 2011, an increase from around 62% in 2000. Traditionally, the Grenadian economy has also depended on exports of commodities, primarily spices and bananas. However, the banana industry on the island virtually disappeared with the loss of European trade preferences in 2006, while hurricanes Ivan (in 2004) and Emily (in 2005) devastated the nutmeg industry, resulting in a decline in agriculture's share of GDP from 24% in 1980 to less than 5% by 2013. The manufacturing industry is estimated to have expanded in 2010, due predominantly to increases in production of beverages and rum and now accounts for approximately 3.2% of GDP (2013). Most other areas of manufacturing, however, are largely dependent on the domestic market and have therefore declined significantly, in line with overall economic activity. The international financial industry in Grenada is largely made up of firms involved in Internet gaming and international business.

Figure 3

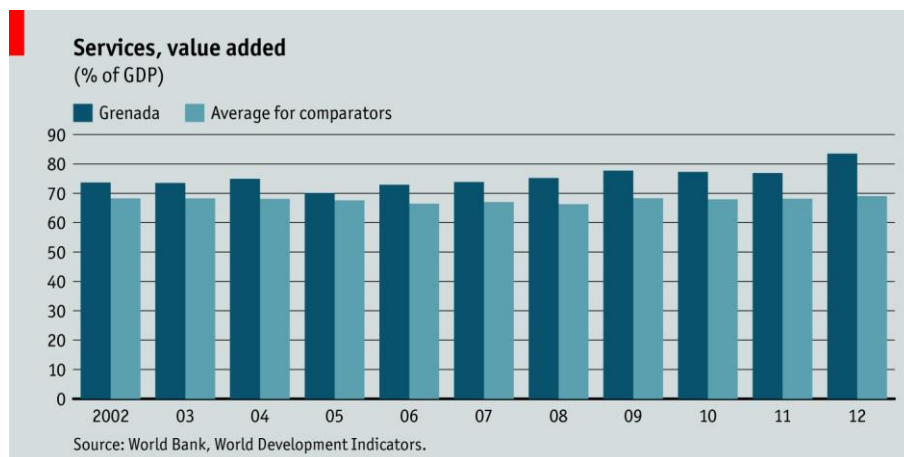
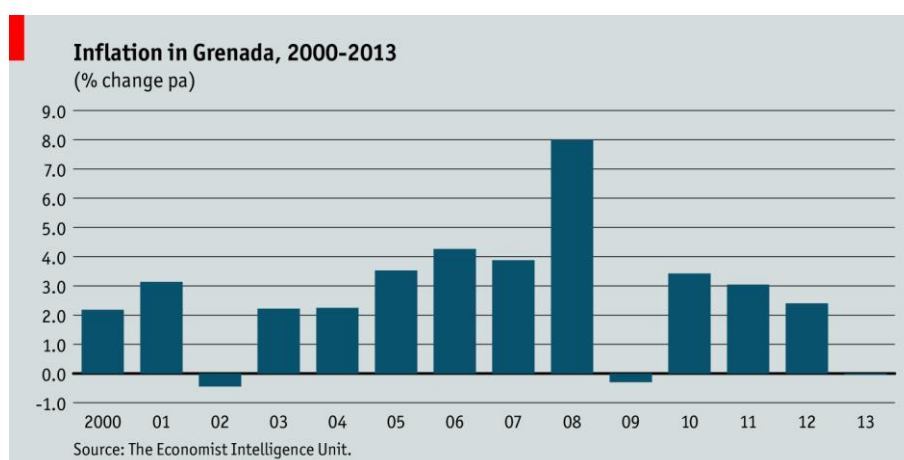
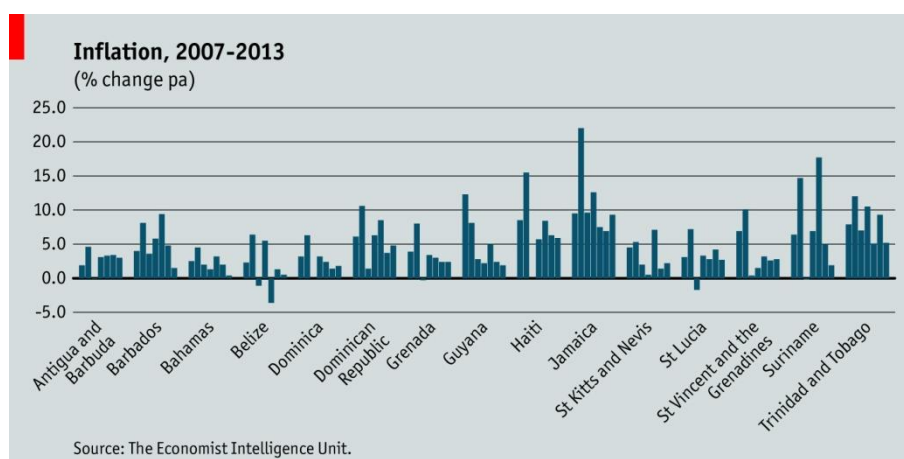


Figure 4



Inflation in Grenada tends to be low. Since 1980 the annual rate of inflation has averaged 3.3%, and between 2010 and 2013 inflation averaged just 2.8%. Grenada is a member of the Eastern Caribbean Currency Union, the common-currency framework for the Organization of Eastern Caribbean States (OECS).

Figure 5



The government, with the help of its international partners, has been working assiduously to achieve some degree of fiscal sustainability. In 2006 the island entered into a three-year Poverty Reduction and Growth Facility arrangement with the IMF (subsequently extended for an additional year) to help to mitigate the effects of food and fuel price shocks on the local economy. Under this programme, the government implemented various structural reforms and debt-management strategies. On the structural side, the authorities introduced a value-added tax in 2010 in order to enhance the coverage and buoyancy of the indirect tax system. Other policies included prioritizing capital spending, restraining wage growth and increasing the efficiency of public expenditure. As a result of these policies, the authorities were able to reduce the fiscal deficit from over EC\$200m (US\$74m) in 2006 to just over EC\$100m in 2010. By contrast, despite the introduction of the more broad-based VAT, tax revenue in the period was fairly flat, owing to the slowdown in domestic economic activity.

The slowdown in world economic growth has had a negative effect on macroeconomic fundamentals in Grenada. Key industries, such as construction and tourism, have suffered significant declines in output, and this has resulted in a considerable deterioration in the country's employment profile (although growth resumed in some leading industries in 2013). Based on the employment statistics that are available, it is estimated that one in every four Grenadians is without a job, with the levels of unemployment among young people and females likely to be higher. After contracting by 6.6% in 2009, the economy grew by an average of just 0.7% a year in 2010-13 (see Figure 1). In 2011 Grenada had one of the lowest levels of GDP per head in the Caribbean region and internationally, at just under US\$10,000, compared with an average of around US\$14,000 in other small Caribbean states. The slowdown in economic activity has had a damaging effect on the government's finances, with the result that Grenada is currently one of the most heavily indebted small-island developing states in the world. If slow growth in the international economy continues, local sectors such as the already weak tourism and construction industries could continue to decline. There are three key potential external threats to future economic development in Grenada: (1) slow economic growth in more developed economies, (2) fluctuations in international commodity prices and (3) weak foreign direct investment flows.

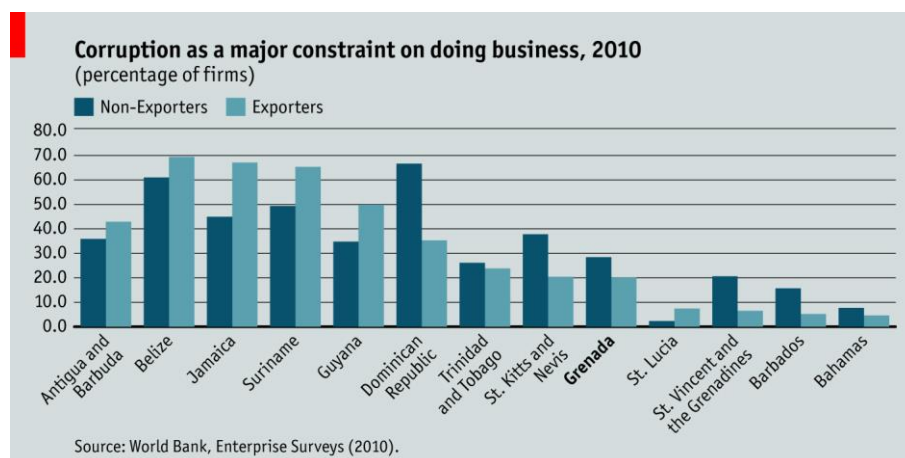
Institutional effectiveness

Grenada benefits from a stable political environment with regular democratic elections. The island has a robust civil society that actively participates in domestic, regional and international discussions. Workers have the right to strike, organize and engage in collective bargaining, the independence of the judiciary is respected, and women are represented in government—although there are few females in either the Senate (the upper house of parliament) or the House of Representatives (the lower house).

The Worldwide Governance Indicators project of the World Bank and the Brookings Institution suggests that weaknesses exist in Grenada in the area of government effectiveness. In 2013 the country's score for this indicator was in the 61st percentile for all countries evaluated. (The government effectiveness 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.) However, based on the 2010 Enterprise Surveys, the island's scores in relation to the level of corruption are not especially poor (see Figure 6).

Figure 6



In terms of the time it takes to deal with government regulations, the island lags behind most of the comparator countries. Senior managers in Grenada reported that they spent almost 8% of their time dealing with government regulations, compared with just 4% in Antigua and Barbuda as well as in Barbados, and just 2% in Jamaica, Dominica and St. Lucia (2010). Trade regulations were part of the problem, with almost one-fifth of firms flagging customs and trade regulations as a constraint on doing business (2010). Although Grenada performs fairly well in relation to comparator countries, this is still an area that should be addressed, given that it is a process issue and could therefore be resolved with relatively little expense.

The government has developed domestic institutions to support private-sector development, including a Special Business and Facilitation Committee, an additional Civil Court and a separate Registrar of Lands and Deeds. There are also industry-specific institutions, such as the Grenada Board of Tourism, the Grenada Industrial Development Corporation (GIDC) and the Grenada Development Bank. The GIDC seeks to facilitate and support investment in Grenada, both foreign and domestic. The institution offers investment and trade information, investment incentives, investment facilitation and aftercare, training in entrepreneurial and business skills, small-business support services, industrial facilities and policy advice. The GIDC attempts to act as a one-stop shop for potential investors. It can help investors to prepare business plans and complete applications for tax incentives, and can fast-track applications for permits and licences.

Components of the productive sector

Overview of the sector

This section addresses the current state of the private sector in Grenada, and gives a broad overview of major trends in the sector and its primary components. A later section will discuss potential emerging growth industries.

Grenada is an entrepreneurial society with a relatively small private sector. Based on national-accounts statistics, in 2013, the five largest industries of the economy were education, real estate, renting and business activities, transport, storage and communication, wholesale and retail trade and, construction. The country has traditionally depended on agriculture and tourism to drive growth and development. The agricultural industry, traditionally a key foreign-exchange earner for Grenada, has declined significantly in recent years due to loss of preferential market access and natural disasters. In 1980 agriculture accounted for almost one-quarter of all production on the island, but since then the industry has shrunk significantly, and it now accounts for less than 5% of total domestic economic activity. However, production of bananas has begun to show signs of recovery, while nutmeg production rose in 2007 and 2009. In recent years these traditional industries have added impetus to GDP growth, as has education. The latter industry has grown every year since 2001, and in the past few years the education industry has been the only part of the economy that has appeared not to have been significantly affected by the global economic downturn.

Table 2: Contribution to GDP by industry in Grenada, 2013

Industry	Share of GDP (%)
Education	19.8
Real-estate, renting & business activities	11.5
Transport, storage & communications	10.5
Public administration, defence & compulsory social security	7.8
Financial intermediation	5.5
Wholesale & retail trade	7.0
Construction	6.0
Electricity & water	3.8
Agriculture, livestock and forestry	3.5
Hotels & restaurants	3.3
Manufacturing	3.2
Health & social work	2.3
Other community, social & personal services	1.6
Fishing	1.3
Mining & quarrying	0.2

Source: Eastern Caribbean Central Bank, 2013

Although in the retail and manufacturing industries larger entities dominate, the median private-sector firm size in Grenada is fairly small. The World Bank's 2010 Enterprise Surveys noted that almost 65% of firms employed fewer than 20 persons, with most of the remainder employing between 20 and 99 people. The majority of Grenadian firms (73%) are either sole proprietorships or partnerships. There is insignificant ownership of firms by the public sector, and fewer than 20% of all firms are foreign-owned.

Based on a representative sample of firms in Grenada, the Enterprise Surveys revealed that the average small business employed nine full-time staff and two part-time workers. The disaggregation of employment and ownership by gender was fairly even: women were involved to some extent in the ownership of 56% of small firms, while 44% of permanent full-time workers were female. Both the Caribbean Development Bank (2008) and the Enterprise Surveys report that the private sector in Grenada is largely dominated by firms

operating in the services sector: the Enterprise Surveys report that 84% of firms in the private sector can be classified as providing a service of some kind. These statistics are largely in agreement with the CDB's 2007/08 Country Poverty Assessment report for Grenada, which suggests that 73% of employed persons work in the services sector. The report notes that 34% of individuals are employed in "general services", 19% in construction and 8% in education and social work. Most other services categories account for less than 5% of the employed labour force each. Agriculture remains important in terms of employment generation, with 8% of the employed workforce involved in agriculture and fishing. Manufacturing accounts for less than 3% of total employment in Grenada.

Table 3: Employment in Grenada by industry, 2008

Industry	Employment (% of total)
General services	34.0
Construction	19.0
Education & social work	8.0
Agriculture & fishing	8.0
Manufacturing	3.0

Source: Caribbean Central Bank, Country Poverty Assessment: Grenada, Carriacou and Petite Martinique, 2007/08

In Grenada, and across the Caribbean region, the private sector is underdeveloped and limited in its ability to cope with the liberalization of traditionally protected markets, given that it has enjoyed a long period of protection through such mechanisms as preferential trade agreements, which have recently been removed.

Agriculture

From 24% of GDP in 1980, the share of agricultural production in Grenada's economy has fallen to just 3.5% in 2013. Agriculture in Grenada is characterized by a significant number of small farms occupying less than 5 acres each. Around 8% of the island's labour force is employed in agriculture, meaning that further growth in the industry could contribute usefully to overall job creation. Exports of food and live animals constitute Grenada's largest category of merchandise exports (72%), and this has been the only category of goods exports to record significant growth since 2007. There is tremendous scope for growth in agro-processing, with significant employment currently being generated in the honey and honey-products segment, confectionery, snacks and dried fruits, spices, craft products and cosmetics.

Production of bananas, which has been significantly affected by extreme weather events such as the hurricanes in 2004 and 2005, has begun to show signs of recovery in recent years: banana production rose by 67% in 2008 alone. Meanwhile, nutmeg production rose by 59% in 2007 and by 23% in 2009. In recent years these traditional industries have given some impetus to overall economic growth. Grenada was also affected by a drought that had a significant adverse impact on crops in 2010.

Manufacturing

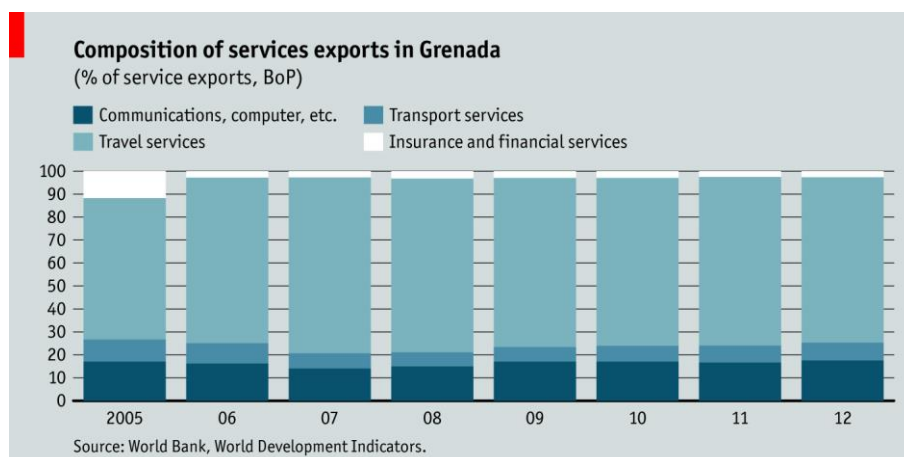
Manufacturing is estimated to have expanded in 2010, due largely to an increase in production of beverages and rum and stood at 3.2% of GDP in 2013. Most other areas of manufacturing, however, are largely dependent on the

domestic market and have therefore seen their output decline significantly in recent years in line with the slowdown in economic activity.

Grenada's export production structure has not changed significantly since 1995. In general, the island exports goods that are not unique. According to the Observatory of Economic Complexity, the island's main exports in 2012 were nutmeg, cocoa beans and fish, which together accounted for almost 70% of exports in that year. One area of export growth over the period has been that of cocoa beans and chocolate. Exports of cocoa beans rose from US\$4.2m in 1995 to US\$6.4m in 2012, and in the latter year the island earned US\$205,000 from exports of chocolate, a relatively new and emerging export category.

Services The services sector plays a primary role in domestic production and employment in Grenada. The country's industrial structure is dominated by services: three industries, namely education; real-estate, renting and business activities; and transport, storage and communications, together account for just over 40% of GDP.⁴ Figure 7 shows the decomposition of the various components of services exports for the period from 2005 to 2012. Tourism is the main driver of activity in the services sector, with education services also playing an increasingly important role. However, the tourism industry has lost growth momentum in recent years, due to the weakness of the global economic environment.

Figure 7



Nonetheless, tourism remains the largest earner of foreign exchange in Grenada. The island offers the traditional "sea, sand and sun" tourist experience that is available in much of the Caribbean, but has also developed attractions in many other areas, including heritage tourism, ecotourism and "edu-tourism". Grenada has also recently constructed a cruise-ship terminal, and has upgraded its yachting and marina facilities in order to take advantage of these industries. Tourism in Grenada is dominated by arrivals from the US, the UK and the rest of the Caribbean, and is therefore dependent on the economic fortunes of these source markets.

⁴ Eastern Caribbean Central Bank 2013.

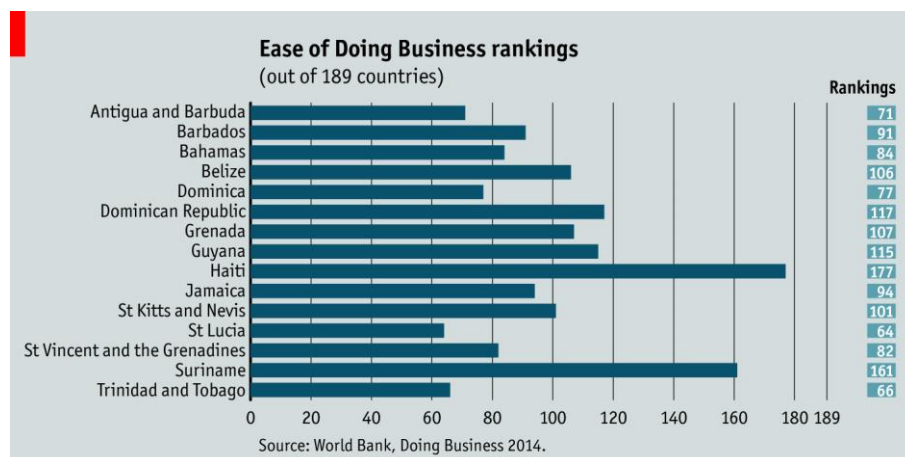
Construction in Grenada largely supports the growth and development of many other industries, and it is an important part of the economy owing to the substantial amount of employment that it generates. The CDB estimates that 19% of Grenadians were employed in construction in 2008. The industry's contribution to total value added in 2008 was modest, at just 7.3%, but it had been as high as 19% in 2005 and 13.8% in 2006, before the downturn in the local economy caused by the global financial crisis. As in most other economic industries in Grenada, the majority of firms in the construction industry are privately owned. The main construction companies on the island include Quinn Design and Construction and the Creative Design and Building Construction Company. Most firms in the industry cater primarily to the domestic market.

Wholesale and retail trade in Grenada is one of the largest industries in the economy. According to national-accounts data published by the Eastern Caribbean Central Bank, total value added in the wholesale and retail industry in 2013 represented 8% of GDP. The industry provides jobs for about 5.5% of the employed labour force, with a fairly even gender balance. The industry is highly competitive, and is largely price-driven due to the existence of many small traders operating beside larger established entities. The industry is dominated by Brydens & Minors, which employs around 120 people.

II. Key challenges for private-sector development

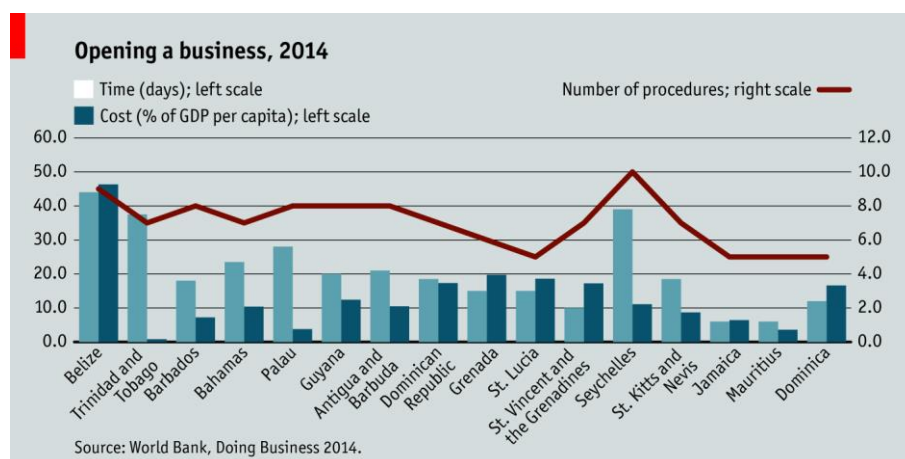
While Grenada has several institutions that are supportive of business development, as well as a fairly transparent system for doing business, the island’s overall ranking of 107th (out of 189 countries) in the World Bank’s Ease of Doing Business index for 2014 is indicative of a relatively unsupportive business environment. As Figure 8 shows, within the Caribbean region the only countries with lower rankings were Haiti (177th), Suriname (161st), the Dominican Republic (117th) and Guyana (115th).

Figure 8



One of the main reasons underlying Grenada's mediocre ranking in the Ease of Doing Business index is the time taken to start a new business and the cost of doing so (see Figure 9). In both 2004 and 2011 the cost of registering a business on the island was just over 25% of GDP per head, the second-highest ratio in any of the comparator countries (although by 2014 it had fallen to just under 20%). In addition, it normally takes 15 days to start a business in Grenada, nine more than in Jamaica, the best performer on this indicator among the comparator countries. There remains significant scope for improvement in the ease of doing business in Grenada.

Figure 9



Other indicators in the Ease of Doing Business index include dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. It takes an average of 47 days to register a property on the island, 18 days less than the average for Latin America and the Caribbean; however, the cost of the process is 7.4% of the property's value, 1.4 percentage points higher than the regional average. Areas in which Grenada underperforms in the 2014 Ease of Doing Business index relative to most comparator countries are getting credit, paying taxes and enforcing contracts. In relation to credit, the island suffers from a lack of information on potential borrowers—there is no private credit bureau or public credit registry. In addition, secured creditors are not necessarily paid first when a company is liquidated, and lenders need to go to court to enforce their creditor rights. Grenada has one of the highest rates of profit tax of any of the comparator countries, while the cost of enforcing a contract can be almost one-third of the value of the claim—one of the highest ratios in any of the comparator countries.

General political and governance issues

Interviews, as well as stakeholder consultations, identified general political and governance issues as a critical area affecting private-sector development. Stakeholders were of the view that development planning tends to be carried out on an ad hoc basis, with little or no work on developing a long-term strategic vision. In addition, private enterprises were of the view that there is a "silo mentality" in public-sector business-support organizations, with these bodies operating as autonomous entities without an explicit relationship with other public-sector organizations or a unified strategic vision. This negative view is borne out to some extent in the World Bank's Worldwide Governance Indicators by Grenada's relatively low ranking among the comparator countries for government effectiveness. This indicator looks at the perceptions of stakeholders regarding the quality and independence of public services and the civil service, the quality of policy formulation and implementation, and the credibility of government's commitment to these policies. Grenada is ranked below the median of the comparator countries on this indicator, and is the lowest-ranked member of the Organization of Eastern Caribbean States (OECS).

The situation is exacerbated by the limited fiscal space that is available to the government. The high level of the government's indebtedness places limits on public-sector goals, but it can also impact negatively on private-sector development. One key limitation is in the area of public goods such as tourism marketing, business support, and other investments to support private-sector development. Faced with budgetary constraints, the public sector's ability to spend money in these areas is limited. Other limitations that may be partly due to high levels of public indebtedness include long delays in processing applications and overall bureaucratic inefficiencies, as well as the limited availability of support mechanisms. All of these factors have the potential to impose time and monetary costs on business activity. In addition, participants in the stakeholder consultation meeting for this project were of the view that the need to improve data availability and access to information in Grenada was a priority area in relation to private-sector development.

Grenada has several organizations related to private-sector development that include representatives of labour, specific sectors and public-sectors agencies. Business-support organizations include public-sector entities such as the Grenada Industrial Development Corporation and the Grenada Development Bank, in addition to the Bureau of Standards, which provides services related to certification, quality assurance and metrology. Support for the private sector is provided by the Chamber of Industry and Commerce, although other sector-specific representative organizations exist for tourism and also for nutmeg growers. In addition, the Grenada Coalition of Service Industries has recently been founded, although the body is still in its infancy.

The political influence of the agencies representing the private sector is modest at best, with consultation occurring only at the invitation of the government. Networks are weak, with only limited formal co-ordination within and between private- and public-sectors agencies. In order to serve their constituents better, the main need identified by business-support organizations (other than greater funding) is increased support for human-resources development.

Access to finance The issue of easy and cheap access to financing and working capital is particularly important in small-island developing states like Grenada, due to the fact that in such countries the financial industry (in terms of commercial banking) is not as competitive and efficient as it is in major economies. The financial sector in Grenada is dominated by primarily foreign-owned (Canadian- and Trinidadian-owned) commercial banks, and by 11 credit unions that in 2011 had nearly 44,000 members (representing a 62% penetration rate among the country's population). While this penetration rate is the fourth-highest in the OECS, lending to enterprises is limited in the subregion. Domestic banks include the Grenada Co-operative Bank and the Grenada Development Bank, while the National Development Foundation also provides credit facilities for microenterprises. However, the existing institutions appear not to be adequate to cater to the varied needs of the small and fragmented private sector.

Figure 10

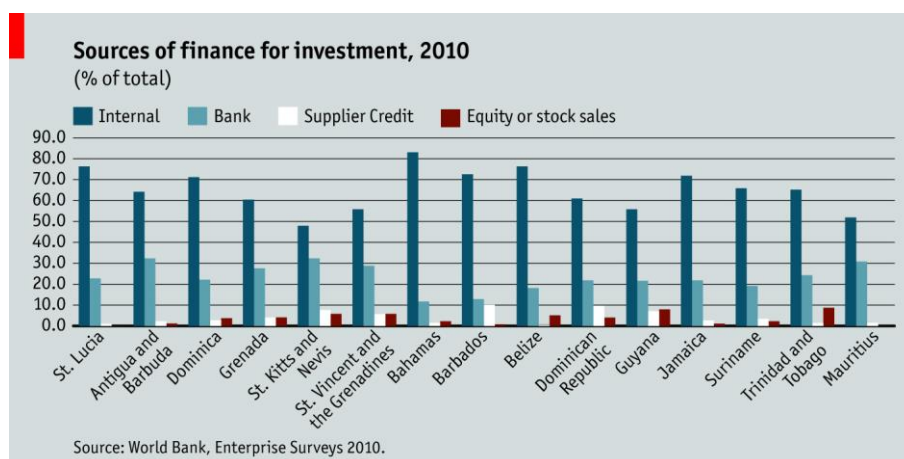
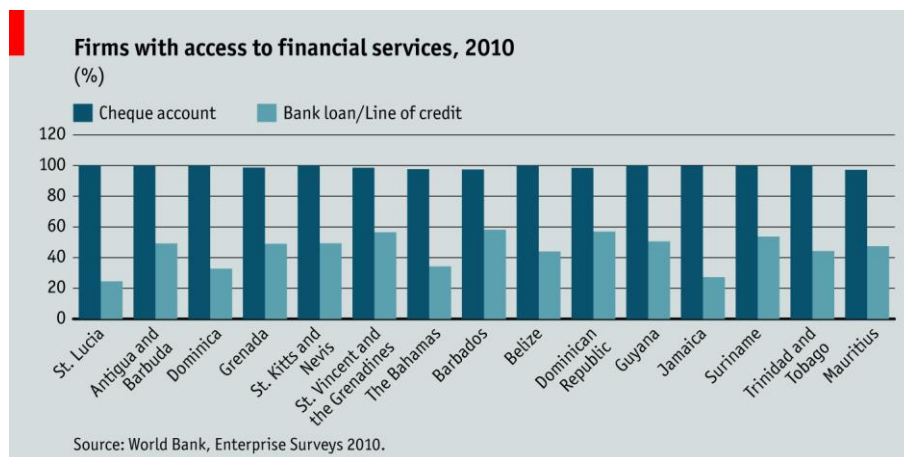
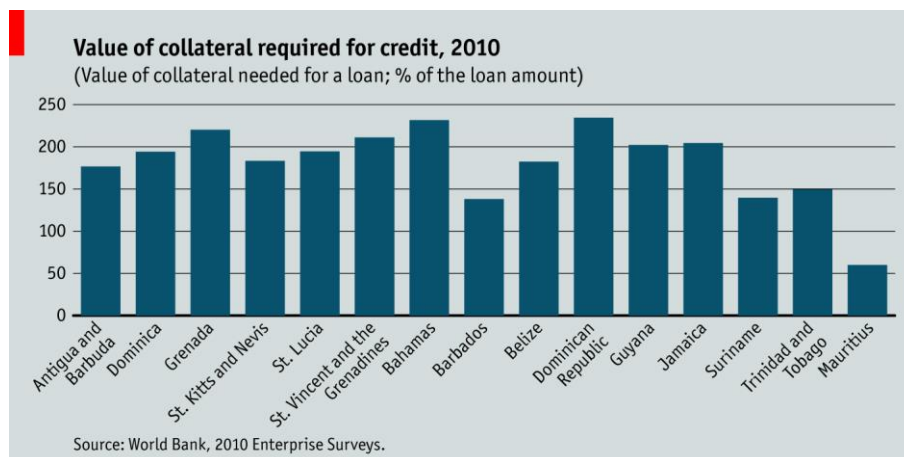


Figure 11

Around one-fifth of working-capital financing comes from banks, and another fifth is provided by trade creditors. These ratios are relatively high by regional standards, and, together with the wider interest-rate spreads prevailing in Grenada, they suggest that the cost of working-capital financing may be burdensome for firms. Grenada has one of the highest collateral requirements of any of comparator countries, at an average of 220% of the value of loans for borrowing from commercial banks. Only the Bahamas, at 231%, and the Dominican Republic (234%) have higher average collateral requirements (see Figure 12). High collateral requirements in Grenada persist despite the relatively deep penetration of banking services on the island, with virtually every business having a cheque account, and around one-half utilizing either loan or line-of-credit services (see Figure 11).

Figure 12

Compared with those in other Caribbean countries, Grenada's credit market is inefficient as measured by the spread between lending and deposit interest rates. Spreads are generally wide in the region relative to those prevailing in extra-regional comparator countries. Interest-rate spreads in Grenada stood at around 7% in 2000, reached a low of just under 6% in 2001, then rose to a high of 8.5% in 2003 and stood at 8% in 2011. Policy interventions that are needed

with regard to easing access to finance and lowering its cost to firms include the establishment of a public credit registry and support for the establishment of a private credit bureau. This would reduce information asymmetries, thereby speeding up lending decisions and potentially increasing credit availability to the private sector. Legislative changes are also required to provide greater protection to creditors, as secured creditors are not necessarily paid first when a company is liquidated. There is also a need to speed up the process of enforcing security rights.

Table 4: Interest rates in Grenada (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Lending interest rate	11.6	10.2	11.3	12.1	10.2	10.1	9.9	9.8	9.5	11.0	10.6	10.7	9.8	9.3
Deposit interest rate	4.2	4.3	3.6	3.4	3.4	2.9	3.0	3.2	3.2	3.3	3.1	3.1	2.9	2.7
Interest-rate spread	7.4	6.0	7.7	8.7	6.8	7.2	6.9	6.6	6.3	7.7	7.5	7.6	6.9	6.6

Source: The Economist Intelligence Unit.

Cost of doing business Although the supply of electricity in Grenada is relatively reliable, private-sector investment in generators is high, at 51% of all firms, compared with an average of 38% in the benchmark group of states. The use of generators appears to be primarily due to the wish of businesses to ensure continuity of access to power supplies, as firms did not cite the cost of electricity as a major constraint on doing business. Electrical outages on the island are relatively rare, at fewer than one per month.

Table 5: Infrastructure indicators for Grenada and comparator countries

Indicator	Average for comparator countries	
	Grenada	countries
No. of electrical outages in a typical month	0.7	3.6
Duration of a typical electrical outage (hours)	1.6	1.7
Losses due to electrical outages (% of annual sales)	0.4	0.6
% of firms owning or sharing a generator	51.4	37.8
% of electricity from a generator	0.8	3.4
Days to obtain an electrical connection	22.9	17.9
% of firms identifying electricity as a major constraint	16.9	39.4
No. of water insufficiencies in a typical month	0.8	0.7
% of products lost to breakage or spoilage during shipping to domestic markets	n/a	0.6
% of firms identifying transportation as a major constraint	14.8	23.5

Source: World Bank, Enterprise Surveys 2010

Grenada imports fossil fuels to meet its energy needs. In 2013 the island spent EC\$252m (US\$93m), or around 11% of GDP, on mineral fuels and related materials. Its heavy dependence on imported energy means that the island's economy is vulnerable to changes in prices on the international energy market. Given that it has little scope for expanding its own limited output of fossil fuels (even though offshore deposits of fossil fuels are being explored), Grenada's most effective options for achieving a balance between energy demand and

supply are to contain demand growth by increasing energy efficiency, and to expand production from alternative energy sources and natural gas. Although much progress is being made, neither of these areas has an established policy or regulatory framework for the promotion of public or private investment.

Companies domiciled in Grenada pay income tax on all non-exempt income, no matter what the source. The rate of tax on resident companies is 30%, and companies are assessed based on all income earned during a given calendar year. All businesses also have to pay a stamp tax on gross income (whether or not the company makes a profit) of 0.25% for gross annual income between EC\$30,000 (US\$11,000) and EC\$100,000 and 0.5% on income above EC\$100,000. There are capital allowances for depreciation, as well as a wide variety of fiscal incentives for investors in tourism, manufacturing and numerous other economic industries. A property transfer tax of 5% is assessed on the value of all property sold. In addition, if a foreign company buys into a local firm, the foreign entity pays a tax rate of 15% on the investment while the local business pays 10%. In 2010 the government introduced a value-added tax of 15% on the sale of goods and services, with the exception of accommodation at hotels, which is taxed at 10%, and telecommunications services (20%).

The World Bank's 2014 Ease of Doing Business data indicate that taxes payable by firms sum to 45.3% of profits on average. This rate is one the highest in any of the comparator countries, below only those in St. Kitts and Nevis (51.9%), the Bahamas (46.6%) and Palau (75.2%). The rate of corporate taxes is high, but not prohibitively so (see Figures 13 and 14). The Enterprise Surveys conducted in Grenada revealed that almost one-third of companies view tax administration as a major constraint on doing business. This may be due to the large number of payments required each year, at 30 on average.

Figure 13

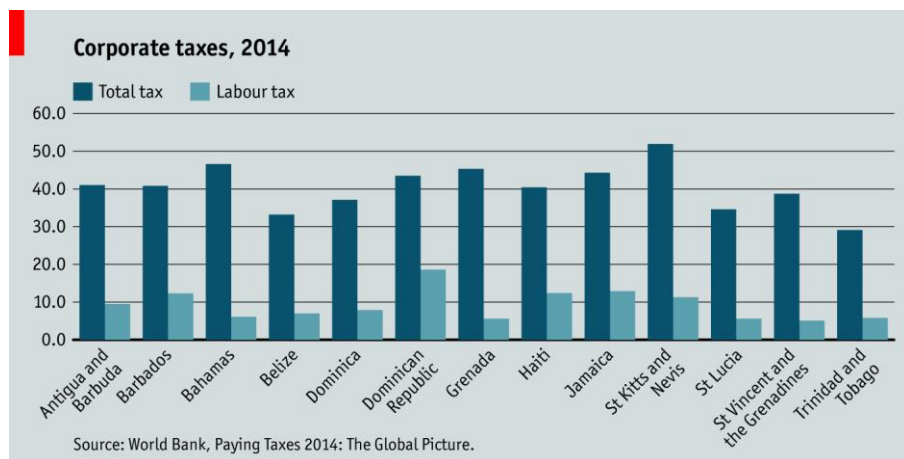
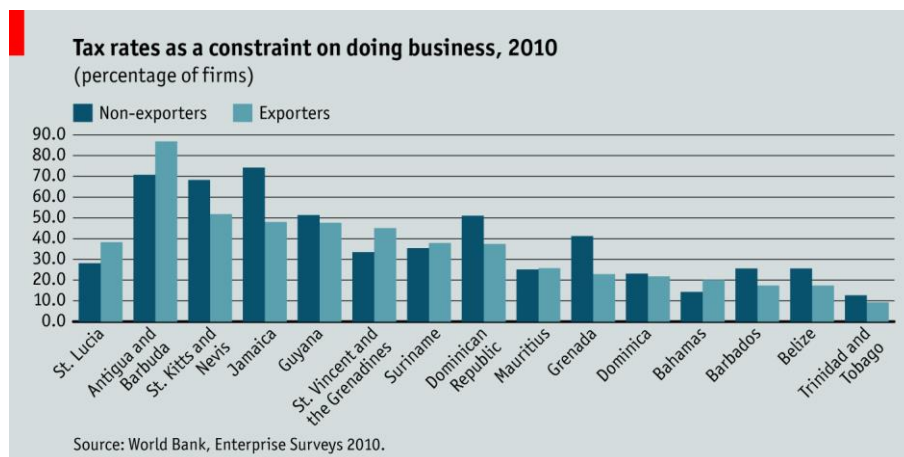


Figure 14

Obtaining licences and permits appears not to be a major constraint on doing business. The Grenada Industrial Development Corporation notes that the process of forming a company requires only four procedures: a business name search (which takes around three days), business name registration (two days), tax registration (two days) and registering employees for the national social-security scheme (one day). Some specialized permits and licences can, however, take up to 30 days to obtain.

The World Bank's 2010 Enterprise Surveys for Grenada suggest that almost one in every three non-exporting firms and one in five exporters believe that corruption is a significant constraint on doing business (see Figure 6). Corruption was reported to be particularly problematic in the areas of obtaining water connections and securing construction permits. Small firms were more likely than large companies to identify corruption as a constraint on doing business.

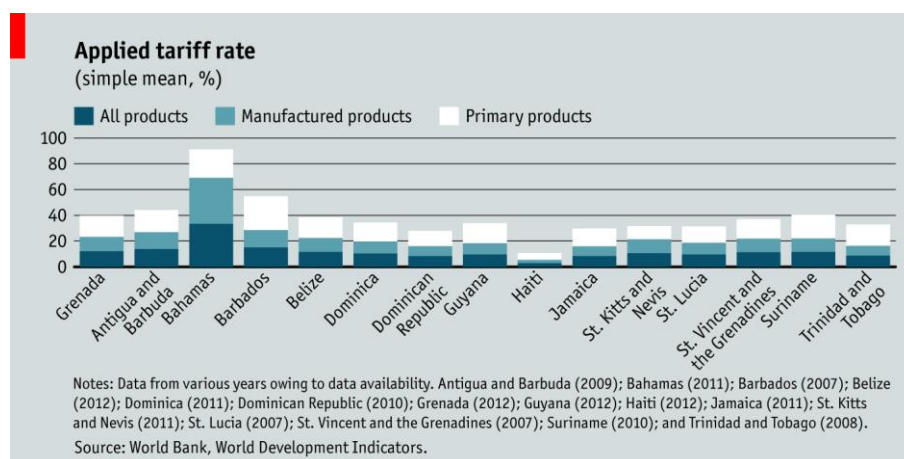
Labour market issues

The Labour Relations Act sets the institutional framework for labour relations on the island. Issues covered by the legislation include the registration of trade unions, and the law establishes freedom of association and sets conditions for exclusive bargaining rights for trade unions, and also covers certification and dispute procedures, among other matters. Given the relatively transparent approach to labour market regulations that prevails in Grenada, most businesses do not identify labour market issues as a significant hindrance to doing business.

However, businesses do face problems finding skilled employees. In 2008 the Caribbean Development Bank (CDB) reported that 65% of heads of households in Grenada stated that they had received no education above primary level, with just 19% having received some secondary education. There is thus a need for greater investment in the island's 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, healthcare and wellness, education and training facilities, agro-processing and light manufacturing.

Trade issues Tariffs on most categories of goods imported into Grenada are relatively low, suggesting that local producers may be subject to high levels of competition from imports. The average applied tariff for all products in 2012 stood at 12%. The degree of protection offered to the agricultural industry in Grenada is relatively weak, with the tariff on such goods averaging 17%. The level of protection offered to agriculture in 2009 was one-quarter of that in Barbados and was less than one-half of that of Belize and Trinidad and Tobago (see Figure 15). It should be noted, however, that some industries, most notably tourism, benefit from concessions that allow them to import most goods duty-free, in an arrangement that is aimed largely at enhancing the price-competitiveness of Grenada's export industries by reducing their input costs.

Figure 15



Grenada's tariff levels are not especially high. However, some representatives of businesses identified trade regulations as problematic: almost one-fifth of firms flagged customs and trade regulations as a constraint on doing business. Although Grenada performs fairly well relative to the comparator countries in this area, it remains a matter that should be addressed, given that it is a process issue and that improvements could therefore be achieved with relatively little expense.

Environment Grenada has a fairly advanced environmental policy framework. The overarching strategy document—the medium-term strategy—addresses economic, social and environmental issues. There is a National Forest Policy in place that attempts to protect a representative sample of all forest ecosystems. The policy uses a market-based approach to encourage the conservation of privately owned forests and the promotion of the sustainable use of genetic resources to achieve social, spiritual and economic benefits, among other goals. Key pieces of legislation govern the environmental-management actions of the five government departments and three statutory bodies involved with these issues.

The performance of the economy and the quality of life in Grenada are largely dependent on the capacity of its terrestrial and marine ecosystems to continue to provide ecosystem services. Such services take many forms: provisioning

from natural systems (seafood, wood and plants from gully ecosystems) and altered agro-ecosystems; the seashore-protection services provided by reefs and coastal vegetation; sand generation by reefs; non-extractive-use services that support income-generating activities such as snorkelling, scuba diving, hiking and sightseeing; and, finally, the creation of opportunities for recreation—a critical component of human wellbeing that is made available to Grenadians through healthy terrestrial and marine ecosystems.

There are 23 surface-water and six groundwater potable supply sources on mainland Grenada, yielding approximately 12m gallons/day (g/d) in the rainy season and 7m g/d in the dry season. According to 2007 figures from the government, demand for water stands at 10m g/d in the wet season and 12m g/d in the dry season. The high level of demand in the dry season is largely due to the overlap with the peak tourism period. The National Water and Sewage Authority supply water resources, but some communities in the south of the island rely on rainwater collection to augment their supply during the dry season. Carriacou and Petite Martinique are 100% reliant on rainwater harvesting.

Gender The Division of Gender and Family Affairs has the responsibility of co-ordinating activities related to gender balance in Grenada. Many programmes and regulations have been introduced to support the goal of gender equality. At present there is a Programme for Adolescent Mothers, the main aim of which is to ensure that young mothers can continue their education while taking care of their children. The police are expected to investigate all instances of adolescent pregnancy or statutory rape. In relation to workplace issues, the Office of the Labour Commission is responsible for monitoring instances of gender discrimination. Despite this, there is evidence that poverty among women is increasing. The CDB reported in 2008 that poverty among females had risen to 36%, from 31.5% in 1998. While these rates of poverty are lower than those reported for males, if these women are also the heads of a significant proportion of households this could put such households at risk. Moreover, the unemployment rate for females, at 31.7%, was more than 13 percentage points higher than that among males of 17.9%.

To address these issues, the Employment Act makes explicit requirements regarding females in the labour force in order to ensure gender equality. Employers are required to keep records of all female employees, including normal pay and working hours and the duration of any maternity leave granted. The act also explicitly prohibits discrimination on the grounds of sex, race, colour, marital status or family responsibilities (among other characteristics) in relation to recruitment, training, promotion, terms and conditions of employment, termination of employment or other matters arising out of the employment relationship. More specifically, it states that “every employer shall pay male and female employees equal remuneration for work of equal value”.

The World Bank's Enterprise Surveys for 2010 also provide indicators on gender disparities. Figure 16 shows indicators of female participation in firms (in terms of ownership and permanent full-time jobs), while Figure 17 illustrates the

proportion of firms with female top managers. Almost 57% of firms surveyed in Grenada indicated that they had a female participating in ownership, one of the highest ratios in the group of comparator countries. A similar story emerged with regard to the proportion of permanent full-time workers, with almost one-half (46%) of such workers being female. Grenada also scored highly in terms of the proportion of firms with female top managers, with one in every four firms having women in top management positions.

Figure 16

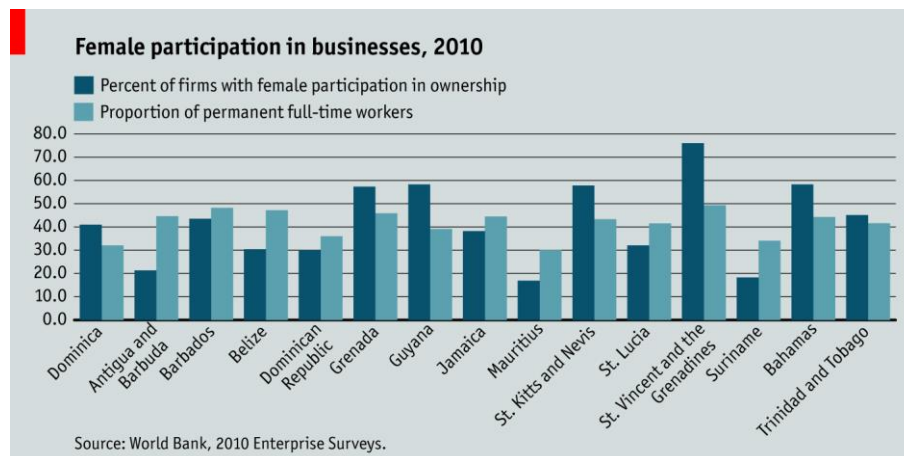
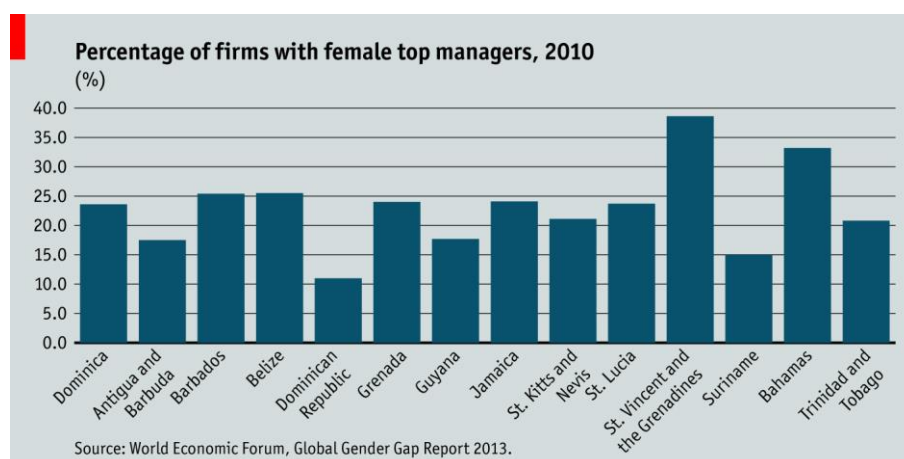


Figure 17



Analytical remarks

Grenada has a number of strengths that are likely to support the continued growth and development of the private sector, including relatively low inflation, ease of obtaining licences and permits, strong investor protection, access to technological platforms, good labour relations and relatively strong infrastructure. The island’s natural beauty and heritage can also be leveraged to support its continued focus on tourism, while its experience as a world leader in the production of spices can be built on to generate entrepreneurial opportunities higher up the value chain. However, key threats identified above could undermine private-sector development.

III. Emerging industries

In the 2013 budget, entitled "Restoring Hope, Building the New Economy and Empowering our People", the key elements of the "new economy" were listed as:

- World-class services industry, especially in tourism
- Green businesses, industries and lifestyles
- Developing agriculture along the value chain
- Efficient light manufacturing
- Dynamic export industries
- Lucrative oil, gas and renewable-energy industries

According to national-accounts statistics, Grenada's five largest industries are currently agriculture, construction, wholesale and retail trade, education, and hotels and restaurants. In 2013 agriculture is estimated to have accounted for around 3.5% of GDP, down significantly on its share prior to the hurricanes that struck the island in 2004 and 2005. However, the Eastern Caribbean Central Bank (ECCB) projects that agriculture's contribution to GDP will rise to just under 4% by 2015. This rebound will be driven largely by increased banana production, together with continued growth in nutmeg production and rising prices for that spice.

The industries with the greatest potential to contribute to economic health in Grenada in the long term are tourism, agro-processing and education. Whereas the education industry is already well established as a foreign-exchange earner and continues to diversify, the expansion of the agricultural industry along the value chain and investment in tourism still require specific attention.

Tourism Prior to the global recession, the tourism industry in Grenada was the recipient of significant foreign direct investment flows. However, with the slowdown in the world economy and the consequent decline in tourist arrivals, many hotels have come under significant pressure. The island is served by both regional and international airlines, but many of the routes are indirect and costly. For example, the average price of a return ticket from New York to Grenada is around US\$800, compared with just US\$400 to Barbados and US\$600 to St. Lucia.⁵ Further development of the island's tourism product would require greater investment in supporting air connections to the island and thereby making it more accessible to potential visitors, as well as moves to address some of the pressing problems affecting the industry. The main issues for tourism in Grenada relate to the high cost of energy (which is deterring investment and resulting in hotel closures), the high cost of finance, and the limited marketing budget available to the Grenada Board of Tourism.

Tourism is the largest earner of foreign exchange in Grenada. In 2011 it is estimated that tourism generated US\$117m in foreign exchange for the island,

⁵ Based on prices offered on www.expedia.com, January 2013.

with the ECCB expecting this figure to rise to about US\$120m by 2013. Grenada offers the traditional "sea, sand and sun tourism" available in many Caribbean countries, but has also developed attractions in other areas, including heritage tourism, ecotourism and "edu-tourism". The island has recently constructed a cruise-ship terminal, and has upgraded its yachting and marina facilities in order to take advantage of these tourism industries. In 2013 the World Travel and Tourism Council suggested that the contribution of travel and tourism to the Grenadian economy would increase over the next ten years in terms of share of GDP, employment, visitor spending and investment.

Agro-processing Nutmegs have been an important part of agriculture in Grenada for many years. The International Trade Centre noted in 2010 that, prior to the two major hurricanes that struck the island in 2004 and 2005, there were over 6,570 nutmeg farmers, but that since then their number had fallen to 2,500. The traditional market for nutmeg is the Netherlands, where the product is processed for shipment to other countries. In recent years international nutmeg prices have been fairly strong. If Grenada is able to boost production and regain its previous markets, there is tremendous potential for economic growth and export earnings from the nutmeg industry. There is also scope for export earnings from valued-added products such as Nut-Med, which has been marketed as a pain-relief formula. This movement up the value chain is consistent with government's desire to develop agriculture along the value chain and to create dynamic export industries. The development of exports in this area would assist the country in narrowing its trade deficit. However, the industry is constrained by a lack of domestic and international marketing, financing problems, high input prices and low utilization of local products in other industries, notably tourism.

Education The education sector has grown in every year since 2001, and is the only industry in Grenada that has not been significantly affected by the global economic downturn. Most of this growth has been due to activity at St George's University, which began life in 1976 as an offshore medical university providing training for careers in the US but has since expanded to offer degrees in veterinary medicine, arts and sciences, as well as graduate studies. The institution currently has over 6,000 enrolled students, primarily from the US and the UK. Education is also a key foreign-exchange-generating industry for Grenada. St George's University contributes over US\$100m annually to the island's economy in the form of salaries, hotel accommodation, housing, recreation, food, construction, goods and services, advertising expenditure and charitable donations. In 2011 the education industry accounted for 19% of GDP, and its share is expected to grow to 21% by 2014. The industry provides jobs for almost 8% of the employed labour force.

IV. Priority areas and action plan

Background The Grenada Private Sector Assessment Report (PSAR) identifies a number of key challenges to private-sector development and several industries that may drive growth in the future. Many policy recommendations for improving the business environment and spurring private-sector development in Grenada could be included in the report, but the PSAR emphasizes the importance of addressing the challenges of general political and governance issues, access to finance, the cost of doing business, labour market issues and trade issues. The main challenges relate to the lack of an adequately educated workforce, finance issues and cost issues.

General political and governance issues The existing constraints on doing business suggest the need for the development of a national strategic plan for private-sector development, an explicit delineation of the remits of the various government agencies, the development of expanded communication channels between business-support organizations (both public and private) and greater dissemination of information by such bodies. The relevant action plans developed from the private-sector assessment to address these issues include:

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

Past attempts to do this in Grenada have not been hugely successful. In 1998 discussions commenced between the government, employers and labour representatives to develop a memorandum of understanding embodying consensus on national development. However, these talks did not result in any tangible results.⁶

In addition, attempts were made by the previous government to establish a social protocol, entitled "A Grenadian Partnership for Economic Survival, Social Cohesion, and Ultimate Transformation in the Face of an Unprecedented Global Economic and Financial Crisis". However, agreement could not be reached on the content of the protocol. Under the present administration, efforts have been made to establish a social protocol agreed by the social partners, but this process is still at an embryonic stage. The social partners in this instance comprise the government, the Grenada Trade Union Council and representatives of the private sector.

Once established, the Tripartite Committee should seek to also address the following issues:

Action 2: Rationalization and streamlining of the public sector's business-support framework. Through the work of the Tripartite Committee, a revised system that addresses the needs of the private sector (in terms of access to finance, technical assistance and availability of data) as well as the wider obligations of government should be implemented.

⁶ Discussed on p.80 of Greaves, E. (2004), "Social Dialogue in Selected Countries in the Caribbean: An Overview", in *Journal of Eastern Caribbean Studies*, 29 (4), pp.64-85.

Action 3: Development of a National Strategic Plan that brings private-sector development into the mainstream. Through the lobbying efforts of the government, these 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), the Eastern Caribbean Currency Union and the Caribbean Community (CARICOM).

A national strategic plan can ensure that policy planning is continuous and is not influenced by the electoral cycle, thereby enhancing the transparency of government policy formation as well as reducing business uncertainty. There are already industry-specific strategies (for example, the Grenada Board of Tourism's strategic plan for 2011-14), donor plans, as well as the Throne Speech (in which the government's legislative programme for the coming period is laid out), but without an overall national plan it is unclear how these various documents fit together.

A national strategic plan would also help to address the common criticism that a "silo mindset" is prevalent in the public sector. Although it would not necessarily mean that intra-governmental communications would improve, such a plan would provide the basis for the development of policy priorities.

The creation of a national strategic plan may present challenges in terms of who is to develop the plan and how to ensure that it continues to be followed as changes in government occur. Were the private sector to become strong enough to insist that successive governments continued to implement a development plan, these concerns about the effect of changes of government on the plan's implementation would wane. This suggests that if the private sector is afforded the space to grow, political obstacles to putting the plan into effect may diminish.

Access to finance

Across the OECS, the issue of access to finance and its cost is one of the biggest barriers to doing business, mainly due to the underdeveloped state of capital markets. The situation is no different in Grenada. Representatives of enterprises interviewed for the PSAR noted that the high cost of finance was a key factor limiting the formation of new firms and the expansion of existing enterprises in Grenada. They said that access to finance was also limited due to the lack of information on potential borrowers, and also reported that financial industry regulators lacked an appreciation of the special circumstances of smaller enterprises. As noted by interviewees from the country's financial industry, there is a need for flexibility in the terms of loans to new businesses, given that income streams can be erratic during the early stages of a company's development and the fact that many such businesses may be subject to strong seasonal variations in cash flow. However, when repayments are missed (even with the consent of the lender) the regulator classifies a loan as delinquent. This has the consequence of creating a picture of poor performance by the financial institution concerned and sully the reputation of the borrower.

Communications charges, legal fees and the information costs of establishing the correct price all increase the costs of banking transactions. The aim of introducing advanced technology to reduce transaction and interest costs at banks operating in Grenada should be high on the list of priorities. To reduce

transaction and operating costs, it is recommended that policies be structured around ensuring the formality of businesses (consisting primarily of the registration of companies), technical assistance for the development of products and services, technological advancement (for example, improving credit-information systems) and reducing operating costs (through incentives and policies, such as retrofitting, that bring down the cost of electricity for companies). Given that inefficient operation by financial institutions results in increased costs for their customers, it is also recommended that a quarterly efficiency assessment be carried out to ensure that commercial banks operating in Grenada are running efficiently and thus benefiting their customers (both individuals and enterprises) through competitive prices.

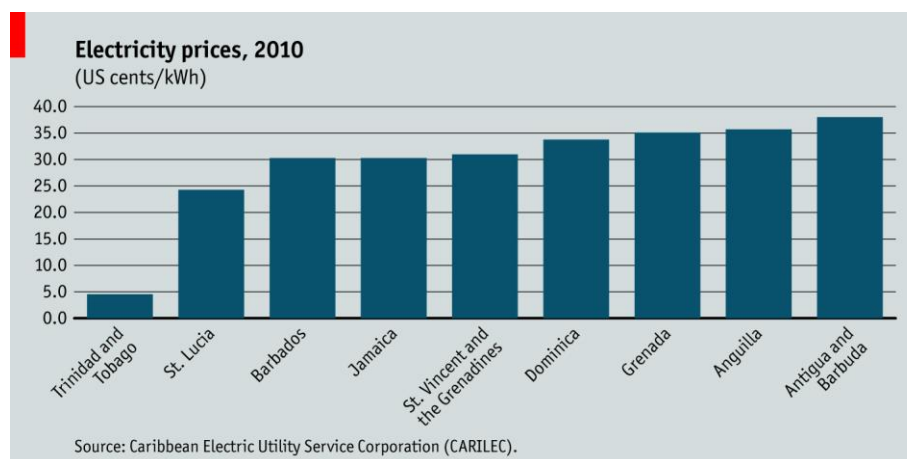
There is a need to reduce the cost of finance for firms and improve their ability to borrow by increasing the formality of enterprises and enhancing the availability of data. While the availability of data is important for the development of business plans (both strategic plans and those put together in order to access funds), this issue has already been addressed in relation to Action 2. However, a lack of adequate record-keeping, and of the necessary skills to prepare viable proposals to present to finance providers, is another deficiency that makes it difficult for businesses to borrow money. By increasing formality, in terms not only of registration but also of the adoption of accepted business practices, access to credit is improved. The Action Plans to emerge from this element of the PSAR include:

Action 4: Reduce the cost of finance through the reduction of transaction and operational costs in financial institutions via the use of technology and the monitoring of efficiency levels; reduce both risk and risk-aversion through the establishment of a credit bureau and a collateral registry; strengthen the Grenada Development Bank in terms of its financial and human resources; and introduce alternative financial products and greater competition in the financial industry.

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 (such as record-keeping) and the skills needed to develop business plans for funding and strategic planning. These services are already provided by the Grenada Industrial Development Corporation, but the results of the Private Sector Assessment indicate that their utilization needs to be expanded.

Cost of doing business

The two main issues raised in relation to businesses' costs (other than the cost of finance) pertained to the stamp duty on sales and the cost of electricity. The stamp duty on sales in Grenada is levied at 0.5%, a rate that private enterprises consider onerous given that they can be making a loss but still have to pay the tax. The value-added tax, introduced in 2010, is also considered to put a squeeze on margins. Taxation is a subject that should be on the agenda of the suggested Tripartite Committee. However, of greater concern is the cost of electricity.

Figure 18

Based on interviews and the results of the World Bank's 2010 Enterprise Surveys, electricity costs were ranked as one of the biggest obstacles to doing business in most OECS countries. As shown in Figure 18, the cost of power was at least 30 US cents/kWh in almost all countries in the region (the cost was less than 5 US cents/kWh in Trinidad and Tobago—unsurprisingly, given that country's abundant energy resources).

To address the issue of the high cost of electricity, and of energy in general, in Grenada, the two main options involve the conservation of energy and the exploitation of alternative energy options. In terms of conservation, the adaptation of behaviour to reduce consumption and the adoption of energy-efficient technologies, along with retrofitting, provide avenues towards lowering costs in the short to medium term. In Grenada, the potential to exploit alternative energy sources appears high, given the country's ranking of third in the region in the Caribbean Renewable Energy Forum's 2013 Renewable Energy Island Index for the existence of an enabling environment and planned renewable-energy projects that are expected to come on stream in the next five years (the country receives a low ranking for existing renewable-energy projects, however).⁷ The main opportunities in this area relate to geothermal energy.

Action 6: Provide incentives for energy conservation and frameworks for the exploitation of renewable/alternative energy sources. Incentives and support in this area will act as a cost-reduction tool, and will also provide opportunities for investment and enterprise development in the renewable/alternative energy industry.

Incentives could include concessions on duties applying to 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.

⁷ http://www.castalia-advisors.com/files/Castalia-CREF_RE_Islands_Index_121010-1.pdf

Labour market issues The limited availability of trained staff and the lack of specialist skills limit the potential for the further expansion of the private sector in Grenada. In seeking to address these issues, the two main areas requiring attention are:

- Implementation of education and human-resources planning
- Vocational and on-the-job training

Before working out the details of any strategic plan, Grenada needs a balanced accounting of the needs of industry and the strategic direction of government. This will facilitate human-resources planning that clearly signals which industries the government intends to support. Such signalling will encourage investment by the private sector (both foreign and domestic) in these strategic industries.

With regard to on-the-job training and apprenticeships, enterprises need to be incentivized to invest in this aspect of skills development to ensure that they can access the skills required for their growth, as well as to provide an opportunity for uncertified workers to enhance their earning capacity through on-the-job certification initiatives, such as National Vocational Qualifications (NVQs). This is an area in which the private sector can contribute to the wider development of society.

Given the specific nature of the skills required by some organizations, it is unlikely that the necessary training will be available in the education industry, and this means that these skills need to be acquired within companies. Caribbean Vocational Qualifications (CVQs) and NVQs provide the ideal mechanism in this respect, and participation by enterprises should be strongly encouraged. Industry-specific skill needs include:

- Agriculture: marketing and nutrition
- Tourism: branding, marketing and product development
- Information and communications technology (ICT): software development, website hosting and the provision of services in relation to online marketing, e-commerce and e-government.

Action 7: Education and training curriculum reform that addresses the long-term strategic objectives of the government as well as the more immediate needs of the private sector. The long-term strategic direction of the government should be determined through dialogue with the private sector.

Trade issues All of the above-mentioned issues (namely governance, finance, costs and labour market issues) have had an impact on the product mix in Grenada. Most of the goods that Grenada exports are not unique or complex, and therefore tend to be at the lower end of the value chain. Moving further up the value chain would allow the island to reduce the price volatility of its exports, as well as enhancing the economic contribution of its export industries. In addition to the low value-added content of Grenada's exports at present, there is also a high degree of concentration in both export products and markets. This export structure makes the island vulnerable to the global business cycle. It is proposed that the problems affecting the export industry could be solved by the

implementation of action plans that strengthen the private sector's voice in strategic planning, rationalize business-development support, reduce the cost of doing business and ensure that suitable skills are available in the labour market. The Grenada PSAR therefore includes no specific action plan to address trade issues.

Conclusions Grenada's vulnerability to food- and fuel-price shocks, and its reliance on the economic strength of a few overseas markets for its goods and services, could result in continued debt accumulation as commodity-price shocks cause the external current-account balance to deteriorate. Given that investment inflows are waning, there is a risk of increased government spending financed by debt. Ultimately, Grenada should seek to mitigate the vulnerability that arises from its dependence on tourism by diversifying its economic activities, trade flows and energy sources. The main challenges to economic development involve: sustaining investment, economic growth and social progress in an uncertain international economic environment and in the face of possible new shocks; reducing poverty; cutting unemployment; improving access to good-quality healthcare; human-resources development; modernizing the public sector; and improving environmental management. Meanwhile, the largest obstacles faced by the private sector relate to access to finance, the cost of doing business, competition to enterprises in the formal sector from unregistered businesses, the limited nature of intra-regional transport links and the lack of an adequately educated workforce.

While all of the action points relate to the establishment of a conducive environment for the development of the private sector and are external to enterprises, the private sector itself will need to take a portion of responsibility and seek to adopt a more proactive approach towards exploiting market opportunities. Given the perception that the private sector is not as proactive as it could be, and as a caution in relation to interventions to spur the sector's development, it is imperative that all key international and domestic stakeholders are fully aware of the current level of development of the private sector. Lessons should also be learnt regarding the desirability of drawing on the strengths of the region, rather than seeking, as in the past, to attract investment based on low-cost labour. The latter strategy can lead to the entry of the local market by "footloose" enterprises that may relocate to competitor countries as relative cost levels change or as local economic conditions deteriorate in comparative terms.

The Caribbean region needs to exploit those resources in which it enjoys an advantage and possesses a strong brand, suggesting the need to concentrate on such industries as alternative energy (geothermal and solar), specialist agricultural products (such as nutmeg in Grenada) and agro-processing, eco-tourism, "edu-tourism" (drawing on the region's human resources), heritage tourism, health and wellness (both product-specific and related to tourism), and financial services. In addition to drawing on the region's advantages in terms of its geographical location, attention should be paid to the specific recommendations that have consistently emerged from research in the Caribbean, which relate to niche-market development; moving up the value chain; the development of strategic alliances and joint ventures for the transfer

of knowledge and technology; and the development of clusters (both vertical and horizontal). While activities in these areas are not mentioned in the action plan due to their specific nature, they should remain as options during the development of the strategic plan for private-sector development and expansion in Grenada.

References

- Caribbean Development Bank (CDB) (2008). *Country Poverty Assessment: Grenada, Carriacou and Petite Martinique*. Bridgetown: CDB.
- Coase, Ronald (1934). "The Nature of the Firm", in *Economica* 4 (16), pp.386-405.
- Cummings, J. and Teng, B (2003). "Transferring R&D knowledge: Key factors affecting knowledge transfer success", in *Journal of Engineering and Technology Management*. Elsevier
- Deloitte and Touche (2004). *Caribbean Financial Sector Assessment*. Deloitte and Touche, US Agency for International Development.
- Demirguc-Kunt, A., Beck, T. and Honohan, P. (2008), *Finance for All? Policies and Pitfalls in Expanding Access*. World Bank.
- The Economist Intelligence Unit and Barclays Bank (2010). *Banking for Billions: Increasing Access to Financial Services*.
- Government of Grenada (2007). *Road Map toward Integrated Water Resources Management Planning for Grenada*. St. George's: Government of Grenada.
- Grenade, K. (2007). *Determinants of Commercial Banks Interest Rate Spreads: Some Empirical Evidence from the Eastern Caribbean Currency Union*. ECCB Working Papers, March 2007.
- Griffith, J., Lewis-Bynoe, D. and Moore, W. (2000). "The Impact of Trade Liberalisation on Specific Sectors of the Barbados Economy and Consumers", in *Economic Review*, 27, pp.21-30.
- Holden, P. and Howell, H. (2009). *Enhancing Access to Finance in the Caribbean, Private Sector Development Discussion Paper #4, No. IDB-DP-164, Inter-American Development Bank (IDB)*.
- International Finance Corporation (IFC) and World Bank. (2010). *Enterprise Survey—Grenada*. Washington, D.C.: IFC and World Bank.
- International Labour Organization (ILO) (1997). *Human Resource Development for Continued Economic Growth: the Singapore Experience, ILO Workshop on Employers' Organization in Asia-Pacific in the Twenty-First Century*.
- International Poverty Centre (IPC) (2008). *Banking the Un-Banked: Improving Access to Financial Services, Research Brief October 2008, No. 9*. International Poverty Centre.
- International Trade Centre (ITC) (2010). *Grenada Nutmeg Sector Strategy*. Geneva: ITC.
- Malaki, A. (2006). *Informal Finance and Microfinance in Jamaica and Trinidad & Tobago: An Institutional Study*, ISBN 91-85445-18-5 ISSN 0346-8305. Ekonomisk-historiska institutionen, Stockholm University.
- Moore, W. and Craigwell, R. (2000). *Market Power and Interest Rate Spreads in the Caribbean*. Central Bank of Barbados.

- Moore, W., Craigwell, R. and Maxwell, C. (2005). "Financing Preferences and Firm Growth", in *Savings and Development*, 1.
- Myers, S. (1984). "The Capital Structure Puzzle", in *Journal of Finance*, 39, pp.575-592.
- Nannyonjo, J. (2010). *Customs Automation Initiatives and their Impact on Efficiency and Productivity: Case Study on Uganda*. Statistics Department, Bank of Uganda.
- Nordås, H. and Piermartini, R. (2004). *Staff Working Paper ERSD-2004-04, August 2004*. World Trade Organization.
- OECD (2010). "Singapore: Rapid Improvement Followed by Strong Performance", in *Strong Performers and Successful Reformers in Education: Lessons from the Programme for International Student Assessment (PISA) for the United States*.
- Randall, R. (1998). *Interest Rate Spreads in the Eastern Caribbean, Working Paper/98/59*. Western Hemisphere Department, IMF.
- Schulpen, L. and Gibbon, P. (2002). "Private Sector Development: Policies, Practices and Problems", in *World Development*, 30 (1), pp.1-15.
- Sharma, P. and Brimble, M. (2012). *Sustainable development in the small states of the South Pacific: Toward a corporate social responsibility for international banks in small economies*, No. 2012-11. Griffith Business School.
- Stein, P., Goland, T. and Schiff, R. (2010). *Two trillion and counting: Assessing the credit gap for micro, small, and medium-size enterprises in the developing world*. McKinsey & Company and IFC.
- Tilak, J. (2002). *Building human Capital in East Asia: What Others can Learn*. International Bank for Reconstruction and Development, and National Institute of Educational Planning and Administration, New Delhi, India.
- Tong, S. (2001). *Foreign Direct Investment, Technology Transfer and Firm Performance*. Hong Kong Institute of Economics and Business Strategies, University of Hong Kong.
- Wang, N. (2003). *Measuring Transaction Costs: An Incomplete Survey*, Working Paper Series, Working Paper No. 2, February 2003. Ronald Coase Institute.
- Watson, G. (2009). *Linking Remittances and Access to Finance*. Global Remittances Working Group, November 2009, Multilateral Investment Fund, IDB.
- World Economic Forum (WEF) (2012). *Global Competitiveness Report, 2012*. Geneva: WEF.
- Wozniowska, G. (2008). "Methods Of Measuring The Efficiency Of Commercial Banks: An Example Of Polish Banks", PhD ISSN 1392-1258, in *Ekonomika* 2008 84. Banking Department, Wroclaw University of Economics.