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Caribbean Rim

ANTIGUA AND BARBUDA, GRENADA AND ST. LUCIA

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Série sur les Caraïbes

Antigua-et-Barbuda, Grenada et St. Lucia

Foreword

The current reports on Antigua and Barbuda, Grenada, and St. Lucia benefited from a peer review which took place at the Caribbean Rim Investment Initiative (CRII) meeting held in St. John's, Antigua on 30-31 March 2005. These reports serve as a basis for developing an investment policy reform agenda which could qualify for support by bilateral and international organisations.

To date, studies providing an overall factual assessment of investment conditions existing in Costa Rica, the Dominican Republic, and Jamaica were published in 2004 and for the Netherlands Antilles in 2005. This publication completes this series of studies.

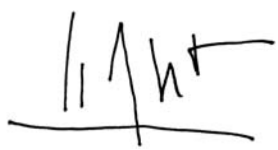
The CRII supports Caribbean Rim countries in their efforts to improve their investment climate, attract increasing flows of investment – both foreign and domestic – and maximize the benefits that such flows may have in their economies.

The origins of the CRII can be traced back to two workshops held in the Dominican Republic in April 2000 and in Curaçao in April 2001, where government officials from Caribbean Basin countries, private sector participants, and representatives of the OECD and other international organisations exchanged views on how these economies could improve their investment climate.

Several reasons justify the focus on the countries of the Caribbean Basin. In addition to constituting a distinct geographic area, this region comprises more than half of the countries of the Americas and practically all of the smallest economies existing in the Hemisphere. Despite some common elements, the region presents a high degree of heterogeneity. It includes countries with just a few thousand inhabitants and others with cities of several million, societies with relatively high human development achievements while others endure the worst living conditions on the continent, some are strong democracies, others still have weak political institutions. This mosaic of economic conditions and the political and social diversity explains in part why the Caribbean Basin has been less studied than other regions in Latin America. However, this reality also points to the need to promote initiatives specifically tailored to address the complex realities of these countries.

In publishing these three reports, we would like to express our gratitude to our donors (The Kingdom of the Netherlands, and the United Kingdom). Special thanks are also due to national CRII co-ordinators, Mrs. Gaye Hechme of Antigua and Barbuda, Mrs. Sonia Roden of the Grenada Industrial Development Corporation, and

Mr. Titus Preville, Deputy Permanent Secretary at the Ministry of Commerce and Investment in St. Lucia. We are also grateful to the main contributors to these reports, Maryse Robert, Pablo Kunik, Iza Lejarraga, and Deborah Hackshaw, and to international organisations that provided technical advice such as the UN Economic Commission for Latin America and the Caribbean (ECLAC), the CARICOM Secretariat, the Organisation of American States (OAS), and the Multilateral Investment Guarantee Agency (MIGA). We also appreciate the effective organisation and co-ordination of CRII meetings provided by Luz Beaty from the Directorate for Financial and Entreprises Affairs.



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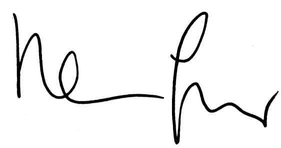

Rainer Geiger
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PART I

Antigua and Barbuda

The Government of Antigua and Barbuda considers foreign direct investment to be an important component for successful economic growth strategies. In the past two years, we have taken a number of initiatives to create an enabling environment conducive to attracting foreign direct investment. Further, we are seeking to implement a set of policies to increase the positive impact of foreign direct investment on our national development goals. These include work on the development of a National Strategic Development Plan detailing the government's economic programmes for the period 2005-2010; the establishment of an Investment Authority to promote and facilitate foreign direct investment; and an enhanced Financial Services Regulatory Commission to effectively monitor and regulate our international financial services sector.

The successful completion of this Business Environment Report for Antigua and Barbuda and the discussion of this report in St. John's on 30 March 2005 when our country hosted the annual meeting of the Caribbean Rim Investment Initiative represent an important milestone in the reform of the economic policy programme for our country, as the Government strives to increase Antigua and Barbuda's attractiveness as a place to do business, with good governance and transparency as the building blocks of the programme. Concomitant with this are ongoing efforts to reduce economic vulnerabilities, eliminate barriers to competitive global trade and investment, increase competitiveness in the private sector, improve domestic employment, and enhance our capacity for sustainable growth in the face of external circumstances.

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The Honourable Dr. L. Errol Cort
Minister of Finance and Economy
Government of Antigua and Barbuda

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Executive Summary

Antigua and Barbuda, one of the smallest countries of the Americas, twice and half the size of Washington, DC, is a constitutional monarchy with a British-style parliament. Home to 68 320 people (2004), it enjoys one of the highest per capita incomes in the Western Hemisphere. With a gross domestic product (GDP) per capita of USD 9 300 and purchasing power parity of USD 9 160 (2003) it is only surpassed by four other countries in the Americas, the United States, Canada, the Bahamas, and Barbados.[1] The workforce of 30 000 is mainly employed in the services sector. Government is the largest employer. Tourism and the international financial services sector are the driving forces of the economy. Most inhabitants reside in Antigua, also the main centre for tourism and business. Barbuda is much smaller with a population of less than 2 000 people. It is home to white and pink sand beaches, smaller and exclusive resorts, and a sanctuary for frigate birds. The nation also includes the tiny (1.6 square km) uninhabited island of Redonda, now a nature preserve.

The country experienced strong growth in the last three decades. In the late 1970s and the 1980s, GDP increased rapidly mainly driven by the development of the tourism sector, after the closure of the sugar and cotton industries during the 1970s. In fact, GDP grew at an annual average rate of 6.5 per cent in the 1980s, fuelled largely by foreign direct investment (FDI) in the tourism sector. Although four hurricanes hit the country in the 1990s, the annual average growth rate reached 5.3 per cent in the second half of the decade. A downturn in stopover tourism after the September 11 attacks on the United States in 2001, the global overhaul of offshore regulation as well as the ban on Internet gambling in the United States led to a more modest GDP annual average growth rate of 2.3 per cent in 2000-2002. The year 2003 reversed this trend. The International Monetary Fund (IMF) reported that real GDP grew by 4.9 per cent due to a 9.5 per cent rise in tourism. In 2004, stopover tourist arrivals showed a 16-per cent increase between January and June, whereas real GDP reached 4.1 per cent.

Antigua and Barbuda is one of the seven member countries of the Organisation of Eastern Caribbean States (OECS) and one of the eight island economies of the Eastern Caribbean Currency Union (ECCU).[2] In 2004, for the first time in decades, Antiguans and Barbudans voted for change. Prime Minister Baldwin Spencer's United Progressive Party (UPP) won the election held on 23 March 2004, unseating former Prime Minister Lester Bird's Antigua Labour Party (ALP). The election was a milestone for Antigua and Barbuda, as the ALP had been in power since 1960 with a short interruption from 1971 to 1976.

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The new government has taken action to address the structural problems of the country. It is seeking debt forgiveness in the amount of USD 241.1 million on the country's USD 1.1 billion debt (which was equivalent to 137 per cent of GDP in 2003). It has made payments on several loans to restore the country's creditworthiness. In 2003, arrears were estimated at 10 per cent of GDP. In the 2005 Budget Statement, the Minister of Finance, Dr. Errol Cort, proposed a number of measures to tackle the country's fiscal imbalance and help improve Antigua and Barbuda's financial position: for example, the reintroduction of a personal income tax for people earning over EC$3 000 (USD 1 113.17) per month and the implementation of a 5 per cent sales tax (a few essential goods will be exempt). Government is also committed to improving and enhancing revenue collection, and to implementing measures to ensure compliance. The underlying overall strategy for the tax reform measures is to help reduce the existing fiscal gap and to place Government on a sound and sustainable financial footing. Moreover, Government stated that the wage bill would be reduced by 20 per cent in 2005. The intention is to rationalize public sector spending on wages and salaries, increase efficiency in the service, and raise productivity within each Government department. In 2004, salaries and debt service accounted for 50 per cent and 35 per cent of government revenue, respectively. Thirty-seven per cent of the workforce was employed by Government.

The 2005 Budget Statement also includes a series of measures to help promote a better investment climate in the nation: eliminating restrictions on foreign currency transactions and the one-per cent foreign exchange levy, reducing the corporate income tax rate from 35 per cent to 30 per cent across the board, removing the 3 per cent tax on loans to non-citizens, eliminating the two per cent tax on turnover for non-incorporated businesses, consolidating taxes and licences for the hotel industry and liquor trade, and removing the entertainment tax and the radio and TV licences.

The future looks promising for Antigua and Barbuda, albeit the debt situation and fiscal imbalance remain two serious problems facing the young nation. The new administration is committed to addressing these longstanding issues and has pledged to improve transparency and accountability in its continued effort to promote good governance. It is implementing a series of measures aimed at ensuring accountability for the processing and reporting of its own operational budget. A code of conduct for Ministers has been adopted to improve transparency, accountability and integrity across the board. Government has purchased an integrated financial and inventory management system to modernise its financial management system and ensure that it is transparent. The system also aims at providing a sound administrative framework for procurement policies and at enhancing efficiency and transparency in the manner in which goods and services are acquired.

The new political scenario constitutes an excellent opportunity for investing in Antigua and Barbuda. Various sectors are considered to be highly attractive to FDI and of particular interest to the country:

- The tourism sector has a great potential for growth. With a view to boosting investment in the hospitality industry, and in preparation for the Cricket World Cup 2007, Government has extended concessions to all hotels in 2005, in fact granting concessions for the construction of new hotels with a minimum of 10 rooms. Large and small, foreign and local investors will benefit from these measures. Small and medium-sised foreign investors, mainly regional, could take advantage of the fact that Government will place particular emphasis on supporting the development of locally-owned small hotels by seeking joint ventures with Antiguan and Barbudan entrepreneurs.
- The offshore banking industry represents another sector of potential growth for foreign investment. In addition to the twin-island state's long tradition as a first-class centre for financial services, the new Administration is committed to upgrading the offshore banking system and complying with the Basel core principles for effective banking supervision.
- IT-based businesses that need highly skilled workers will find a very welcoming home when investing in Antigua and Barbuda. Through the Antigua and Barbuda International Institute of Technology (ABIIT), the country is on its way to consolidating its position as a leading educational centre in the region for information technology and computer training. The Free Trade and Processing Zone (FTZ) has extensive experience in facilitating the location of such companies.
- Known as "The heart of the Caribbean", Antigua is strategically located and constitutes an excellent investment location for the airline industry, logistics companies and international cruise liners, in search of a base in the region. The island enjoys direct airline service from major North American and European cities as well as flights to and from most of the other Caribbean islands. The Deep Water Harbour at St. John's handles customs clearance procedures and deals with imports and exports of commercial goods. Cruise liners also benefit from a wide range of smaller ports and harbours, namely Crabbs Harbour, English Harbour, Heritage Quay, Jolly Harbour, Redcliffe Quay and the River Dock Port in Barbuda. Also, the move towards partial privatisation of the V.C. Bird international airport opens new opportunities for investors interested in expanding airport facilities.
- Investment opportunities abound in the heath services sector, as graduates from the American University of Antigua College of Medicine become licensed physicians in the United States. Further investments would lead to

an increase in the demand for such services from American patients since health services can be provided at much lower costs while taking advantage of a scenic natural environment.

As part of Government's overall programme to foster investment, the Antigua and Barbuda Investment Centre is currently being established under the Prime Minister's Office. It will serve as a One-Stop Shop (OSS) for investors, being the critical link between the various governmental agencies with which the investor must interact. The Investment Centre will also be the repository of all necessary information on doing business in the country. It will function as an investment promotion and facilitation agency (IPA). The Investment Centre will also provide support and practical advice to micro, small and medium-sised (SME) domestic enterprises in order to enhance their capacities in areas such as efficient business operations, effective cash flow forecasting, and marketing. Recognising that the SME desk has limited in-house capacity to provide in-depth assistance to small businesses, the Government of Antigua and Barbuda has indicated that the desk is a priority area for receiving technical assistance to build capacity within the new investment agency. The SME desk could act as a broker for technical assistance between local entrepreneurs and agencies such as the Export Development Unit based in Dominica and the OECD Centre for Entrepreneurship, SMEs and Local Development, which offer in-depth technical assistance programmes targeted at small businesses.

Antigua and Barbuda offer numerous opportunities to investors. With a view to fostering investment, and as part of its investment policy reform agenda, within the next year Government could implement, with the support of international organisations, a number of concrete measures to improve the business climate. These measures include:

a) Reviewing the fiscal incentives system with a view to benchmarking the regime against other OECS and CARICOM countries and setting up a transparent and predictable system, which is WTO-compatible and which clearly states the application requirements for all incentives and concessions, and the beneficiaries' subsequent obligations. Investors should be able to access all the information regarding incentives and concessions on the website of the Antigua and Barbuda Investment Centre. Online applications with multiple-choice questions should allow investors to self assess their possibilities of qualifying. The Web site should also include the list of all firms and investors who are granted incentives and concessions. A public information campaign should be organised to inform all existing and potential investors of these new developments.

b) Streamlining the process of obtaining licenses and permits to start, operate and expand a business. The first step should be that the various government agencies (*e.g.* Inland Revenue Department, Registrar of Companies, and Social

Security Office) involved in the registration of businesses coordinate their actions. The adoption of a single, unique registration number across the board and the introduction of computer technology would be two important steps towards sharing basic information, helping reduce bureaucracy and improving observance of social and tax obligations. The website of the new Investment Centre should serve as an online vehicle for business registration.

c) Providing an online roadmap of all the steps necessary to set up a business in the country. The Investment Centre should publish a registration guide available for current and prospective investors, both online and in print.

d) Preparing a Draft Investment Code for submission to Parliament to help build a world-class legal investment framework for current and prospective investors.

e) Allocating the human, technical and budgetary resources necessary to the Investment Centre to ensure that it can attend to the needs it was created for.

f) Launching a public campaign to help build a more entrepreneurial society in Antigua and Barbuda and, in so doing, extend the base of local entrepreneurs. Moreover, Government should also introduce this subject into school curricula at all levels of formal education and should promote direct linkages between schools and enterprises.

g) Setting up a nation-wide investment database to collect information on investment flows and related information.

h) Preparing a comprehensive infrastructure plan aimed at seeking technical and financial support in order to upgrade the road network in Antigua and expand it in Barbuda. This project should also focus on the improvement of airport and seaport facilities with privatisation options.

i) Designing a set of specific Master Plans for the country's key industries, with a view to proposing reforms and setting time bound targets for the implementation of these reforms. Tourism, financial services, telecommunications, health services, manufacturing, and agriculture should be studied in depth. For the case of offshore gambling, there is a need to upgrade an existing study produced by the Free Trade and Processing Zone.

j) Establishing and co-ordinating an effective dialogue mechanism amongst investors and educational institutions established in the country to enhance the current labour force's skills and address investors' needs and requirements. A new strategy should focus on ensuring that new graduates are not only capable of adding value to existing investments but also have the potential to become themselves partners and investors in the future.

k) Conducting a broad Investment Survey in one year's time to assess investor perceptions after the implementation of this Investment Policy Reform Agenda.

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PART I

Chapter 1

FDI Trends

1.1. FDI inflows

FDI inflows into Antigua and Barbuda grew at an average annual rate of 14.52 per cent from 1998 to 2003 but two issues arise when analysing this figure. First, there is neither a methodology to collect private investment data nor a comprehensive data gathering system in place in the country. Hence, the information included in this section is based on estimates and aims at providing a first approach to the issue of FDI inflows into the island state. Government is currently setting up a database system. This will allow data collection for large investments, mainly in tourism, and for individual projects, including smaller-scale investments and expansion/upgrades made to existing capital projects.

Table 1.1. **FDI inflows, 1998-2003**

Millions of USD

	1998	1999	2000	2001	2002	2003
Inflows	37.90	64.86	59.82	62.29	27.41	44.16

Source: Former Ministry of Planning of Antigua and Barbuda.

UNCTAD reports that Antigua and Barbuda is among the top three largest recipients of FDI in absolute terms in the OECS countries, behind the British Virgin Islands and Grenada. It is also third in FDI inflows per capita having received USD 1 364.71 in 2003. The British Virgin Islands and Anguilla with USD 18 028.58 and 2 152.52 rank first and second, respectively.[3]

The rise in FDI flows into Antigua and Barbuda contrasts with the situation in Latin America and the Caribbean as a whole. FDI flows to the region fell by 3 per cent in 2003, to USD 50 billion – the lowest level since 1996. Argentina, Brazil and Mexico were the countries who suffered the most from this downturn.

Large investments and especially large individual investors have played a key role in increasing foreign investment in the country over the last few years. One such individual is R. Allen Stanford, a Texan who now holds an Antiguan passport. He owns two airlines (Caribbean Sun and Caribbean Star), two banks (Stanford International Bank Ltd. and the Bank of Antigua), a property company (Stanford Development) and a newspaper (Antigua Sun). In December 2004, the Spencer Administration announced that an agreement

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had been reached with Mr. Stanford, to develop a USD 1.1 billion six-star resort with 1 000 staff on the offshore Guiana Island off the island's north-east coast.

With a view to promoting private sector-led growth and diversifying the number of investors in the country by attracting foreign direct investment from numerous sources and fostering domestic investment, the Government of Antigua and Barbuda is in the process of establishing the Antigua and Barbuda Investment Centre, which will serve as an investment promotion and facilitation agency, and a One-Stop Shop for investors.

1.2. Country of origin and destination

The lack of accurate data makes it very difficult to identify the nationality of each investment. Table 1.2 shows that almost 40 per cent of FDI come from unspecified countries. Caribbean nations, together with the United States, captured 54.52 per cent of total FDI between 1998 and 2003. The United Kingdom and China are smaller players.

Table 1.2. **FDI inflows by country of origin, 1998-2003**

Millions of USD and percentage

	1998	1999	2000	2001	2002	2003	Total	Per cent
United States		0.50	21.00	47.39	5.60	6.00	80.49	27.15
Caribbean	18.50	44.86	11.78	6.00			81.14	27.37
United Kingdom		13.50					13.50	4.55
China				2.30	0.70		3.00	1.01
Not specified	19.40	6.00	27.04	6.60	21.11	38.16	118.31	39.91
Total	**37.90**	**64.86**	**59.82**	**62.29**	**27.41**	**44.16**	**296.44**	**100**

Source: Former Ministry of Planning of Antigua and Barbuda.

1.3. Distribution by economic activity

The tourism sector has been the main beneficiary of the influx of foreign direct investment into Antigua and Barbuda over the last few years. Other key segments of the economy receiving FDI include the airport facilities and airline industry as well as the financial sector (finance, banking, and insurance).

Tourism

The tourism sector remains the most significant foreign exchange earner for Antigua and Barbuda. Although Government Services represent the largest component of GDP (over 16 per cent in 2003), it is the tourism sector (12.46 per cent of GDP),[4] which has the potential to substantially increase the country's national income in the near future.

Table 1.3. **FDI inflows by sector 1998-2003**

Millions of USD and percentage

Sectors	1998	1999	2000	2001	2002	2003	Total	Per cent
Tourism	37.40	59.36	32.82	4.85	9.90	26.97	171.30	57.79
Finance/Banking/ Insurance	0.50	5.50	6.00	1.75	10.09	7.00	30.84	10.40
Airport facilities/Airline			17.80	47.39	5.60	6.00	76.79	25.90
Distribution			2.00	6.00		1.26	9.26	3.12
Printing			1.20				1.20	0.40
Health services				2.30	0.70	1.80	4.80	1.62
Others					1.12	1.13	2.25	0.76
Total	**37.90**	**64.86**	**59.82**	**62.29**	**27.41**	**44.16**	**296.44**	**100**

Source: Former Ministry of Planning of Antigua and Barbuda.

The number of visitors increased by 31.6 per cent to 428 443 in the first six months of 2004 as compared to the total recorded in the corresponding period in 2003. Stay-over visitors expanded by 16 per cent to 132 266.[5] Seventy per cent of incoming visitors are American or British. Fading security concerns in the United States and the appreciation of the pound sterling and the euro against the US dollar (the EC$ is pegged to the US dollar) have made travel packages more attractive and less expensive for Europeans.

In order to boost investment in the hospitality industry, Government has extended concessions to all hotels in 2005, in fact granting concessions for the construction of new hotels with a minimum of 10 rooms. There is a particular emphasis on encouraging the development of locally-owned small hotels, in preparation for the Cricket World Cup 2007.

The new administration also aims at positioning Antigua and Barbuda as the best brand in Caribbean tourism. The sector received a significantly increased allocation for promotion and marketing in the 2005 budget. Moreover, as discussed above, in December 2004, the Spencer Administration announced that Allen Stanford would build a USD 1.1 billion six-star resort with 1 000 staff on the offshore Guiana Island.

The Caribbean Festival Park, a year-round theme park, is another interesting initiative aimed at attracting investment and tourists. Provisions in the 2005 budget have been made for a feasibility study of this project.

Foreign investment in the airline sector has also played a key role in making Antigua's airport a regional hub in the Caribbean. Caribbean Star Airlines and Caribbean Sun Airlines, owned by Allen Stanford, have undoubtedly contributed to increasing the number of Caribbean visitors to Antigua and Barbuda.

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Financial Services

Apart from tourism, the financial services sector is the other pillar of the Antiguan economy. Antigua and Barbuda has a developed banking sector. Several foreign-owned banks are present in the country, including First Caribbean International Bank, the new entity formed when Canada's CIBC and Barclays joined their Caribbean operations in 2002, as well as Scotia Bank and Royal Bank of Canada, the Swiss-based PKB Privatbank AG, and Trinidad-based RBTT. Barbados-based SAGICOR and CLICO of The Bahamas are well established in the insurance sector.

Offshore banking began in 1983 and is still very attractive to foreign investors. Strong anti-money laundering legislation governs the activities of this sector. The money laundering legislation sets up the regulatory authority of the Office of National Drug and Money Laundering Control Policy (ONDCP). Antigua and Barbuda is also a member state of the Caribbean Financial Action Task Force created under the auspices of the Financial Action Task Force on Money Laundering established by the G-7 in 1989.

The Spencer government has vowed to further strengthen the current policy framework by introducing legislation on mutual funds and trusts. Additional support will also be provided to the Financial Services Regulatory Commission to enhance its capacity to monitor and assess operations in the international financial services sector. Moreover, to foster further growth of the sector Government has confirmed an alliance for joint marketing and promotion of the international financial sector with the Antigua and Barbuda International Marketing Corporation (AIM Corp).

Telecommunications

Foreign investors have also been very active in the telecom sector. UK-based Cable and Wireless is the main provider of international phone services, and AT&T (now owned by Cingular Wireless) provides mobile services.

Health Services

As several other Caribbean islands, Antigua is home to a foreign-owned College of Medicine. The American University of Antigua College of Medicine was established by a group of American physicians and hospital administrators to provide qualified applicants with an opportunity to receive an American medical education and to become licensed physicians in the United States.[6]

Manufacturing

Manufacturing plays a minor role in Antigua and Barbuda's economy. Its contribution to GDP has been historically small, at slightly over 2 per cent. However, there is a "manufacturing culture" for some products sold in the domestic market. These mainly include agro-processing, garments, handicrafts, roofing galvanize, doors, windows, furniture, soft drinks, beer, malt and rum. Manufacturing also comprises enclave-type assembly for export (clothing, alcohol, household appliances).

Government has taken a series of specific decisions aimed at promoting this sector, particularly small and micro enterprises. The 2005 Budget Statement underlines that a proportion of the EC$100 (USD 37) million in discretionary concessions provided for in 2005 will be targeted to the manufacturing sector and the development of small businesses. Provided that certain value added and other requirements are met, manufacturers and small business owners will be allowed to import raw materials duty free and without having to pay any consumption tax for a period of three years. Moreover, to encourage light manufacturing for export, specific measures will be implemented to further develop the Free Trade and Processing Zone (FTZ). This will involve a joint venture between an international business developer, Government and local development partners.

Agriculture

Antigua and Barbuda's agricultural production, which represents less than 4 per cent of GDP and employs about 4 per cent of the labour force, is mainly directed to the domestic market. Foreign investors have traditionally not been present in this sector. Agriculture products comprise carrots, cucumbers, onions, tomatoes, cotton, bananas, coconuts, mangoes, melons, and sugarcane. Meat products include beef, lamb (mutton), and pork. Agricultural exports consist of fruits (*e.g.* melons and cantaloupe), alcoholic beverages (distilled), and processed food and fish products. The sector is constrained by the limited water supply and labour shortages that reflect the attraction of higher wages in tourism and construction.

Government has focused on the increase of cotton and pineapple production, the development of agro-processing (small and micro agro-processing businesses, particularly those involved in producing, bottling and selling pepper sauce, jams and various condiments), and the expansion of linkages between local farmers and the tourism sector. While the country is undertaking a serious fiscal adjustment with properties now being taxed on their market value, land being used for agricultural purposes is subject to a lower property tax rate and there is no tax on agriculture buildings.

1.4. Main investors

There are nine foreign-owned firms among the fifteen largest in Antigua and Barbuda. The Antigua and Barbuda 2005 Budget Statement highlights the unique case of Allen Stanford by emphasising that "no single individual so

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Table 1.4. **Antigua and Barbuda's twelve largest investors based on sales' volume**[1]

Company	Country of origin	Sales volumes	Sector(s)
Stanford International Bank, Stanford Trust Company, Bank of Antigua, Antigua Sun and Sun Newspapers, Stanford Development Company, Sun Printing and Publishing, Caribbean Sun Caribbean Star Airlines	R. Allen Stanford (United States/Antigua and Barbuda)		Brokerage, Investment Advisory, Trust Services, International Private Banking, Commercial Banking, Real Estate, Media, Printing and Publishing, Airlines
ABIB, ABIT, AOB, ABID, ABII	ABI Financial Group (Antigua and Barbuda)		Banking Services, Investment Advisory, Brokerage
Butch Stuart (Sandals Antigua)	Sandals (Jamaica)		Hospitality Services
Curtain Bluff Hotel	Howard W. Hulford (United States)		Hospitality Services
Allegro Resorts (Pineapple Beach)	Occidental Hotels and Resorts (Spain)		Hospitality Services
Antigua Plumbing and Hardware	George Ryan (Antigua and Barbuda)		
Kennedy's Club Ltd	Antigua		Distributor Wholesale
Antigua Commercial Bank	ACB Group of Companies publicly owned (Antigua and Barbuda)		Full Service Commercial Bank
AT&T (owned by Cingular)	Cingular (United States)		Mobile Services
Hadeed Motors	Francis Hadeed (Antigua and Barbuda)		Car Dealer
Colonial Life Insurance Company	CL Financial Group (Bahamas)		Insurance, Banking and Financial Services
Antigua Resorts: St. James Club – 224 room, 4* hotel Galley Bay Resort – 69 room, 5* boutique hotel Grand Pineapple Beach Club – 180 room, 3.5* hotel Horizon's Limited – Food and Supplies Wholesaler Horizons Construction – Construction and Maintenance Services	Robert A. Barrett, (United States)	St. James's Club – USD 17 million Galley Bay Resort – USD 7 million Grand Pineapple Beach – USD 8.5 million Horizons Limited – USD 9 million Horizons Construction – USD 1.2 million (fees only)	Hospitality Services, Food and Supplies Wholesaler, Construction and Maintenance Services

Table 1.4. **Antigua and Barbuda's twelve largest investors based on sales' volume**[1] *(cont.)*

Company	Country of origin	Sales volumes	Sector(s)
Antigua and Barbuda Cable and Wireless Ltd.	Cable and Wireless (United Kingdom)		International Telephone Service, Mobile, and Wireless Services
Sagicor	Sagicor Financial Corporation (Barbados)		Financial Services, Life and Health Insurance, Commercial Banking, Property and Casualty (general) Insurance, Investment and Asset Management, Brokerage and Transaction Processing
Shoul's Toys Gifts and Housewares	David Shoul (Antigua and Barbuda)		Toys Gifts and Housewares

1. Companies in Antigua and Barbuda are often capitalised with shareholder loans and as a result registered capital has little meaning.

dominates the investment landscape in any nation in our region as Mr. Stanford does in Antigua and Barbuda." In addition to other companies located outside the island state, he owns a large group of firms operating in the country. Among them are Stanford International Bank, Stanford Trust Company, Bank of Antigua, Antigua Sun and Sun Newspapers, Stanford Development Company, Sun Printing and Publishing, Caribbean Sun Airlines and Caribbean Star.

1.5. Main explanatory factors for FDI

Antigua and Barbuda is essentially a services-oriented economy, highly dependent on tourism and financial services. These two sectors have been the main beneficiaries of FDI inflows into the country.

Market-seeking FDI in Antigua and Barbuda

With a small population of less than 70 000 people, Antigua and Barbuda cannot be expected to attract a large influx of market-seeking FDI in goods. This is why the country has mostly focused on the services sectors, particularly tourism and financial services, as well as telecommunications.

The main investments in the country are undoubtedly directly or indirectly linked to the tourism industry. The island of Antigua is proud to have 365 beaches, one for each day of the year. This provides an unbeatable setting for the hotel industry development.

The country can count on numerous hotels, large and small, and is also home to a number of foreign investors in the hotel industry. For instance, the St. James Club is owned by an American, Sandals Antigua Resort and Spa by a Jamaican, Tradewinds by a British citizen, Allegro Resort by a Spanish firm,

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and the Royal Antiguan Beach Hotel was sold to an investor from Trinidad in October 2004. Timeshares and condos such as the Antigua Village are also very popular. Known by its unspoiled, mile-long, pristine pink and white sand natural beaches, Barbuda has four unique and exclusive luxury resorts: Coco Point Lodge, K-Club, North Beach and The Beach House.

In addition to the foreign-owned investors in the financial services sector, such as the First Caribbean International Bank, the Swiss-based PKB Privatbank AG, Scotia Bank, Royal Bank of Canada, Trinidad-based RBTT, SAGICOR of Barbados and CLICO of The Bahamas, Antigua and Barbuda is home to other large investments, which are locally owned. The ABI Financial Group is a prime example. It comprises five companies. The Antigua Barbuda Investment Bank (ABIB) commenced operations in 1990. ABI Trust Ltd. (ABIT) was incorporated in 1993 for the purpose of providing corporate formation of International Business Companies, LLC's, Banks, Trusts, Insurance and Gambling Companies. The Antigua Overseas Bank Ltd. (AOB) began to operate in 1990 under the International Business Corporations Act of 1982. The ABI Development Company Ltd. (ABID) was incorporated in 1998, under the 1995 Companies Act, to acquire real estate for tourism, residential and commercial development. It currently owns 260 acres of prime residential land at the Weatherhills Estate and possesses 50 per cent of the *Jolly Beach Resort*, the largest hotel and condominium complex in the Eastern Caribbean. Finally, there is the ABI Insurance Company Ltd. (ABII), which was incorporated in 1999. Moreover, the Antigua Commercial Bank is a well established publicly owned full service commercial bank, and the Global Bank of Commerce Ltd. (GBC) is a locally owned and operated international bank established in 1983. The Antiguan-based Barrington Bank holds a license to conduct international banking business giving international clients computer access to offshore banking services. Finally, the Stanford Financial Group owns the Stanford International Bank Ltd. and the Bank of Antigua which was incorporated on 1981.

The telecommunications market is covered by three companies. State-owned APUA provides local telephone service and mobile telephone services for 34 500 consumers and has a capacity of 48 700 lines. Antigua and Barbuda Cable and Wireless Ltd., a subsidiary of UK-based Cable and Wireless, provides international telephone service, mobile, and wireless services for 50 000 consumers including 25 000 long distance users, in addition to 27 000 wireless users. AT&T, now owned by Cingular Wireless, concentrates on the mobile phone market. In June 2005, Irish-based Digicel Group, the Caribbean's fastest growing mobile phone company, announced that it would acquire Cingular's Caribbean operations in a multimillion-dollar deal. Digicel operates in nine islands including Aruba, Barbados, Curaçao, the Cayman Islands, Grenada, Haiti, Jamaica, St. Lucia, and St. Vincent and the Grenadines. The purchase will expand the company's network to Antigua and Barbuda, Anguilla, Bermuda, St. Kitts and Nevis, and Dominica.

Natural-resource seeking FDI in Antigua and Barbuda

Antigua and Barbuda is not very rich in minerals. Devcon International Corp. of the United States operates the largest quarry on Antigua, whereas most of the authorised sand mining (quarrying) activity is done in Barbuda by the Barbuda Council. Limestone and salt are other commodities produced in the country.

Efficiency-seeking FDI in Antigua and Barbuda

As in many other Caribbean islands,[7] efficiency-seeking investment in Antigua and Barbuda is concentrated in the FTZ, which was established by an Act of Parliament in 1994 and came into being in 1996.

Located on the north coast of Antigua it owns and manages 90 acres of land. About half of the space hosts six office buildings, four informatics buildings, the Antigua and Barbuda International Institute of Technology, an internet data centre, shoes and pharmaceutical factories, the administration building, a childcare centre, two restaurants, as well as other land lease arrangements.

The license fees received from Sports Book and Internet gambling represent the main source of revenues of the Free Trade Zone. In 1999, Antigua and Barbuda had 119 licensed casino operators that employed 3 000 people and accounted for 10 per cent of GDP. Four years later, there were only 28 casino operators left in the country and they employed fewer than 500 people. In 2003, Antigua and Barbuda challenged a US prohibition of Internet gambling and other gaming services before the World Trade Organisation (WTO). Antigua and Barbuda stated that the US laws had caused the gambling firms in Antigua to "wither". Government lost EC$90 million (USD 33.3 million) in license fees, and over EC$100 million (USD 37 million) in wages and salaries as the number of Internet gambling entities were pushed out of business by the US actions. Antigua and Barbuda claimed that the United States violated its WTO services commitments. Gambling is big business in the United States. Every year, Americans wager about USD 637 billion in state-sanctioned casinos and lotteries, for net revenue of USS$73 billion dollars in 2003. Online gambling has grown exponentially since the first online casino was launched in 1995. Worldwide Internet gambling revenue in 2003 was estimated at USD 5.7 billion in 2003 (1 800 Web sites), and is projected to triple by 2009.

On 10 November 2004, a WTO dispute panel published its decision that old American laws prohibiting gambling over wires that cross state lines violate the US specific commitments under the General Agreement on Trade in Services (GATS). The United States filed a notice of appeal. On 7 April 2005 the Appellate Body reversed the panel's finding that US federal laws did not meet the requirements for application of WTO exceptions for "public morals"

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and "public order". The Appellate Body found that US laws qualify for these exceptions and suggested that the prohibitions on gambling could qualify for a GATS exemption, invoked for the protection of public morals, provided that the United States could show the laws are necessary to protect public morals and do not discriminate between foreign and domestic suppliers. The Appellate Body found that in order to show that the ban was necessary to protect public morals, the United States would have to show it applied to all forms of Internet gambling. The United States would have to outlaw all forms of remote gambling, including interstate betting on horse races.

1.6. Economic impact and linkages with the local economy

Forging domestic linkages to guarantee sustained and balanced growth is the main objective of the Government of Antigua and Barbuda, which has placed particular emphasis on expanding linkages between local farmers and fishermen and the tourism sector.

An interesting initiative in terms of linkages between foreign investors and the local economy is the alliance developed between the Stanford Group and Government.[8] In November 2004, the two parties agreed on four projects for immediate implementation. Mr. Stanford made a contribution of EC$1 (USD 0.37) million to the completion of the National Library. The Stanford Group set up an EC$10 (USD 3.7) million fund to be administered by the Antigua and Barbuda Development Bank for the empowerment of local entrepreneurs. This fund is to be implemented in early 2005 and will provide financing of up to EC$50 000 (USD 18 519) to support micro and small business ventures owned by Antiguans and Barbudans. The Stanford Group provides technical support and counseling for this project, which operates through the Antigua and Barbuda Development Bank. Public servants opting for voluntary separation from Government employment are given fast-track access to grants from the special EC$10 Million Fund. This is one of the mechanisms Government is using to move public servants from employment to ownership of their own businesses. The Stanford Group will also fund and construct at no cost to Government a state of the art higher education complex in Antigua on a projected budget of EC$25 (USD 9.26) million. In addition, Mr. Stanford will fund an ongoing endowment to provide full scholarships to young Antiguans and Barbudans. Finally, Mr. Stanford will transform Stanford Development Company into a professional management services company, which will outsource an estimated 70 per cent of its construction projects to local contractors and other local suppliers. This is in harmony with Government's stated policy on reserving 25 per cent of procurement on private sector as well as Government's projects for qualified small business, as will be mandated by the new Buildup Business Act.

Prime Minister Spencer and Mr. Stanford also agreed on a review of the funding arrangements for the Mount St. John Hospital with a view to relieving the Medical Benefits Scheme of the monthly EC$735 000 (USD 272 222) payment to the Stanford Group, which financed that project. Mr. Stanford has agreed to assist, where appropriate, in the functioning of the institution, which will provide specialised health care to Antiguans and Barbudans, as well as to patients from overseas. Together with all of this, Mr. Stanford confirmed his willingness to write off EC$50 million of the estimated EC$230 million debt Government owes his organisation.

As part of the negotiated deal between Government and Mr. Stanford, the Stanford Group received the green light from Government to acquire Guiana Island and other lands to which Malaysian investor Dato Tan Kay Hoc holds title. The Stanford Group plans to build a six-star resort, which will employ 1 000 people when it is in operation.

Another very valuable programme is the work done by the FTZ. The main educational project linked to the Zone comprises collaboration among three institutions: the Antigua and Barbuda International Institute of Technology (ABIIT) which aims at becoming the leading information technology and computer training institution in the Caribbean; the Antigua and Barbuda State College, which offers undergraduate courses in collaboration with the University of the West Indies; and Antigua and Barbuda Hospitality Training Institute focused on the tourism industry.

Through the Caribbean Development Bank, Antigua and Barbuda could also be potentially eligible for funding from the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB), which has supported a significant number of small business networks and supply chains throughout the Americas. The twin-island state could leverage existing funds through this financial institution. MIF projects are undertaken in partnership with NGOs, business groups and public sector entities and they potentially constitute an opportunity to complement and expand funding for the empowerment of local entrepreneurs.

1.7. Future perspectives

Prime Minister Baldwin Spencer's United Progressive Party (UPP) won the general election held on 23 March 2004, unseating former Prime Minister Lester Bird's Antigua Labour Party (ALP) from Government. This election was a milestone in domestic politics. The ALP had been in power since 1960 when Vere Conrad Bird was first appointed Chief Minister, then Premier from 1967 until 1981 (with an interruption from 1971 to 1976) and Prime Minister in 1981 until 1994 when his son took seat for the ten subsequent years.[9]

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Parliament has two chambers. The Senate consists of 17 members appointed by the governor general on the advice of the Prime Minister and the leader of the opposition for five-year terms. The House of Representatives has 19 members, 17 members elected by simple majority vote for a five year term in single-seat constituencies, 1 ex-officio member and 1 Speaker. One seat in the House of Representatives is reserved for the island of Barbuda.

The future looks promising for Antigua and Barbuda, albeit the debt situation and fiscal imbalance remain two serious problems facing the young nation, who became an independent state in 1981. The new administration is committed to addressing these longstanding issues and to improving transparency and promoting good governance. The establishment of the Antigua and Barbuda Investment Centre in 2005 is another tangible example demonstrating Government's commitment to a more investment friendly environment.

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PART I

Chapter 2

Investment Environment

2.1. Structure of the economy

Antigua and Barbuda's GDP in market prices grew from USD 652 million in 1999 to USD 759 in 2003. The country experienced strong growth in the last three decades. In the late 1970s and the 1980s GDP increased rapidly mainly driven by the development of the tourism sector, after the closure of the sugar and cotton industries during the 1970s. In fact, GDP grew at an annual average rate of 6.5 per cent in the 1980s, fuelled largely by foreign direct investment in the tourism sector. Although four hurricanes[10] hit the country in the 1990s, the annual average growth rate reached 5.3 per cent in the second half of the decade. A downturn in stopover tourism after the September 11 attacks on the United States in 2001, the global overhaul of offshore regulation as well as the ban on Internet gambling in the United States led to a more modest GDP annual average growth rate of 2.3 per cent in 2000-2002. The year 2003 reversed this trend. The International Monetary Fund (IMF) reported that real GDP grew by 4.9 per cent due to a 9.5 per cent rise in tourism. In 2004, stopover tourist arrivals showed a 16-per cent increase between January and June, whereas real GDP reached 4.1 per cent.

Table 2.1 shows that the services sector accounts for almost 80 per cent of Antigua and Barbuda's GDP (in constant 1990 prices). It indisputably constitutes the most dynamic sector of the economy. While government services increased its share of the total between 1999 and 2003 from 16.03 per cent to 16.99 per cent, other services sectors experienced a decline. This is the case for air and sea transport, trade (retail), hotels and restaurants, and bank and insurance.

Apart from tourism, offshore services, particularly in financial services and gambling, are the key sectors of the Antiguan economy. Regulatory requirements for offshore banks have been improved in recent years, for example with respect to minimum paid up capital, minimum equity to assets, connected lending, physical presence, in addition to implementing a tougher anti-money laundering regime. Government has sought IMF technical assistance to upgrade the offshore banking system and comply with the Basel core principles for effective banking supervision.[11] Offshore banking has a great potential in the country. The 16 licensed offshore banks reported assets of around USD 3.0 billion (about 4 times GDP), as of December 2002.

There is a small manufacturing sector in Antigua, producing mostly agro-processing products, garments, handicrafts, roofing galvanize and rum along with enclave-type assembly for export. Agriculture, including fishing, accounts

Table 2.1. **Gross domestic product by sector in producers' values at constant 1990 price**

As a percentage of GDP in producers' values

	1999	2000	2001	2002	2003
Agriculture	3.47	3.44	3.39	3.40	3.31
Crops	0.99	1.04	1.02	1.00	0.96
Livestock	0.83	0.80	0.79	0.85	0.81
Forestry	0.08	0.08	0.08	0.08	0.07
Fisheries	1.57	1.60	1.58	1.54	1.47
Mining and quarrying	1.90	1.92	1.89	1.93	1.91
Manufacturing	2.48	2.48	2.52	2.55	2.50
Construction	12.98	13.36	13.71	13.89	14.12
Services	79.09	78.72	78.49	78.40	78.09
Electricity and water	3.64	3.84	3.86	3.94	3.68
Transportation	11.32	11.44	10.87	10.34	10.81
Road transport	5.37	5.84	5.59	5.09	5.44
Sea transport	1.82	1.68	1.58	1.47	1.54
Air transport	4.13	4.00	3.70	3.78	3.82
Communication	11.24	10.80	11.19	10.96	10.74
Trade	9.50	9.60	9.30	8.87	8.60
Hotels and restaurants	13.31	12.72	11.58	11.57	12.13
Banks and insurance	10.91	10.72	9.93	10.88	10.59
Housing	7.19	7.20	7.33	7.41	7.28
Government services	16.03	16.08	16.47	17.13	16.99
Other services	6.45	6.56	6.46	6.64	6.40
Less: imputed banking services	10.50	10.24	8.51	9.34	9.12
GDP at factor cost	100.00	100.00	100.00	100.00	100.00

Source: Based on data from International Monetary Fund, *Antigua and Barbuda: Statistical Appendix*, November 2004.

for less than 4 per cent of GDP, whereas mining and quarrying captured a very small percentage (1.91 per cent in 2003) of the country's GDP.

Antigua is also home to the Leeward Islands Air Transport (LIAT), a major regional airline, whose main competitor is Stanford's Caribbean Star.

Natural disasters, namely four large hurricanes, have hit the country in the recent past. Hurricane Luis in 1995 led to six month long electricity blackouts, tourism facilities were closed, and real GDP declined by 5 percentage points. As a shock-prone economy highly dependent on tourism, the twin-island state has strengthened the National Office of Disaster Services, initiated public awareness campaigns, embraced stricter building codes and located underground utility cables. According to a recent IMF report enforcement of building codes, land use guidelines and higher insurance penetration could further mitigate the costs of disasters. Insurance of government assets could also be improved, as only a small fraction of government assets – airport and port facilities – are insured.[12]

Total debt, much of it borrowed at commercial rates, amounted to 136.5 per cent of GDP in 2002 and expanded to 137.1 per cent the following year. Total debt stock as a percentage of GDP peaked in 2003 (see Table 2.3).[13] The new Spencer government has reviewed the country's debt commitments and reinstituted the National Debt Co-ordinating Committee to focus on effective management and prudent and sustainable levels of debt for Antigua and Barbuda. It has also requested technical assistance from the Canadian International Development Agency (CIDA) to enhance its debt management, renegotiating and restructuring programmes.

Seventeen per cent of the 2005 budgeted recurrent expenditure has been allocated for debt servicing. The current administration has renegotiated the terms and conditions of its debt to domestic commercial banks. Also, in an effort to address the floating debt (suppliers' credit) Government will negotiate with domestic creditors for 70 per cent payout on outstanding debt.

As to specific debt with investors, Government has secured provisional agreements for the reduction of the USD 240 million Deep Bay debt, the DEVCON debt for St. John's Harbour and a write off of USD 18.5 million from the Stanford Group on an estimated total USD 85.2 million debt with that holding.

Table 2.2. **Debt stock selected indicators**

	1999	2000	2001	2002	2003
Total debt stock as a percentage of GDP	107.6	115.8	114.7	129.3	134.1
Total debt stock as a percentage of tourist receipts	241.8	270.6	299.5	343.0	339.5
Total debt stock as a percentage of direct investment	2 195.9	2 824.4	1 850.0	2 586.0	1 368.4

Source: Based on International Monetary Fund, Antigua and Barbuda: Statistical Appendix, November 2004.

The current account deficit in terms of GDP reached a peak of 15.2 per cent in 2002. Table 2.4 also shows that direct investment as a percentage of GDP has fluctuated greatly between 1999 and 2003.

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Table 2.3. **Balance of payments as a percentage of GDP**

	1999	2000	2001	2002	2003
Current account	–8.9	–9.7	–9.2	–15.2	–13.7
Trade balance	–48.4	–42.7	–39.5	–41.1	–41.0
Merchandise imports	54.1	50.5	45.2	46.2	46.5
Gross tourist receipts	44.5	42.8	38.3	37.7	39.5
Capital and financial account	10.4	8.5	8.0	12.8	10.4
Official disbursements (net)	1.1	–0.3	1.5	0.6	1.3
Direct investment	4.9	4.1	6.2	5.0	9.8
Errors and omissions	–3.0	–6.6	0.2	0.9	3.8
Overall balance	–1.5	–7.8	–0.9	–1.6	0,5

Source: Based on International Monetary Fund, *Antigua and Barbuda: Statistical Appendix*, November 2004.

Table 2.4. **Current account deficit in absolute terms and relative to GDP and direct investment**

Million of USD and percentage

	1999	2000	2001	2002	2003
Current account deficit	58.2	65.5	65.2	110.7	103.8
GDP	652.0	678.0	710.0	727.0	759.0
Direct investment/GDP	32.1	28.1	44.0	36.7	74.3
Current account deficit/GDP (%)	8.9%	9.7%	9.2%	15.2%	13.7%
Current account deficit/Direct Investment (%)	181.3%	233.1%	148.2%	301.6%	139.7%

Source: Based on International Monetary Fund, *Antigua and Barbuda: Statistical Appendix*, November 2004.

2.2. Infrastructure

The following section covers some of the most important infrastructure networks in Antigua and Barbuda: the road network, naval transport infrastructure, air transport infrastructure, infrastructure in telecommunications, electricity and power, and water generation and disposal.

Road network

Antigua and Barbuda has a 250-kilometre road Web. Basic infrastructural problems need to be tackled by Government in this regard. Roads in Antigua are fairly decent but problems arise with showers and the lack of proper drainage and gutters. Potholes, unfinished patches, faulty surfaces and overgrown shrubs can be hazardous and damaging to vehicles. Public awareness campaigns could ease the problem of some animals left to roam around major roads.

Long needed roads in Barbuda are a priority for the new administration. The Barbuda Council will benefit from the expertise of UK-based Geotech to look at the state of the roads. The Council is looking at the possibility of repairing the roads leading to the three main hotels on the island – K-Club, Coco Point and Palmetto. Special attention has been paid by the company to the landing strip at the island's lone airfield, since complaints from the operators of Carib Aviation and even threats to discontinue the service to Barbuda have been received by the authorities.

Naval transport infrastructure

Antigua and Barbuda's Deep Water Harbour at St. John's is the sole international seaport that handles customs clearance procedures and deals with imports and exports of commercial goods. There are a number of smaller ports and harbours for cruise liners and personal yachts, comprising Crabbs Harbour, English Harbour, Heritage Quay, Jolly Harbour, Redcliffe Quay and the River Dock Port in Barbuda.

Eleven shipping lines call at Antigua, providing shipping services to North America, Europe, the Caribbean and Central America.

Air transport infrastructure

Each twin island has its own airport. Both airports have always been publicly administered. Domestic air travel is provided by the formerly Antiguan Carib Aviation now owned by Trans Island Air of Barbados with two daily scheduled flights to Barbuda.

V.C. Bird International Airport is the main airport in the country. Situated in the North of Antigua, 10-minutes drive from St. John's, it hosts all customs processing functions. All imports and exports by air to or from Antigua and Barbuda have to be processed through this airport. International airlines operating in Antigua and Barbuda comprise Air Canada, Air Guadeloupe, American Airlines, American Eagle, BWIA, British Airways, Caledonian, Continental, and Virgin Atlantic. Charter services are available mostly to the United States, the United Kingdom, and Canada. Air France/Air Guadeloupe, Caribbean Star, LIAT and Condor provide connections to most nearby destinations in the Caribbean.

The move towards partial privatisation of the airport operation comes in the context of continuing major financial and operational problems at the VC Bird International Airport. Existing problems include severe congestion in departure and arrival halls, congested ramp space resulting in operational and safety concerns, inadequate space for taxi dispatching, lack of space for expansion, and dilapidated terminal facilities. In addition to inadequacies in meeting existing requirements, plans for Antigua and Barbuda to host Cricket World Cup 2007 events will require vastly expanded and upgraded terminal and airside facilities.

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Infrastructure in telecommunications

As already stated, the telecommunications market is mainly covered by two companies. State-owned APUA provides local telephone service and mobile telephone services, whereas UK-based Cable and Wireless provides international telephone service, mobile, and wireless services.[14] US-based AT&T (owned by Cingular Wireless) is the third player and concentrates on the mobile business. APUA charges a higher connection fee and security deposit for non-citizens. This discriminatory practice has been targeted by Government and should be corrected.

Five OECS countries[15] are in the process of implementing the Eastern Caribbean Telecommunications Authority Treaty (ECTEL), an international organisation with legal personality established by treaty signed at St. George's, Grenada on 4 May 2000. ECTEL was a result of the Telecom Reform Project (TRP) that the five OECS countries formed to develop comprehensive telecommunications legislation and a regional regulatory framework. A key objective of this agreement is to offset C&W's dominant position in the member countries. ECTEL and C&W engaged in discussions to design an appropriate price regulation regime for C&W in the ECTEL Member States. A 2004-2008 price cap plan has been designed by ECTEL and signed by the member states and C&W. Antigua and Barbuda's participation in this regional project would contribute to a better service and lower prices from the UK-based company. Competition from other service providers would also contribute to lower rates.

Electricity and power

Electrical power in Antigua and Barbuda is generated from imported fossil oil. The country does not import or export electricity. The one and only distributor of electricity in the islands is APUA, which generates half of the power and buys the rest from a private developer. Antigua has a capacity of 58 megawatts and showed a peak load consumption of 40 megawatts, whereas Barbuda has a capacity of 700 kilowatts and an estimated peak load consumption of 700 kilowatts.

Being two of the sunniest islands in the Caribbean, Antigua and Barbuda have a great potential for solar energy. There are already two companies in St. John's capable of producing such energy.[16] Technical assistance from international organisations could help make this means of energy more popular. For example GTZ, the German Co-operation Agency, has a long experience with solar energy development in Latin America. The supra-regional project Small-Scale Project Fund (SSPF) makes funds available to self-help groups so that they can test and apply small innovations. It also keeps them informed on technological options, and helps to share experiences already gathered with proven technologies.[17]

Water generation and disposal

The main water sources are two desalination plants in Antigua that cover 80 per cent of the demand. One plant is owned by APUA and the other by a private company (Vivende). The estimated demand in Antigua is 6.6 million gallons per day. With one desalination plant and plans to develop a second one, APUA is the sole supplier in Barbuda.

Water is scant in Antigua and Barbuda and droughts have aggravated this problem in recent years. While tapping water into surface was difficult, demand for desalinated water increased.

Septic tanks replace inexistent sewage connectivity in Antigua and Barbuda. The Development Control Authority (DCA) controls and monitors how developers and residences make the necessary arrangements to fulfil their responsibility of disposing wastewater.

2.3. Human capital

The population in Antigua and Barbuda is estimated to be approximately 68 320 inhabitants (2004) with a workforce of 30 000, mainly employed in the services sector – government, tourism and financial services. There is no accurate estimate of the unemployment rate for recent years. In 1999 and 2000 the rate was approximately 7 per cent, whereas in 2001 it jumped to 11 per cent. Minimum wage is EC$6 per hour.

As mentioned previously, Government is the main employer in the economy. According to the last IMF Country Report,[18] public sector employment is close to 40 per cent of the labour force and is much higher than in other OECS countries (see Table 2.5).

Table 2.5. **Central government employment 2002**

	Employees	In per cent of total	
		Labour force	Population
Antigua and Barbuda	13 000	37.1	17.3
Dominica	5 000	19.2	7.0
Grenada	5 000	10.4	5.0
St. Kitts and Nevis	5 000	22.8	12.2
St. Lucia	9 000	20.1	5.7
St. Vincent and the Grenadines	5 000	10.7	4.4

Sources: Antigua and Barbuda Authorities and IMF Staff Estimates.

Government has announced that it will offer packages of voluntary severance and early retirement to public servants. Allocations in the 2005 budget have been made to ease this process. In addition to ensuring all public servants leaving the public service are paid all monies due to them: ninety positions at the nursing service will be offered to public servants for first refusal; twenty teachers will be recruited and the positions will be offered to public servants as the first option; assistance to ex-public servants who wish to establish their own business will be provided by Government; public servants will also have the options of transferring to the Defence Force, to teaching and to nursing; finally public servants opting for voluntary separation from Government will be given fast track access to grants from the special 10 million Fund from the Stanford Group.

Firing practices are subject to the Labour Code.[19] An employer may terminate an employment provided that he or she gives the worker advance notice of 24 hours for employees in their probationary period, or for other employees "the interval of time between the affected employees' paydays".[20] The employer must pay an employee's salary during the notice period. Severance pay accumulates at a rate of one day per every month ("or every major faction thereof") for the term of employment with the current employer "and any predecessor-employer".[21]

Workers can be fired when they are guilty of misconduct in or in relation to his or her employment. This misconduct must be "so serious that the employer cannot reasonably be expected to take any course other than termination."[22] For slighter transgressions, the employer must issue written warnings. Only after that can disciplinary actions be taken. These include suspension without pay or dismissal. If an employer wants to fire a worker who is "no longer performing his duties in a satisfactory manner" he or she must also write a warning noting how the performance is sub-standard.[23] Employees can file a grievance in the Industrial Court, to question whether or not a firing is just.

Non-nationals must have at least two weeks of immigration time to apply for a work permit after being in the country for at least six months, albeit certain exceptions may apply. After obtaining temporary residing status, non-nationals do not need a work permit. To qualify for a temporary residency status a non-national must reside in the country for at least three years.

With respect to the education system, the 1973 Education Act refers to "compulsory education age" to mean any age between five and sixteen years. In 2001-2002 there were approximately 14 000 students within the primary school system. The rate of accessibility is approximately 95 percent. The school system is divided into four zones, each of which is supervised by an Education Zone Officer from the Ministry of Education. The TVET Co-ordinator supervises the Technical Vocational Centres in which skilled programmes are offered to students.

The Senior Education Officer within the Ministry of Education, Culture and Technology is responsible for all the Secondary Education of Antigua and Barbuda. There are fourteen secondary schools in Antigua and one in Barbuda.

At the tertiary level, Antigua State College, the Antigua and Barbuda International Institute of Technology, the Antigua and Barbuda Hospitality Training Institute (ABHTI), the Antigua and Barbuda Evening Institute of Training and the Antigua and Barbuda Public Service Training Institute all offer various certification courses and pre-degree programmes. The Antigua State College, affiliated to the University of the West Indies, is a multidisciplinary institution which offers several programmes at varying levels. In 2000-2001 the College had an enrolment of approximately 920 students. The Teacher Training Department has a programme that targets teachers of the Primary and Secondary schools. The other areas include Commercial Department, Business Studies Programme, Engineering and Construction Department and the Advanced Level Department. Recently the School of Nursing and the School of Pharmacology were added to the institution. The Antigua State College is owned by the Government of Antigua and Barbuda. The Antigua and Barbuda International Institute of Technology or ABIIT, which aims at becoming the leading information technology and computer training institution in the Caribbean, offers Diplomas[24] and Associate Degrees.[25] The first graduation for these programmes took place in December 2003. ABHTI plays a pivotal role in assisting the tourism industry to secure and retain a professional and skilled workforce to meet the employment needs of the hospitality sector. The Antigua and Barbuda Evening Institute of Training provides an opportunity for evening attendance towards various certificates and diplomas.[26] Finally, the American University of Antigua College of Medicine provides an American medical education to become licensed physicians in the United States.

2.4. Public governance: transparency, integrity, and the rule of law

Antigua and Barbuda has been subject of allegations of corruption and money laundering in the past. Transparency International does not include the country in its Corruption Perception Index (CPI) but incorporation is foreseen in the near future. The new Spencer government has implemented a number of measures aimed at ensuring transparency and accountability. The 2005 Budget Statement makes clear that "The government is committed to ensuring accountability for the processing and reporting of government's operational budget; and to re-establishing policy credibility, as essential conditions for private sector led growth". Moreover, a code of conduct for Ministers has been adopted to improve transparency, accountability and integrity across the board. With assistance from CIDA,[27] Government has acquired Free-Balance e-Financials, an integrated financial and inventory management system, to modernise its financial management system and make it transparent. The system also aims at providing a sound administrative framework for procurement policies and enhancing efficiency and transparency in the manner in which goods and services are acquired. The abuse of the duty-free system at the Heritage Quay Shopping Centre has also been targeted. An elite cadre of Customs Inspectors has been created to ensure duties and relevant taxes are collected at the Heritage Quay.

Government's approach towards improving the business climate comprises eliminating discretionary incentives, improving public-sector service delivery for business, and streamlining the process of obtaining licenses and permits to start, operate and expand a business. Immediate actions include, the establishment of a One-Stop Shop (OSS) to fast-track business start-up and expansion; introduction of an investment code to articulate government policy in terms of investment regime; support to small and medium-sised enterprises (SMEs) in the form of expert technical assistance and market access improvement; and a review and amendment of the current fiscal regime with a view to creating performance-based incentives (tax credits) *versus* up-front concessions for local and foreign business.

2.5. Trade regime

Antigua and Barbuda is a member of the Organisation of Eastern Caribbean States (OECS), which came into being on 18 June 1981, when seven Eastern Caribbean countries signed the Treaty of Basseterre, agreeing to cooperate with each other and promote unity and solidarity among the Members. The OECS is now a nine-member grouping comprising Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Anguilla and the British Virgin Islands are associate members. The purpose of the Organisation is to assist its Members by identifying scope for joint or co-ordinated action towards the economic and social advancement of their countries. At their 34th meeting, held in Dominica in July 2001, the OECS Heads of Government decided to deepen economic integration by creating an economic union.

Antigua and Barbuda is a member of the Caribbean Community and Common Market (CARICOM), established by the Treaty of Chaguaramas signed on 4 July 1973. CARICOM currently comprises 15 member states. For the past decade, CARICOM's efforts have been directed towards the formation of an economic union through the Caribbean Single Market and Economy (CSME) initiative. Antigua and Barbuda, along with the other members of CARICOM, has signed a number of bilateral non-reciprocal (Venezuela) and reciprocal trade agreements (Colombia, Dominican Republic, Cuba, and Costa Rica). CARICOM is also exploring the possibility of negotiating a bilateral free trade agreement with Canada. As a member of CARICOM, Antigua and Barbuda also benefits from the unilateral preferential tariff treatment granted by several countries under the Generalised System of Preferences. In addition to the CARICOM-Venezuela Agreement mentioned above, it also can take advantage of other one-way preferential schemes such as the Caribbean Basin Initiative (United States), CARIBCAN (Canada), and the Cotonou Agreement (European Union).

Antigua and Barbuda became a contracting party of the General Agreement on Tariffs and Trade (GATT) on 30 March 1987 and has been a member of the World Trade Organisation since its inception. It has also been a participant in the Free Trade Area of the Americas (FTAA) process since 1994.

Table 2.6. **Ranks imports for the 1990-2003 period**

	1990 to 2003
1.	Road motor vehicles and parts
2.	Mineral, fuel, lubricants and related materials
3.	Telecommunication equipment
4.	Fruits and vegetables
5.	Beverages
6.	Meat and meat preparations
7.	Cereal and cereal preparations
8.	Clothing and footwear
9.	Wood and lumber
10.	Dairy products
11.	Computers
12.	Paper and paper products
13.	Textile, yarn and fabric
14.	Cement
15.	Medical and pharmaceutical products

Source: Government of Antigua and Barbuda.

Caribbean countries are indisputably the leading export destinations for Antigua and Barbuda's products. However, the country's leading exports are in the service sectors (tourism, financial services, etc.) and are not accounted for in Antigua and Barbuda's statistics on international trade.

Finally, Table 2.8 shows Antigua and Barbuda's top 10 source countries of imports. The presence of Venezuela as the fifth exporter to Antigua and Barbuda is mainly explained by the CARICOM-Venezuela Trade and Investment Agreement. Major ports in Canada, Europe and the United States are linked to the twin-island state by the Antiguan merchant marine, which has 607 ships of 1 000 GRT or over, totalling 3.52 million gross tonnes. Japan's traditional automotive exports find a market in the country as compared to other destinations in the Caribbean and Latin America.

Table 2.7. **Top 10 destinations (countries) of exports**

	1990-2003
1.	CARICOM
2.	Dutch Caribbean (other than Bonaire and Curacao)
3.	Guadeloupe
4.	Bonaire
5.	Martinique
6.	United States
7.	Canada
8.	United Kingdom
9.	French Caribbean (other than Guadeloupe and Martinique)
10.	European Union Countries (other than the United Kingdom)

Source: Government of Antigua and Barbuda.

Table 2.8. **Top 10 sources of imports**

	1990-2003
1.	USA
2.	CARICOM
3.	Japan
4.	United Kingdom
5.	Venezuela
6.	European Union Countries (other than the United Kingdom)
7.	Bonaire
8.	Canada
9.	Puerto Rico
10.	Curacao

Source: Government of Antigua and Barbuda.

2.6. Investment regime

As part of the Spencer government's overall programme to promote domestic and foreign investment, the Antigua and Barbuda Investment Centre is currently being established under the Prime Minister's Office. Upon taking office, Government requested technical assistance from the Organisation of American States (OAS) and the Foreign Investment Advisory Services (FIAS), member of the World Bank Group. The OAS formulated policy guidelines for the setting up of the Investment Centre, whereas FIAS offered guidelines on the drafting of an investment code.

The Antigua and Barbuda Investment Centre will serve as a One-Stop Shop for investors, being the critical link between the various governmental agencies with which the investor must interact. It will also be the repository of all necessary information on doing business in the country. It will function as an investment promotion and facilitation agency. The Investment Centre will also provide support and practical advice to micro, small and medium-sised domestic enterprises in order to enhance their capacities in areas such as efficient business operations, effective cash flow forecasting, and marketing. The new Investment Centre will replace the Industrial Development Board, which had been set up in 1953 to help promote investment in manufacturing-based industries.

Government is also implementing a series of measures to help promote a better investment climate in the nation: eliminating restrictions on foreign currency transactions and the one-per cent foreign exchange levy, reducing the corporate income tax rate from 35 per cent to 30 per cent across the board, removing the 3 per cent tax on loans to non-citizens, eliminating the two per cent tax on turnover for non-incorporated businesses, consolidating taxes and licences for the hotel industry and liquor trade, and removing the entertainment tax and the radio and TV licences.

In the past, incentives and concessions were granted on a case-by-case basis and large investors customary negotiated conditions directly with members of the Cabinet. The lack of a standardised approach towards investment provided opportunities for corruption and ultimately discouraged new businesses development. The Spencer government has implemented a number of measures to improve the investment regime, including the establishment of the Antigua and Barbuda Investment Centre. Further improvement is necessary as the three laws covering incentives demonstrate.

Under the Aid to Pioneer Industries Act (Cap. 14), pioneer industries are relieved from paying customs duty and income tax.[28] The Cabinet can decide "at its absolute discretion" about granting pioneer status to a given firm[29] based on few legal requirements; namely that the industry in question is not already conducted in the country on a commercial scale; there are insufficient manufacturing facilities in Antigua and Barbuda to undertake the proposed activity; and there is favourable potential to develop such an industry or product. Pioneer industries qualify for a tax holiday for corporate taxes of up to five years from the date production begins.[30] Losses can be carried forward up to three years after the tax holiday period ends.

The Hotel Aid Act (Cap. 204) offers hotel developers the possibility to import building materials and equipment free of customs duty.[31] The Cabinet grants the developer or operator a license in order to take advantage of these incentives. Following a recent amendment, new hotels and the expansion of existing ones initiated after January 2003 are subject to exemptions of corporate tax. New hotels with 100 rooms or more qualify automatically for a 25-year tax exemption. Expansions that increase the capacity of an existing hotel by 30 to 49 rooms qualify for a 7-year tax exemption. Increases from 50 to 99 rooms benefit from a tax exemption of 15-years. Additional capacity of over 100 rooms attracts a tax holiday of 25 years.

In order to boost investment in the hospitality industry, Government has extended concessions to all hotels in 2005, in fact granting concessions for the construction of new hotels with a minimum of 10 rooms. There is a particular emphasis on encouraging the development of locally-owned small hotels, in preparation for the Cricket World Cup 2007.

The Fiscal Incentives Act (Cap. 172) states that the manufacture of any specific product can be approved to be eligible for incentives if the Cabinet decides that its production is of particular value to Antigua and Barbuda and has a beneficial effect on employment.[32] The complete list of products manufactured under the Fiscal Incentives Act comprise beer, doors, furniture, galvanised roofing, garments, malt, rum, soft drinks, and windows. Approvals for incentives have actually been granted for specific enterprises. Companies operating under this Act benefit from a waiver from customs duty and consumption tax on plant, equipment, machinery, spare parts, raw materials or components thereof. They also qualify for tax holidays of 10 to 15 years depending on the domestic added value produced by the applicant.

International Business Corporations (IBC) are eligible for a package of incentives that includes exemptions from income tax, capital gains or other direct taxes, real estate tax, inheritance tax, transfer tax, and withholding tax for a period of 50 years from incorporation. IBC can also receive customs relief and other incentives including exemption from the provisions of the Stamp Act, the Foreign Currency Levy Act, the Registration and Records Act, and the Telecommunications Tax Act.

Antigua and Barbuda has signed double taxation treaties with Canada, CARICOM, Denmark, New Zealand, Norway, Sweden, Switzerland and the United Kingdom. A bilateral investment treaty is in force with the United Kingdom and the country is in the process of fulfilling membership requirements of the Multilateral Investment Guarantee Agency (MIGA).

2.7. Movement of foreign currencies

Antigua and Barbuda benefits from a long standing stable currency, the Eastern Caribbean Dollar, once pegged to the Pound Sterling an now to the US dollar at a fixed rate of EC$2.70 = USD 1. The Eastern Caribbean Central Bank – established in October 1983 – is the Monetary Authority for a group of eight island economies namely – Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. These nations constitute the Eastern Caribbean Currency Union (ECCU). The monetary arrangements are characterised by: *i)* the issuance of a single common currency, the flow of which is unrestricted among its members; *ii)* a common pool of foreign exchange reserves; and *iii)* the existence of a Central Monetary Authority which decides on the Union's monetary policy.

Government has eliminated restrictions on foreign currency transactions, namely the approval from the Ministry of Finance for purchases above USD 100 000 and the 1 per cent foreign exchange levy.

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PART I

Chapter 3

Investors' Perceptions

At the outset, it is important to note that the data discussed in this section is based on interviews with the 15 largest investors in the country. The interviews were undertaken in the last quarter of 2003 and the first quarter of 2004, that is, prior to the change of administration. The new government has been instrumental in consulting the private sector to improve the investment climate. Dr. Errol Cort, the Minister of Finance in the Spencer government, has conducted a series of consultations with businesses and civil society when preparing the 2005 budget. This reflects a substantial change which should manifest itself in the results of a future survey.

Table 3.1. **Factors influencing investment**

Factors	Ranked as
Risk of armed conflict (civil or external)	Very low
Risk of significant social unrest	Partially low
Constitutional mechanisms for the orderly transfer of power from one government to another	Strong
Threat of international disputes and tensions to the economy	Moderate
Commitment of present or future government to implement open, liberal and pro-business policies for nationals and foreigners	Moderate
Political stability	Very strong
Economic stability	Moderate
Exchange rate volatility	Moderate
Inflation	Moderate
Legal framework for business and investment	Strong
Size of local market	Moderate
Regional market access (America and the Caribbean)	Moderate
Global market access	Moderate
Incentives (including free zones)	High
Costs of raw material	Partially low
Cost of labour force	High
Availability of well-trained workers	Moderate
Degree of productivity of workers	Partially low
Labour regulations	Strong
Infrastructure:	Very weak
Ports	Moderate
Airports	Moderate
Highways/Land connections	
Openness to foreign investment	Very high

Source: Interviews with the 15 largest investors in Antigua and Barbuda based on a Business Survey, Third Quarter of 2003 and First Quarter of 2004.

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When comparing Antigua and Barbuda with other countries in the region, investors ranked the investment climate in the country as low and risks as high. The twin-island state was also perceived as being rather costly. Table 3.1 shows investors' perceptions of Antigua and Barbuda with respect to various factors.

Antigua and Barbuda has always had a reputation of political stability and well functioning constitutional mechanisms. The main shortcomings highlighted in Table 3.1 are those related to infrastructure and the labour cost-productivity ratio.

Table 3.2 shows that investors are discontent with the available infrastructure in the country, mainly in the following sectors: telecommunications, postal services, and energy. Social services such as education and health ranked reasonably well, while security had a moderate performance. The overall efficiency of the government in delivering the necessary permits, licenses or certifications needed for operation ranked high.

Table 3.3 indicates the degree of difficulties in starting up and operating a company. With the exception of labour regulations and inspections, all other issues listed in Table 3.3 show that there are a number of obstacles in starting up and operating a company in Antigua and Barbuda. This is particularly true for start up requirements, custom or foreign commerce regulations, work permits for non-nationals, construction permits, tax regulations, and land titles.

Table 3.2. **Quality of public services**

Factors	Quality
Public administration/Regulation	
Internal tax/Revenue agency	Moderate
Customs	Moderate
Overall government efficiency in delivering the necessary permits, licenses or certifications needed for operation	High
Infrastructure	
Energy	Partially low
Water	Moderate
Postal services	Partially low
Telecommunications	Very Low
Social services	
Hospital and health services	High
Public education	Moderate
Security	
Armed forces	Moderate
Police	Moderate

Source: Interviews with the 15 largest investors in Antigua and Barbuda based on a Business Survey, Third Quarter of 2003 and First Quarter of 2004.

Table 3.3. **Degree of difficulty in starting up and operating a company**

Difficulties	Obstacles
Start-up requirements/Permits/Authorisation	Some
Business registration or incorporation	Few
Custom or foreign commerce regulations	Some
Labour regulations	None
Work permits for non-nationals	Some
Migration regulation	Few
Environmental regulations	Few
Municipal permits	Few
Construction permits	Some
Tax regulations	Some
Inspections	None
Land titles	Many

Source: Interviews with the largest 15 investors in Antigua and Barbuda based on a Business Survey, Third Quarter of 2003 and First Quarter of 2004.

Moreover, investors also noted in the survey that procedures to solve problems between enterprises and the public administration have been not very effective. There were differences as to how companies see the judicial system in terms of honesty, impartiality, effectiveness, affordability, and accessibility. All entrepreneurs underlined that they believe that the legal system would defend their contract and property rights in case of a business dispute, albeit most business persons stated that the judicial system is not "fast enough".

Most investors commented that businesses are not well informed beforehand of changes introduced by Government. They also stated that they somewhat disagreed when asked whether Government seriously consider their concerns.

3.1. Recommendations

Antigua and Barbuda offer numerous opportunities to investors. With a view to fostering investment, and as part of its investment policy reform agenda, within the next year Government could implement, with the support of international organisations, a number of concrete measures to improve the business climate. These measures include:

a) Reviewing the fiscal incentives system with a view to benchmarking the regime against other OECS and CARICOM countries and setting up a transparent and predictable system, which is WTO-compatible and which clearly states the application requirements for all incentives and concessions, and the beneficiaries' subsequent obligations. Investors should be able to access all the information regarding incentives and concessions on the website of the Antigua and Barbuda Investment Centre. Online applications with multiple-choice questions should allow investors to self assess their possibilities of qualifying. The Web site should also include the list of all firms and investors who are granted incentives and concessions. A public information campaign should be organised to inform all existing and potential investors of these new developments.

b) Streamlining the process of obtaining licenses and permits to start, operate and expand a business. The first step should be that the various government agencies (*e.g.* Inland Revenue Department, Registrar of Companies, and Social Security Office) involved in the registration of businesses coordinate their actions. The adoption of a single, unique registration number across the board and the introduction of computer technology would be two important steps towards sharing basic information, helping reduce bureaucracy and improving observance of social and tax obligations. The website of the new Investment Centre should serve as an online vehicle for business registration.

c) Providing an online roadmap of all the steps necessary to set up a business in the country. The Investment Centre should publish a registration guide available for current and prospective investors, both online and in print.

d) Preparing a Draft Investment Code for submission to Parliament to help build a world-class legal investment framework for current and prospective investors.

e) Allocating the human, technical and budgetary resources necessary to the Investment Centre to ensure that it can attend to the needs it was created for.

f) Launching a public campaign to help build a more entrepreneurial society in Antigua and Barbuda and, in so doing, extend the base of local entrepreneurs. Moreover, Government should also introduce this subject into school curricula at all levels of formal education and should promote direct linkages between schools and enterprises.

g) Setting up a nation-wide investment database to collect information on investment flows and related information.

h) Preparing a comprehensive infrastructure plan aimed at seeking technical and financial support in order to upgrade the road network in Antigua and expand it in Barbuda. This project should also focus on the improvement of airport and seaport facilities with privatisation options.

i) Designing a set of specific Master Plans for the country's key industries, with a view to proposing reforms and setting time bound targets for the implementation of these reforms. Tourism, financial services, telecommunications, health services, manufacturing, and agriculture should be studied in depth. For the case of offshore gambling, there is a need to upgrade an existing study produced by the Free Trade and Processing Zone.

j) Establishing and co-ordinating an effective dialogue mechanism amongst investors and educational institutions established in the country to enhance the current labour force's skills and address investors' needs and requirements. A new strategy should focus on ensuring that new graduates are not only capable of adding value to existing investments but also have the potential to become themselves partners and investors in the future.

k) Conducting a broad Investment Survey in one year's time to assess investor perceptions after the implementation of this Investment Policy Reform Agenda.

Notes

1. See World Bank Atlas 2004. It is worth noting that Bermuda ranked first in the world in terms of PPP in 2003, whereas the United States came second in the Americas and the Cayman Islands, a British dependency, and Canada were third and fourth, respectively.
2. The OECS member states are: Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Anguilla and the British Virgin Islands are associate members. All these countries except the British Virgin Islands are members of the Eastern Caribbean Currency Union.
3. See UNCTAD's World Investment Report, *www.unctad.org/en/docs//wir2004_en.pdf*.
4. See Government of Antigua and Barbuda. 2005 Budget Statement, 30 November 2004.
5. For more information, see *www.eccb-centralbank.org/PDF/efrjune2004.pdf.*
6. *www.auamed.org.*
7. Aruba, Barbados, Belize, Curacao, Dominica, Dominican Republic, Grenada, Guadeloupe, Guyana, Martinique, St. Kitts and Nevis, St. Lucia, St. Vincent and Trinidad and Tobago.
8. For more information on this alliance, see Government of Antigua and Barbuda. 2005 Budget Statement, 30 November 2004.
9. Political parties in Antigua and Barbuda: People's Party (leader: Baldwin Spencer); Antigua Labour Party (leader: Robin Yearwood); United Barbuda People's Movement (leader: C. Hilbourne Frank); Antigua Caribbean Liberation Movement (leader: Leonard Tim Hector).
10. Hurricanes Gustav in 1990, Luis in 1995, Georges in 1998, Jose and Lenny in 1999.
11. For more information, see IMF 2004, "Antigua and Barbuda: Report on Observance of Standards and Codes – Basel Core Principles for Effective Banking Supervision-Offshore Banking", November. *www.imf.org/external/pubs/cat/longres.cfm?sk=17855.0* and *www.imf.org/external/pubs/cat/longres.cfm?sk=17884.0*.
12. IMF Country Report No. 04/367, *www.imf.org/external/pubs/ft/scr/2004/cr04367.pdf.*
13. Arrears on debt repayment stood at USD 366 million at the end of the Bird administration.

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14. C&W held monopoly on domestic and international licenses in all eight of the Organisation of Eastern Caribbean States (OECS) members economies.
15. Commonwealth of Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
16. Paradyne Engineering Ltd. and Seymour Engineering and Sales.
17. For more information, see: *www5.gtz.de/gate/kpf.afp.*
18. See: *www.imf.org/external/pubs/ft/scr/2004/cr04367.pdf.*
19. Main information is contained in Divisions C and F of the Labour Code. Other divisions are complementary and important as well.
20. Antigua and Barbuda Labour Code, 1975, Division C.9 (3).
21. Labour Code Division C.41.
22. Labour Code, Division C.59 (1).
23. *Ibid.*, Division C.59 (3).
24. Architectural CAD, Computer Network Technician, Computer Repair Technician, Electronic Engineering Tech, Office Specialist (Civil), Office Specialist (Gen), Web site Designer.
25. Accounting, Banking and Finance, Computer Science, Computer Network Engineering, Computer Programming, Electronic Eng. Technology, IT Teacher Training, Office Management (Civil), Office Management (Gen), Webmaster.
26. English, Accounts, Labour Studies, Mathematics, Bookkeeping, Trades Farming/ agriculture, Art, Craft, Information Technology, Architecture.
27. This refers to the CIDA-funded "Eastern Caribbean Economic Managing Programme".
28. Sec. 3 to 5 and 8 of the Aid to Pioneer Industries Act.
29. Sec. 4 (1) of the Aid to Pioneer Industries Act.
30. Sec. 8 (1) of the Aid in Pioneer Industries Act.
31. Sec. 3 to 5 of the Hotels Aid Act.
32. Sec. 6 (1) of the Fiscal Incentives Act.

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PART II

Grenada

The Government of Grenada firmly believes that the private sector is the main driver to lead the country's economic development with Government putting in place the appropriate policies for strengthening the business environment. As Grenada is recovering from one of the most difficult periods in its recent history, after having been hit by two major events: Hurricane Ivan in 2004, causing unprecedented damage to the country; and Hurricane Emily in 2005 which caused additional damages particularly to the housing stock and agriculture, it is strongly committed to improving its policy environment so that it becomes much more conducive to private sector investment, which is crucial for sustained economic growth, and which, in turn, will help reduce poverty and unemployment in the country.

The publication of this Business Environment Report coincides with the implementation by Government of a number of measures to improve Grenada's business climate. In the coming months, the Government of Grenada will review the role of the Grenada Industrial Development Corporation (GIDC) with a view to improving its effectiveness in promoting new investments, as its core mandate. A new investment code will be prepared and implemented by September of this year. The code will, inter alia , improve and clarify the legal system for investment in Grenada; outline investor rights and obligations and detail investment procedures and means to access fiscal incentives. The Land Registry will be upgraded with a view to enhancing the accessibility of records to the public, including information on the leaseholds of public lands granted, the duration of the leases, and to whom granted. This project will be completed by end of 2006. A new Executive Agency to manage issues related to land use will be established by end of 2006, bringing together, the valuation section of the Ministry of Finance, the Lands and Surveys Division of the Ministry of Agriculture, and the Registry at the Supreme Court. All significant future divestment of Public Properties will take place through well advertised international auctions, so as to attract the widest possible range of investors, and enhance transparency. Customs Clearance procedures will be simplified so as to reduce the amount of paper work and time needed to clear imports through the ports. A National Export Strategy will be formulated in close partnership with private sector stakeholders and non governmental organisations with the specific objective of supporting and promoting export oriented industries in the areas of training, trade promotion and institutional strengthening. The Government is also in the process of implementing tax reform measures.

Government will also continue to place emphasis on the development of its people especially as we are moving towards the implementation of the Caribbean Single Market and Economy. Government holds the strong view that the best way to prepare its people for this new construct is by providing them with the tools required to compete with others in the region and to take advantage of benefits arising from the establishment of the CSME.

The Honourable Anthony Boatswain
Minister of Finance and Planning
Government of Grenada

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Executive Summary

Grenada has earned the name of "Isle of Spice", as it is home to a wide variety of spices such as nutmeg, mace, cinnamon, and allspice. Located between the Caribbean Sea and the Atlantic Ocean, north of Trinidad and Tobago, this Westminster-style democracy with a population of 102 000 is famed for producing 25 per cent of the world's supply of nutmeg and the highest quality mace. Grenada is also well endowed with pure white coral sand beaches, cascading rivers and waterfalls, lush rainforests, and beautiful mountain lakes. This small nation consists of three islands: Grenada, Carriacou, and Petit Martinique.

On 7 September 2004, Hurricane Ivan – one of the strongest hurricanes ever to hit the Caribbean – struck Grenada damaging or destroying 90 per cent of the housing stock, including most hotels, and 90 per cent of nutmeg trees and other crops. Grenada's economy contracted by 3.2 per cent in 2004 after growing at a rate of 5.7 per cent in 2003. On 14 July 2005, while the country was still recovering from the impact of Hurricane Ivan, Hurricane Emily made landfall in northern Grenada, destroying 90 per cent of the bananas planted after Hurricane Ivan and damaging the nutmeg trees left standing after the first storm. Hurricane Ivan's damage to agriculture is valued at EC$100 million. Close to 90 per cent of nutmeg trees, which produce the staple export crop, were uprooted. Traditionally, Grenada, the world's second producer after Indonesia, has supplied 25 per cent of the world market but as trees take around 10-15 years to reach maturity, recovery in that sector will take a decade. Sixty per cent of Grenada's high-flavoured cocoa was also destroyed. Bananas, now exported on a small scale, also suffered.

The Government of Grenada reported initial losses of USD 200 million following the passage of Hurricane Emily. Prior to Ivan, the country was on track to achieving a growth rate of over 4 per cent in 2004. However, the destruction caused by the storm system, estimated at over 200 per cent of the gross domestic product (GDP), approximately USD 900 million, eliminated any gains that could have been made in 2004.[1] Grenada had a pre-hurricane GDP per capita of USD 4 200 and the country had made significant progress in restoring fiscal sustainability and growth. While the economy expanded at an average of 7.1 per cent in the late 1990s, and unemployment fell from 26 per cent in 1995 to 11.5 per cent in 2000, a decline in international tourism, export manufacturing and the offshore financial services sector contributed to negative growth in 2001 (–3.8 per cent) and 2002 (–1.1 per cent). In 2003, for the

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first time in a decade, Grenada's primary fiscal balance registered a surplus, whereas the debt to GDP ratio reached 113 per cent.

Although economic growth was very modest at 1.5 per cent in 2005, the International Monetary Fund (IMF) is forecasting that the GDP will expand in 2006, as a result of reconstruction activities, in particular large capital expenditures by Government on infrastructure and related development. Finance Minister Anthony Boatswain stated in his 2006 budget address that real GDP growth of 6-6.5 per cent is projected for 2006. Beyond 2006-2007 growth of 4 per cent would need to be sustained through growth enhancing reforms. This positive growth projection reflect continued activity in the construction sector, preparations for the hosting of World Cup Cricket in 2007, and a revitalisation of the tourism and agriculture sectors.

To ease the work ahead, Government has streamlined procurement work by establishing the Agency for Reconstruction and Development (ARD) to coordinate the reconstruction efforts of ministries and agencies, external organisations and non-governmental organisations. Of particular importance are ARD's strong accountability features. Government is also in the process of establishing a "Reconstruction and Development Fund" in order to facilitate the necessary transparency.

The support of the international community has helped ease the effects of the damage caused by Ivan. Donor pledges amounted to USD 150 million (equivalent to one third of the country's GDP), as of February 2005.[2] The IMF approved a loan of USD 4.4 million to Grenada in November 2004, whereas in January 2005, the Fund reduced the interest on this new loan – and an earlier loan given in the aftermath of Tropical Storm Lili in 2002 – to a concessional rate of 0.5 per cent. The Caribbean Development Bank is providing USD 27 million for new and existing projects. On 19 November 2004, the World Bank announced a total of USD 20 million to support the Hurricane Ivan recovery efforts in Grenada. The Hurricane Ivan Emergency Recovery Project will provide additional assistance to support the overall recovery programme through the financing of critical imports and the rehabilitation of infrastructure in the education and health sector. Other major donors include the United States International Development Agency (USAID),[3] the Canadian International Development Agency (CIDA),[4] the UK Department for International Development (DFID), several UN agencies, as well as numerous governments (such as Australia, France, People's Republic of China, Trinidad and Tobago, and Venezuela).

Despite Grenada's efforts, the situation remains difficult. Government announced in October 2004 that the public debt level was unsustainable at 130 per cent of GDP and that it would seek the cooperation of creditors.[5] On 1 November 2005 Government concluded a successful debt restructuring exchange with its commercial creditors. As a result of this debt restructuring, Government will be able to realize savings on its debt servicing obligations of over USD 135 million over the next ten years. In 2004 Government spent approximately EC$184.8 million on debt servicing. In 2006 the estimated amount to be spent is EC$88.5 million, a saving of EC$96.3 million.

Several donor organisations and government relief organisations documented the impact of Hurricane Ivan on domestic and foreign investors in the weeks immediately following the tragic event.[6] Among the noteworthy observations were the following: first, the subsequent looting and vandalism of business inventory exacerbated damage to businesses caused by the hurricane; second, that layoffs were not as prevalent as was expected and many businesses retained employees for reconstruction purposes and in fact, expected to get on-stream fairly quickly. The National Insurance Scheme (NIS) estimates that about 8 per cent of the labour force was displaced by the effects of the hurricane. Third, businesses are seeking concessionary capital, as opposed to direct assistance, to rebuild their businesses. This suggests a resilient private sector in Grenada. In a statement to the United Nations on 2 November 2004, the Hon. Elvin Nimrod, Minister of Foreign Affairs and International Trade, declared that Ivan had halted, but not stopped Grenada.

Sustained efforts to rebuild Grenada in the aftermath of Hurricanes Ivan and Emily offer numerous opportunities for investing in the country. Various sectors are of particular interest:

- Tourism is the main source of foreign-exchange earnings in Grenada. The industry was hit hard by Ivan, after growing in recent years. The country experienced a record total of stopover visitors in 2003 and an increase in the cruise-ship arrivals, as a result of the completion of a new cruise-ship terminal. The hospitality industry suffered in the aftermath of Ivan. The 2004/2005 winter season was a write-off but by the end of 2005 over 85 per cent of the pre-Hurricane Ivan room stock was functional. The Grenada Industrial Development Corporation (GIDC), Grenada's investment promotion agency, has reportedly received no notices of investment project cancellations in the tourism sector. Several large-scale projects remain in the investment pipeline and represent opportunities for investment. These include: the Levere Beach Resort, a 300-room villa resort, a large scale Marina and villa resort development project, and a 477-acre mega tourism project. Firms interviewed during field missions were optimistic about continued growth in Grenada. Many planned to upgrade or expand their investments in the near future. For instance, with the 2007 Cricket World Cup soon approaching, the Spice Island Beach Resort embarked on a EC$10 million rebuilding project.
- In addition to tourism, other services sectors are of great importance to Grenada's economy. St. George's University, a US-owned institution, is a very well known offshore university and one of the main sources of foreign-

exchange earnings for the country. Joint ventures between graduates of its famed medical school and foreign or local investors could foster the development of niche health services. Partnership with the tourism industry would help promote the development of this service sector in Grenada.

- The yachting sector has been growing in recent years and represents an area of great potential in Grenada, Carriacou, and Petit Martinique. Government has recently encouraged its development and streamlined legislation.
- Foreign investment in agriculture is very small in Grenada, albeit opportunities abound for niche agriculture. The sector accounted for 10 per cent of GDP in 2003, and employed 3 300 farmers and 6 700 workers directly. After Ivan, the sector needed a comprehensive and immediate rescue mission, as farmers were without crops and without cash. To help clear, clean and replant selected crops, Government launched the USD 5-million Agriculture Emergency Rehabilitation Project (AERP) on 1 November 2004. This marked the first time in the history of the country that farmers and farm workers have been subsidised by government for their labour. However, more assistance is needed. In this regard, an allocation of EC$31.0 million has been made in the 2006 Budget to fund various projects in the agricultural sector.
- Grenada is also home to a small manufacturing sector, which offers investment opportunities in a few sub-sectors, including food-processing, beverages (including alcohol and spirit), garments, furniture, paint, animal feed, flour, and electronics assembly industries.

There are very few hurdles to investing in Grenada and investors' perceptions of the country are in general quite positive. There is trust in the judicial system and the interpretation of the law by government officials. Nonetheless, to foster investment and accelerate recovery, Grenada would benefit from improving a number of areas. For example, although tourism is the main source of foreign-exchange earnings in the country, the legal framework does not reflect this reality. At present, the Hotel Aids Act pertains only to hotels and is unclear when it comes to villa-style developments, which are the current trends, and the incentives (exemptions from taxes on imported products and income relief) that investors may be entitled to. This has led to the uneven application of tax incentives and a case-by-case approach. Furthermore, Grenada's legal framework does not clearly state the final decision maker of incentives granting. Prior to Hurricane Ivan, Government had begun the review of all fiscal incentives and, to that end, had set up the Fiscal Incentive Review Committee. Its work could not be completed as technical assistance was needed to prepare a new framework that is compliant with international trade agreements and best practices in respect to incentives.

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Investors are very satisfied with the personalised attention provided by GIDC. They do remark, however, that GIDC should have the authority to become a well-functioning one-stop shop, through the granting of incentives (below a certain threshold), approvals and permits requested and required by investors.

Grenada's 1983 Investment Incentives Code also needs to be reviewed and updated as it does not correspond to Government's more liberal practice toward foreign direct investment (FDI). For instance, sectors in which the investment legislation precludes foreign investment (such as retail and distribution trade) do allow foreign investors in practice. As part of the measures to improve the investment climate, Government announced in its 2006 budget that effective 1 January 2006, it will not grant any new tax holidays or renew existing ones. Instead, incentives will be provided in the form of tax write-offs for investments, and after 1 June 2006, through accelerated depreciation with loss carry forward. To this end the Income Tax Act will be amended by April 2006. Government also announced that by 31 May 2006, it will repeal the 1983 Investment Code Incentives Act.

Investors also underline that there is a skill shortage in Grenada and that the labour force does not have the technical skills needed to perform adequately. In fact, because of this skills gap, the private sector has to provide its own training to workers. Investors also observe that access to credit needs to be improved. The financial needs of the micro, small and medium-sised enterprises are met by personal and informal sources of finance plus bank loans and overdrafts. For several companies and individuals, these sources are insufficient. Banks are risk averse. Property is the usual form of collaterals they accept, which automatically excludes the young entrepreneur with no assets. Although more banks are moving towards project finance, equity investment and venture capital are clearly needed. Several companies also complained about the length and difficulty of the clearance procedures at customs and suggested that the Alien (Landholding Regulation) Act be reviewed because it imposes more stringent requirements on foreign residents when they are doing business in Grenada than on nationals.

Taking into account the challenges identified by the business sector, and with a view to fostering investment in the aftermath of Hurricane Ivan, within the next year a number of concrete measures could be implemented by Government, with the support of donor organisations, to improve the abovementioned elements. These measures should include:

a) reviewing the Hotels Aids Act and the legal framework regulating the tourism sector to eliminate discriminatory treatment with respect to incentives. In addition to the elimination of discriminatory treatment with respect to incentives, the review of the legislation should include the removal of disincentives to the tourism sector with a view to aligning incentives (which were established in 1960) with the requirements of the sector, especially the new tourism subsectors which have developed in the recent past;

b) implementing the tax reform announced in January 2006 with respect to incentives with a view to setting up a transparent and predictable system which is WTO compatible, does not require Cabinet approval below a certain threshold;

c) repealing the 1983 Investment Code, as announced in the 2006 Budget, and implementing a new Investment Code to ensure that current liberal practice toward foreign investment is reflected in Grenada's legal framework and that the new investment regime is based on best practices;

d) reviewing the Alien (Landholding Regulation) Act to eliminate the more stringent requirements on foreign residents when they carry out business in Grenada;

e) reviewing the Grenada Industrial Development Corporation Act to ensure that GIDC has the authority to become a well-functioning one-stop shop, through the granting of incentives, approvals and permits requested and required by investors;

f) increasing the number of training facilities, in cooperation with regional institutions such as the T.A. Marryshow Community College and the University of the West Indies, particularly in the hospitality sector;

g) implementing measures that will facilitate the use of venture capital through, for example, the OECS Stock Exchange, and other mechanisms (such as the Financial Enterprise Development Fund at the Eastern Caribbean Central Bank (ECCB)). With technical expertise and assistance from donor organisations, Grenada could design the legal framework to facilitate the use of venture capital;

h) reviewing customs regulations with a view to streamlining procedures at customs and reducing time needed to clear imports through the ports;

i) upgrading the capacity of the Central Statistic Unit to collect and analyze data on foreign investment flows, and setting up a foreign investment database; and

j) assessing the potential of Grenada's major sectors, particularly in the aftermath of Hurricanes Ivan and Emily, their comparative and competitive position *vis-à-vis* competing locations with a view to identifying industrial activities with the greatest potential to utilize local resources and create jobs.

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PART II

Chapter 1

FDI Trends

1.1. FDI inflows

FDI inflows into Grenada have grown on average in the last five years with the exception of 1999. While several Latin American countries experienced a decline in their FDI levels, Grenada has been particularly successful during the current decade, with FDI inflows growing steadily. However, a note of caution must be introduced, as the methodology to collect private investment data is based on estimates and aims at providing a first approach to the issue of FDI inflows into the tri-island state. Government would benefit from setting up a database system, which would collect data for large investments, mainly in tourism, and for individual projects, including smaller-scale investments and expansion/upgrades made to existing capital projects.

Table 1.1. **FDI inflows, 1998-2003**

	Millions of USD					
	1998	1999	2000	2001	2002	2003
Inflows	49.54	42.76	39.15	52.59	55.83	59.00[1]

1. See *www.unctad.org/fdistatistics*.
Source: Grenada's Central Statistics Office.

UNCTAD reports that in 2003 Grenada ranked second as an FDI recipient among OECS members, behind the British Virgin Islands but ahead of Antigua and Barbuda.[7] The Foreign Investment Advisory Service (FIAS), a joint service of the International Finance Corporation and the World Bank, stated in a 2004 report[8] that in recent years Grenada has been doing better than both Jamaica and Trinidad and Tobago in attracting far more FDI than is predicted based on its proportion of global economy activity. Using UNCTAD methodology, FIAS calculated that Grenada's FDI Performance Index (3.2) was higher than that of Trinidad and Tobago (2.882) and Jamaica (2.285).[9]

1.2. Country of origin and destination

The lack of accurate data makes it very difficult to identify the nationality of each investment. Table 1.2, which includes information on manufacturing, tourism and other services, is based on the flows collated by GIDC. Therefore, it does not take into account all of the flows received by Grenada. Nevertheless, Table 1.2 shows that the Caribbean (as a region) captured 82 per

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cent and 63 per cent of total FDI in 2001 and 2002, respectively. Although the data does not inform on the nationality of those Caribbean foreign investors, the Government of Grenada stated that Trinidad and Tobago is home to several of them, as the two countries are close neighbours. China is a small player but Chinese investments could increase in the near future as the People's Republic of China is now recognised by Grenada since 26 January 2005.

Table 1.2. **FDI inflows by country of origin, 2001-2004 as collated by GIDC (manufacturing, tourism and other services)**

%

	2001	2002	2003	2004
United States	11	33	16	54
Europe (including the UK)	6	63	54	28
Caribbean	82	4	30	17
China (PRC)				1

1.3. Distribution by economic activity

No data is available on FDI inflows by sector. The tourism sector has been the main beneficiary of the influx of foreign direct investment into Grenada over the last few years. Other key segments of the economy receiving FDI include retail, telecom, financial services and offshore education.

Tourism

Tourism is the main source of foreign-exchange earnings in Grenada. The industry was hit hard by Ivan, after growing in recent years. The country experienced a record total of stopover visitors in 2003 and an increase in the cruise-ship arrivals, as a result of the completion of a new cruise-ship terminal. The hospitality industry suffered in the aftermath of Hurricane Ivan. The 2004/2005 winter season was a write-off but by the end of 2005 over 85 per cent of the pre-Hurricane Ivan room stock was functional. The Grenada Industrial Development Corporation (GIDC), Grenada's investment promotion agency, has reportedly received no notices of investment project cancellations in the tourism sector. Several large-scale projects remain in the investment pipeline. These include: the Levere Beach Resort, a 300-room villa resort; a large scale Marina and villa resort development project scheduled for 2005, and a 477-acre mega tourism project. Firms interviewed during field missions were optimistic about continued growth in Grenada. Many planned to upgrade or expand their investments in the near future. For instance, with the 2007 Cricket World Cup soon approaching, the Spice Island Beach Resort embarked on a EC$10 million rebuilding project.

In order to boost investment in the hospitality industry and revive the tourism industry post-Ivan, the Ministry of Tourism launched the "Spice Lives" campaign in early 2005 to assure Caribbean tourists and investors that the country is "open for business" following the devastation caused to the island by Hurricane Ivan in September 2004.

With regards to preparation for Cricket World Cup the Ministry of Tourism is implementing a Home-Stay programme by giving concessions on building materials and furnishings to persons who wish to make their properties available as guest houses for the event. Government is aware of the need to have a flag ship hotel in Grenada to boost visitor arrivals and to increase the number of hotel rooms, a major factor affecting the industry in Grenada. In this regard, Government is partnering with the Jamaica-based Sandals Group for the construction of an approximately 200 room Beaches Hotel in Grenada estimated at USD 60 million. Plans are also well under for the commencement of the St. George's University Hotel project this year, of 400 rooms and with an estimated cost of USD 40 million.

Financial services

Grenada is home to an offshore financial services sector. As of January 2004, over 3 000 companies, most of which are foreign, were incorporated in the country. The Grenada International Financial Services Authority (GIFSA), a statutory body set up in 2000, plays a key role in the country's recent efforts to improve the regulation and supervision of all sectors within the offshore financial services industry.

Government is committed to developing and maintaining a financial services sector that meets the international standards of regulation and supervision. The Grenada Authority for the Regulation of Financial Institutions (GARFIN), soon to be established, will be responsible for regulating the financial sector in the country, with the exception of offshore financial services. Several foreign investors are present in the banking sector in Grenada, including Scotia Bank, Barbados-based First Caribbean International Bank (the entity formed when Canada's CIBC and Barclays joined their Caribbean operations in 2002), and RBTT of Trinidad and Tobago. The insurance sector also counts on a number of foreign players such as CLICO of Trinidad and Tobago and SAGICOR of Barbados.

Telecommunications

Foreign investors have also been very active in the telecom sector. UK-based Cable and Wireless, Digicel of Jamaica, and Cingular of the United States are all present in the Grenadian market. In 2005, Digicel bought US mobile phone service provider Cingular Wireless' majority of its Caribbean assets.

Offshore education in health services

Grenada has a well established reputation in offshore education, particularly in health services, with the establishment of US-owned St. George's University School of Medicine in 1977 and its School of Veterinary Medicine in 1999. Investment opportunities abound in the health sector, as graduates from St. George's University could offer their services to American patients at much lower costs in Grenada. St. George's is already one of the main sources of foreign-exchange earnings in the country.

Yachting

The yachting sector has been growing in recent years and represents an area of great potential in Grenada, Carriacou, and Petit Martinique. Government has recently encouraged its development and streamlined legislation, following suggestions made by the Marine and Yachting Association of Grenada (MAYAG), whose members count numerous foreign-born residents.

Manufacturing

Grenada is also home to a small manufacturing sector, mainly concentrated in light manufactures such as beverages (beer, malt, rum, soft drinks), paints and varnishes, garments, flour, wheat bran, pasta, oxygen, acetylene, cigarettes, animal feed, toilet paper, and electronics assembly industries. Some of the foreign investors already active in that sector include Trinidad-based Grenada Breweries and Sissons Paint of Venezuela.

Agriculture

There are very few foreign investors in the agriculture sector. Most investors are local farmers and producers. Hurricane Ivan's damage to Grenada's agriculture is valued at EC$100 million. Close to 90 per cent of nutmeg trees, which produce the staple export crop, were uprooted. Traditionally, Grenada, the world's second producer after Indonesia, has supplied 25 per cent of the world market but as trees take around 10-15 years to reach maturity, recovery in that sector will take a decade. Sixty per cent of Grenada's high-flavoured cocoa was also destroyed. Bananas, now exported on a small scale, also suffered.

Agriculture accounted for 10 per cent of GDP in 2003, and employed 3.300 farmers and 6,700 workers directly. After Ivan, the sector needed a comprehensive and immediate rescue mission, as farmers were without crops and without cash. To help clear, clean and replant selected crops, the government launched the USD 5-million Agriculture Emergency Rehabilitation Project (AERP) on 1 November 2004. This marked the first time in the history of the country that farmers and farm workers have been subsidised by government for their labour.

However, more assistance is needed. In this regard, an allocation of EC$31.0 million has been made in the 2006 Budget to fund various projects in the agricultural sector.

One of the projects to be implemented in 2006 is the Agriculture Enterprise Development Programme. The Budget has allocated EC$11 million to this project, which seeks to turn the agriculture sector into a business through the provision of soft loans and inputs to farmers with the establishment of an Agricultural Loan Scheme and a Fertilizer Revolving Fund Programme. An Agricultural Enterprise Development Task Force will also be formed to coordinate the support facilities of the project as well as to assist in the preparation of farms, business plans and credit proposals. Finance Minister Boatswain also announced in January 2006 that Government has been successful in securing a soft loan in the amount of USD 15 million from the Kuwait Fund for Arab Economic Corporation (USD 10 million) and the OPEC Fund (USD 5 million) for the financing of thirty four (34) farm roads totalling 39 miles throughout the Country.

Prior to Hurricane Ivan, the nutmeg industry represented approximately 80 per cent of Grenada's agricultural exports. In 1843, nutmeg was introduced to the island, which soil is ideal for growing the spice. The collapse of the sugar estates and the introduction of nutmeg and cocoa encouraged the development of smaller land holdings and the development of a land-owning farmer class. In recent years, Government has provided support to the Grenada Cooperative Nutmeg Association (the statutory body that purchases all nutmeg grown) to reorganize itself to do business in a more competitive environment. Also, Government has been supporting the Cocoa Revitalisation Programme of the Grenada Cocoa Association. The Programme involves the rehabilitation of 1 105 acres of neglected or unproductive lands owned by 228 farmers.

The importance of bananas has declined markedly over the years and exports have consistently fallen far short of the quota of 31 000 tonnes assigned by the European Union (EU) to Grenada but organic farming is a very promising niche market for the local agricultural sector. In the Summer of 2005, Hurricane Emily destroyed 90 per cent of the bananas planted after Hurricane Ivan. Many of these bananas were already being harvested for the local market.

1.4. Main investors

There are seven foreign-owned firms among the thirteen largest investors in Grenada. All except one of these foreign investors come from three countries, Barbados, Trinidad and Tobago, and the United Kingdom.

Table 1.3. **Grenada's largest investors, based on turnover**

Company	Country of origin	Sector (s)
Independance Agencies	Barbados	Retail and distribution
Courts Grenada Ltd.	United Kingdom	Retail and distribution
L L Ramdhanny and Co. Ltd.	Grenada	Retail and distribution
Grenada Breweries	Trinidad and Tobago	Beer and soft drinks
CLICO	Trinidad and Tobago	Insurance
Andal and Associates	Grenada	Restaurants, supermarkets, bakeries
Bryden and Minors	Trinidad and Tobago	Retail and distribution
Gerald S W Smith	Grenada	Retail and distribution
Texaco	Trinidad	Petroleum-based products
Shell Antilles	Barbados	Petroleum-based products
Geo F Huggins	Barbados	Retail and distribution
Jones Browne and Hubbards Ltd	Grenada	Retail and distribution
Cable and Wireless	United Kingdom	Telecommunications

Source: Ministry of Finance, March 2005.

1.5. Economic impact and linkages with the local economy

Forging domestic linkages to guarantee sustained and balanced growth is the main objective of the Government of Grenada, which has placed particular emphasis on expanding linkages between local farmers and the tourism sector.

1.6. Future perspectives

Prime Minister Keith Mitchell's New National Party (NNP) won the general election held in November 2003 by a very narrow margin. The NNP took eight of the 15 seats in the House of Representatives, whereas the opposition (the National Democratic Congress or NDC) won seven seats. Prime Minister Mitchell has been Grenada's Head of Government since June 1995.[10]

Grenada has been severely tested by Hurricanes Ivan and Emily but the country is committed to rebuilding the economy and making steady progress toward reducing its debt burden and fiscal imbalance. The support of the international community is critical in this regard.

The reconstruction efforts also represent an opportunity for Grenada to improve and modernize its infrastructure (roads, hotels, etc.) by adopting, for example, better building codes which will reduce the country's vulnerability to any future natural disasters. Opportunities abound for investors interested in playing a pivotal role in the rebuilding of the country.

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PART II

Chapter 2

Investment Environment

2.1. Structure of the economy

Grenada's economy contracted by 3.2 per cent in 2004 after growing at a rate of 5.7 per cent in 2003. Prior to Ivan, the country was on track to achieving a growth rate of over 4 per cent in 2004. However, the destruction caused by the storm system, estimated at over 200 per cent of the gross domestic product (GDP), approximately USD 900 million, eliminated any gains that could have been made in 2004.[11] Grenada had a pre-hurricane GDP per capita of USD 4,200 and the country had made significant progress in restoring fiscal sustainability and growth. While the economy expanded at an average of 7.1 per cent in the late 1990s, and unemployment fell from 26 per cent in 1995 to 11.5 per cent in 2000, a decline in international tourism, export manufacturing and the offshore financial services sector contributed to negative growth in 2001 (–3.8 per cent) and 2002 (–1.1 per cent). In 2003, for the first time in a decade, Grenada's primary fiscal balance registered a surplus, whereas the debt to GDP ratio reached 113 per cent.

Although economic growth was very modest at 1.5 per cent in 2005, the International Monetary Fund (IMF) is forecasting that the GDP will expand in 2006, as a result of reconstruction activities, in particular large capital expenditures by government on infrastructure and related development. Finance Minister Anthony Boatswain stated in his 2006 budget address that real GDP growth of 6-6.5 per cent is projected for 2006. Beyond 2006-2007 growth of 4 per cent would need to be sustained through growth enhancing reforms. This positive growth projection reflect continued activity in the construction sector, preparations for the hosting of World Cup Cricket in 2007, and a revitalisation of the Tourism and Agriculture sectors.

Table 2.1 shows that the services sector accounts for more than 80 per cent of Grenada's GDP. It is undoubtedly the most dynamic sector of the economy. While Government services saw its share decrease slightly between 1999 and 2003 from 17 per cent to 16.7 per cent, other services sectors experienced an increase. This is the case for wholesale and retail trade, hotels and restaurants, and financial and business services. Agriculture also experienced an increase in its share from 8 per cent in 1999 to 10 per cent in 2003, whereas manufacturing saw its share decline from 7.6 per cent in 1999 to 6.4 per cent in 2003.

Despite Grenada's efforts, the situation remains difficult. The current fiscal deficit is projected to increase from 1.2 per cent of GDP in 2004 to 5 per cent in 2005. The IMF also projects that the country will run a deficit (after

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Table 2.1. **Grenada's gross domestic product**

	1999	2000	2001	2002	2003
GDP at constant 1990 prices ($ mn)	655.2	701.2	670.6	668.1	706.0
Current factor cost ($ mn)	838.0	904.2	877.9	891.3	947.1
Sectoral composition (%)					
Agriculture	8.0	7.7	8.2	10.4	10.0
Mining and quarrying	0.8	0.8	0.7	0.5	0.6
Manufacturing	7.2	7.6	7.3	7.0	6.4
Electricity and water	5.1	5.1	5.9	6.7	6.2
Construction	9.9	10.7	9.1	9.1	11.0
Wholesale and retail trade	10.8	10.7	11.0	11.0	11.4
Hotels and restaurants	9.3	9.0	8.9	8.2	8.6
Transport and communication	23.1	23.7	22.7	20.4	20.0
Financial and business services	12.7	13.3	14.3	14.9	15.7
Government services	17.0	15.9	17.0	17.7	16.7
Other services	2.7	3.3	3.7	3.2	3.1
Less: imputed banking services	6.6	7.8	8.7	9.0	9.8

Source: Based on data from the Caribbean Development Bank, *Social and Economic Indicators 2003*, April 2004.

grants) of 8 per cent of GDP in 2005. Moreover, Government announced in October 2004 that the public debt level was unsustainable at 130 per cent of GDP and that it would seek the cooperation of creditors.[12] Table 2.2 shows that debt service accounted for over 20 per cent of current revenue in 2002.

Table 2.2. **External debt outstanding (USD mn)**

	1998	1999	2000	2001	2002
Total external debt outstanding	100.2	109.9	133.3	149.7	254.0
Debt service	8.5	9.9	10.7	12.5	21.7
Interest payments	2.8	2.9	3.3	4.4	11.4
Amortisation	5.7	7.0	7.4	8.1	10.3
Debt service as % of GDP	2.4	2.6	2.6	3.2	5.4
Debt service as % of current revenue	10.0	9.8	9.7	11.9	20.9
Debt service ratio (%)	5.1	4.5	6.1	6.3	11.1

Source: Based on data from the Caribbean Development Bank, *Social and Economic Indicators 2003*, April 2004.

2.2. Infrastructure

The following section covers some of the most important infrastructure networks in Grenada: the road network, naval transport infrastructure, air transport infrastructure, infrastructure in telecommunications, electricity and power, and water generation and disposal.

Road network

Grenada has a 1 040-kilometre road web. Approximately 60 per cent has been paved. Post-Ivan, basic infrastructural problems need to be tackled by Government. Roads are rather small and some are in need of repair. The reconstruction activities in the aftermath of Hurricane Ivan represent an opportunity for the country to modernize its road network.

Sea transport infrastructure

Grenada is home to one major seaport in St. George's, which has a berth capacity of three vessels, warehouse and bond storage facilities, and a container park. It is owned and administered by the Grenada Port Authority, whose approval is required to obtain and provide port services.

Grenada has also eight smaller ports, including one in Carriacou. The country has regular shipping links with major ports in the United States, Canada, Europe, and Asia, and is served by six international shipping lines.

Air transport infrastructure

Seven airlines provide international scheduled passenger services to and from Grenada. There are two airports, Point Salines International Airport (PSIA) in Grenada and Lauriston Airport in Carriacou.

Infrastructure in telecommunications

The introduction of the Telecommunications Act 2000 paved the way for increased competition, lower prices, and the introduction of advanced technologies and services in telecommunications in Grenada. The framework and structure of this reform is handled by two main bodies: ECTEL (the Eastern Caribbean Telecommunications Authority), which has been established by five OECS countries to promote open competition in telecommunications, and the NTRC (National Telecommunications Regulatory Commission), which was set up to issue new licences and regulate the market.

In addition to UK-based Cable and Wireless, Digicel of Jamaica and Cingular (of the United States, bought by Digicel in 2005) are present in the Grenadian market. A key objective of ECTEL's agreement is to offset C&W's dominant position in the member countries. A 2004-2008 price cap plan has been designed by ECTEL and signed by the member states and C&W.

Electricity and power

Grenada Electricity Services (GRENLEC) is the sole provider of electricity in Grenada, Carriacou and Petit Martinique. GRENLEC was incorporated on 27 September 1960, and created by an Act passed in the Grenada Legislative Council on 7 November 1960. The Electricity Supply Ordinance gave the

Company the sole and exclusive license to generate, transmit, distribute and sell electricity in Grenada during a period of 80 years beginning on 1 January 1961. As part of its structural adjustment programme, the Government of Grenada decided in 1992 to sell 50 per cent of its GRENLEC shares to a US investor in 1994, the remainder was sold to employees, Grenadian and Caribbean nationals, with Government of Grenada retaining 10 per cent.

Water generation and solid waste disposal

The National Water and Sewerage Authority (NAWASA) is a statutory body owned by the Government of Grenada. In the same survey referred to above, a few firms (22 per cent) reported that they had experienced water supply problems and were turning to private sources to compensate the inadequate water supply.[13]

2.3. Human capital

Grenada's educational system has been quite successful, albeit in recent years the private sector has underlined that the nation suffers from a skills shortage. There are 62 primary schools and 3 post-secondary schools in the country, including the renowned T.A. Marryshow Community College, affiliated to The University of the West Indies, and St. George's University founded over a quarter century ago (1977) as a medical school. Over the years, St. George's has added Schools of Veterinary Medicine (1999), Arts and Sciences (1996) and programmes in graduate studies to its original charter. The student body is very international in nature.

Adult literacy in Grenada is above 98 per cent, which is comparable to developed countries. Nearly 2 000 students graduate from high school every year. Approximately half of the workers have a high school diploma and another 13 per cent have benefited from tertiary education.

Although the curriculum has been revisited in recent years to include courses on information technology, there is a skills gap in the country, as technical skills such as industrial engineering or construction are missing. Moreover, managerial skills at middle and senior management levels are also lacking. To remedy this gap, a few companies do offer training but mostly to skilled workers.

With respect to wages, the FIAS survey shows that foreign firms offer higher wages, and so do manufacturing firms. Wages also appear to increase with size firm, with the exception of small professional services establishments which fare very well. Large and medium-sised firms as well as foreign firms have a much higher unionisation ratio but it is worth noting that the relationship between management and labour is very cordial in Grenada. In 2003, only three companies reported days lost due to labour disputes.[14]

2.4. Public governance: transparency, integrity, and the rule of law

Government has made serious efforts in recent years to improve the regulation and supervision of the financial services industry.

Grenada's anti-money laundering arrangements convinced the Financial Action Task Force (FATF) in 2003 to remove Grenada from its list of non-cooperative territories. The Task Force noted that Grenada's anti-money laundering regime is now up to international standards. Moreover, Grenada ratified the 1996 Inter-American Convention Against Corruption in 2002.

Post-Ivan, Government established the Agency for Reconstruction and Development (ARD) as the single interface with contractors working on reconstruction projects, irrespective of sector. Of particular importance, are the strong accountability features which are inherent in the operations of the Agency and the programmes that it is implementing.

Finally, there is general confidence in the judicial system to enforce contractual and property rights in business disputes.

2.5. Trade regime

Trade agreements

Grenada is a member of the Organisation of Eastern Caribbean States (OECS), which came into being on 18 June 1981, when seven Eastern Caribbean countries signed the Treaty of Basseterre, agreeing to cooperate with each other and promote unity and solidarity among the Members. The OECS comprises Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Anguilla and the British Virgin Islands are associate members. The purpose of the OECS is to assist its Members by identifying scope for joint or co-ordinated action towards the economic and social advancement of their countries. At their 34th meeting, held in Dominica in July 2001, the OECS Heads of Government decided to deepen economic integration by creating an economic union. On 18 June 2006, the sub-regional grouping plans to unveil its new OECS Economic Union Treaty in a move to strengthen and deepen its integration.

Grenada is also a member of the Caribbean Community and Common Market (CARICOM), established by the Treaty of Chaguaramas signed on 4 July 1973. CARICOM currently comprises 15 member states. For the past decade, CARICOM's efforts have been directed towards the formation of an economic union through the Caribbean Single Market and Economy (CSME) initiative, which was officially launched in Kingston, Jamaica on 30 January 2006. Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago became the first countries to enter into the Single Market on 1 January 2006. Six other Member States – Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines –signed another declaration stating their intention to join by the end of June 2006. The process which began with the Caribbean Single Market and its removal of barriers to trade, goods, services and several categories of labour will conclude with the implementation of the CARICOM Single Market and Economy (CSME) by the end of 2008. The CSME will involve a single currency and the harmonisation of economic policy.

Grenada, along with the other members of CARICOM, has signed a number of bilateral non-reciprocal (Venezuela) and reciprocal trade agreements (Colombia, Dominican Republic, Cuba, and Costa Rica). CARICOM is also exploring the possibility of negotiating a bilateral free trade agreement with Canada. As a member of CARICOM, Grenada also benefits from the unilateral preferential tariff treatment granted by several countries under the Generalised System of Preferences. In addition to the CARICOM-Venezuela Agreement mentioned above, it also can take advantage of other one-way preferential schemes such as the Caribbean Basin Initiative (United States), CARIBCAN (Canada), and the Cotonou Agreement (European Union).

On 28 September 2005, the European Union and the Caribbean region launched the third phase of their Economic Partnership Agreement (EPA) Negotiations. EPAs will replace the trade chapters of the 2000 Cotonou Agreement between the EU and the ACP (African, Caribbean and Pacific) countries. The exception of these chapters from WTO law will expire in 2008, requiring both parties to have put in place a WTO-compatible alternative. The European Union has committed to ensuring that the EPAs will guarantee both the development focus and the preferential trading terms currently enjoyed by ACP countries, while complying with WTO obligations. The EU is conducting parallel negotiations with six ACP regions.[15]

Prior to independence (7 February 1974), Grenada applied the General Agreement on Tariffs and Trade (GATT) *de facto* as member of the metropolitan territory of the United Kingdom. Grenada became a GATT contracting party on 9 February 1994, under Article XXVI:5(c) with its rights and obligations under GATT retroactive to the date of independence. It became a WTO Member on 22 February 1996.

Under the General Agreement for Trade in Services (GATS), Grenada made commitments on tourism (hotels development), recreational (entertainment and sporting services), communications (telecommunications and courier services) and financial services (reinsurance). Grenada presented an offer in the extended WTO negotiations on telecommunications, but did not participate in the continued negotiations on financial services.

The country has also been a participant in the Free Trade Area of the Americas (FTAA) process since 1994.

EU Banana Regime

One of Grenada's main exports (in addition to nutmeg) is banana. In February 2005, the European Union formally notified the WTO that it wants to replace its current banana trade regime with a tariff-only system on 1 January 2006. This new system would place a tariff on most-favoured-nation (MFN) suppliers. The EU was granted a waiver from WTO rules to allow duty-free, quota-limited banana imports from African, Caribbean and Pacific (ACP) producers.

The EU had to overhaul its banana regime after the WTO ruled in 1997 that EU preferential banana import rules were discriminatory. Under the old rules, the ACP group of 79 countries, which are mainly former European colonies, had almost exclusive access to the European market for their bananas. Grenada is one the seven traditional Caribbean banana exporters covered under the ACP.[16] Following the WTO ruling against the EU, the European banana regime has been modified in several stages leading to an erosion of Caribbean trade preferences. During the 1990s banana exports from four OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) fell by 50 per cent. Employment among banana farmers in OECS countries decreased from 23 100 in 1993 to 7 300 in 2001, a fall from 6.7 per cent to 2 per cent of the population of working age (15-60 years). As stated in a report on "Addressing the Impact of Preference Erosion in Bananas on Caribbean Countries", prepared for the UK Department for International Development (DFID), "the total impact on employment of the decline in the banana industry is much greater than this suggests. European Commission reports indicate that the number of workers deriving all or part of their income within the banana sector exceeds the number of farmers by a factor of three. This suggests that the total decline in banana sector employment in the Windward Islands over the period 1993-2001 could be as high as 67 000, or 18 per cent of the total population of working age." In the case of Grenada, the direct effect was to reduce the number of banana farmers from 900 in 1993 to 100 in 2002, which explains that Grenada has not been able to fill its allocated quota.[17] Three main sources of funds from the European Commission are available to Caribbean producers to help them adjust.[18]

The new banana regime will allow duty-free access for ACP bananas, and apply a uniform tariff preference for ACP producers until 2008. After 2008, duty-free tariff for ACP countries could be maintained under the Economic Partnership Agreements (EPAs) currently being negotiated by the EU and these countries to replace the Cotonou Agreement.

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Trade data

The United States (14.9 per cent) and Europe (36.3 per cent) are indisputably the leading export destinations for Grenada's products. Grenada's main export commodities are bananas, cocoa, nutmeg, fish, fruit and vegetables, clothing, and mace. Prior to Hurricane Ivan, the nutmeg industry represented approximately 80 per cent of Grenada's agricultural exports. It is worth noting that the services sector is not accounted for in the statistics on international trade.

Table 2.3. **Top export partners (2003)**

1.	United States (14.9 per cent)
2.	Germany (12.8 per cent)
3.	The Netherlands (8.5 per cent)
4.	St. Lucia (8.5 per cent)
5.	Antigua and Barbuda (6.4 per cent)
6.	United Kingdom (6.4 per cent)
7.	Belgium (4.3 per cent)
8.	Dominica (4.3 per cent)
9.	France (4.3 per cent)
10.	St. Kitts and Nevis (4.3 per cent)
11.	Trinidad and Tobago (4.3 per cent)

Source: Government of Grenada.

The largest two import partners of Grenada are the United States and Trinidad and Tobago, who account for more than 50 per cent of all imports. The country's main import commodities include food, manufactured goods, machinery, chemicals, and fuel.

Table 2.4. **Top import partners (2003)**

1.	United States (30 per cent)
2.	Trinidad and Tobago (26.8 per cent)
3.	United Kingdom (5.2 per cent)
4.	Japan (4.4 per cent)

Source: Government of Grenada

2.6. Investment regime

Grenada is very open to foreign investment. The present government has been making efforts to attract foreign investment since it took power in 1995. In fact, Government has made the development of the infrastructure a top priority, including the improvement of water resources, roads, telecommunications, and energy production. Moreover, Government recognizes private ownership rights and allows foreign investors 100 per cent ownership of business. The Constitution provides that no property shall be compulsory taken possession of, except where provision is made by a law applicable to that taking of possession or acquisition for the prompt payment of full compensation.

Incentives

Grenada does not have an integrated piece of legislation on investment. Incentives are regulated by the Investment Code Incentives Act No. 13 of 1983, the Fiscal Incentives Act No. 41 of 1974, and the Hotel Aids Act of 1954. At present, the Hotel Aids Act pertains only to hotels development and is unclear when it comes to villa-style developments, which are the increased trend. This has led to the uneven application of tax incentives. Prior to Hurricane Ivan, Government had begun the review of all fiscal incentives and, to that end, had set up the Fiscal Incentive Review Committee. Its work could not be completed as technical assistance was needed to prepare a new framework that is compliant with international trade agreements and best practices in respect to incentives.

A DFID funded project on the Review of Grenada's Fiscal, Legal and Regulatory Framework for Private Sector Growth underlines in its 2004 report that "*Ad hoc* concessions are granted for tourism based developments and services, and there is no clear policy framework to guide either the Government or the investors. The lack of overall guiding policy and discretion in decision making is one of the most serious challenges to potential and current investors in Grenada. The implications bear heavy cost on the confidence of the private sector and in diverting potential investors to other countries. In Grenada, the fiscal incentives are used to offset poor economies of scale and the expected loss due to location disadvantage. The Ministry of Finance does not quantify the revenue forgone due to the provision of specific fiscal incentives. No data is available to measure the impact of fiscal incentives on the local economy in terms of revenue forgone. Although the fiscal incentives appear to be critical to investors' decisions, there is no correlation of incentives to specific market failures."[19]

Furthermore, Grenada's investment regime does not clearly identify the final decision maker of incentives granting. In two separate instances recently, incentives on a telecommunications project were issued by separate agencies, Digicel was given incentives by the Minister of Finance and AT&T by the Minister of Telecom. Moreover, Grenada's 1983 Investment Code needs to be reviewed and updated as it does not correspond to the government's more liberal practice toward foreign direct investment. For instance, sectors in which the investment legislation precludes foreign investment (such as retail and distribution trade) do allow foreign investors in practice.

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Unless they receive an exemption under the Fiscal Incentives Act, foreign investment profits are granted national treatment and are subject to a 30 per cent tax rate for both individuals and companies. The Ministry of Finance must be notified of all outward transfer of funds. However, there are no restrictions on remittances of capital, earnings, and liquidation proceeds from direct non-resident investment. The country does not have a withholding tax. A 5 per cent tax is levied on the sale of property.

The Alien (Landholding Regulation) Act needs to be reviewed because it imposes more stringent requirements on foreign residents when they are doing business in Grenada than on nationals.

There are at least 14 different pieces of legislation, and numerous Statutory Rules and Orders (SRO), which govern the actual establishment of any mid to large scale investment in Grenada. They include:[20]

- The Fiscal Incentive Act (CAP 107) provides fiscal incentives to industries for the establishment of "approved enterprises" to manufacture an "approved product". Potential entrepreneurs can apply through the GIDC for incentives. This Act confers benefits to "approved enterprises" in the form of relief from taxes on income, plant, machinery, equipment, spare parts and raw material for the manufacturing of an "approved product". "Approved enterprise", means an enterprise, which has been granted, approved status for the purpose of conferring a benefit under the Act. Approved product, means the product approved for manufacture by an approved enterprise.
- The Hotel Aids Ordinance (CAP 138), grants tax concessions from custom duties on construction materials, equipment for hotels. It provides a license to a "qualified hotel investor/developer" to import materials, furniture and fixtures for a hotel duty free (or at reduced rates), of custom's duties. Hotels also qualify for concessions on materials used for repairs, alterations, reconstruction and extension of buildings. The Investment Code indicates that this tax holiday "can be for 10 years" on certain projects.
- The Qualified Enterprise Act (CAP 270) provides for tax benefits and exemptions on "certain enterprises" if the "Minister of the time being responsible for industry" considers it to be in the public interest. Under this Act, "a qualified enterprise" can import supplies (not raw materials), and get protection from new taxes that may be imposed during the concession (duty free) period.
- The Investment Code Incentives Act (CAP 155) gives the Minister of Finance power to extend or increase concessions or incentives to encourage investment in Grenada. It allows a 10 year corporate tax holiday for hotel investors among its provisions.
- The List of Conditional Duty Exemptions (SRO 37 of 1999) provides import duty concessions in areas not covered by the other laws. This SRO makes

provision for "those goods which, when imported for the purpose stated", may be admitted into the country free of import duty or at a rate which is lower than set down in the schedule in the Schedule of Rates, subject always to the approval of the "Competent Authority" (Minister of Finance).

- The General Consumption Tax (GCT) (Act 7/95), lists a number of items, which in addition to being exempted from import duties under SRO 37/99 above, also get exemption from the General Consumption Tax at the point of importation. These items are listed in Schedule 1 of the Act and range from live animals to computer equipment. Normal GCT payments are as follows: 10 per cent on manufactured goods and on all overseas telephone calls; 8 per cent on food and beverages served in hotels and restaurants and on occupancy charges of hotel rooms; and 5 per cent on all other services.
- Under various pieces of offshore legislation, offshore companies are granted incentives. Offshore companies are exempted from income tax.

Other legislation that impacts on investor decisions are as follows:

- Under the Aliens (Landholding Regulations Act), a non citizen requires a license and has to pay a 10 per cent aliens landholding tax.
- The Physical Planning and Development Control Act deals with the granting of permission for the development of property. The Physical Planning Unit of the Planning and Development Authority is responsible for servicing the requests for development.
- The Foreign Nationals and Commonwealth Citizens (Employment) Act provides for the granting of work permits to foreigners – when there are no nationals available. Government has the power to grant or refuse the permit at its own discretion.

As part of the measures to improve the investment climate, Government announced in its 2006 budget that effective 1 January 2006, it will not grant any new tax holidays or renew existing ones. Instead, incentives will be provided in the form of tax write-offs for investments, and after 1 June 2006, through accelerated depreciation with loss carry forward. To this end the Income Tax Act will be amended by April 2006. Government also announced that by 31 May 2006, it will repeal the Investment Code Incentives Act and the Qualified Enterprise Act. A new Investment Code will be implemented in the near future.

Bilateral investment treaties

Grenada has signed two bilateral investment treaties. The Grenada-United States Bilateral Investment Treaty, signed on 2 May 1986, entered into force on 3 March 1989 for an initial duration of ten years; after which it remains in force until either party notifies the other party, a year in advance, of its decision to terminate the treaty. Grenada also signed an investment treaty with the United Kingdom on 25 February 1998 for a duration of ten years. In addition to protecting the investors of the other Party and their investments, the US BIT includes a market access component. With respect to national treatment and MFN treatment, the Grenada-US BIT allows Grenada to reserve the right to maintain limited exceptions in the following sectors: air transportation; government grants; government insurance and loan programmes; ownership of real estate; use of land and natural resources.

Starting a business

The rules governing the registration of both local and foreign companies are laid down in the Companies Act of 1994. A company wishing to register in Grenada, must file an application with the Registrar of Companies, together with a statement setting out, among other things, the manner of incorporation, the extent to which the liability of the shareholders is limited, the business that the company intends to carry on in Grenada, and the authorised, subscribed, and paid-up or stated capital of the company and the shares. Foreign companies are required to designate a legal representative resident in Grenada. Applications of foreign companies are referred by the Registrar to the Minister of Finance, who decides upon registration. The registration of local companies does not require approval of the Minister of Finance.

The results from the FIAS Survey indicate that, in general, the process and procedures for setting-up a business in Grenada are relatively straightforward. The private sector's main grievance is directed at issues related to the highly discretionary and time consuming process in acquiring land. This is considered a major constraint for foreign investors. Under the Aliens (Landholding Regulations) Act, non-citizens require a license in order to hold or transfer shares or debentures and to be a director of a local company. The Ministry of Finance requires a notarised application form, a banker's reference, a police certificate of character and a file on the company. Based on approval by the Cabinet, the Minister of Finance grants the license to the applicant. The approval can take up to 6 months. The transfer of shares between local and foreign nationals leads to a 15 per cent transfer tax for the foreign participant and a 5 per cent tax for the Grenadian national. Exemptions to these taxes can be granted by the Ministry of Finance.[21]

Investment promotion

Investment policy is under the responsibility of the Ministry of Finance and administered by the Grenada Industrial Development Corporation, which is also the investment promotion agency for the Government of Grenada.

GIDC aims at encouraging investments in projects with potential for generating jobs and foreign exchange.

Investors are very satisfied with the personalised attention provided by GIDC. Several of them have expressed the view that there is a need to review the Grenada Industrial Development Corporation Act to ensure that GIDC has the authority to become a well-functioning one-stop shop, in which incentives, approvals and permits requested and required by investors can be obtained through the Centre.

Movement of foreign currencies

Grenada benefits from a long standing stable currency, the Eastern Caribbean Dollar, once pegged to the Pound Sterling an now to the US dollar at a fixed rate of EC$2.70 = USD 1.00. The Eastern Caribbean Central Bank – stablished in October 1983 – is the Monetary Authority for a group of eight island economies namely – Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. These nations constitute the Eastern Caribbean Currency Union (ECCU). The monetary arrangements are characterised by: *i)* the issuance of a single common currency, the flow of which is unrestricted among its members; *ii)* a common pool of foreign exchange reserves; and *iii)* the existence of a Central Monetary Authority which decides on the Union's monetary policy.

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PART II

Chapter 3

Investors' Perceptions

Investors' perceptions of Grenada as a location for FDI are excellent. Investors are generally supportive of Government's efforts to attract FDI.

From January to April 2004, FIAS conducted an investment climate survey in Grenada, covering a total of 201 firms chosen to reflect the Grenadian economic structure and the sectors in which Government actively promote investment. Part III of this report highlights the main conclusions of the FIAS survey.[22]

The results are quite favourable. For example, over 50 per cent of the firms stated that "there was no problem" with the following factors: access to land, corruption, health of workers (HIV/AIDS), labour relations, local transportation, telecommunications, transportation within the CARICOM region, and water.

The single most important constraint identified by firms doing businesses in Grenada is the lack of qualified labour. Foreign companies were particularly vocal about this. Small firms felt strongly about the high cost and lack of access to finance. The high tax burden was another constraint emphasised by the private sector. Finally, with respect to government regulations affecting business operations, the most important constraint is related to customs regulations, most specifically the length and difficulty of the clearance procedures at customs.

3.1. Lack of highly skilled labour

The FIAS survey underlined that "issues related to inadequate skills and education levels of the workforce were ranked as the No. 1 constraint to business growth."[23] The skills that are in most demand are those that are technical, such as industrial engineering, and those related to management.

To remedy the skills shortage, half of the companies surveyed reported that they offer formal training to their employees. However, most of this training is for skilled workers. Only 31 per cent of the companies providing training indicated that they offered such opportunities to unskilled workers.

Firms favoured a private sector-public sector partnership to address the issue of skills shortage and in setting up more training facilities in all areas.

While firms highlight the skills shortage, only 30 per cent of the firms stated that they employ foreign nationals, who account for a very small percentage (3.3 per cent) of the private sector labour force. The largest group of

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foreign workers is from other CARICOM countries. The United Kingdom and other European countries are also major countries of origin among foreign workers.

3.2. High cost and lack of access to finance

Several firms underlined that the cost of financing is a severe obstacle to doing business in Grenada. This problem which is not unique to Grenada in the Caribbean needs to be tackled. The financial needs of the micro, small and medium-sised enterprises are met by personal and informal sources of finance plus bank loans and overdrafts. For several companies and individuals, these sources are insufficient. Banks are risk averse. Property is the usual form of collaterals they accept, which automatically excludes the young entrepreneur with no assets. Although more banks are moving towards project finance, equity investment and venture capital are clearly needed.

The FIAS survey noted that firms have very limited options when it comes to financing: "Among the 131 firms that provided information on how their working capital needs are met, 85 per cent reported using own funds and retained earnings, of which 40 per cent relied on this source exclusively."[24]

There are at least two vehicles which could help alleviate the problem of access to finance by micro and small Grenadian firms. The first option relates to the regulations of credit unions, a type of financial institution, which is relatively underdeveloped in Grenada. The other option is the Eastern Caribbean Securities Exchange (ECSE), which began to operate in 2001. As noted by FIAS, the ECSE is the first regional securities market in the Americas. Although it is still quite small, "it provides increased opportunities for access to public equity for companies operating in Grenada".[25]

3.3. High tax burden

Firms complained that tax rates are too high and that exemptions from taxes on imported products (the so-called concessions) are granted on a case-by-case basis, therefore lacking clarity and transparency.

3.4. Infrastructure

Firms who took part in the survey reported that electricity supply is in need to be improved, whereas access to water and telecommunications is less of a problem, albeit some firms underlined that water stoppages do occur.

With respect to transportation, firms reported that transportation within the CARICOM region is not a problem, whereas international transportation to destinations outside the Caribbean is more problematic, particularly with regard to "port delays and infrequent/ unreliable ship services to other islands."[26]

3.5. Customs regulations

Several companies complained about the length and difficulty of the clearance procedures at customs. The FIAS survey reports that "some investors have been discouraged by customs harassment, the amount of paperwork, and the elaborate procedures."[27] The survey highlights that "restrictive customs practices had a particularly adverse impact on the yachting industry, as regulations make it difficult to take yachts, which are registered in other countries, to travel to Grenada."[28]

3.6. Recommendations

Taking into account the challenges identified by the business sector, and with a view to fostering investment in the aftermath of Hurricane Ivan, within the next year a number of concrete measures could be implemented by Government, with the support of donor organisations, to improve the abovementioned elements. These measures should include:

a) reviewing the Hotels Aids Act and the legal framework regulating the tourism sector to eliminate discriminatory treatment with respect to incentives. In addition to the elimination of discriminatory treatment with respect to incentives, the review of the legislation should include the removal of disincentives to the tourism sector with a view to aligning incentives (which were established in 1960) with the requirements of the sector, especially the new tourism subsectors which have developed in the recent past;

b) implementing the tax reform announced in January 2006 with respect to incentives with a view to setting up a transparent and predictable system which is WTO compatible, does not require Cabinet approval below a certain threshold;

c) repealing the 1983 Investment Code, as announced in the 2006 Budget, and implementing a new Investment Code to ensure that current liberal practice toward foreign investment is reflected in Grenada's legal framework and that the new investment regime is based on best practices;

d) reviewing the Alien (Landholding Regulation) Act to eliminate the more stringent requirements on foreign residents when they carry out business in Grenada;

e) reviewing the Grenada Industrial Development Corporation Act to ensure that GIDC has the authority to become a well-functioning one-stop shop, through the granting of incentives, approvals and permits requested and required by investors;

f) increasing the number of training facilities, in cooperation with regional institutions such as the T.A. Marryshow Community College and the University of the West Indies, particularly in the hospitality sector;

g) implementing measures that will facilitate the use of venture capital through, for example, the OECS Stock Exchange, and other mechanisms [such as the Financial Enterprise Development Fund at the Eastern Caribbean Central Bank (ECCB)]. With technical expertise and assistance from donor organisations, Grenada could design the legal framework to facilitate the use of venture capital;

h) reviewing customs regulations with a view to streamlining procedures at customs and reducing time needed to clear imports through the ports;

i) upgrading the capacity of the Central Statistic Unit to collect and analyze data on foreign investment flows, and setting up a foreign investment database; and

j) assessing the potential of Grenada's major sectors, particularly in the aftermath of Hurricanes Ivan and Emily, their comparative and competitive position *vis-à-vis* competing locations with a view to identifying industrial activities with the greatest potential to utilize local resources and create jobs.

Notes

1. Caribbean Development Bank, 2005, "Highlights of CDB Activities in 2004 and Economic Background and Prospects", 4 February.
2. International Monetary Fund, 2005, "Grenada – 2005 Budget Mission, February 15-22", 22 February.
3. USD 46.7 million as of November 2004.
4. CDN$10.7 million as of December 2004.
5. *Ibid.*
6. The UK Department for International Development (DFID) provided a detailed review of the situation in a September 2004 report. This was followed with a summary document by USAID in outlining its proposed intervention to Grenada.
7. See UNCTAD's World Investment Report, *www.unctad.org/en/docs//wir2004_en.pdf.*
8. Foreign Investment Advisory Service, 2004, "Grenada: A Diagnostic Review of the Investment Climate", June.
9. The FDI Performance Index is the ratio of a country's FDI inflows as a proportion of world inflows, while the denominator is the ratio of a country's GDP as a proportion of global GDP.
10. Parliament has two chambers. The Senate consists of 13 members (10 appointed by the government and three by the opposition), and the House of Representatives, as mentioned above, has 15 seats.

11. Caribbean Development Bank, 2005, "Highlights of CDB Activities in 2004 and Economic Background and Prospects", 4 February.
12. *Ibid.*
13. *Ibid.*
14. *Ibid.*
15. For the purposes of EPA negotiations, fifteen Caribbean countries constitute the regional configuration called the Caribbean Forum of ACP States (CARIFORUM). They are: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.
16. These include Belize, Jamaica, Suriname and four OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines).
17. NERA Economic Consulting and Oxford Policy Management, 2004, "Addressing the Impact of Preference Erosion in Bananas on Caribbean Countries", August.
18. The Special Framework of Assistance (SFA), export revenue stabilisation schemes, and programmes funded by the European Development Fund (EDF).
19. See from "Review of Grenada's Fiscal, Legal and Regulatory Framework for Private Sector Growth", by Promil Paul of the DFID-funded "Public Sector Management Improvement Project", September 2004.
20. This section borrows from "Review of Grenada's Fiscal, Legal and Regulatory Framework for Private Sector Growth", by Promil Paul of the DFID-funded "Public Sector Management Improvement Project", September 2004.
21. *Ibid.*
22. Foreign Investment Advisory Service, 2004, "Grenada: A Diagnostic Review of the Investment Climate", June.
23. *Ibid.*
24. *Ibid.*
25. *Ibid.*
26. *Ibid.*
27. *Ibid.*
28. *Ibid.*

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PART III

St. Lucia

Fostering investment, both foreign and local, is a key pillar of St. Lucia's development policy. Over the past decade, with a view to adapting to the new global marketplace, the Government of St. Lucia has launched a number of initiatives to improve the country's business climate. These initiatives have aimed at helping businesses prepare for the Caribbean Single Market and Economy (CSME), the creation of a CARICOM Community where people, goods and services will move without restrictions. The Government is committed to ensuring that the country is prepared for the implementation of the CSME and is able to take full advantage of hosting World Cup Cricket (WCC) 2007, the biggest world sporting event ever held in the Caribbean.

As a small economy, St. Lucia is very mindful of the need to strengthen its investment framework to maintain its competitive advantages and remain an attractive location for foreign investors. We know that we must sharpen our skills and retool our economy for the changes in the world economy that are brought about by new rules of trade and rapidly evolving technologies.

In this regard, this Business Environment Report is very timely. It provides a detailed review of the main components affecting St. Lucia's business climate and highlights the progress made in recent years, as well as the remaining challenges. It will be a useful tool for policymakers.

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Investment and Consumer Affairs
Government of St. Lucia

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Carribean Rim: Antigua and Barbuda, Granada and St. Lucia

Executive Summary

St. Lucia is a small Windward island of the Eastern Caribbean, only 27 miles long and 14 miles wide. Located between Martinique and St. Vincent, and north of Barbados, the country is famous for having produced two Nobel laureates, Sir Arthur Lewis, who won the 1979 Nobel Prize in Economics, and Derek Walcott, who was awarded the Nobel Prize in Literature in 1992. It is also home to the Pitons, the twin volcanic peaks declared World Heritage Site by UNESCO in 2004. Although small, St. Lucia has a larger population (164 000 in July 2004) than the other members of the Organisation of Eastern Caribbean States (OECS).[1] The island is well endowed with magnificent rain forests, rare bird species, exceptional sulphur springs and waterfalls, as well as beautiful beaches. St. Lucia is also very proud of its cultural diversity. It is a member of the British Commonwealth and of the Organisation Internationale de la Francophonie, a reminder that the English and French colonial powers fought over St. Lucia between the mid-1650s and the early 1800s before the island was finally ceded to the British in 1814. The young nation, who became independent on 22 February 1979, also proudly celebrates, every October during Creole Heritage Month, the widely spoken Creole language, born of St. Lucia's Amerindian, African and European roots.

Tourism and agriculture are the two pillars of the St. Lucian economy. The country experienced strong growth in recent years driven mainly by a rebound in the tourism sector. Real growth reached 4 per cent in 2004 and 3.7 per cent in 2003, whereas a 5 per cent growth rate was achieved in 2005, the highest growth rate since 1992. After expanding at an average rate of 6.5 per cent per year during the 1980s, St. Lucia's real gross domestic product (GDP) grew on average by only 2.5 per cent per year in the 1990s and contracted by over 4 per cent in 2001, as a result of the decline in tourism activity in the aftermath of the terrorist attacks on the United States on 11 September 2001.

Tourism is the island's most important source of foreign exchange and investment in that sector is booming. Hotel activity has traditionally been dominated by all – inclusive resorts such as the Jamaican-based Sandals chain, which owns three resorts in St. Lucia and is planning to build a new Beaches property in the country. Among the new developments attracting investors' attention is the Calabash Cove Inn and Sanctuary, a five-star boutique resort comprising 23 luxury ocean-front villas. Named after St. Lucia's national tree, the

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scheme developed by an Austrian investor and a St. Lucian national enjoys an idyllic setting in the sheltered bay of Bonaire Estate on the north-west of the island.

Hotel development also includes the renovation and refurbishment of existing hotels such as Coconut Bay Resort in Vieux-Fort (formerly Club Med) and Sandals Grand at Pigeon Point, Gros Islet and Koko Kreole (formerly Candyo Inn). Coco Resorts ($51.3 m) will add an additional 70 rooms to Koko Creole. St. James' Club St. Lucia was recently acquired by Almond Resorts and closed for expansion and renovation on 1 June 2005 and will reopen as Almond Morgan Bay Beach Resort. The resort is set on 22 scenic acres just north of St. Lucia's capital, Castries, and will offer guests an ideal all-inclusive family vacation. Plantation Beach ($72.9 m) and condominium type resorts have also increased the level of foreign direct investment (FDI) into the sector. The construction of The Landings at Pigeon Point, Gros Islet is another residential development. It is a luxury marina resort development project being developed by Canadian businessman Frank Heaps and several local businessmen. Moreover, the five-star Discovery at Marigot Bay Spa Resort and Marina in Marigot Bay is scheduled to be completed in the winter of 2006. The property is managed by Sonesta International Hotels and will comprise 57 one-, two- and three-bedroom luxury units.

New players include companies such as DCG Properties Ltd., which broke ground on Le Paradis in August 2005, a new luxury condominium and real estate development on St. Lucia's undeveloped East coast in Praslin Bay. The 554-acre multi-use resort will include an international four-star plus branded hotel with 232 rooms and conference facilities for up to 600 persons; more than 100 luxury condominiums and deluxe residences; international health spa; Greg Norman signature 18-hole golf course managed by internationally recognised Troon Golf; and many other leisure activities. These components are scheduled to be operational by March 2007. The project is expected to involve a $750 million investment. An Irish company, Premier Corporation, launched the Sapphire Cove development in May 2005. Located at Laborie in southern St. Lucia, the $380 million investment will include a convention facility, a golf course, and 3 000 rooms, of which 25 per cent are scheduled to be completed in time for the 2007 Cricket World Cup.

The Government of St. Lucia is offering special incentives to investors for new developments or expansions completed before 31 December 2006 to encourage the development of the tourism accommodation to meet the anticipated increase in demand for accommodation during World Cup Cricket 2007. The country is one of the eight venues[2] in the Caribbean selected to host the World Cup Cricket 2007. The eyes of an estimated 1.4 billion worldwide television audience will be focused on images of St. Lucia for an extended period, while over 15 000 visitors will be expected to make St. Lucia their temporary home in 2007. The country needs to increase its hotel room capacity from 4 500 to approximately 7 500.

Construction services, tour companies, restaurants, water sports, retail trade, and taxi services are among the services sectors benefiting from the increase in the tourism sector. Export of tourism services have increased from 24 per cent of GDP in the 1980s to about 40 per cent in recent years.[3] Both stopover tourist arrivals and cruise passenger arrivals reached a peak in 2005. All in all, services account for 85 per cent of GDP. The island is also home to a small offshore financial sector.

St. Lucia's agricultural sector is also gaining from the boom in the tourism sector. Backward linkages between the hotel and restaurant sectors and the agricultural sector have been particularly successful in St. Lucia. For example, Sandals Resort has developed a programme whereby it works very closely with a select number of farmers to ensure a steady supply of local fruits and vegetables at a set standard. The US-owned Popeyes chain has a similar programme with the local poultry farmers.

Although it has benefited from the linkages with the tourism industry, agriculture is no longer the driving force of the St. Lucian economy. The share of agriculture declined from an average of 14 per cent of GDP during the 1980s to an estimated 5.5 per cent in 2004. This decline is the result of a significant reduction in bananas, St. Lucia's largest export crop. Changes in the European Union (EU) import preference regime in the 1990s and competition from Latin America have led to a significant drop in export revenue. Banana production fell from about 10 per cent of GDP in the 1980s to less than 2 per cent in 2003. Bananas are sold to the United Kingdom under the EU preferential scheme known as the Cotonou Agreement. In February 2005, the EU formally notified the World Trade Organisation (WTO) that it wanted to replace its current banana trade regime with a tariff-only system on 1 January 2006. The EU had to overhaul its banana regime after the WTO ruled in 1997 that EU preferential banana import rules were discriminatory. Under the old rules, the African, Caribbean and Pacific (ACP) group of 79 countries, which are mainly former European colonies, had almost exclusive access to the European market for their bananas. St. Lucia is one the seven traditional Caribbean banana exporters covered under the ACP.[4] Following the WTO ruling against the EU, the European banana regime has been modified in several stages leading to an erosion of Caribbean trade preferences. In 1999, the EU established the Special Framework Assistance (SFA) to compensate ACP banana-producing countries, following amendments which substantially altered the market conditions for these traditional banana suppliers. The SFA will continue until 2008. On 23 March 2005, the European Commission approved EC$64.3 million (USD 23.8 million) in grants under the SFA to St. Lucia and three other OECS islands (Dominica, Grenada, and St. Vincent and the Grenadines).[5] These funds will be used for private sector development.

In addition to bananas, St. Lucia also exports beer, flowers, and foliage plants and a wide variety of fruits and vegetables to other Caribbean countries. There is also a livestock production for the local market and a small fishing industry. The manufacturing sector accounts for 5 per cent of GDP and includes paper products, food-processing, and beverages. St. Lucia's manufacturing sector is the most diverse among OECS countries, albeit its contribution to GDP has declined from 8.2 per cent in 1990 to 4.8 per cent in 2004. St. Lucia is also home to the largest transhipment point for containerised cargo in the Eastern Caribbean.

St. Lucia's fiscal position worsened at the beginning of the current decade, following the global economic slowdown and the negative impact on the St. Lucian economy of the terrorist attacks on the United States. Public debt rose during the same period, from 39 per cent of GDP in 1999 to an estimated 65 per cent in 2003, as the government undertook long-term borrowing to take advantage of the lower interest rates abroad. At 65 per cent of GDP, public debt is high but still well below that of other OECS countries. The current account deficit increased to 19 per cent of GDP in 2003, as a result of a surge in imports of telecommunications equipment, fuel, and food. The International Monetary Fund (IMF) reports that 80 per cent of the current account deficit was financed by FDI, particularly in telecom and hotels, and the remainder by public sector borrowing.[6]

Investment, both foreign and local, is a key component of the government's strategy to foster economic diversification and increase employment. With a view to setting out concrete actions and allocating resources to encourage the diversification and expansion of St. Lucia's exports, the St. Lucia Chamber of Commerce and the Ministry of Commerce, Tourism, Investment, and Consumer Affairs, with financial support and technical assistance from the Geneva-based International Trade Centre (ITC), have partnered to prepare the St. Lucia National Export Development Strategy (SLNEDS), a five-year plan which highlights the island's 10 priority export sectors for the 2004-2008 period. Of these 10 strategic areas, six are in the services sector:

- architecture services is an area of potential growth for the St. Lucian economy. Albeit small, the sector can build on the Caribbean expertise, particularly with respect to constructing hurricane-proof buildings, and form strategic alliances with international architectural firms;
- arts and entertainment services (music production, staged performances, events management, and carnival arts) have been thriving in St. Lucia. The country is famous worldwide for its Jazz Festival during the month of May;
- information technology is an area of particular interest for the St. Lucian economy. To take full advantage of the existing and emerging export

opportunities in this sector, capacity building of human resources is needed to increase and enhance skills of the St. Lucian workforce;

- integrated marketing and communications (such as advertising, public relations and the like) represents a new area of interest for St. Lucia. Opportunities will abound in this sector with the full implementation of the Caribbean Single Market and Economy (CSME);
- nursing services is a sector in high demand in North America and the United Kingdom. The migration of local nurses has created an opportunity for St. Lucia to offer training specifically to cater to the external demand;
- tourism is St. Lucia's most vibrant sector and the one with the greatest potential both in terms of attracting FDI and local investment but also in terms of creating much needed jobs for young St. Lucians.

The other four priority areas of St. Lucia are in the goods sector:

- agriculture, most specifically in products where there is a demand and where St. Lucia has a comparative advantage (breadfruit, bananas, cocoa, cut flowers, hot peppers, julie mango, plantain, yams and fisheries);
- beverages is a sector where St. Lucia has performed well in the past. Product development and increased marketing would help St. Lucia increase its market share;
- chemicals represents an area of potential growth in a Caribbean context with the implementation of the CSME next year;
- food and agro-processed products have been successfully exported by St. Lucian producers. Numerous opportunities exist in this sector for existing and new producers but to remain competitive and expand production, St. Lucians will need to upgrade their plant and technology, as the advent of the CSME will result in a more intense competition among Caribbean producers.

There are few obstacles to investing in St. Lucia and investors' perceptions of the country are positive. Government has made significant efforts in recent years to foster investment and improve the investment climate and the enabling environment. For example, in 2005, Government intensified its efforts to repair and rehabilitate the country's road infrastructure. Moreover, a number of investors, particularly in the hospitality sector, have reported water shortages during the dry season. Also in 2005, Government allocated resources to improve the water supply.

Investors have suggested that procedures should be streamlined to start, operate and expand a business in St. Lucia, particularly with respect to work permits for non-nationals, authorizations and construction permits. Some companies indicated that getting a permit to begin operations generally takes

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from three to four months. Streamlining administrative procedures would help reduce discriminatory and cumbersome procedures.

Investors would benefit from having Government examine the possibility to set up a one-stop shop organisation, which could also grant incentives (below a certain threshold), and facilitate approvals and permits requested and required by investors. Currently, several agencies are actively involved in investment promotion and facilitation in St. Lucia. The National Development Corporation (NDC) established in 1971 has the mandate to promote the economic development of St. Lucia. The NDC is the island's principal development agency, and a self-financing organisation that owns and manages industrial estates, land, and a duty free shopping complex. It has business interests in various companies. The 2001 NDC Act identifies the priority sectors for investment promotion and grants NDC the legal authority to process applications for fiscal and tourism incentives, trade licence and work permits. NDC is currently undergoing restructuring with a view to strengthening its investment policy advocacy, investment promotion, and investment facilitation efforts. Apart from NDC, other agencies such as the Office of the Prime Minister and the Ministry of Commerce, Tourism, Investment and Consumer Affairs are involved in investment promotion and facilitation. The Ministry of Commerce recently appointed an Investment Facilitation Officer. The Ministry also issues trade licences to foreign individuals and companies.

Investors underline that there is a skill shortage in St. Lucia and that the labour force does not have the technical skills needed to perform adequately. They note that more targeted training is needed to improve the skills of the workforce.

To assist local entrepreneurs set up businesses and to provide them with micro-finance, St. Lucia counts on a number of institutions such as the Small Enterprise Development Unit (SEDU) and the National Research and Development Foundation (NRDF), as well as the James Belgrave Micro Enterprise Fund (Belfund) and Microfin. Nevertheless, micro and small investors observe that access to finance needs to be improved. The financial needs of the micro, small and medium-sised enterprises are met by personal and informal sources of finance plus bank loans and overdrafts. For several companies and individuals, these sources are insufficient. Banks are risk averse. Property is the usual form of collaterals they accept, which automatically excludes the young entrepreneur with no assets. Although more banks are moving towards project finance, equity investment and venture capital are clearly needed.

Taking into account the challenges identified by the business sector, and with a view to fostering investment in St. Lucia in preparation for the full implementation of the CSME, within the next two years a number of concrete measures could be implemented by Government, with the support of donor organisations, to improve the abovementioned elements. These measures should include:

a) operationalising the framework to begin implementing the priorities identified in the National Export Development Strategy;

b) streamlining the process of obtaining licences and permits to start, operate and expand a business. The adoption of a single, unique registration number across the board would be an important step to help reduce bureaucracy. A specific website should serve as an online vehicle for business registration;

c) concentrating investment promotion and facilitation activities in a single agency, which could also grant incentives (below a certain threshold), and facilitate approvals and permits requested and required by investors;

d) increasing the number of targeted programmes, particularly in the hospitality and information technology sectors, to improve the skill shortage in the country. This should be done in cooperation with National Skills Development Centre, Sir Arthur Lewis Community College and regional institutions such as the University of the West Indies;

e) implementing measures that will facilitate the use of venture capital through, for example, the OECS Stock Exchange, and other mechanisms [such as the Financial Enterprise Development Fund at the Eastern Caribbean Central Bank (ECCB)]. With technical expertise and assistance from donor organisations, St. Lucia could design the legal framework to facilitate the use of venture capital;

f) finally, the country would also benefit from upgrading the capacity of the Statistical Office to collect and analyze data on foreign investment flows.

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PART III

Chapter 1

FDI Trends

1.1. FDI inflows

FDI inflows into St. Lucia have grown substantially in recent years, from $55 million in 2002 to $102 million in 2003 and $111 million in 2004. While these inflows accounted for 35 per cent of gross fixed capital formation in the last decade, they represented 65 per cent of gross fixed capital formation in 2003 and 2004. The country is now recovering, as FDI inflows averaged 15 per cent of GDP in 2003 and 2004 after experiencing a steady decline in the last 20 years from 11.5 per cent in the 1980s to slightly over 1 per cent at the beginning of the new millennium.[7] The economy is driven by tourism-related investments, which have increased ahead of the Cricket World Cup 2007.

Table 1.1. **FDI inflows in million of USD, recent years**

	1985-1995 (annual average)	2001	2002	2003	2004
Inflows	32	63	55	102	111[1]

1. See *www.unctad.org/fdistatistics*.

Source: UNCTAD.

1.2. Country of origin and destination

As it is the case for other OECS countries, the lack of accurate data makes it very difficult to identify the nationality of each investment. Table 1.2 is based on the flows collated by the Government of St. Lucia. It provides an indication that investors from the United States and the United Kingdom capture over 50 per cent of the FDI inflows on an annual basis. However, it does not inform on the nationality of Caribbean foreign investors and, most importantly, of other investors. Therefore, a note of caution must be introduced, as the methodology to collect private investment data is based on estimates and aims at providing a first approach to the issue of FDI inflows.

Table 1.2. **FDI inflows by country of origin, 2000-2003**

%

	2000	2001	2002	2003
United States	71		24	12
United Kingdom	3	7	44	47
Caribbean			29	6
Others	25	93	3	35

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1.3. Distribution by economic activity

The bulk of foreign direct investment has been directed to the services sector, particularly in the tourism sector, which has been the key driver and recipient of the influx of foreign direct investment into St. Lucia over the last few years. Other key segments of the economy receiving FDI include retail, telecom, financial services and offshore education.

Tourism and hotel development

Tourism is the island's most important source of foreign exchange. Investment in that sector is booming, particularly with respect to hotel development. Hotel activity has traditionally been dominated by all – inclusive resorts such as the Jamaican-based Sandals chain, which owns three resorts in St. Lucia and is planning to build a new Beaches property in the country. Among the new developments attracting investors' attention is the Calabash Cove Inn and Sanctuary, a five-star boutique resort comprising 23 luxury ocean-front villas. Named after St. Lucia's national tree, the scheme developed by an Austrian investor and a St. Lucian national enjoys an idyllic setting in the sheltered bay of Bonaire Estate on the north-west of the island.

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Telecommunications

UK-based Cable and Wireless, Digicel of Jamaica, and Cingular of the United States are all present in the St. Lucian market. In 2005, Digicel bought US mobile phone service provider Cingular Wireless' majority of its Caribbean assets. Cable and Wireless has upgraded its services to better compete on the market. This has resulted in the lowering of telecommunication costs for businesses and consumers.

Offshore education sector in health services

Although investment in this sector is not recorded separately, it is growing. The offshore education sector is taking off with medical universities such as Spartan Health Sciences University School of Medicine and St. Mary's School of Medicine. One of the existing universities plans to construct a university campus in Vieux-Fort and a hospital.

Wellness and trade in health services

Health tourism, including wellness, offers substantial opportunities for investors in St. Lucia. In 2004, the country was chosen as the headquarters of a Canadian company currently seeking to expand in South America and the Caribbean. Destiny Health and Wellness became part of the island's growing league of regional and international business concerns.

St. Lucia is already famous worldwide for its wellness facilities. In 2003 the Body Holiday at the LeSport Resort, owned by St. Lucian-based Sunswept Resort, was voted by European Condé Nast readers "No. 1 Best Overseas Destination Spa".

Financial services

As many other Caribbean islands, St. Lucia has a small offshore financial sector. Moreover, several foreign investors are present in the banking sector in St. Lucia, including Royal Bank of Canada and Scotia Bank, Barbados-based First Caribbean International Bank (the entity formed when Canada's CIBC and Barclays joined their Caribbean operations in 2002), and RBTT of Trinidad

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and Tobago. The insurance sector also counts on a number of foreign players such as CLICO of Trinidad and Tobago (since October 2005) and SAGICOR of Barbados.

Manufacturing

St. Lucia's manufacturing sector, which includes food-processing, beverages (a brewery, rum factories, etc.) and paper products, is the most diverse in the OECS and its contribution to the economy has declined from 8.2 per cent of GDP in 1990 to 4.8 per cent in 2004. Foreign investors are also present in the manufacturing sector. One such investor is Angostura Limited of Trinidad and Tobago, who produce the world famous Angostura Bitters. Angostura became shareholders of the well-known St. Lucia Distillers Limited in 1998. Export processing in Saint Lucia commenced in 1968, with the establishment of Manumatics Ltd., a United States-owned plant that coils wire for transformers and fields of electrical motors. North American Assemblies, based in Syracuse, NY, operates a 30 000-square-foot plant for assembling its filters for cable television on the island.

1.4. Main investors

There are seven foreign-owned firms among the ten largest investors in St. Lucia. All these foreign investors originate from three countries, Jamaica, the United Kingdom, and the United States. The ten largest companies include Sandals Resorts Limited of Jamaica, Cable and Wireless of the United Kingdom, Digicel of Jamaica, the National Commercial Bank of St. Lucia, SunSwept Resorts of St. Lucia, Rex Resorts of the United Kingdom, Manumatics of the United States, Windward and Leeward Brewery of St. Lucia and Trinidad and Tobago, North American Assemblies of United States, and Cingular Wireless Ltd, now owned by Digicel of Jamaica.

1.5. Economic impact and linkages with the local economy

As a result of the increased foreign direct investment in the services sectors, the benefits from linkages to the domestic economy are far reaching. The spin-offs include tours, water sports, food service (restaurant and night life), taxi and bus service, retail outlets and increase in employment.

The increased activity in the real estate sector has had a positive impact on the local construction industry with the hiring and transfer of skills to the contractors/sub-contractors and labourers. The suppliers of raw materials have also benefited from the increase in demand.

With the influx of expatriates and tourists, new restaurants are being opened as well as amenities catering to that sector. This has also attracted American franchise fast food restaurants which are locally owned. They include Kentucky Fried Chicken, Burger King, Popeyes and Domino's Pizza located in the tourist area of Rodney Bay, Gros Islet. Moreover, two golf courses are being built on the island.

Backward linkages also occur between the hotel and restaurant sector and the agricultural sector. Despite the fact that the hotels still import the majority of their foodstuff, the local farmers have benefited in terms of supplying the hotels with local provisions (such as yams, dasheen, etc.) and vegetables. The hotels also source cut flowers from local suppliers. This has encouraged an expansion of flower growers who supply flowers such as the ginger lily, orchid, etc. Sandals Resort has developed a programme whereby it works closely with a select number of farmers to produce a steady supply of vegetables at a set standard. Popeyes is now working with the local poultry farmers for the procurement of chicken.

Offshore economic linkages include food service, property rental for accommodation to students, transportation (bus transfers), retail and entertainment. One medical university plans to open a clinic for the Vieux-Fort community to provide free medical services to those who cannot afford it.

1.6. Future perspectives

Prime Minister Kenny Anthony led the St. Lucia Labour Party (SLP) to victory and won a second term as prime minister in early elections in December 2001, gaining 14 of the 17 contested seats. The remaining seats were taken by the former ruling United Workers Party (UWP). The county's bicameral Parliament consists of the Senate (11 seats: six members appointed on the advice of the prime minister, three on the advice of the leader of the opposition, and two after consultation with religious, economic, and social groups) and the House of Assembly (17 seats; members are elected by popular vote from single-member constituencies to serve five-year terms).

In March 2005, a former prime minister, Sir John Compton, was elected leader of the main opposition party, the UWP. General elections must be held by 3 April 2007.

The country has benefited greatly in 2005 from an increase in tourism activity and a boom in the construction industry. Several local hotels, companies and individuals are making good use of the incentives being offered by the Government of St. Lucia to provide accommodation for the visitors expected for Cricket World Cup 2007.

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PART III

Chapter 2

Investment Environment

2.1. Structure of the economy

Tourism and agriculture are the two pillars of the St. Lucian economy. The country experienced strong growth in recent years driven mainly by a rebound in the tourism sector. Real growth reached 4 per cent in 2004 and 3.7 per cent in 2003, whereas a 5 per cent growth rate was achieved in 2005, the highest growth rate since 1992. After expanding at an average rate of 6.5 per cent per year during the 1980s, St. Lucia's real gross domestic product (GDP) grew on average by only 2.5 per cent per year in the 1990s and contracted by over 4 per cent in 2001, as a result of the decline in tourism activity in the aftermath of the terrorist attacks on the United States on 11 September 2001. Per capita GDP was estimated at $4 600 in 2004.

Table 2.1. **St. Lucia's gross domestic product**

	2000	2001	2002	2003	2004
GDP at constant 1990 prices ($ mn)	1 169.4	1 118.7	1,124	1 164.1	1 226.7
Current factor cost ($ mn)	1 557.7	1 510.9	1 529.3	1 598.4	1 716.4
Sectoral composition (%)					
Agriculture	7.4	6.8	6.4	5.3	5.5
Mining and quarrying	0.5	0.4	0.4	0.4	0.4
Manufacturing	5.1	4.8	4.8	4.9	4.8
Electricity and water	5.6	5.8	5.5	5.3	5.2
Construction	8.4	8.3	7.7	7.3	7.5
Wholesale and retail trade	13.0	11.8	11.7	12.2	12.3
Hotels and restaurants	14.0	13.2	13.0	14.6	14.8
Transport and communication	18.9	20.6	21.3	21.4	21.8
Financial and business services	15.2	16.5	17.0	16.9	16.4
Government services	15.0	14.7	15.3	15.1	14.9
Other services	4.8	5.2	5.3	5.2	5.0
Less: imputed banking services	7.8	8.2	8.3	8.5	8.4

Source: Based on data from the Caribbean Development Bank, *Social and Economic Indicators 2004*, April 2005.

Table 2.1 shows that the services sector accounts for almost 90 per cent of St. Lucia's GDP. It is undoubtedly the most dynamic sector of the economy. Transport and communications, as well as financial and business services, and hotels and restaurants saw their share increase between 2000 and 2004. Agriculture and manufacturing, on the other hand, experienced a decline between 2000 and 2004 from 7.4 per cent of GDP in 2000 to 5.5 per cent in 2004 in the case of agriculture, and from 5.1 per cent in 2000 to 4.8 per cent in 2004.

Table 2.2 shows that debt service accounted for over 20 per cent of current revenue in 2002 and 3.9 per cent of GDP in 2003.

Table 2.2. **External debt outstanding (USD mn)**

	2000	2001	2002	2003	2004
Total external debt outstanding	188.3	205.6	247.1	325.9	339.8
Debt service	19.4	35.9	33.5	27.4	39.9
Interest payments	7.4	10.9	10.0	16.1	26.6
Amortisation	12.0	25.1	23.5	11.3	13.3
Debt service as % of GDP	2.8	5.5	5.0	3.9	–
Debt service as % of current revenue	10.8	22.0	20.2	15.8	20.2
Debt service ratio (%)	5.2	7.0	10.5	7.0	9.1

Source: Based on data from the Caribbean Development Bank, *Social and Economic Indicators 2004*, April 2005.

St. Lucia's fiscal position worsened at the beginning of the current decade, following the global economic slowdown and the negative impact on the St. Lucian economy of the terrorist attacks on the United States. Public debt rose during the same period, from 39 per cent of GDP in 1999 to an estimated 65 per cent in 2003, as the government undertook long-term borrowing to take advantage of the lower interest rates abroad. At 65 per cent of GDP, public debt is high but still well below that of other OECS countries. The current account deficit increased to 19 per cent of GDP in 2003, as a result of a surge in imports of telecommunications equipment, fuel, and food. The International Monetary Fund (IMF) reports that 80 per cent of the current account deficit was financed by foreign direct investment (FDI), particularly in telecom and hotels, and the remainder by public sector borrowing.[8]

2.2. Infrastructure

The following section covers some of the most important infrastructure networks in Grenada: the road network, naval transport infrastructure, air transport infrastructure, infrastructure in telecommunications, electricity and power, and water generation and disposal.

Road and rail

St. Lucia has a total of 1 040 km of highways, of which 638 km are paved. There are no railways in the country.

Air transport infrastructure

There are two airports in St. Lucia. Hewanorra, in Vieux-Fort, which handles long-haul international flights, and G.F.L. Charles in Castries, which serves regional flights. Airports are under the control of the St. Lucia Air and Sea Ports Authority (SPASPA). St. Lucia is a signatory to the Chicago Convention of the International Civil Aviation Organisation (ICAO), and a Contracting State of the ICAO.

The Ministry of Tourism and Civil Aviation is in charge of civil aviation. It is responsible for safety matters and for issuing operating licences. The Directorate of Civil Aviation of the Eastern Caribbean States, headquartered in Antigua, provides safety oversight through a system of inspection, investigation, maintenance, monitoring, coordination, and licensing. The Directorate operates under the directive of the OECS Civil Aviation Regulatory Board, comprising the OECS ministers responsible for civil aviation, which sets aviation policy and reviews aviation legislation and regulations within the OECS. The Directorate does some regulatory work through the Regulatory Body for Civil Aviation, created in February 2000, but always in consultation with national authorities.

Naval transport infrastructure

St. Lucia has two major multifunctional seaports: Port Castries (North) and Port Vieux-Fort (South) and three minor ports: Marigot Bay, Rodney Bay, and Soufriere. All ports are managed by the St. Lucia Sea and Air Port Authority, created in 1983. Decisions with respect to management of ports are taken by the Port Council, comprises of nine members. The Port Authority is responsible for the provision of cargo services and all activities related to the ports, including pilotage services, and for the determination of all port charges, which have not been revised since 1985. The Ministry of Communications, Works, Transport, and Public Utilities is responsible for formulation and management of maritime transport policy. St. Lucia participates in a number of international maritime conventions: The International Maritime Organisation Convention of 1948, and its 1993 amendment; and MARPOL 73/78 (International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto), and the London Convention of 1972.

Telecommunications

Competition to the incumbent Cable and Wireless, which had a monopoly of the telecommunications sector, was introduced in March 2003. At that time, Digicel, a pan-Caribbean mobile company, entered the market as the second operator. AT&T Wireless also penetrated the market soon thereafter. The intense competition has resulted in among the lowest tariffs in the region, including international call prices which have also dropped. AT&T was later bought by US-based Cingular, whose Caribbean operations were, in turn, acquired by Digicel in 2005.

Competition has developed only in mobile and international services, and has therefore not spread to other market segments even though St. Lucia's entire telecommunication market has been liberalised.

Electricity

The Electricity Supply Act 1994, No. 10 regulates the sole producer of electricity in St. Lucia. It created the St. Lucia Electricity Services Limited (LUCELEC), a statutory body, to operate the electricity power plants and has given the company the right to a guaranteed 15 per cent return. Therefore, there is no incentive for the electricity company to operate efficiently or economically – and thus electricity rates are high. LUCELEC gets its energy from fossils oil although cheaper energy sources have been explored.

Water

The Water and Sewage Act 1999 No. 13 regulates the sole producer of water supply in St. Lucia. It created the St. Lucia Water and Sewage Company (WASCO), a statutory body, which provides water to the majority of the population. There is a national water and Sewage Commission which acts as a policy arm of the St. Lucia Water and Sewage Company. However, the Company is in the process of improving the administration and efficiency of its operations as it is heavily indebted.

Water rates are reasonable but shortages of water occasionally occurred during the dry season. In an effort to meet the increased demand for water, government continues to upgrade and expand the water supply. A dam was constructed with ancillary facilities that include a pump station, water treatment, and a distribution network. This system has been designed to meet the potable water requirements (for the next 20 years) of the northern part of the country, where most of the hotels are located.

The World Bank is supporting the Water Sector Reform Program to prepare WASCO for private sector participation, including by reforming the regulatory framework. WASCO has improved its financial performance through new management and a metering program.

2.3. Human capital

The labour participation in St. Lucia is of 67.8 per cent for the male population and 38.2 per cent for the female population. The top three sectors (excluding the public sector) for employment are agriculture, retail trade, and tourism, which together account for 52.3 per cent of total employment. Government employs approximately 8.7 per cent of the labour force.

The minimum wage is regulated by the Minimum Wage Act 1999 No. 42. Average wages vary according to the type of industry and the nature of the job. The National Insurance Scheme (NIS) is similar to social security in the United States. Every employer and his employees must be registered with the NIS office. Contributions to the NIS total 10 per cent of wages, of which 5 per cent is paid by the employer and the other 5 per cent by the employee.

Minimum wage regulations in effect since 1985 set wages for a limited number of occupations. The minimum monthly wage for office clerks was $111 (EC$300), for shop assistants $74 (EC$200), and for messengers $59 (EC$160). The minimum wage was not sufficient to provide a decent standard of living for a worker and family, but most categories of workers received much higher wages based on prevailing market conditions. The 1999 Minimum Wage Act established a commission responsible for setting a minimum wage level. It has recently met to review the different levels.

Trade union rights are recognised under the Registration, Status and Recognition of Trade Unions and Employers Organisations Act 1999 No. 42 (formally trade unions were not recognised as valid in law although they were accepted as such in practice). There are eight unions in St. Lucia. The unionisation of the labour force is estimated to be of 47 per cent.

The education system in St. Lucia has five levels: pre-school, primary (universal) secondary, tertiary, and adult. The stipulated compulsory school age is 5-15 years, and the gross enrolment ratio in 2000 was of 70 per cent. Public expenditure on education as a percentage of total GDP was of 5.8 per cent in 1998-2000, which represented 16.9 per cent of total government expenditure.

There are 82 primary schools and 18 secondary schools. The administration of the formal education system is run almost entirely by the State through the Ministry of Education, Human Resource Development, Youth, and Sports.

Tertiary education is provided almost exclusively by the Sir Arthur Lewis Community College (SALC), which includes industrial, technical and teacher training institutes, a branch of The University of the West Indies, and an adult literacy programme.

The adult literacy rate for St. Lucia (age 15 and above) is of 90.2 per cent.

2.4. Public governance: transparency, integrity, and the rule of law

Proceeds of Crime Act 1993, No. 10 gives the legal authorities the power to be able to seize assets believed to have been obtained by illegal means. The Monetary Laundering (Prevention) Act 2000 creates the basis for persons to report activities which they believe are or form part of financial crimes. In so doing, these persons assist law enforcement agencies to apprehend such criminal behaviour. St. Lucia's Integrity Commission provides for all politicians to declare their assets once declaring their candidacy for office. This is a mechanism for monitoring illicit gains and suspicious acquisitions of assets after coming into office. In late 2005, St. Lucia's Integrity Commission moved to take legal action against 45 of the 161 persons in public life who have failed to file declarations of their income, assets and liabilities as required by law.

The primary form of dispute settlement in St. Lucia is that of the Court System supported by the Judiciary. St. Lucia's model of government is that of Westminster.

The arbitration statutes date back to 1957 and are based on the English model. The statutes which affect arbitration are as follows: The Arbitration Ordinance Cap. 14 is the legislation governing the settlement of domestic disputes between nationals, whereas Cap. 15 is a statute dealing with the methodology for arriving at the quantum of compensation for an international dispute. The Arbitration (International Investment Disputes) Act 1966 (U.K.) and the Trades Disputes (Arbitration and Inquiry) Ordinance (Cap. 103) provide for the settlement of international disputes involving a party from St. Lucia. The Overseas Judgments (Reciprocal) Enforcement Act 1960 (Cap. 7) provides a means by which overseas judgments will be considered if there is a reciprocal statute for the enforcement of judgments from the jurisdiction the non-national is a party from.

The Caribbean Court of Justice (CCJ) inaugurated in April 2005 in Port of Spain, Trinidad is the proposed regional judicial tribunal to be established by the Agreement Establishing the Caribbean Court of Justice. The Caribbean Court of Justice has been designed to be more than a court of last resort for Member States of the Caribbean Community. It will replace the Judicial Committee of the UK Privy Council and will be vested with an original jurisdiction in respect of the interpretation and application of the Treaty Establishing the Caribbean Community.

2.5. Trade regime

Trade agreements

St. Lucia is a member of the Organisation of Eastern Caribbean States (OECS), which came into being on 18 June 1981, when seven Eastern Caribbean countries signed the Treaty of Basseterre, agreeing to cooperate with each other and promote unity and solidarity among the Members. The OECS comprises Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Anguilla and the British Virgin Islands are associate members. The purpose of the OECS is to assist its Members by identifying scope for joint or co-ordinated action towards the economic and social advancement of their countries. At their 34th meeting, held in Dominica in July 2001, the OECS Heads of Government decided to deepen economic integration by creating an economic union. On 18 June 2006, the sub-regional grouping plans to unveil its new OECS Economic Union Treaty in a move to strengthen and deepen its integration.

St. Lucia is also a member of the Caribbean Community and Common Market (CARICOM), established by the Treaty of Chaguaramas signed on 4 July 1973. CARICOM currently comprises 15 member states. For the past decade, CARICOM's efforts have been directed towards the formation of an economic union through the Caribbean Single Market and Economy (CSME) initiative, which was officially launched in Kingston, Jamaica on 30 January 2006. Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago became the first countries to enter into the Single Market on 1 January 2006. Six other Member States – Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines – signed another declaration stating their intention to join by the end of June 2006. The process which began with the Caribbean Single Market and its removal of barriers to trade, goods, services and several categories of labour will conclude with the implementation of the CARICOM Single Market and Economy (CSME) by the end of 2008. The CSME will involve a single currency and the harmonisation of economic policy.

St. Lucia, along with the other members of CARICOM, has signed a number of bilateral non-reciprocal (Venezuela) and reciprocal trade agreements (Colombia, Dominican Republic, Cuba, and Costa Rica). CARICOM is also exploring the possibility of negotiating a bilateral free trade agreement with Canada. As a member of CARICOM, St. Lucia also benefits from the unilateral preferential tariff treatment granted by several countries under the Generalised System of Preferences. In addition to the CARICOM-Venezuela Agreement mentioned above, it also can take advantage of other one-way preferential schemes such as the Caribbean Basin Initiative (United States), CARIBCAN (Canada), and the Cotonou Agreement (European Union).

On 28 September 2005, the European Union and the Caribbean region launched the third phase of their Economic Partnership Agreement (EPA) Negotiations. EPAs will replace the trade chapters of the 2000 Cotonou Agreement between the EU and the ACP (African, Caribbean and Pacific) countries. The exception of these chapters from WTO law will expire in 2008, requiring both parties to have put in place a WTO-compatible alternative. The European Union has committed to ensuring that the EPAs will guarantee both the development focus and the preferential trading terms currently enjoyed by ACP countries, while complying with WTO obligations. The EU is conducting parallel negotiations with six ACP regions.[9]

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Prior to independence, St. Lucia applied the General Agreement on Tariffs and Trade (GATT) *de facto* as member of the metropolitan territory of the United Kingdom. Grenada became a GATT contracting party on 13 April 1993, under Article XXVI:5(c) with its rights and obligations under GATT retroactive to the date of independence. It became a WTO Member on 1 January 1995.

Under the General Agreement for Trade in Services (GATS), St. Lucia's sector-specific commitments were taken in financial services, health related and social services (hospital services), tourism and travel related services, recreational, cultural and sporting services, and transport services. No market access or national treatment limitations are applied on cross-border supply and consumption abroad in the areas where commitments were made. Commercial presence limitations apply in reinsurance and tourism: in the case of reinsurance, there is a registration requirement in St. Lucia for corporations wishing to provide services. In tourism, a market access commitment is granted only for hotels in excess of 100 rooms. As regards the presence of natural persons, market access and national treatment are generally subject to limitations.[10]

The country has also been a participant in the Free Trade Area of the Americas (FTAA) process since 1994.

EU banana regime

One of St. Lucia's main exports is banana. In February 2005, the European Union formally notified the WTO that it wanted to replace its current banana trade regime with a tariff-only system on 1 January 2006. This new system would place a tariff on most-favoured-nation (MFN) suppliers. The EU was granted a waiver from WTO rules to allow duty-free, quota-limited banana imports from African, Caribbean and Pacific (ACP) producers.

The EU had to overhaul its banana regime after the WTO ruled in 1997 that EU preferential banana import rules were discriminatory. Under the old rules, the ACP group of 79 countries, which are mainly former European colonies, had almost exclusive access to the European market for their bananas. Grenada is one the seven traditional Caribbean banana exporters covered under the ACP.[11] Following the WTO ruling against the EU, the European banana regime has been modified in several stages leading to an erosion of Caribbean trade preferences. During the 1990s banana exports from four OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) fell by 50 per cent. Employment among banana farmers in OECS countries decreased from 23 100 in 1993 to 7 300 in 2001, a fall from 6.7 per cent to 2 per cent of the population of working age (15-60 years). As stated in a report on "Addressing the Impact of Preference Erosion in Bananas on Caribbean Countries", prepared for the UK Department for International Development

(DFID), “the total impact on employment of the decline in the banana industry is much greater than this suggests. European Commission reports indicate that the number of workers deriving all or part of their income within the banana sector exceeds the number of farmers by a factor of three. This suggests that the total decline in banana sector employment in the Windward Islands over the period 1993-2001 could be as high as 67 000, or 18 per cent of the total population of working age.” In the case of St. Lucia, the direct effect was to reduce the number of banana farmers from 9 700 in 1993 to 2 000 in 2003. Three main sources of funds from the European Commission are available to Caribbean producers to help them adjust.[12]

The new banana regime will allow duty-free access for ACP bananas, and apply a uniform tariff preference for ACP producers until 2008. After 2008, duty-free tariff for ACP countries could be maintained under the Economic Partnership Agreements (EPAs) currently being negotiated by the EU and these countries to replace the Cotonou Agreement.

Trade data

The largest two export destinations of St. Lucia are the United Kingdom and CARICOM countries. The United States ranked third, whereas OECS countries are in fourth place. The country’s main exports include bananas (EC$43.6 million in 2002), beverages (EC$ 28.7 million), and manufactured goods (EC$17.8 million in 2002).

Table 2.3. **St. Lucia: direction of trade**

	1998	1999	2000	2001	2002
Export destination (%)					
United Kingdom	65.1	63.5	55.9	40.6	37.6
United States	13.8	12.1	14.8	19.0	20.0
CARICOM countries	19.1	22.3	26.7	34.3	37.3
Barbados	4.0	7.2	10.3	9.0	9.6
Trinidad and Tobago	5.7	3.8	1.8	11.4	11.7
OECS	8.3	10.2	13.2	12.4	13.9
Origin of imports (%)					
United Kingdom	9.3	10.5	8.5	9.2	8.7
Canada	3.4	3.3	3.8	3.4	2.9
United States	36.6	39.6	37.5	38.3	39.3
CARICOM countries	21.4	21.6	21.7	22.9	21.9
Trinidad and Tobago	12.9	14.1	14.4	14.2	15.1

Source: Based on data from the International Monetary Fund, *St. Lucia: Statistical Appendix*, December 2004.

St. Lucia's two main import partners are the United States and Trinidad and Tobago. The United Kingdom ranked third.

2.6. Investment regime

The Ministry of Commerce is responsible for investment policy in St. Lucia. In accordance with the Trade Licences Act No. 5 of 1985, foreigners establishing a company in St. Lucia require a trade license, obtainable from the Ministry of Commerce when more than 49 per cent of the company's shares are held by foreign nationals or, if shares are not issued, when the company is 100 per cent foreign-owned. In order to purchase property in St. Lucia, all non-OECS/CARICOM nationals are required by the Aliens (Licensing) Landholding Act No. 8 of 1999 to obtain an Alien Landholding Licence. The licence is obtained from the Ministry of Planning, Development, environment and Housing and must be registered by a lawyer.

The St. Lucia National Development Corporation (NDC) was established in 1971 to promote the economic development of St. Lucia. The organisation functions as an investment, trade, and export promotion agency, providing a range of business-oriented services to the public, including *inter alia*: attracting foreign investment to St. Lucia; sourcing technical assistance for enterprises, promoting locally manufactured products through regional and international trade missions and exhibition, and identifying sites for hotel development. The NDC owns and manages seven (7) industrial estates, which contain factory shells ranging in size from 3 800 to 30 000 square feet.

The NDC is the island's principal development agency, and a self-financing organisation that owns and manages industrial estates, land, and a duty free shopping complex. It has business interests in various companies. The 2001 NDC Act identifies the priority sectors for investment promotion and grants NDC the legal authority to process applications for fiscal and tourism incentives, trade licence and work permits. NDC is currently undergoing restructuring with a view to strengthening its investment policy advocacy, investment promotion, and investment facilitation efforts. Apart from NDC, other agencies such as the Office of the Prime Minister, the Ministry of Tourism, and the Ministry of Commerce, Investment and Consumer Affairs are involved in investment promotion and facilitation. The Ministry of Commerce recently appointed an Investment Facilitation Officer. The Ministry also issues trade licences to foreign individuals and companies.

Government's policy has been geared towards the encouragement of manufacturing in St. Lucia. Government has a commitment towards increasing foreign exchange generation and savings, diversifying the economic base of St. Lucia, and creating new job opportunities. Government has identified the following priorities investment areas: informatics/technology, agriculture, aquaculture, agro processing, hotel/resort development, manufacturing/ assembly, and financial services.

Areas of commercial activity generally reserved for domestic investment are guided by Cabinet Conclusion No. 645 of 5 July 1984. The Cabinet Conclusion was established as a policy in relation to areas of employment to be reserved for Nationals, but has come to be accepted by the business community as a parallel indication of areas of the economy which should be reserved for domestic business enterprises. Limitations on areas available for domestic investment are the following:

- distribution, both retail and, except where conducted ex-factory, wholesale; import for the purpose of trading;
- the operation of agencies and distributorships;
- operation of restaurants with the exception of top class specialty type;
- rental agencies for home, villas and apartments;
- real estate;
- construction, (excluding *ad hoc* contracts) repairs and maintenance of buildings and other facilities;
- landscaping;
- services which nationals have the capability to provide including secretarial, clerical hairdressing services, laundry, internal hire, transportation, vehicle and other repairs;
- advertising except where local technology is not sufficiently advanced;
- entertainment on a protracted basis;
- operation of guest houses of less that 10 rooms or with an investment of less than EC$500 000.00;
- operation of a manufacturing or processing plant in an area in which there is already adequate local productive capacity and in which the investment in the plant is below EC$250 000.00 and employment is offered to less than ten (10) nationals;
- printing where local technology is not sufficiently advanced;
- production of the following exclusively for the domestic market: *agricultural goods, handicraft, furniture, soft drinks, carbonated and non carbonated, bread and pasta*;
- quarrying;
- games of chance and lotteries;
- warehousing where capital investment is below EC$500 000.00;
- heavy equipment, hire and leasing;

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- tire retreading and repair;
- road maintenance and repair.

It is worth noting that a licence could be awarded to non-national companies of persons in cases where local investment has not sufficiently been forthcoming or where the appropriate technology is not available locally.

Incentives

Under the Fiscal Incentives Act, fiscal incentives are granted to enterprises to facilitate local and foreign investment in the productive sectors of the economy. Applications are submitted in duplicate to the Ministry of Commerce and the NDC. Given Government's policy to increase foreign exchange and the potential impact on the economy, special consideration is given to export oriented manufacturing enterprises. The application for fiscal incentives takes approximately 6-8 weeks to be processed.

Investment incentives available under the current legislation include: the National Development Corporation Act 2001, No. 23; the Special Development Areas Act 1974, No. 15; the Customs Free Zone Act 1983, No. 18; the Tourism Incentives Act 1996, No. 7; and the Free Zone Act 1999, No. 10. Offshore financial services and telecommunications are the two areas of economic activity where foreign companies compete on a level playing field. Incentives for investment in offshore financial services include income tax holiday customs duty concessions, and ease of receiving work permits by suitably qualified personnel. In addition, there is a broad range of regional incentives.

The Government of St. Lucia is offering special incentives to investors for new developments or expansions completed before 31 December 2006 to encourage the development of the tourism accommodation to meet the anticipated increase in demand for accommodation during World Cup Cricket 2007. The country is one of the eight venues[13] in the Caribbean selected to host the World Cup Cricket 2007. The eyes of an estimated 1.4 billion worldwide television audience will be focused on images of St. Lucia for an extended period, while over 15 000 visitors will be expected to make St. Lucia their temporary home in 2007. The country needs to increase its hotel room capacity from 4 500 to approximately 7 500.

The country is home to several free trade zones, industrial estates and business parks: St. Lucia free Zone, Hewanorra Free Zone; Vieux Fort Industrial Free Zone, 6 Industrial Estates, including an Informatics Park to attract investment in informational technology, manufacturing and assembly type operations. The Special Development Areas Act provides incentives to investors for the establishment of certain types of businesses in specially designated areas that are endowed with the necessary infrastructure and amenities for business development.

Bilateral investment treaties and double taxation agreements

St. Lucia has concluded bilateral investment treaties with the United Kingdom (which was signed and entered into force on 18 January 1983) and Germany (signed on 16 March 1985 and entered into force on 22 June 1987). Double taxation agreements have been signed with other CARICOM countries. St. Lucia has not concluded any double taxation agreement with non-CARICOM countries. However, there is a Tax Information Exchange Agreement with the United States.

Movement of foreign currencies

St. Lucia benefits from a long standing stable currency, the Eastern Caribbean Dollar, once pegged to the Pound Sterling an now to the US dollar at a fixed rate of EC$2.70 = USD 1.00. The Eastern Caribbean Central Bank – established in October 1983 – is the Monetary Authority for a group of eight island economies namely – Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. These nations constitute the Eastern Caribbean Currency Union (ECCU). The monetary arrangements are characterised by: *i)* the issuance of a single common currency, the flow of which is unrestricted among its members; *ii)* a common pool of foreign exchange reserves; and *iii)* the existence of a Central Monetary Authority which decides on the Union's monetary policy.

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PART III

Chapter 3

Investors' Perceptions

3.1. Introduction

The findings presented in this section are meant to inform on the business environment in St. Lucia. A survey was conducted to identify investors' perceptions of the quality of the investment climate of St. Lucia. The businesses surveyed were from the manufacturing and service industries.

3.2. Survey methodology

The survey was carried out with the use of a questionnaire assessing the investment climate of the country. Out of a total of 100 firms, 56 companies responded. Face to face interviews were conducted with 33 investors.

3.3. Businesses surveyed

The majority of businesses had fewer than 20 employees (45 per cent) with 16 per cent employing over 100 persons. The larger employers tended to be wholly or partly foreign-owned. Approximately 36 per cent of the companies were jointly owned by locals and foreigners (11 per cent of which were 100 per

Table 3.1. **Businesses surveyed**

%

Type of business	Manufacturing	65
	Services	35
Size of business	0-20 employees	45
	21-50 employees	32
	51-100 employees	7
	over 100 employees	16
Ownership	Local – 100%	64
	Foreign 100%	11
	Local/Foreign	25
Origin of capital	St. Lucia	77
	Caribbean	11
	US/UK	9
	Europe	3
Operations	St. Lucia only	75
	Overseas	25
Located in industrial zone	Yes	20
	No	81

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cent foreign owned). The remaining 64 per cent was totally owned by locals. The origin of the capital was predominantly St. Lucia (77 per cent), followed by the rest of the Caribbean (11 per cent), then United States or United Kingdom (9 per cent) and Europe (3 per cent). St. Lucia's industrial free zones are located in Vieux-Fort and Castries. Most of the companies were located outside of those industrial free zones.

3.4. General perception of St. Lucia's investment climate

The majority of investors felt that St. Lucia was an attractive investment location. When compared with the rest of the Caribbean, St. Lucia's investment climate was considered attractive. According to all the investors, there is always some risk in doing business anywhere in the world and St. Lucia was no exception. Very few found that doing business in St. Lucia was risky or highly risky. However, doing business in the country was considered costly.

Table 3.2. **Attractiveness of investment climate**

%

Attractiveness of Central America and Caribbean Basin	Not attractive	7
	Attractive	86
	Very attractive	7
Investment climate in St. Lucia	Not attractive	0
	Attractive	84
	Very attractive	16
Risk of doing business in St. Lucia	Some risk	75
	Risky	14
	Highly risky	11
Cost of doing business in St. Lucia	Low cost	0
	Acceptable	36
	Costly	64

3.5. St. Lucia's investment climate compared to Central America and the Caribbean

The investors were asked to indicate how St. Lucia's investment climate compared with that of the rest of Central America and the Caribbean. Based on investor perceptions, it was found that comparatively, financing, tax and regulations were the main obstacles. The inflation and exchange rate were considered acceptable. Infrastructure, political stability and the judicial system were considered favourable. The level of corruption and crime was not an obstacle whilst organised crime was definitely not a problem. Investors did not view anti-competitive practices and monopolies as a major issue.

Table 3.3. **St. Lucia *versus* Central America and the Caribbean**

%

Financing	Obstacle	79
	Not an obstacle	21
Infrastructure	Obstacle	38
	Not an obstacle	62
Tax and regulations	Obstacle	65
	Not an obstacle	35
Political stability	Obstacle	23
	Not an obstacle	67
Inflation	Obstacle	34
	Not an obstacle	66
Exchange rate	Obstacle	32
	Not an obstacle	68
Judicial system	Obstacle	39
	Not an obstacle	61
Corruption	Obstacle	21
	Not an obstacle	79
Crime, theft, civil unrest	Obstacle	29
	Not an obstacle	71
Organised crime, mafia	Obstacle	29
	Not an obstacle	71
Anti-competitive practices/monopolies	Obstacle	30
	Not an obstacle	70

3.6. Market for products/services

3.6.1. Local market

The local market was generally considered weak to moderate.

Table 3.4. **Local market**

%

Size of local market	Weak	45
	Moderate	42
	Strong	13

3.6.2. Export market

Only 4 per cent of the companies surveyed exported 100 per cent of sales. The wholly foreign-owned companies located in the industrial free zones dominated this category. For 39 per cent of the businesses, the local market accounted for over 98 per cent of sales. Apart from sales in the domestic market, companies exported to the United States, CARICOM, Europe, Canada, Central America and other Caribbean islands. The largest market for goods and services was the domestic market. The United States and Canada dominated the export market for services, particularly tourism. The third largest market for exports was the other Caribbean islands.

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Table 3.5. **Export market**

%

Percentage of sales exported	< 2	39
	2-25	30
	25-49	13
	50-59	14
	100	4

3.6.3. Market access

The investors perceived regional market access, that is, between the Americas and the Caribbean, ranged from weak to moderate. Some felt that it was due to poor transportation links, among other factors. The majority of investors regarded global market access to be generally weak. A few investors had no opinion.

Table 3.6. **Market access**

%

Regional	Weak	29
	Moderate	34
	Strong	30
	Don't know	7
Global	Weak	41
	Moderate	17
	Strong	21
	Don't know	21

3.6.4. Competition

All the companies surveyed indicated that they faced competition in various markets, particularly locally, the OECS and CARICOM. Other competitive markets include the rest of the Caribbean, North America, Central America, Europe, Mexico and East Asia.

3.6.5. Competitive restrictions to businesses

This section examines the restrictions on businesses located in St. Lucia to compete with others on the local and international markets as perceived by the investors.

The investors viewed the following as obstacles to their competitiveness. The shortage of high quality suppliers, qualified personnel and technicians and the requisite equipment and services presupposes that businesses must import their requirements/inputs resulting in higher costs of production, time delays, inefficiency and higher selling prices. Another major obstacle was poor access to capital since the primary source of finance was the commercial banks.

Based on the investors' perceptions, the infrastructure on the island, labour and the cost of labour, labour restrictions regarding hiring and firing of personnel, government regulations and incentives did not limit the competitiveness of the businesses in St. Lucia.

Table 3.7. **Restrictions to company competing with other in local and international markets**

%

Shortage of high-quality suppliers	Obstacle	66
	Not an obstacle	34
Shortage of equipment or services	Obstacle	60
	Not an obstacle	40
Infrastructure conditions (ports, airports, roads)	Obstacle	30
	Not an obstacle	70
Availability of qualified personnel and technicians	Obstacle	64
	Not an obstacle	36
Availability of labour force	Obstacle	61
	Not an obstacle	39
Cost of labour	Obstacle	46
	Not an obstacle	54
Labour restrictions to hiring and firing personnel	Obstacle	14
	Not an obstacle	86
Access to capital	Obstacle	73
	Not an obstacle	27
Government/local regulations	Obstacle	30
	Not an obstacle	70
Foreign governments regulations	Obstacle	39
	Not an obstacle	61
Incentives	Obstacle	43
	Not an obstacle	57

3.7. Costs of production

The investors indicated that the cost of production was not low. The cost of raw materials was considered high while the cost of labour was moderate. For the efficiency-seeking investor, this reduces the apparent competitiveness of St. Lucia as an investment destination.

Table 3.8. **Costs of production**

%

Raw materials	Low	2
	Moderate	18
	High	55
Labour	Low	18
	Moderate	61
	High	21

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3.7.1. *Labour*

Based on the survey, the investors' opinions on the labour productivity and the availability of well-trained labour were disappointing. Approximately 67 per cent of the investors felt that that availability of a well-trained labour force was relatively low. However, the labour force was considered to be trainable and hence not a deterrent to investment. There appeared to be a greater availability of well-trained labour in the tourism sector. Only 5 per cent rated the productivity of the labour force as high. Apart from those who did not know about this subject, 82 per cent felt that productivity was low to moderate.

On the issue of labour regulations, businesses did not have many complaints but felt that there was room for improvement. Approximately 59 per cent felt that these regulations were moderate to strong.

Table 3.9. **Labour**

%

Availability of well-trained labour force	Low	64
	Moderate	21
	High	4
	Don't know	11
Degree of productivity of workers	Low	48
	Moderate	34
	High	5
	Don't know	13
Labour regulations	Weak	23
	Moderate	45
	Strong	14
	Don't know	18

3.8. Quality of infrastructure

3.8.1. *Infrastructure*

The survey revealed that the investors were generally satisfied with the quality of infrastructure on the island, particularly telecommunications and electricity. Approximately 98 per cent and 96 per cent of the investors perceived the quality of telecommunications and electricity respectively to be good. Between 2 per cent to 5 per cent of the investors deemed the quality of infrastructure of the ports, airports, highways, electricity, water and telecommunications to be poor.

St. Lucia has two air and sea ports located in the north and south of the island. The investors' perceptions of the infrastructure ranged from moderate to good. A road network connects the north and south and around the island. With the recent road works, the investors now perceive its infrastructure to be moderate with additional improvement needed.

Table 3.10. **Quality of infrastructure**

%

Ports	Poor	3
	Moderate	29
	Good	52
	Don't know	16
Airports	Poor	4
	Moderate	32
	Good	50
	Don't know	14
Highways/Land connections	Poor	55
	Moderate	18
	Good	13
	Don't know	14
Energy – Electricity	Poor	4
	Good	96
Water	Poor	38
	Good	60
	Very good	2
Telecommunications	Poor	2
	Good	98

3.8.2. Shortages

When the investors were asked about shortages in supply of utilities within the last twelve months, it was found that they had the least problems with the phone service. The majority responded that they hardly experienced loss of telephone service while those who did, experienced it intermittently for a maximum of 15 days. One important problem was water. Most of the companies experienced water shortages ranging from 2 to 40 days in the previous year. Energy shortages was not a major problem as only a very small percentage experienced power outages for an average of 20 days within 12 months. Due to a faulty part on the electricity generator, in October 2004, the northern part of the island experienced load-shedding for approximately three days. This was the average time indicated by companies in that area. On the whole, power outages are rare on the island.

Table 3.11. **Shortages**

Energy shortage within previous 12 months	0.5% to 20 days
Water shortage within previous 12 months	5-40 days
Problems with phone service	0-15 days

3.9. Quality of public services

Most of the investors surveyed considered the quality of service in government departments, particularly Inland Revenue, Customs and the General Post Office to be quite good. The time taken to clear goods from Customs ranged from 1 to 10 days which was deemed acceptable. However, they strongly felt that an improvement in the efficiency and attitude of the civil servants was necessary.

An overwhelming majority felt that the hospital and health services (79 per cent) were poor. Plans for the construction of a new hospital in Castries which is underway should greatly improve this service. As to the police force, respondents commented on the urgent need for improvement.

Public education in primary and secondary schools were considered good (68 per cent) with 32 per cent regarding the quality as poor.

Table 3.12. **Quality of public services**

%

Government departments:		
I. Inland revenue	Poor	21
	Good	52
	Very good	20
	Don't know	7
II. Customs	Poor	34
	Good	63
	Very good	3
III. Postal services	Poor	27
	Good	68
	Very Good	5
Hospital and health services	Poor	79
	Good	21
	Very good	0
Public education	Poor	32
	Good	68
	Very good	
Police	Poor	77
	Good	23
	Very good	0
Time taken to clear good from customs	1-10 days	

3.10. Environment

3.10.1. Political environment

The political environment was considered to be relatively stable. Surprisingly, given the country's history of high political stability, a relatively large number of investors surveyed perceived this to be moderate (39 per cent). None regarded the country as being politically unstable.

Table 3.13. **Political stability**

%

Political stability	Low	0
	Moderate	39
	High	61

3.10.2. Economic environment

Macroeconomic factors affecting the economy were examined to determine how the investors perceived the current operating environment. The St. Lucian economy was considered to be moderately stable (77 per cent) while a mere 7 per cent had little confidence in the economy. The variance in the perceptions of the investors regarding inflation was small. However, most considered the inflation rate to be moderate. It was not surprising to find that the business community did not suffer significantly from exchange rate fluctuations since the majority of business is conducted locally, within the Caribbean or with the United States. The Eastern Caribbean (EC) dollar is the legal tender for OECS islands and the EC dollar is pegged to the United States dollars.

Overall, the economy was perceived to be relatively strong and conducive to doing business in St. Lucia.

Table 3.14. **Macroeconomic environment**

%

Economic stability	Low	7
	Moderate	77
	High	16
Inflation	Low	34
	Moderate	41
	High	25
Exchange rate volatility	Low	29
	Moderate	46
	High	25
Openness to FDI	Low	7
	Moderate	30
	High	63

3.10.3. Social environment

The risk of armed conflict and significant social unrest was regarded as low while none felt that the risk was high. Although 45 per cent believe that there is little threat of international disputes and tensions to the economy, 25 per cent perceive the risk to be high.

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Table 3.15. **Social environment**
%

Conflict/Unrest	Low	68
	Moderate	32
	High	0
Disputes/Tensions to economy	Low	45
	Moderate	30
	High	25

3.11. Legal and constitutional framework

The legal and judicial framework of St. Lucia is based on the common law system of the United Kingdom as a result of its colonial heritage. Overall, the investors perceive that the legal framework is conducive to doing business and investing. The majority did not know whether the mechanisms for arbitration and administrative procedures for solving problems between businesses were effective or not because they had never dealt with them. Those who responded considered the procedures to be effective.

Similarly, the majority of persons surveyed had no opinion on the judicial system as they had had no dealings with it. However, those who responded (48 per cent-52 per cent of the survey population) found the judicial system was slow and relatively accessible but impartial, honest and effective. The court judgments were thought to be consistent and predictable. The investors found that the system was not always affordable.

Overall, the investors had faith in the judicial system and believed that it would defend their contract and property rights during any business disputes.

3.12. Government's policies/attitude towards businesses and investment

3.12.1. Business policies

The investors believed that Government was strongly committed to implementing open, liberal and pro-business policies but the incentives and concessions granted to new businesses were lacking. Most of the investors had no idea as to whether there was any legislation on anti-trust or competition policy. The predominant view was that St. Lucia had none.

3.12.2. Predictability of changes in policy

Approximately 22 per cent to 29 per cent of investors surveyed had no opinion on the predictability of changes in Government policies. Investors' more popular view of changes in policy was that regulations and procedures were predictable whereas changes in economic policy were not.

Table 3.16. **Legal and constitutional framework**

%

Legal framework for doing business and Investment	Weak	11
	Moderate	37
	Strong	34
	Don't know	18
Effectiveness of administrative procedures to solve problems between enterprises and businesses	Not effective	16
	Effective	34
	Very Effective	9
	Don't know	41
Effectiveness of mechanism for arbitration, mediation etc	Not effective	14
	Effective	25
	Very Effective	0
	Don't know	61
Judicial System when dealing with business:		
Impartial/Just	Frequently	18
	Sometimes	32
	Never	0
	Don't know	50
Honest/Not corrupted	Frequently	30
	Sometimes	22
	Never	0
	Don't know	48
Fast	Always	0
	Sometimes	32
	Never	21
	Don't know	47
Accessible	Always	7
	Sometimes	41
	Never	2
	Don't know	50
Consistent/Predictable	Always	4
	Sometimes	46
	Never	0
	Don't know	50
Effective	Always	
	Sometimes	52
	Never	0
	Don't know	48
Affordable	Always	0
	Sometimes	39
	Never	9
	Don't know	52
Legal system will defend contract and property right	Agree	65
	Disagree	15

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Table 3.17. **Government policies/attitude towards investment**

%

Commitment towards open, liberal and pro-business policies	Weak	18
	Moderate	30
	Strong	52
Incentives/Concessions	Weak	20
	Moderate	32
	Strong	27
	Don't know	21
Do businesses know whether there is an anti-trust or other	Know	18
legislation on competition policy	Did not know	72

Almost 100 per cent of investors felt that their concerns were taken into consideration and they were well-informed of changes in policies well beforehand.

Table 3.18. **Predictability of changes in policy**

%

The process to develop new rules, regulations or policies is such that businesses are well informed beforehand of the changes introduced	Agree disagree	91 9
In case of important changes in laws and policies affecting business performance, the government seriously considers the concerns expressed by company or sector	Agree disagree	96 4

Table 3.19. **Predictability of changes in the following:**

%

Economic policy affecting business	Predictable	32
	Unpredictable	46
	Don't know	22
Regulations and procedures affecting business	Predictable	66
	Unpredictable	14
	Don't know	20
In last 3 years, law and policy affecting business	Predictable	64
	Unpredictable	7
	Don't know	29

3.13. Administrative barriers to investment

The variance in the general perception of investors surveyed with regard to the administrative barriers to setting up operations in St. Lucia was small. Approximately 52 per cent felt that the efficiency of Government in handling the necessary approvals with regard to permits, licences etc were poor while 48 per cent felt it was good.

It appears that almost 45 per cent of the companies surveyed did not have any dealings with Government with respect to approvals. This would be the case for most of the businesses in the service sector. However, for those who dealt with Government, the time taken for approval from receipt of application tended to be between a couple of weeks and six months. About seven companies had to wait more than six months to obtain approval.

Table 3.20. **Administrative barriers to investment**

%

Government's efficiency: approval of permits, licenses for operation	Poor	52
	Good	48
	Very good	
Time taken for approval from time of application	< 1 month	13
	1-2 months	16
	3-6 months'	14
	7-12 months	5
	> 12 months	7
	No response	45

3.14. Difficulties in starting and operating businesses

The survey reveals that the investors face some difficulties when starting and operating their businesses in St. Lucia. These areas include start-up requirements; business registration; customs and foreign commerce regulations; labour regulations; work permits for non-nationals; environmental regulations; construction permits; tax regulations; inspections and land titles.

The areas in need of improvement included obtaining work permits for non-nationals, construction permits, land titles, labour and tax regulations. Customs and foreign commerce regulations, start-up requirements and business registration were perceived to be the least difficult.

Table 3.21. **Degree of difficulty to start and operate a business**

%

Start-up requirements	None	25
	Some	69
	Many	6
Business registration	None	38
	Some	62
	Many	0
Customs and foreign commerce regulations	None	70
	Some	25
	Many	5
Labour regulations	None	32
	Some	57
	Many	11
Work Permits for non-nationals	None	20
	Some	68
	Many	12
Environmental regulations	None	27
	Some	68
	Many	5
Construction permits	None	7
	Some	71
	Many	22
Tax regulations	None	21
	Some	66
	Many	13
Inspections	None	13
	Some	79
	Many	8
Land titles	None	38
	Some	52
	Many	10

3.15. Business integrity

Overall, it appears that the majority of investors had not encountered instances of corruption and did not feel that it was a problem when doing business in St. Lucia.

Table 3.22. **Business integrity**
%

Payment of additional fee	Never	18
	Sometimes	25
	Always	18
	Don't know	39
Knowledge of fees	Never	14
	Sometimes	16
	Always	23
	Don't know	46
Recourse to supervisor	Never	18
	Sometimes	29
	Always	14
	Don't know	39

3.16. Summary

The survey revealed that despite some problems, St. Lucia has an attractive investment climate, albeit the cost of doing business was considered high by some investors. The majority of investors viewed the country as politically and economically stable.

The Government has a very open and liberal attitude towards investment as evidenced in its policies and legislation. Administrative barriers remain but efforts are being made to reduce them. The majority of investors have faith in the judicial system and also believe that business integrity is maintained. Corruption and crime were no obstacles to investing on the island. The main obstacle to doing business was access to finance and tax and other regulations.

The local market was weak to moderate and market access to regional and international markets was also viewed as weak. A higher percentage of companies concentrated their sales in the domestic market with a much smaller number exporting all goods manufactured. The major export markets were United States, Canada and the Caribbean. All the businesses faced competition particularly from competitors in the local market, OECS and CARICOM.

Costs of production were perceived as high for raw materials and moderate for labour. Increasing the productivity of labour is an issue in urgent need of attention. In fact, the competitiveness of businesses was viewed as low because of the shortage of high quality suppliers and qualified personnel and technicians. Labour regulations, infrastructure, government regulations and incentives did not hinder the competitiveness of the businesses particularly when compared to the rest of the OECS islands.

On the whole, the quality of infrastructure was regarded as good, particularly telecommunications. The water service needs improvement but this

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issue was addressed by the Government in the Budget for 2005/6 with the allocation of funds. The road network is also being upgraded.

St. Lucia's business environment is regarded as in great need for improvement on a global scale but regionally it is very competitive. The general perception is that the Government fosters a sound business environment but that more dialogue and consultation with the private is necessary in the Government's decision-making process. Tax holidays and other concessions were considered essential to remain competitive but it is believed that these benefits are offset by the high costs of labour and energy.

Overall, St. Lucia has made great strides in recent years to improve the investment climate and continues to do so.

Taking into account the challenges identified by the business sector, and with a view to fostering investment in St. Lucia in preparation for the full implementation of the CSME, within the next two years a number of concrete measures could be implemented by Government, with the support of donor organisations, to improve the abovementioned elements. These measures should include:

a) operationalising the framework to begin implementing the priorities identified in the National Export Development Strategy;

b) streamlining the process of obtaining licences and permits to start, operate and expand a business. The adoption of a single, unique registration number across the board would be an important step to help reduce bureaucracy. A specific website should serve as an online vehicle for business registration;

c) concentrating investment promotion and facilitation activities in a single agency, which could also grant incentives (below a certain threshold), and facilitate approvals and permits requested and required by investors;

d) increasing the number of targeted programmes, particularly in the hospitality and information technology sectors, to improve the skill shortage in the country. This should be done in cooperation with National Skills Development Centre, Sir Arthur Lewis Community College and regional institutions such as the University of the West Indies;

e) implementing measures that will facilitate the use of venture capital through, for example, the OECS Stock Exchange, and other mechanisms [such as the Financial Enterprise Development Fund at the Eastern Caribbean Central Bank (ECCB)]. With technical expertise and assistance from donor organisations, St. Lucia could design the legal framework to facilitate the use of venture capital;

f) finally, the country would also benefit from upgrading the capacity of the Statistical Office to collect and analyze data on foreign investment flows.

Notes

1. The OECS comprises Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Anguilla and the British Virgin Islands are associate members.
2. The eight host countries are: Antigua and Barbuda, Barbados, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, and Trinidad and Tobago.
3. International Monetary Fund, 2004, "St. Lucia: 2003 Article IV Consultation", IMF Country Report No. 04/397, December.
4. These include Belize, Jamaica, Suriname and four OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines).
5. St. Lucia will receive EC$25 million, St. Vincent and Grenadines EC$18.66 million, Dominica EC$18.55 million, and Grenada EC$1.75 million.
6. International Monetary Fund, 2004, "St. Lucia: 2003 Article IV Consultation", IMF Country Report No. 04/397, December.
7. See World Bank, 2005, "Organisation of Eastern Caribbean States: Towards a New Agenda for Growth".
8. International Monetary Fund, 2004, "St. Lucia: 2003 Article IV Consultation", IMF Country Report No. 04/397, December.
9. For the purposes of EPA negotiations, fifteen Caribbean countries constitute the regional configuration called the Caribbean Forum of ACP States (CARIFORUM). They are: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.
10. World Trade Organisation. 2001. *Trade Policy Review: Saint Lucia, Report by the Secretariat*. Geneva: WTO.
11. These include Belize, Jamaica, Suriname and four OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines).
12. The Special Framework of Assistance (SFA), export revenue stabilisation schemes, and programmes funded by the European Development Fund (EDF).
13. The eight host countries are: Antigua and Barbuda, Barbados, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, and Trinidad and Tobago.

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