Executive Forum

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**SMALL STATES IN TRANSITION – FROM VULNERABILITY TO COMPETITIVENESS**

# GRENADA

MANAGING THE TRADE SUPPORT NETWORK

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## Introduction

The main challenges to economic development in Grenada are sustaining investment, economic growth and social progress in the face of an uncertain international environment and possible new shocks; reducing poverty, reducing unemployment, improving access to quality health care, human resource development, modernizing the state machinery and improving environmental management. Globalization and trade liberalization as well as rapid developments in technology and communications have made it easy for goods and services to be freely traded across international boundaries and are creating high levels of competition for domestic producers, whether or not they export. Businesses therefore must upgrade their activities to international competitiveness.

Unfortunately, there is insufficient dynamism within the private sector in Grenada and with very few exceptions the sector is not ready to face the challenges of a global market place. New strategies are therefore needed to ensure that sustainable investments are encouraged and that the services needed by entrepreneurs to grow and expand are provided. A new breed of entrepreneurs must be developed, new business ventures must be stimulated and the economic base of the country diversified.

## Country Profile

During the period 1997 – 2000, real GDP grew at an average annual rate of 4.4%. Since then negative growth has been experienced. Unemployment declined from 17% in 1996 to 10% in 2001. Inflation remained below 2% since 1997. A 1999 CDB Poverty Assessment Survey concluded that about 1/3 of the population was living below the poverty line. The majority of the poor and unemployed were rural women, children, and youth who have been affected by the decline in the banana industry. The 2001 IMF Article IV consultation on Grenada noted that unemployment in Grenada remained relatively high, and indications of poverty were among the least favorable in the Caribbean region.

| ***Economic Profile*** | |
|---|---|
| Population (2001) | 102,632 |
| GDP per Capita (2002) | US$3,229 |
| Exports as a % of GDP | 14% |
| Value of exports (2002) | US$57,541,000 |
| Value of Imports (2002) | US$201,278,000 |
| Major Export Markets<br>OECS<br>Other CARICOM<br>Other Caribbean<br>European Union<br>USA<br>Rest Of the World | <br>14%<br>6%<br>2%<br>26%<br>49%<br>3% |
| Major Export Products<br>Agriculture products<br>Manufactured products<br>Other exports | <br>48%<br>47%<br>5% |

## Economic Development Strategies

During the early 1970's Grenada like most of its CARICOM neighbors pursued a policy of industrialization by invitation. To this end legislation, namely the Fiscal Incentive Act of 1974, was enacted to allow for generous incentives.

At the beginning of the 1980's, the government actively pursued a policy involving the State, co-operative and the private sector in the economic development of the country. An active public sector role in the economy was envisaged and Government invested heavily in infrastructure and human resource development. During this period a modern international airport was constructed, port facility was expanded to accommodate containerized cargo, the electricity plant was expanded, the telephone company modernized, health facilities constructed and skills training programmes introduced. Government also invested in the banking sector and in agro processing industries to stimulate growth in the agriculture sector and to create an impetus for private sector development.

A change in government in 1983 resulted in a change in strategy. The philosophy of the new government emphasized private sector led growth with the role of the state being to provide adequate infrastructure and institutional support and to create a climate conducive to private investment and private business activity. To this end the government in 1984 initiated a number of programmes to reduce the public sector involvement in the economy and stimulate private sector activity. Programmes introduced included fiscal reform, which reduced corporate income tax, eliminated personal income tax and introduced a value added tax system; public sector reform to reduce the size and scope of the public sector and the privatization of a number of state-owned institutions.

To further stimulate private enterprise activity, Government in 1985, established The Grenada Industrial Development Corporation as a statutory body for the specific purpose of facilitating private sector investment. In 1989, the Small Enterprise Development Unit was established within the Grenada Development Bank to provide support for micro and small business development. In that same year the Export Development Unit was established within the Ministry of Finance. Work also began on the construction of Grenada’s first industrial park. The Frequente Industrial Park, approximately 198,000 sq ft of factory space, was opened in 1989. A second industrial park was constructed by 1991.

Since 1984, private enterprise activities have expanded though not at the rate expected. Growth was achieved particularly in the manufacturing and tourism sectors. The economy grew by an average of 6.5% per annum. Growth was attributed to a number of factors including budgetary assistance and support from the Public Sector Investment Programme, increased investment in tourism and manufacturing, expansion of production in agriculture in response to favorable international prices.

The 1990's saw the rate of economic growth slow considerably from 5.3% in 1990 to 1.1% in 1992, followed by negative growth by 1993. The downturn in the economy was attributed to a number of factors among them a worldwide recession in major industrial countries, decline in the value and volume of exports of traditional crops as a result of the disease and pest infestations, namely "Moko Disease," "Pink Mealy Bug" and declining prices on international markets and a reduction in budgetary assistance and external aid.

Most of the programmes introduced in the early 1980's ran into difficulties. The level of foreign investment did not materialize as envisaged. Of the seven (7) foreign firms, which invested only two remained by the beginning of the 1990's. The tax reform programme suffered from a number of administrative difficulties and was subject to several amendments. The public sector reform programme was not implemented according to plan. Public finances deteriorated and Government could not sustain its public sector investment portfolio. As a result, capital expenditure became limited to a few ongoing infrastructure projects.

In 1992 Government implemented a Structural Adjustment Programme that was expected to improve fiscal performance and put the economy on a sustainable growth path. The tax system was revised, foreign exchange tax was abolished and foreign exchange controls relaxed. The public sector reform programme for the reduction in the size of the public sector was reactivated. The privatization of state-owned enterprises, which began in the 1980's, was pursued in earnest, the aim being to reduce the scope of the public sector and to increase the capacity of the private sector to influence growth and development. Under the Programme the government sold its equity in the National Commercial Bank, the Grenada Electricity Company - Grenlec, the Grenada Breweries and the Grenada Bank of Commerce. Its assets in the local Concrete Gravel and Emulsions Corporation were leased to a foreign firm and programmes were initiated for the conversion of some government departments, such as the general post office, the government printery and the community college into statutory bodies run on a commercial basis. Expenditure under the Public Sector Investment Programme was increased to provide adequate infrastructure support for private sector development. Increased sums were allocated as well for road works, water projects, health and environmental related projects.

By 1994, Grenada's economy was growing again at a rate in excess of 3%. Growth was experienced mainly in the tourism sector. Two major hotels, adding a total of 312 rooms to island stock of quality hotel rooms were constructed. Investment in tourism support services such as marinas, restaurants, and dive center operations was on the upswing. Growth in excess of 4% was sustained up to 2001 when negative growth of 3.3% was experienced.

Currently, tourism, measured by GDP generated in the hotel and restaurant sector, is the leading growth sector generating more than 50% of the country's foreign exchange earnings and stimulating activity in construction and ancillary services. The sector has been growing at an average annual rate of about 4% since 1992 and contributes approximately 7% of GDP.

Activities in the manufacturing sector remained relatively depressed. The sector accounts for about 7% of GDP and comprises activities catering largely to the domestic market such as the manufacture of soft drinks, beer, malt, stout, rum, flour, animal feed, garments, paper products, paints and varnishes. According to GDP data, output in the sector did not grow appreciably during 1992-2002 as producers found it harder to compete with their regional counterparts.

Agriculture, which traditionally produces bananas, cocoa, nutmegs, and mace for export, had up to the 1980's, been the mainstay of the economy contributing over 16% to GDP. The sector however suffered from falling international prices, disease and pest infestation, low productivity and poor quality output. Currently, agriculture contributes approximately 9% to GDP. Despite its poor performance however, the sector is seen as a vehicle for the transformation of the rural areas of the country.

## National Export Strategy

The need for export development and promotion in a planned and systematic manner was never so great as it is today in view of global trade liberalisation. The preferential market access arrangements are being eroded by trade liberalisation and there is increased focus on competition under these agreements. Therefore it has become imperative for Grenada to develop, promote, expand and diversify its exports in systematic way.

Although the export sector of Grenada is the main earner of foreign exchange, at the level of planning in the country, very low priority is given to this sector and proportionately very limited allocation is given to export promotion efforts. Added to this, there is no Exporters Association and no independent Manufacturers Association to put forward the interest of this sector. This poses serious limitations for the Trade and Industry Unit to serve clients effectively. Grenada relies heavily on grant funding for export promotion from the Caribbean Export Development Agency. In addition there is no clear policy document on Export development and sectors have not been clearly identified.

Responsibility for providing trade support services rest with the Trade and Industry unit of the Ministry of Finance and Planning (formerly Ministry of Finance, Trade and Industry and Planning.) With the limited funding available, a lot of emphasis is placed on existing exporters providing technical assistance and facilitating their participation in Trade Fairs and Trade Missions abroad.

The Trade Support Network in Grenada functions in an ad hoc manner, whereby meetings of the stakeholders take place when necessary. All the institutions that form the network operate independently and export clients are referred to agencies such as the Grenada Bureau of Standards, the Ministry of Foreign Affairs and International Trade and the Grenada Industrial Development Corporation. Additionally, most of the traditional export commodity boards have the mandate for export by statutes. These include:

- The Grenada Co-operative Nutmeg Association - responsible for purchasing, sale and marketing of Nutmegs;
- The Grenada Cocoa Board - responsible for the purchase and export of Cocoa;

- The Minor Spices Co-operative Society – responsible for the export of all spice except Nutmegs and Mace
- The Grenada Marketing and National Importing Board - responsible for the export of non-traditional agricultural produce.

Recognizing the need for export promotion systematically and urgently, an integrated Two Year Work plan for Promotion of Grenada's exports was prepared. The Work Plan was discussed with the Ministry of Finance, Grenada Marketing and National Importing Board, Grenada Chamber of Industry and Commerce and leading exporters in the country.

The Work Plan included Trade Missions and participation in Trade Fairs in the region and North America, provision of technical assistance in Product Development and assistance in meeting market entry requirements. Based on what has been done so far, it is evident that it is impossible to provide all the trade support services needed at one institution and that the informal consultative process that has started must be formalized to provide quality services to all exporters, potential exporters and aspiring exporters.

Already, Grenada has achieved varying degrees of success in the export of the products in its current export list. Each export item has its own strength and weakness relating to production at home and marketing overseas. However, productivity and production of Grenada's traditional commodities, namely nutmeg, cocoa, mace and bananas, need to be strengthened to meet the new challenges reflected in the competitive environment emerging in the target markets. In view of this an in-depth study of the traditional products is being undertaken to recommend concrete measures to strengthen the production base in terms of increasing productivity, quality and to develop a viable export strategy to expand market share.

In addition to the traditional exports, as part of the product diversification strategy of the Government of Grenada, the country has identified several non-traditional export agricultural products. Unfortunately, their success does not appear to be commensurate with the production capability of the country and any strategy being developed must place heavy emphasis on this emerging sector. In most cases, inadequate production poses a serious constraint. Manufacturers of non-traditional export do not see this activity as an important export sector, and therefore this sector shows sluggish growth.

In view of all this, a Task Force is being set up to develop an Export Development Strategy for the next five years. It is proposed that this strategy will formalize the consultation that takes place presently and will include the institutions such as:

- The Trade and Industry Unit of the Ministry of Finance
- The Ministry of Foreign Affairs and International Trade
- The Ministry of Agriculture
- The Grenada Industrial Development Corporation
- The Grenada Private Sector organisation,
- The Grenada Marketing and National Importing Board
- The Grenada Bureau of Standards, the Grenada Board of Tourism,
- The Ministry of Education
- The Members of Exporters/Manufacturers Association

- The Commodity Boards
- Providers of Professional Services exports.

It is proposed that the Trade Support Network will be led by the Ministry of Finance and Planning. It is anticipated that with the institutionalisation of the existing informal consultative process bureaucracy will be reduced giving members the responsibility to facilitate the export process at the level of their institutions. The need for this approach is necessary to create a conducive business environment.

In addition to a well functioning trade support network, a National Export Strategy must be prepared expeditiously. This must include ways and means to strengthen the manufacturing sector to include efficient import substitution, sustainable and competitive export capabilities. To achieve this, investment should be promoted into manufacturing sector with high export orientation. Increased exports resulting in economies of scale in production will make the production competitive both for domestic and export market. Joint ventures with foreign investors with buy-back arrangements could also be helpful in export expansion. Increased production in the manufacturing sector will help in generating employment and improving standard of living of the people of the country.

## Issues, Constraints, Export Competitiveness

There are a number of factors which are in themselves constraints to Private Enterprise Development, and which also constitute general obstacles to export competitiveness. Among them are the following: high international transport costs, low productivity; limited access to investment capital; low levels of entrepreneurial skills; non-availability of appropriate training; limited technical assistance and the absence of affordable technical and managerial consultancy; inadequate support mechanisms to effectively penetrate national, regional and international markets; difficulties in accessing new technologies and a high level of dependency on expensive inputs.

Private Sector development in Grenada has been constrained by the fact that traditionally private sector interest has been mercantile in nature where the risk associated with business is lower than in industrial undertakings. It should also be noted that the Private Sector in Grenada has developed under a system of a very protective trade regime of high tariffs and preferential treatment on international markets. In an environment that emphasizes trade and investment liberalization and the removal of preferential treatment for selected products, Grenada's Private Sector will have to face the challenge of increasing its competitiveness on both domestic and international markets.

## Specific Issues affecting the cost of International Transactions

### Infrastructure:

#### Impact on Commodity Exports and Manufacture

With regard to Grenada's traditional commodity exports, adequate physical infrastructure, i.e. roads, storage, shipping has not been major impediments. The problems affecting traditional exports have been more in the realm of competitiveness. In the case of bananas, the removal of EU protection for nutmegs, the lack of diversification and value added. With regard to manufactured products inadequate shipping and airfreight remain significant impediments to market diversification.

### Telecommunications Infrastructure and Export Development

The liberalization of telecommunications has the potential to be a strategic facilitator in the development of the service sector, especially where services are marketed to foreign-based consumers in highly competitive open markets, such as tourism, accounting, and project management. The assumption here is that liberalization will expand the range of capabilities available to exporters as well as bring down user rates for telephone handsets, long distance dialing, electronic commerce and other Internet transactions. In Grenada, legislation has been passed for the liberalization of telecoms and a National Telecommunications Regulatory Commission (NTRC) has been set up. However, the ability of these developments to reduce the cost of doing business is constrained by unresolved issues relating to designation of a Dominant Provider, price regulation regime, and interconnection arrangements that are prerequisites for the introduction of competition in most services. According to the Eastern Caribbean Telecommunications Regulatory Authority (ECTEL), only a modest degree of competition is evident in the services referred to above, namely customer premises equipment, Internet services and mobile cellular services.

Other institutional factors, which affect the cost of international transactions and hinder competitiveness, are the high cost of electricity (as compared with for instance, Trinidad) and labour. With respect to electricity costs the liberalization route being pursued in telecoms may not be an option. The small consumers base in our market both industry and households constitute a credible argument for maintaining a natural monopoly. This issue will have to be carefully examined by the proposed Export Development Task Force. The issue of labour costs will require wide consultation among the agents within our Trade Support Network and other stakeholders.

### Financial Infrastructure for Exports

Grenada's fledgling export sector continues to benefit from traditional instruments of merchant banking, such as overdraft facilities and letters of credit. The commercial banks enjoy a high level of liquidity. The banking products cater to traditional businesses demand and are tempered by a good measure of traditional prudence. In response to criticisms about being overly conservative in their lending, the banks have pointed to a shortage of sound bankable projects seeking financing, including export oriented projects.

Notwithstanding the above there seems to be a case for review of export financing alongside the broader review of export development policy. The development of Grenada's export sector requires investment in new and non-traditional areas such as agro-industries, tourism product development and ICT services. The well-ingrained risk averse nature of our banks militates against the provision of financing to these new areas, many of them being regarded as being downright risky. Short of substantial banking reform, new financial institutions are required to bridge the gap. Institutions that provide venture capital, emphasize export orientation and provide institutional support must form part of the new financial architecture to support export development.

### Fiscal Incentives Review

The financing reforms referred to above should work in tandem with fiscal incentives review. Fiscal incentives legislation is currently being reviewed in the context of the urgent need to revise and upgrade existing legislation and institutional arrangements to create a more attractive and supportive environment. The Fiscal Incentives Review

Committee recommended that investment should be encouraged in tourism and related services, financial services, manufacturing and agriculture. Urgently required added value can be given to the fiscal review process if the objectives set and follow-up activity can be tweaked in the direction of export development.

**Procedural Documentation**

Customs Procedures

The Grenada Customs and Excise Department is in the process of implementing a Customs Reform and Modernization Programme. The aims of this programme include the following: simplification of the tariff system, reduction of the transaction time for the processing of entries, raising the level of integrity and transparency and the overall improvement in efficiency levels. These reforms are, however, biased in the direction of the management of import trade. With Grenada's heavy and persistent trade deficit (EC$ 431.0 million in 2001) this is not altogether strange.

The low volumes of exports do not yet present an administrative challenge to Customs. Priority fast track clearance is given to imports that constitute inputs into manufacture, including manufacture for re-export. An energetic export development thrust will, however, test the limits of existing human resources at Customs and challenge that department to reform for export facilitation. It is therefore important that Customs forms part of the proposed Export Development Task Force.

**Port Charges and Port Efficiency**

Various studies agree that port charges in Grenada are high in comparison with other regional ports ( handling charges of US$ 520 per 20ft. container and US$ 780 per 40ft container). Efficiency issues have also been raised, especially with regard to the turn around time for container handling as well as break bulk cargo. The system of payment by the hour instead of by unit invites review from the standpoint of productivity. Obviously, this area has dire implications for export competitiveness.

A programme of port expansion is well on the way and when completed, will provide docking facilities for tourist liners in excess of 700ft, as well as a cruise ship complex. Assuming the required accompanying policy and administrative measures fall in place this facility should improve the performance of the tourist sector as an export sector.

**Current Strategy for the Development of the Private Sector**

The current development strategy for the Private Sector, as defined by Government envisages the following:

- Trade reforms aimed at a reducing the level of CARICOM tariffs and improve external competitiveness. This measure has already started with tariff levels falling from 45% to 35%.
- Human resource development with particular emphasis on skills training.
- Enhancement of the incentives framework and simplification of investment procedure aimed at attracting foreign direct investment.
- Provision of infrastructure, in particular roads and water enable Private Sector development.

## CONCLUSION

Mainstreaming export strategy in the long-term development plan is necessary to address the economic and social problems of Grenada. Investments in export-oriented sectors will seek to generate foreign exchange that is a necessary to finance necessary imports. In so doing, increased export production also contributes the reduction in unemployment and stimulates entrepreneurial skill and can even increase the tax base of the country. Trade strategy must also address development issues such as poverty alleviation. With the lack of financial resources it is imperative to have an efficient network to support the export sector.