PRIVATE SECTOR ASSESSMENT OF ST VINCENT AND GRENADINES
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References
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Executive summary

The Private Sector Assessment Report (PSAR) for St. Vincent and the Grenadines presents an overall assessment of private-sector development and policy recommendations for facilitating and accelerating private-sector investment and growth. It draws on both primary and secondary data sources. Primary data analyses were derived from interviews with key stakeholders from the domestic private and public sectors as well as interviews with regional and international agencies. A listing of the main stakeholders interviewed is documented in the original country reports. Secondary data were utilized to describe the state of the country at both the micro and macro levels. In addition to these specific elements of the research, the development of the PSAR was assisted by consultations organized under the Caribbean Growth Forum (CGF) banner.

The PSAR evaluates the productive sector, together with the primary obstacles to business in St. Vincent and the Grenadines and the wider Organization of Eastern Caribbean States (OECS) that have emerged from the business environment and recent shocks. The report also assesses the subregion’s policy response, particularly through the implementation of an eight-point stabilization programme targeting national needs and overarching challenges relating to the public finances, debt, social safety, investment and the financial services sector.

St. Vincent and the Grenadines is an upper-middle-income microstate in the Eastern Caribbean archipelago. The industrial structure of St. Vincent and the Grenadines is dominated by services: in 2012 real-estate, renting and business activities; wholesale and retail trade; and transport, storage and communications together accounted for 48.1% of GDP. There is informal labour participation in the agricultural, construction and retail sectors. In 2010 around 80% of Vincentian businesses were informal, micro or small enterprises, and 60% of all employed persons were working in micro and small enterprises. Key industries, such as construction, wholesale and retail trade, and tourism, reported double-digit annual rates of decline in output in 2008-10, resulting in a significant deterioration in the local employment profile. Although employment statistics are limited, it is estimated that one in every five Vincentians is unemployed, with higher concentrations of unemployment among young people and females.

The slowdown in world economic growth from 2008 had a negative effect on macroeconomic fundamentals in St. Vincent and the Grenadines. The substantial current-account deficits reported since 2008 have been financed...
largely by foreign direct investment (FDI) inflows, which have been declining. If
the downward trend in FDI continues, the islands will have to accumulate even
larger amounts of external debt—such debt is already just below 40% of annual
GDP. Given the small size of the domestic market and the openness of the
local economy, most growth opportunities are related to the international
economy, and changes at international level have a significant impact on the
domestic economy.

The World Bank’s 2010 Enterprise Survey for St. Vincent and the Grenadines
identified poor access to finance; an inadequately educated workforce; crime,
theft and disorder; tax rates; and problems with the supply of electricity as the
five biggest obstacles to doing business in the country. The PSAR signals the
need for the private sector itself to take a more proactive approach to exploiting
market opportunities, to capitalize on the Caribbean region’s advantages in
terms of its geographical location, and to pursue the recommendations
emerging from previous studies, such as niche-market development, value-
chain positioning and the development of clusters.
I. Private sector assessment

**Background**

Private-sector development goals are linked to the government’s expressed intention of increasing investment (both foreign and domestic), expanding agriculture and its by-products and boosting services exports. All of these goals are echoed in the mandates of business-support institutions such as InvestSVG, the National Development Foundation (NDF), the Centre for Enterprise Development (CED), the St. Vincent and the Grenadines Small Business and Micro-Finance Co-operative (COMFI, an alliance of three large credit unions) and local banks.

Like its Eastern Caribbean Currency Union (ECCU) counterparts, the Vincentian government’s main priority in the aftermath of the global financial crisis and the collapse of CL Financial Group and British American Insurance Company (BAICO) is to structure its budget plans in accordance with the eight-point stabilization programme agreed by all ECCU members. The eight-point plan, developed in 2009, seeks to address the economic downturn in the subregion, and sets objectives for (1) suitably adapted financial programmes for each country, (2) fiscal reform programmes, (3) debt-management programmes, (4) public-sector investment programmes, (5) social safety-net programmes, (6) financial safety-net programmes, (7) amalgamation of the indigenous commercial banks and (8) rationalization, development and regulation of the insurance sector.

Job creation and poverty reduction are other overarching themes for St. Vincent and the Grenadines. The underlying principle is that “a more robust public-sector investment programme, an increase in domestic and foreign direct investment, an enhanced flow of remittances, an uplift in tourism arrivals particularly after the international airport opens in 2014, a revitalization of agriculture and fisheries, and an improvement in the export of services (including entertainment), are likely to spur job creation.”

**Macroeconomic overview**

St. Vincent and the Grenadines is an upper-middle-income microstate within the Eastern Caribbean archipelago. It is a member of the ECCU, whose currency, the Eastern Caribbean dollar, is fixed to the US dollar at the rate of EC$1:US$0.37. The downturn in the global economy, as well as several natural disasters, has damaged the local economy. Between 1994 and 2010 the island was affected by five tropical storms and one Category 2 hurricane (Hurricane Tomas, in 2010), as well as by a drought, also in 2010. As a result, following average growth of 5.6% between 2002 and 2007, the economy contracted by 2.8% in 2009 and by a further 3.9% in 2010 and 0.6% in 2011. The economy

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3 CL Financial Group and BAICO were large insurance companies which went into liquidation and receivership in 2009-10. The IMF estimates that the exposure of the ECCU countries to CL Financial was equivalent to 17% of regional GDP. The group had been regarded as a successful example of financial integration of companies within the region. Weak corporate governance, high interest-rate annuity products with corresponding high-risk investments, and high leverage led to CL Financial’s collapse, resulting in significant spillover effects in the Caribbean region.

4 Budget Speech, p.17.
 returned to growth in 2012, expanding by 3.3% and by an estimated 1.8% in 2013 (see Figure 1).

**Figure 1**

The slowdown in world economic growth has also had a negative effect on macroeconomic fundamentals in St. Vincent and the Grenadines. Key industries, such as construction and wholesale and retail trade, as well as tourism, reported double-digit rates of decline in output in 2008-10, and this has resulted in a significant deterioration in the islands' employment profile. Based on the scanty employment statistics that are available, it is estimated that one in every five Vincentians are unemployed, while the figures for young people and women are likely to be higher. The contraction in the local economy following the global financial crisis largely reflected falling tourist arrivals, as well as a drop in foreign direct investment (FDI)-related construction, which has had negative spillover effects on the rest of the economy, and especially on employment.

Traditionally, St. Vincent and the Grenadines' economy has been dependent on exports of commodities (primarily bananas), as well as on tourism. With the loss of preferential markets in Europe, however, the local banana industry has declined significantly, while Hurricane Tomas and Black Sigatoka disease have...
devastated most of the remaining banana crop. As a result, the share of agriculture in GDP has shrunk, falling from almost 21% in 1990 to just 6% by 2010, while GDP has contracted and other sectors have failed to fill the gap. As a result of the decline of agriculture, the services sector has become more important to the economy (see Figure 3).

Figure 3

International commodity prices have a significant impact, not only on domestic prices, but also on the sustainability of the external current account; imports of petroleum-related products, for example, account for more than one-third of the total value of imports in St. Vincent and the Grenadines. Rises in commodity prices also affect demand for travel to the island, and can increase the prices of all imports as shipping costs increase. The relatively large current-account deficit (see Figure 4) that St. Vincent and the Grenadines has reported in recent years has been financed largely by FDI inflows (see Figure 5). Should inflows continue to drop, the islands will need to accumulate even larger amounts of external debt, which averaged over 35% of GDP in 2008-13. Moreover, FDI inflows support the expansion of the construction industry, so any rebound in construction growth will depend on a recovery in FDI.

Figure 4
Since 2001 St. Vincent and the Grenadines’ external current-account deficit has widened. In that year the current-account deficit was estimated at 6% of GDP; it then deteriorated to 18.6% in 2005, over 30% in 2010 and was estimated at around 29% in 2013. The deterioration in the islands’ current-account balance largely reflected falling exports of traditional commodities, rising food and petroleum prices, and a contraction in earnings from tourism.

Inflation in St. Vincent and the Grenadines tends to be relatively low (see Figure 6). Since 1995 the average annual rate of inflation was 2.5%, compared with an average of 8.5% for a group of peer nations.
Given the openness of the economy of St. Vincent and the Grenadines, international economic developments have a significant impact on the domestic economy. There are three key potential external threats to future development: (1) weak growth in more developed economies; (2) fluctuations in commodity prices; and (3) diminishing FDI flows. Given the small size of the domestic market, most growth opportunities are related to the international economy.

**Institutional effectiveness**

St. Vincent and the Grenadines is a stable parliamentary democracy based on the Westminster model, and has a record of free and fair elections, achieving the Freedom House rating of 1, which indicates the highest degree of electoral freedom. In addition, the right to free expression and the free exercise of religious beliefs are generally respected. Workers have the right to strike and organize and to collective bargaining, while the independence of the judiciary is respected and women are represented in government.

With regard to government regulations in general, customs and trade regulations, and the time taken to clear imports, St. Vincent and the Grenadines performs moderately well and was about the average for the region; around 22% of respondents in the World Bank’s 2010 Enterprise Surveys cited customs and trade regulations as a major constraint on doing business, and it took around eight days on average to clear imports. In St. Vincent and the Grenadines 5% of senior management’s time is spent dealing with government regulations. This is relatively low compared with the percentages in Suriname, Grenada, Trinidad and Tobago, Mauritius, St. Kitts and Nevis, Guyana and the Dominican Republic, which range from just over 6% in the case of Suriname to just under 12% in the Dominican Republic. Other Caribbean neighbours perform better than St. Vincent in this category, however—particularly St. Lucia, Dominica and Jamaica, where the time spent is 2% or less.

The Worldwide Governance Indicators project of the World Bank and the Brookings Institution suggests that the country performs moderately well in the area of government effectiveness. This indicator captures perceptions of the
quality and independence of public services and the civil service, the quality of policy formulation and implementation, and the credibility of the government’s commitment to these policies. In 2010 St. Vincent and the Grenadines’ score for government effectiveness was above the 70th percentile for all countries evaluated and was also above the median of the group of comparator countries (see Table 1).

### Table 1 Government effectiveness

(-scored -2.5 to 2.5, where 2.5 is the best)

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>0.48</td>
</tr>
<tr>
<td>Bahamas</td>
<td>0.86</td>
</tr>
<tr>
<td>Barbados</td>
<td>1.35</td>
</tr>
<tr>
<td>Bermuda</td>
<td>1.00</td>
</tr>
<tr>
<td>Dominica</td>
<td>0.71</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>-0.49</td>
</tr>
<tr>
<td>Grenada</td>
<td>0.27</td>
</tr>
<tr>
<td>Guyana</td>
<td>-0.16</td>
</tr>
<tr>
<td>Haiti</td>
<td>-1.53</td>
</tr>
<tr>
<td>Jamaica</td>
<td>-0.02</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>0.90</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>0.97</td>
</tr>
<tr>
<td><strong>St. Vincent and the Grenadines</strong></td>
<td><strong>0.90</strong></td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>0.35</td>
</tr>
</tbody>
</table>


### Overview of the sector

The industrial structure of St. Vincent and the Grenadines is dominated by services. According to the Eastern Caribbean Central Bank (ECCB), in 2013 real estate, renting and business activities; wholesale and retail trade; and transport, storage and communications together accounted for 48.1% of GDP. The largest sectors as a percentage of gross value added (with the exception of public administration) are: real estate, renting and business activities (17%), wholesale and retail trade (16%), transport (15%), construction (8%) and financial intermediation (6%). Data from the Caribbean Community (CARICOM) indicate that in 2012 the largest sectors in terms of employment were “other services”, which provided 23% of employment, construction (13.5%), and wholesale and retail trade (13.3%). The World Travel and Tourism Council (WTTC) estimates the direct contribution of travel and tourism to the economy.


6 The WTTC defines the direct contribution of travel and tourism to GDP as consisting of spending on travel and tourism by residents, businesses and government, together with exports to visitors of tourism-related commodities (accommodation, transportation, entertainment and attractions). It defines the direct contribution to employment as consisting of jobs provided in these industries (namely accommodation services, food and beverage services, retail trade, transportation services, and cultural, sports and recreational services).
The economy of St. Vincent and the Grenadines in 2012 was characterized by 6% of GDP and 5.5% of employment (2,500 jobs).

The structure of the private sector in St. Vincent and the Grenadines in terms of the size of enterprises and the distribution of employment is illustrated in Table 2 below. Statistics indicate that of the country’s population of around 110,000, about one-half (49,000) are in the labour force. Around 69% are employed in the private sector, while about 31% are employed in the public sector. Unemployment is estimated to have stood at 23-25% in 2012. A significant percentage of Vincentians still participate in informal activities in agriculture, construction, and retail. This is confirmed by the data in the table below, which shows that 80% of Vincentian businesses in 2009 were informal, micro or small enterprises, and that 60% of all employed persons were working in micro or small enterprises.

<table>
<thead>
<tr>
<th>No. of employees</th>
<th>Type of enterprise</th>
<th>Share of total business by enterprise type</th>
<th>Share of national employment by enterprise type</th>
<th>Sector</th>
<th>Workforce (in National Insurance scheme, NIS)</th>
<th>Adjusted workforce (including those not in NIS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-May</td>
<td>Micro</td>
<td>80%</td>
<td>55-60%</td>
<td>Manufacturing</td>
<td>2,183</td>
<td>2,183</td>
</tr>
<tr>
<td>Jun 20</td>
<td>Small</td>
<td>18%</td>
<td>5%</td>
<td>Agriculture &amp; related activities</td>
<td>531.0</td>
<td>5,000</td>
</tr>
<tr>
<td>20-50</td>
<td>Medium</td>
<td>2%</td>
<td>2-3%</td>
<td>Construction</td>
<td>5,770</td>
<td>6,600</td>
</tr>
<tr>
<td>Over 50</td>
<td>Large</td>
<td></td>
<td></td>
<td>Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Tourism</td>
<td>2,776</td>
<td>3,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Financial</td>
<td>1,239</td>
<td>1,239</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Retail &amp; wholesale</td>
<td>4,277</td>
<td>6,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Government</td>
<td>13,200</td>
<td>13,228</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Other services</td>
<td>7,703</td>
<td>11,250</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total</td>
<td>37,679</td>
<td>49,000</td>
</tr>
</tbody>
</table>

Sources: Micro, Small and Medium-Sized Enterprises Report, 2009; Invest SVG.

Non-domestic ownership is most prevalent in large telecommunications firms, hotels, manufacturing and commercial banking. These enterprises capitalize on their knowledge of export markets, marketing techniques and distribution networks, and account for a substantial share of the country’s output. Although much of the income that they generate is repatriated overseas, such firms create value through large-scale employment and employment of professional staff in prominent decision-making positions.

St. Vincent and the Grenadines has traditionally depended on agriculture and tourism to spur economic growth and development. However, the country has been trying to expand its offering of international financial services. At present, this sector comprises international business companies, international trusts, international banks, international insurance companies and mutual funds. Given the traditional agricultural base, there is also potential for agro-businesses in the areas of coconut processing, fruit processing, poultry production, cassava processing, and the production of dasheen and other root crops, as well as arrowroot processing.

### Industry and agriculture

St. Vincent and the Grenadines' production structure has not changed much in recent years, and in general the country exports goods that are not unique or
complex. An analysis of product space maps for 1995 and 2010 (see Figure 8) shows that there have been only limited developments in the core, with some expansion in the periphery. In addition, most new industries in the country are on the periphery.

**Figure 8: 2010 Treemap**

From an examination of the export data utilised to construct the product space maps, it is apparent that frozen fish (excluding fillets), fish fillet or meat, women’s suits, and fishing vessels all fell from within the top ten products in 1995 to outside the top 20 in 2010. Cruise ships and similar vessels fell from third (11% of all exports) to 19th (0.4%). These products have been replaced in the top ten by yachts, water (flavoured or sweetened), cartons, boxes and other packing containers made of paper, flat-rolled iron, and preparations used in animal feed.

The agricultural sector in St. Vincent and the Grenadines—traditionally a key foreign-exchange earner—has contracted significantly in recent years. Bananas and plantains fell from 23% of total exports in 1995 to 4% in 2010. The analysis reveals that there has been only a moderate degree of movement up the production chain (consisting of a reduction in exports of primary products and an expansion in exports of more highly processed products). Since 2010 the agricultural sector has shrunk significantly, and it now only accounts for less than 7% of economic activity.

**Services**

Tourism is the main driver of activity in the services sector. Between 1980 and 2010 tourism accounted for just over four-fifths of services exports on average, with communications services accounting for most of the remainder. Travel services are the only category of services trade in which the islands run a trade surplus; in all other segments of services trade, payments far exceed earnings. The World Travel and Tourism Council estimates the direct contribution of

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7 As used in relation to product space maps, the term "core" relates to products that incorporate a higher level of processing, while "periphery" refers to unprocessed primary products.
travel and tourism to the local economy in 2012 at 6% of GDP and 5.5% of employment (2,500 jobs).
II. Key challenges for private sector development

The World Bank’s Enterprise Survey (2010) for St. Vincent and the Grenadines identified access to finance, an inadequately educated workforce, corruption, tax rates, and electricity as the five biggest obstacles to doing business in the country. Some of the recommendations for measures needed to address these and other issues raised during interviews with stakeholders are discussed in the following chapter.

The private sector in St. Vincent and the Grenadines benefits from a number of supportive institutions, including both public- and private-sector entities. Institutions include Invest SVG (an investment-promotion agency), the Centre for Enterprise Development, the Chamber of Industry and Commerce, the Tourism Association and the National Development Foundation. As is the case elsewhere in the OECS, there is only limited formal co-ordination between public- and private-sector representatives, although informal networks exist.

Figure 9 shows the results from the World Bank’s 2014 Doing Business survey. St. Vincent is ranked 82nd out of 189 countries in relation to the overall ease of doing business. Among comparators, only four other countries—Antigua and Barbuda (71st), Dominica (77th), St. Lucia (64th) and Trinidad and Tobago (66th)—are ranked higher.

The PSAR identifies a number of key issues for private sector development. They key areas are: access to finance, cost of electricity and education and labour force skills. A number of other key challenges are discussed below.

Access to finance

The issue of easy and cheap access to finance and working capital is especially important to small-island developing states, such as St. Vincent and the Grenadines, due to the fact that the commercial banking sector in these states is not as competitive and efficient as it is in major economies. The financial sector in St. Vincent and the Grenadines is dominated by three large foreign commercial banks (Canadian- and Trinidadian-owned), the Bank of St. Vincent and the Grenadines, the St. Vincent Co-operative Bank, and nine credit unions representing nearly 57,000 members, representing a penetration rate for credit unions of 81% in 2011. Although this penetration rate is the second-highest in
the OECS and the wider region, lending to enterprises is limited, as most loans are to consumers rather than business owners. The National Development Foundation also provides credit facilities for micro-enterprises.

Compared with those in other Caribbean countries, the credit market in St. Vincent and the Grenadines is more efficient as measured by the spread between lending and deposit interest rates. At roughly 6 percentage points, the country has one of the lowest spreads in the comparator group; the only Caribbean countries with lower spreads are The Bahamas, St. Kitts and Nevis, Suriname, Barbados, Belize and Dominica. The interest-rate spread has fluctuated between 6% and 8% since the early 1990s, and has remained fairly consistent, in the 6-7% range, since 2005 (see Figure 10).

**Figure 10**

![Interest rates graph](image)

Source: World Bank, World Development Indicators.

Domestic savings play a key role in determining the availability of credit. At the end of 2010 deposits were equivalent to around 64% of annual GDP—one of the lowest ratios among the group of comparator countries, and the lowest in the OECS. Bank credit as a ratio of bank deposits stood at 78%, close to the average for the region. This suggests that a relatively large proportion of savings in St. Vincent and the Grenadines is utilized to finance credit. Despite the high proportion of savings used to finance loans, the country is still ranked among the lowest in the region for access to credit. This suggests that business finance (or the lack thereof) is both a supply and a demand problem. On the supply side, there is the perceived risk associated with supplying loans to small businesses, while on the demand side entrepreneurs and small businesses may lack the ability (for example, in the area of record-keeping) to access available lending facilities. It should, however, be noted that both the savings deposit rate and the reserve requirement rate are set by the Eastern Caribbean Central Bank (ECCB), and that as a result the funds available for lending are limited. This may account in part for the high cost of finance in both St. Vincent and the Grenadines and the wider region.

The World Bank’s Doing Business report for 2014 ranks St. Vincent and the Grenadines 130th overall for access to credit, in line with Antigua and Barbuda, Grenada, St. Kitts and Nevis and St. Lucia (see Figure 11). Some enterprises and business-support institutions interviewed for the PSAR stated that even if
finance is available, its cost is burdensome. Invest SVG’s representatives stated that their clients, most of which are small agro-processing and cultural businesses, are unable to meet the stringent collateral demands of private-sector financing; the Enterprise Surveys (2010) indicated that commercial banks’ collateral requirements in St. Vincent and the Grenadines were the third-highest in the Caribbean Community (CARICOM), at over 210% of the value of loans on average.

**Figure 11**

![Getting credit: global rankings](image)

**Corporate taxation** If tax rates in a country are high, this can lead to significant downward pressure on savings, with a consequent adverse impact on investment and the economic outlook. The nominal corporate tax rate in St. Vincent and the Grenadines is 30%. International entities registered in St. Vincent and the Grenadines are not subject to taxation. There is no capital gains tax, no inheritance tax and no tax on dividends. Withholding tax rates are:

- 20% on royalties
- 10% on property rights
- 10% on other payments.

A feature of local taxation is the trader permit system. Tax is collected annually; it is levied on businesses of all sizes that carry stock or inventory, and is graduated based on assessed stock value.

In general, enterprises interviewed for the PSAR did not view corporation tax as a significant hurdle. However, the imposition of the new indirect value-added tax and customs duties were seen as bigger hindrances. The views expressed in the interviews are backed up to some extent by the results of the World Bank’s Enterprise Surveys for 2010 (see Figure 12). A total of 45% of exporters and 34% of non-exporters noted tax rates as a constraint on doing business. Around 9% of enterprises noted licences and permits as a major constraint, the second-highest figure in the OECS after Antigua and Barbuda (17%), while 19% cited tax administration as an obstacle (the second-lowest in the OECS after Dominica, at less than 1%) and 3% of exporters and 10% of non-exporters mentioned business licensing as a problem.
Based on interviews and the results of World Bank's Enterprise Surveys for 2010, electricity costs are ranked as one of the biggest obstacles to doing business across the OECS. As shown in, the cost of power per kilowatt-hour exceeded US$0.30 in all of the OECS countries included, while the cost was below US$0.05/kWh in Trinidad and Tobago (unsurprisingly, given that country’s plentiful hydrocarbon deposits). One of the recommendations emerging from consultations and secondary research was a bi-annual review of the fuel clause tariff structure (the fuel cost element of electricity) to reduce the incidence of price-gouging, or if price gouging is found to not be prevalent, reassure the private sector of such.

**Key inputs and infrastructure**

**Figure 12**

*Tax rates as a constraint on doing business, 2010 (percentage of firms)*

- Non-exporters
- Exporters


**Figure 13**

*Corporate taxes, 2014*

- Total tax
- Labour tax

In St. Vincent and the Grenadines, businesses such as LIME (a leading telecommunications provider) and ECGC East Caribbean Metal, along with the Chamber of Commerce, indicated that electricity and energy costs were major impediments. The proportion of firms identifying problems with electricity supply or prices as a major obstacle to doing business was lower in St. Vincent than in the Latin American and Caribbean region or the world. However, energy constraints are still a problem for many enterprises. In 2012 the government signed an agreement with the US-based Clinton Foundation to provide technical and financial support for the development of geothermal energy.

Table 3 Infrastructure and electricity, 2010

<table>
<thead>
<tr>
<th></th>
<th>St. Vincent and the Grenadines</th>
<th>Latin America &amp; Caribbean</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of firms identifying electricity as a major constraint</td>
<td>25.4</td>
<td>37.6</td>
<td>38.9</td>
</tr>
<tr>
<td>% of firms owning or sharing a generator</td>
<td>22.9</td>
<td>28.1</td>
<td>32.5</td>
</tr>
<tr>
<td>% of firms identifying transportation as a major constraint</td>
<td>12.0</td>
<td>23.5</td>
<td>21.8</td>
</tr>
<tr>
<td>Days to obtain an electrical connection (upon application)</td>
<td>9.3</td>
<td>21.3</td>
<td>34.3</td>
</tr>
<tr>
<td>For firms using a generator, proportion of electricity sourced from generator (%)</td>
<td>2.9</td>
<td>18.4</td>
<td>21.1</td>
</tr>
<tr>
<td>Number of electrical outages in a typical month</td>
<td>1.7</td>
<td>2.5</td>
<td>7.0</td>
</tr>
<tr>
<td>Duration of a typical electrical outage (hours)</td>
<td>1.2</td>
<td>1.3</td>
<td>3.1</td>
</tr>
<tr>
<td>If there were outages, average losses due to electrical outages (% of annual sales)</td>
<td>0.8</td>
<td>2.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Losses due to electrical outages (% of annual sales)</td>
<td>0.6</td>
<td>1.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Proportion of electricity from a generator (%; all firms)</td>
<td>0.2</td>
<td>2.1</td>
<td>7.0</td>
</tr>
<tr>
<td>Number of water insufficiencies in a typical month*</td>
<td>0.2</td>
<td>0.7</td>
<td>1.4</td>
</tr>
</tbody>
</table>


Trade and FDI policies

Trade and FDI policies

Table 4 below provides a snapshot of the trade patterns for St. Vincent and the Grenadines in 2009. More than one-half of all imports are energy-related. Fluctuations in international oil prices therefore have a significant impact on the overall external current account for the island. Given the absence of a large manufacturing base, most machinery and equipment required for the
production of goods and the provision of services are imported. The US is the country’s largest trading partner, accounting for 33% of all imported goods, mostly consisting of consumer items. Trinidad and Tobago and the UK are also major sources of imports.

On the export side, the islands’ main commodity export category remains agricultural commodities, with alcoholic beverages also appearing in the top five export categories. More than one-third of these exports go to St. Lucia, with most of the remainder going to Trinidad and Tobago, Barbados and the UK.

**Table 4 Trade snapshot for St. Vincent and the Grenadines, 2012**

<table>
<thead>
<tr>
<th>Top export partners</th>
<th>Value (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>43,042,465</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>11,012,186</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>6,752,074</td>
</tr>
<tr>
<td>Barbados</td>
<td>6,175,233</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>5,342,202</td>
</tr>
<tr>
<td>Dominica</td>
<td>3,286,272</td>
</tr>
<tr>
<td>Saint Kitts and Nevis</td>
<td>2,700,049</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top import partners</th>
<th>Value (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>403,242,335</td>
</tr>
<tr>
<td>US</td>
<td>143,408,352</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>108,183,154</td>
</tr>
<tr>
<td>Venezuela</td>
<td>22,487,965</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>19,315,366</td>
</tr>
<tr>
<td>China</td>
<td>13,127,358</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>9,210,554</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top imports</th>
<th>Value (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes</td>
<td>114,989,177</td>
</tr>
<tr>
<td>Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof</td>
<td>25,017,992</td>
</tr>
<tr>
<td>Cereals</td>
<td>21,027,192</td>
</tr>
<tr>
<td>Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles</td>
<td>20,023,676</td>
</tr>
<tr>
<td>Meat and edible meat offal</td>
<td>14,863,120</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top exports</th>
<th>Value (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products of the milling industry; malt; starches; inulin; wheat gluten</td>
<td>11,674,684</td>
</tr>
<tr>
<td>Edible vegetables and certain roots and tubers</td>
<td>4,967,036</td>
</tr>
<tr>
<td>Beverages, spirits and vinegar</td>
<td>4,434,225</td>
</tr>
<tr>
<td>Cereals</td>
<td>4,383,287</td>
</tr>
</tbody>
</table>
Tariffs in St. Vincent and the Grenadines are relatively low on most categories of goods imports, suggesting that the local producers may be subject to high levels of competition from imports. The average applied tariff on all products in 2009 was 10%, in line with the average for the group of comparator countries (see Figure 15). The level of tariff protection offered to the agricultural sector is also relatively low, at an average of 16%. This level of protection is significantly lower than that offered to agriculture in other countries in the region: it is only one-quarter of that in Barbados, and less than 40% of tariff levels in Belize and Trinidad and Tobago. Some industries in St. Vincent and the Grenadines, most notably tourism, import most goods duty-free.

As noted in the corporate taxation subsection above, many representatives of small-business importers interviewed for the PSAR felt that they were generally not consulted by policymakers regarding tariffs. Even with the passage of the Small Business Development Act (2007), which exempts plant and equipment from duty for qualifying firms, small businesses still said that they faced challenges in relation to tariffs. They complained that, particularly in the recessionary period from 2008, the government was biased in favour of hoteliers (who received duty exemptions), while other businesses bore the brunt of high duties.

With regard to dealing with government regulations in general, customs and trade regulations, and the time taken to clear imports, St. Vincent and the Grenadines appears to perform moderately well. Reportedly, 5% of senior managers’ time is spent dealing with government regulations; this is around the same proportion as in Belize, Barbados, and Antigua and Barbuda, less than one-half of that in St. Kitts and Nevis, Guyana and the Dominican Republic, and only a couple of percentage points above that in Jamaica, Dominica and St. Lucia. On customs and trade regulations as a major constraint on doing business, and the time required to clear imports, St. Vincent and the Grenadines also performs relatively well and is close to the average for the region: around
22% of interviewees noted customs and trade regulations as a major constraint, while it takes an average of about eight days to clear imports.

**Foreign direct investment**

Foreign direct investment (FDI) in St. Vincent and the Grenadines is largely associated with tourism and commodity exports. In 2011, FDI was equivalent to 19% of GDP, the third-highest ratio in the comparator group. The country faces a number of challenges in relation to attracting FDI, many of which are outside of the control of policymakers. The small size of the domestic market limits the amount of funds flowing into the islands for market-seeking opportunities. The small size of the economy, and the country’s lack of natural resources, also results in higher input costs and limited opportunities for natural-resource-seeking FDI. Given the profile of the islands, it is likely that most FDI would be of the efficiency-seeking variety (for example, investment in international financial services). This would utilize the country’s surplus labour, but would also require investment in the human-resource capabilities of the islands.

The macroeconomic environment is fairly stable, but there are a number of social and political uncertainties—including crime, unrest resulting from poverty, political patronage, and a lack of the requisite labour skills—that could adversely affect FDI flows. Inflation is relatively low, and there are no restrictions on capital flows and only limited exchange-rate uncertainty. There are also relatively few regulatory hurdles for potential investors to overcome: only electricity, telecoms and water connections require government licences, although financial institutions must obtain permission to operate from the International Financial Services Authority.

Invest SVG plays an important role in investment promotion on the island. The institution offers investment and trade information, investment incentives, investment facilitation, industrial facilities and policy advice. Key sectors targeted include manufacturing, tourism, international financial services, ICT, the creative industries, and agriculture and agro-processing.

**Technology and innovation**

The neo-classical paradigm describes changes in technology and human capital as fundamental for business and macroeconomic growth. As shown in the table below, of the manufacturing firms surveyed for the World Bank’s 2010 Enterprise Survey 2010, 21% (one of the highest percentages in the region) had an internationally recognized quality certificate, and 25% (the highest percentage in any of the comparator countries) used technology licensed from foreign companies. However, only around one-third of firms had an Internet presence, one of the lowest in the region.

These results suggest that St. Vincent and the Grenadines is well placed for future business growth. However, in the interviews conducted in the country, private-sector stakeholders identified several problems related to technology and process innovation that have the potential to restrict growth, notably a lack of proper business practices and accounting (such as cashflow systems), a lack of marketing databases and a failure to keep adequate records.
Table 5 Technology use by manufacturing firms in selected countries (% of firms)

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


Labour regulations

Labour market distortions and regulations often make investors reluctant to invest in a country. The main laws relevant to labour relations in St. Vincent and the Grenadines are the recently amended Protection of Employment Act (2003) and the Wages Regulation Act (2008). The employment protection law covers employment rights, severance pay and disputes. Under the law, the probationary period for employment is six months, and terms of employment and vacation must be provided in written form. Sacked employees may be ineligible for severance pay if, for example, they lack the ability to perform the work that they were employed to do. All other terminations of employment, excluding those on grounds of illness or redundancy, must be with the permission of the Labour Commission. The Wages Regulation (2008) states minimum pay levels by employment category.

Although the proportion of the labour force educated to post-secondary or university level has increased, rising from 3.2% in 1995 to 8.6% in 2008,8 around 35% of firms indicated that an inadequately trained labour force was a constraint on doing business—marginally below the comparator average of 36%, but above the OECS average of 30%. This suggests that although businesses are broadly satisfied with labour market regulations, the skills available in the labour force in St. Vincent and the Grenadines are below the average for the region.

Gender

With regard to gender segmentation in the labour market in St. Vincent and the Grenadines, estimates suggest that of the 11,000-odd people active in the informal economy, 5,000 (most of them women) are working in agriculture. In tourism services, most administrative and elementary services are dominated by women. According to the St. Vincent and the Grenadines Country Poverty Assessment 2007/2008.

Assessment 2007/2008, “There is evidence of gender segmentation of the labour market, men in construction, women in hotels and tourism.” This suggests that women are partially excluded from the largest sectors, and when they are included they are employed mainly in elementary positions.

Based on data from the 2010 Enterprise Surveys, St. Vincent and the Grenadines outperforms all the other comparator countries in relation to female participation in ownership of businesses (76% of all firms), the proportion of permanent full-time workers who are women (49%) and the proportion of businesses that have females in top management positions (39%). However, these figures do not reveal the fact that women make up most of the estimated 30% of the country’s population who are living below the poverty line and 55% of workers in informal-type sectors.

Figure 16

![Female participation in businesses, 2010](chart)


Figure 17

![Percentage of firms with female top managers, 2010](chart)


Moreover, the figures do not reveal the clear segmentation that exists in the labour market, with female employment concentrated mainly in community, social and personal services; finance and business services; and wholesale and retail trade (and mostly in elementary positions).
In its efforts to address gender issues, the government has established a Gender Affairs Agency, and has also implemented a number of initiatives to generate employment that will directly benefit women in rural communities. In addition, in 2009 it adopted a gender-equality policy and a related operational strategy. The government is also seeking to ensure that policies, programmes (including private-sector development) and practices are responsive to gender-equality issues.

Environment

St. Vincent and the Grenadines is subject to a number of hazards that pose threats to both the environment and economic viability. The islands are vulnerable to hurricanes, volcanic eruptions and climate-change hazards, while 70-90% of the country’s sloped terrain is at risk of land slippage. In 2006 the government passed a National Emergency and Disaster Management Act, which identifies the tasks and functions of crucial stakeholders in an Emergency Committee. Examples of such tasks are:

- the designation of vulnerable areas
- the power to declare disaster alerts
- the power to close roads.

Carbon dioxide (CO2) emissions per head in St. Vincent and the Grenadines were the second-lowest in the group of comparator countries in 2008, at less than two tonnes.
III. Emerging sectors

With regard to the largest sectors in the economy and their potential for future growth, the most viable industries appear to be tourism and manufacturing. Through intensified tourism marketing and the development of a niche in ecotourism, the country may be able to create a sustainable growth path for the sector. In manufacturing, a focus on the areas with the greatest potential—namely agro-processing, and pharmaceutical and medical manufacturing—would facilitate the development of subsectors that could provide employment and earn valuable foreign exchange. In the construction sector (one of the country's largest), the dominant projects, Argyle International Airport and upgrades to Buccament Bay Resort, possess considerable revenue-generating ability. These projects not only provide employment in the short term, but also offer the potential for the further development of the country's tourism offering, while the airport development will enhance the country's air travel capacity.

**Ecotourism**

The government sees tourism as one of the country's areas of comparative advantage. The industry currently employs directly an estimated 3,000 persons in the private sector. There have been many incentives and initiatives directed towards tourism-related businesses and the sector's support organizations. For example, the St. Vincent and the Grenadines Hotel and Tourism Association reports that it has been able to negotiate reductions in tax rates of hotels and villas, along with concessions on electricity prices and import duties. The association says that hoteliers, and the tourism sector as a whole, are looking at developing ecotourism. The government has received help from the government of Finland on restoring sites such as Fort Duvernayette, and this is expected to add to the islands' ecotourism heritage offering.

**Construction**

The local construction sector employs close to 5,000 people. Given the links between construction and the rest of the economy, along with investments in infrastructure, the industry should not be overlooked as a potential driver of private-sector development. Encouraging expansion in this sector is one of the most direct ways that governments or organizations can boost private-sector job creation, and the multiplier effect produced by infrastructure works extends into every sector in the economy. It is recommended that elements such as training in the use of high-technology equipment in the construction sector, and public-private stakeholder participation in planning for infrastructure and the facilitative environment, be noted as high-priority areas for private-sector assistance. This should help firms involved in construction to understand what is required of them and how they fit into the country's development plan. In addition, the development of skills in this area has the potential to assist in developing services exports to other countries in the region.

**Information and communications technology (ICT)**

Like other CARICOM states, St. Vincent and the Grenadines is seeking to capitalize on the advantages of ICT to stimulate economic growth. It is estimated that ICT, and particularly telecommunications, employs over 1,000 people in the country, and it could play an even greater role in adding value to the islands' services product. In its strategic ICT plan for 2010-15, the
government lists e-government, training human resources, business development and the creation of an effective regulatory environment as the four main initiatives in terms of ICT development. Investment in telecoms has dramatically increased in the past five years as a result of the passage of the ICT Investment Act (2007), and the e-government plan is currently being implemented with the help of the government of Taiwan.

Creative industries: film, music and culture

The creative industries present great opportunities for private-sector development, especially given the enhanced Economic Partnership Agreement benefits offered to Caribbean industries by the EU. Employment in the creative sector is unquantifiable, due to the considerable degree of informality that exists in the industry; however, it is an area of growing interest among a sizeable youth population in St. Vincent and the Grenadines. Invest SVG (an investment-promotion agency) is providing technical assistance and international promotion for designers and creative-based industries, and has achieved a high success rate so far. It is therefore important not only that collateral-free financing be made available for such individuals, but also that assistance for overall business development be provided, for example by encouraging foreign investment in local creative enterprises, formalizing businesses and offering information about the benefits of trade agreements.

Light manufacturing

The manufacturing sector has been overlooked in the strategic growth plans of many small-island nations, and countries such as St. Vincent and the Grenadines consequently struggle to diversify their production bases. In the late 1980s St. Vincent and the Grenadines had a robust manufacturing plan that provided incentives and promotions and which envisioned the establishment of manufacturing zones (such as export-processing zones). As a result, a substantial amount of foreign capital was attracted into the country and employment expanded. One manufacturer interviewed for the PSAR pointed out that the sector used to be thriving, with the production of tennis rackets and other related activities, but he opined that the sector has now fallen too low on the government’s agenda. There are a number of reasons for the decline in manufacturing across the Caribbean region, including greater promotion of service industries, a reduction in tariff protection and flight by foreign manufacturers to locations where labour is cheaper. These factors have contributed to the fact that manufacturing has slipped down the government’s agenda. The manufacturing sector in St. Vincent and the Grenadines employs around 2,000 people and accounts for only a minimal share of the country’s total foreign-exchange earnings. The country’s geography and high input costs (in terms of electricity and other factors) contribute to disadvantages in terms of economies of scale and price competitiveness. However, the manufacturing sector has a number of strong points that offer future opportunities. First, a number of free-trade zones exist, and more such zones are likely to be implemented by the government. Second, the government is working on an energy-efficiency plan to reduce energy costs. Third, because of St. Vincent’s proximity to major markets in North and South America, businesses enjoy a locational advantage that enables them to capitalize further on the trade agreements that exist with these countries. Finally, there is now greater emphasis on the development of technical skills and the retention of human
resources—especially following consultations at Caribbean Growth Forum and country levels, which have increased the momentum in terms of moves to urge the government to implement incentives to boost the manufacturing sector.

**Agro-processing**

Agribusiness is one of the main subsectors identified as an area of opportunity by key industry organizations such as the Centre for Enterprise Development and the National Development Foundation. Over 4,000 people are employed in the agricultural sector overall, and agro-processors are increasing rapidly in number. The subsector possesses some important advantages. First, because St. Vincent and the Grenadines has in the past relied predominantly on agriculture, the skills involved in processing agricultural products are easily transferable. Second, by joining an alliance, co-operative or cluster development organization such as VincyKlus, small agro-processors can benefit from a reduction in input and marketing costs. Third, a number of small agro-processors have successfully sustained their businesses via links to the tourism sector. Some of the value-added products that stakeholders are interested in exploiting in this sector include chocolate (from cocoa) and meat.

Most of the interviews conducted with representatives from the agro-processing industry revealed a need for microbiological and biotechnological research, especially with regard to the verification of products through standards and testing. Meanwhile, microbiologists and biotechnologists could exploit medically useful compounds that may be derived from the country’s flora and fauna. Institutions such as the Caribbean Agricultural Research and Development Institute, medical research laboratories, multinational companies, multilateral organizations and the government should be the primary participants in developing this subsector.

**Alternative financing and offshore financing**

Alternative finance and offshore finance are also noted as subsectors that present opportunities and could change the financial landscape in St. Vincent and the Grenadines. The financial sector currently employs over 1,000 people and the industry is growing, especially in the credit union subsector, which has seen consistent growth averaging 6.8% a year for the past five years. Much of the success of alternative financing is attributable to the stringent conditions that foreign banks attach to loans—conditions that are not attached to lending by alternative financial institutions or co-operatives. Alternative-financing options facilitate greater financial inclusion in a country, and have been proved to be far more profitable than formal banks if managed well. For example, the top three credit unions in St. Vincent merged to form a micro-finance programme, the St. Vincent and the Grenadines Small Business and Micro-Finance Co-operative (COMFI). Invest SVG also lists offshore banking as a sector that offers investment opportunities, although, because of the secrecy laws involved, such activities have come under international scrutiny.
IV. Priority areas and action plan

St. Vincent and the Grenadines boasts relatively good rankings for governance in the World Bank's Worldwide Governance Indicators. However, there are institutional shortcomings in relation to getting credit and resolving insolvency—two issues that are inextricably linked, as problems in resolving insolvency have knock-on effects in terms of increasing lenders' risk-aversion and hence making accessing credit more difficult. Giving the important role played by finance in the economic development process, the country's poor ranking for accessing credit poses a significant risk to private-sector development and growth. Key policy interventions that are needed in this regard include the establishment of a public collateral registry and support for the creation of a private credit bureau. This would reduce information asymmetries for lenders, thereby potentially making more credit available to the private sector more quickly. Legislative changes are also required to provide greater protection to creditors, as well as to speed up the process of enforcing security rights.

The main strengths of the private-sector development framework in St. Vincent and the Grenadines relate to institutions. Several business-support institutions exist in the country, including the Centre for Enterprise Development (CED), Invest SVG (an investment-promotion agency) and the National Development Foundation (NDF). There is also provision of support for the productive sectors through fiscal policy measures, especially tax incentives. In addition, there is a notably high degree of participation by women in ownership and management of businesses in St. Vincent and the Grenadines. However, there are several constraints on private-sector development in the country, relating to the time and monetary costs of doing business (in terms of electricity, energy, importing/exporting and finance); lack of access to finance due to stringent conditions for credit and the underdeveloped state of the local capital market; weaknesses in interregional transport; and labour force issues related to a lack of specialist skills and inadequate levels of training. All of these factors are operating in an environment in which threats from climate change and natural hazards, crime, and competition from new tourism destinations present severe challenges to the local private sector.

The Private Sector Assessment Report (PSAR) observes that while the country's integration into the OECS and the Eastern Caribbean Currency Union (ECCU) has so far not facilitated private-sector development to the degree that it should, the existence of these frameworks provides a sense of political and financial stability, as well as providing opportunities for future growth. However, such growth will depend on addressing issues of skills in the labour force, fiscal coordination, and economies of scale in financial provision, and on proactive efforts by the private sector to exploit available opportunities in the wider Caribbean region.

The main issues facing private-sector development (many of which are interlinked) can therefore be categorised as:
1. **Cost issues:**
   a. Cost of finance
   b. Cost of electricity and energy
   c. Time cost of inefficiencies in customs and the business-support framework

2. **Process issues:**
   a. Inefficiencies in customs and trade
   b. Inadequate support in gaining market access from public-sector agencies
   c. Lack of co-operation within and between the public-sector and private-sector business-support agencies

3. **Capacity issues:**
   a. Finance:
      i. Lack of ability of enterprise owners to meet the requirements of finance providers
      ii. Lack of diversity in finance options for businesses at different stages of development
   b. Labour:
      i. Lack of specialist skills in the labour market
      ii. Inadequately trained labour force

The preceding section identified a number of approaches to assist in reducing costs, including reviewing the fuel clause tariff structure\(^9\), promoting retrofitting, reducing transaction costs in finance provision, reducing information asymmetries through the development of credit bureaux and collateral registries, and reviewing the operations of the Customs and Excise Department and the Bureau of Standards to identify sources of inefficiency that need to be addressed. Although the costs of crime can to some extent be considered a consequence of weak economic growth, the social issues involved are better dealt with elsewhere. However, the issue of taxation can be directly addressed through the implementation of dialogue between the public and private sector, assisted by a national strategic plan.

Addressing cost issues may have significant effects on government revenue and expenditure, especially if subsidies or fiscal incentives are used to promote certain types of behaviour. However, the process issues should place less of a strain on the government finances, although there may be implications in relation to undertaking politically risky initiatives, such as seeking to increase productivity in the public sector, reorganizing the business-support framework, and promoting an inclusive culture in business support by the involvement of

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\(^9\) The fuel clause relates to the cost of the fuel used to produce electricity. As the price of fuel changes, the fuel clause tariff adjusts electricity prices to accommodate the change. The concern here is that the clause may not reflect the true cost of generating electricity, and that electricity companies may thus realize “extra” revenue. A periodic review of the clause would ensure that it is closer in line with actual fuel costs.
private-sector bodies in public policy development. In the short run, moves to address process issues may be more effective, given that other, revenue-reliant options are severely limited, especially in terms of capital expenditure.

While addressing these process issues may be feasible in the short to medium term, addressing the capacity issues identified is a longer-term project. All of the issues identified above would benefit from the creation of a tripartite forum, but such open dialogue is particularly important to achieving a modern financial architecture and an industrially relevant labour force with skills that match the demands of industry. This should all be in keeping with a national strategic plan with a human resources development plan at its core. However, there is at present no institutional mechanism to facilitate the discussion of private-sector development. This shortcoming would be addressed by:

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

The other parts of the action plan include:

**Action 2:** Rationalization and streamlining of the public sector’s business-support framework through the work of the Tripartite Committee, to ensure a revised system that addresses both the needs of the private sector (in terms of access to finance, technical assistance and data) and the wider obligations of government.

**Action 3:** Development of a National Strategic Plan that mainstreams private-sector development in the country. Through the lobbying efforts of the government, plans for the development of the private sector should also be included in regional strategic plans at the level of the OECS/ECCU and the Caribbean Community (CARICOM).

**Action 4:** Reduce the cost of finance by reducing transaction and operational costs in financial institutions, through the use of technology and the monitoring of efficiency levels; reducing risk and risk-aversion through the establishment of a credit bureau and a collateral registry; and introducing alternative financial products and greater networking in the financial sector.

**Action 5:** Increase the capacity of businesses to access finance through the provision of support (such as technical assistance and training) for the adoption of accepted business practices (notably record-keeping) and the skills needed to develop business plans for funding and strategic planning. These services are provided in St. Vincent and the Grenadines by Invest SVG and the Centre for Enterprise Development, but their take-up needs to be expanded.

**Action 6:** Provide incentives for energy conservation and frameworks for the exploitation of renewable/alternative energy, and reduce the cost of fossil fuels. Incentives and support in this area will act as cost-reduction tools, and will create opportunities for investment and enterprise development in the renewable/alternative energy sector. Efforts to reduce the cost of fossil fuels would involve periodic reviews of the fuel clause tariff structure and the distribution chain, together with an exploration of the possibility of privatizing electricity supply.
**Action 7: Education and training curriculum reform** that addresses the long-term strategic direction of the government as well as the more immediate needs of the private sector. The reforms undertaken should be informed by manpower surveys and human-resources development plans based on these, which should seek to expand the use of apprenticeships and on-the-job training. The long-term strategic direction of the government should be determined on the basis of dialogue with the private sector.

Although the private sector in St. Vincent and the Grenadines faces various challenges, many of these specific issues could be addressed through the facilitation of a forum for discussion. It is also important to be aware that many of the recommended actions will not bear fruit in the short term—building a framework for the development of alternative energy and curriculum reform, for example, are not overnight processes.

In addition, attention should be paid to the specific recommendations that have consistently emerged from research in the region regarding niche-market development; moving up the value chain; the development of strategic alliances and joint ventures for knowledge and technology transfer; and the development of clusters, both vertical and horizontal. The current VINYCYKLUS initiative in promoting clusters provides a basis for growth in the area of clustering. Activities in these areas are not mentioned in the Action Plan due to their specific nature, but they should remain as options during the development of the strategic plan for private-sector development and growth in St. Vincent and the Grenadines.
References


Programme for International Student Assessment (PISA) for the United States. OECD.


