

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC18155

<b>Project Name</b>	OECS Competitiveness Project (P152117)
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Country</b>	OECS Countries
<b>Sector(s)</b>	Other industry (50%), Ports, waterways and shipping (30%), SME Finance (20%)
<b>Theme(s)</b>	Regional integration (50%), Export development and competitiveness (30%), Infrastructure services for private sector development (20 %)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P152117
<b>Borrower(s)</b>	Government of St. Lucia, Government of St. Vincent, Government of Antigua and Barbuda
<b>Implementing Agency</b>	Ministry of Finance, Planning, Economic Development, Trade, Energy & Cooperatives, Ministry of Finance, Economic Affairs and Social Security
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/ Updated</b>	24-Feb-2015
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<b>Estimated Date of Appraisal Completion</b>	19-Jun-2015
<b>Estimated Date of Board Approval</b>	30-Sep-2015
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

1. After the onset of the global financial crisis, economic growth in OECS countries (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines) contracted for four consecutive years (on average, by 1.5 percent per year), leading to a cumulative drop of 6 percent in total output during 2009-2012. This was a continuation of two decades of poor performance: In the early 1990s, the region experienced a dramatic shift in its external trade position when many economies lost preferential access to European markets. Average annual growth dropped to 3.3 percent at the end of the decade. In the early 2000s, OECS governments' efforts to offset exogenous shocks through increased public investment did not translate into a revival of growth; rather, they crowded out private investment. The growing fiscal

imbalances associated with increased public investment were financed by expensive domestic and external commercial borrowing and resulted in an unsustainably large debt burden. In addition, the deterioration in the external environment caused a contraction in exports and in the resource balance.

2. Moreover, the OECS region's productive sectors have been affected by the consequences of an over-extended credit market. High level of real estate lending in the past decade has crowded out lending to the productive sectors. As a result of this unsustainable lending, credit growth has stalled and risk premiums associated with lending to tourism have increased. While there is sufficient liquidity in the system, there are high levels of credit risk. As a result, access to finance is a serious constraint to the development of the real sector in the region. According to the Enterprise Survey 2010 data, access to finance is the number 1 constraint in 4 of the 6 OECS countries covered (including St. Vincent and the Grenadines, St. Lucia, Dominica, St. Kitts and Nevis), and is the number 3 constraint in the other 2 (Grenada and Antigua and Barbuda ).

3. The main priority for the OECS region is to resume growth in a sustainable, inclusive and resilient manner. Now that the economic situation in the US, Canada, and Europe (the main tourism markets for the OECS) has recovered partially, and that OECS countries have started to implement some critical reforms to unlock growth, the growth performance of a number of these countries has started to improve. Real GDP growth in the OECS has increased by 1 percent in 2013 and is projected to grow by over 2 percent year-on-year over the period 2014-2018 . Tourism which accounts for approximately 60 % of export earnings, 40 % of Gross Domestic Product (GDP) , and 40 % of total employment in the region, is the most important economic activity in the region.

4. The tourism sector will continue to be the main pillar of economic growth for these small island economies, which have a clear comparative advantage in the tourism industry and limited options for economic diversification. Therefore, a competitive and robust tourism sector is critical, especially since it has significant spillover effects on other sectors, including transportation, construction, agribusiness, and financial services.

#### **Sectoral and Institutional Context**

5. The OECS has a low share of tourist arrivals and derives lower revenues from tourism than the rest of the Caribbean region. In 2013, consistent with the trends of previous years, the OECS maintained a low share of total Caribbean tourist arrivals—with a 5.2 % share—and grew by only 1.0% in comparison to 2.5 % in the overall Caribbean. Similarly, the OECS performed below the Caribbean in tourism receipts. In 2013, the OECS maintained a low share of total Caribbean tourism receipts: 4.8 % . In comparison Barbados, the only Caribbean country ranked within the top 50 of the 140 countries assessed in the World Economic Forum's Tourism & Travel report , by far outperforms the OECS countries in tourist arrivals and visitor expenditures (for example, Barbados received the largest share of tourist arrivals in 2013, with 508.5 thousand arrivals. Barbados was followed by St Lucia, which received 318 thousand tourists in 2013; Antigua & Barbuda, with 243 thousand tourists; and Grenada with 116 thousand).

6. The OECS ratio of cruise to stay-over arrivals (air and sea) averages roughly 2.5 to 1. Cruise passengers typically spend significantly less than stay-over tourists—in 2012, US\$50 vs. US \$1,000 per visitor. These differentials make a strong case for developing strategies that aim at attracting larger numbers of stay-over visitors while improving and diversifying tourism products of each island with the aim of increasing local spending by the current visitors, in particular cruise

passengers, to the region.

7. The OECS region has the necessary assets to develop these high-growth niche market segments to complement their existing product offering. Globally, visitor preferences are changing. While white sand beaches are appreciated, fewer visitors wish to spend their holidays lying on the beach and seek experiences that go beyond beach. Beach-focused destinations are striving to diversify their tourism offerings. Cultural heritage tourism is one of the fastest growing segments of the tourism industry worldwide. Forty percent of all international leisure tourism has a cultural component. According to a 2009 UK government survey, in the next few years, adventure travel will increase by 70 percent, “activity” holidays will increase 100 percent, and adventure discovery travel will increase 300 percent. The region’s terrain, history and the structure of the rural communities are ideal for the development of many nature-based and cultural products and adventure activities that go beyond and complement the “sun, sea and sand” offering of the region. Moreover, the region has numerous cultural highlights, including music and food festivals that can be leveraged to create well rounded tourism offerings . According to a World Bank 2013 study, cultural and heritage tourism is a high-potential complementary product that could be pursued in the OECS region, while nature and eco-tourism is considered a high-potential core product. The region also has the potential for other types of tourism, such as wellness, luxury, nautical and sports tourism.

8. The OECS tourism sector could tap into the under-developed regional market, especially during the season of low arrivals from the main key markets, if connectivity was facilitated. Currently, regional travel is limited. Statistics for 2013 reveal that 2.1 % more Caribbean residents traveled within the Caribbean region than in 2012. However, the OECS is the only Caribbean region where intra- regional arrivals declined in 2013, with a reduction of 3.4 %. In absolute terms, the OECS received the smallest share of intra-Caribbean travel, with a total of 273 thousand arrivals, compared to the approximately 1.6 million regional residents who traveled within the Caribbean in 2013. These patterns are consistent with the past performance of the region. While hard data is not readily available, interviews with local tourism experts suggest that, despite their desire to travel to the other islands in the region for vacation, cultural events, visits, shopping, etc., local residents often find it cheaper and easier to fly to Miami; on the other hand, alternative travel within the region by ferry is cumbersome and unreliable.

9. The tourism industry in most of the OECS countries “just happened” as a private sector led activity, without the essential public sector leadership to develop and implement policies and effective plans to ensure the sustainable growth of the sector. Strategic positioning, including the “brand” or unique product offerings of each island and how it should be marketed at both national and regional level are also not clear. Laying the foundation for improved competitiveness in the tourism sector has, therefore, become an urgent priority .

10. Three key obstacles to improved performance include: (a) low/inconsistent quality and non-diversified tourism product offerings (the notion that “there is not much to experience in the OECS other than beach”); (b) connectivity challenges to travel within the region; and (c) poor quality of service .

11. These obstacles are, in turn, caused by three main factors. First, non-competitive tourism offering and poor service quality: inconsistent and weak application of quality standards on tourism accommodation and services; poor development and management of many tourism assets and

access leading to tourism attractions, and the deterioration of what already exists; poor access to credit to develop new product offerings or to improve existing standards; lack of a coordinating mechanism to maintain a dialogue between tourism service providers to package (and promote) new products; and low level of tourism skills, due to disconnect between tourism training programmes and the needs of the private sector, as well as weakness in soft skills of those who offer services to tourists. Second, weak tourism promotion: limited visibility of the region; lack of clear regional or country-specific tourism development plans and a regional brand for the OECS as an attractive tourism destination; competition amongst the countries over the same target markets as opposed to coordination to attract new inbound tourists to the region. Third, unpredictable, cumbersome and costly business environment – laws, regulations, infrastructure and administrative procedures that affect the tourism industry: high cost and limited frequency and routing of air-lines to the region and poor connectivity within the region, with unreliable regional air transport services, and unreliable and cumbersome alternative travel within the region by ferry; burdensome procedures for travel amongst the islands, such as lack of streamlined visa and immigration processes.

12. The region must improve its competitiveness through developing and implementing strong tourism policy vision and development plans; offering a more diversified range of tourism products; providing high standards of visitor accommodation; facilitating better and more affordable transport connectivity to and within the region; strengthening basic infrastructure, including access to touristic sites; improving the regional level promotion and packaging of tourism products; creating awareness amongst the local population of the importance of tourism to their daily lives as a means to developing a service-oriented attitude towards tourists, and improving access to credit to facilitate the implementation of many of these improvements.

13. The role of the private sector is critical in investing and operating tourism facilities and ensuring improvements to the tourism sector through implementing tourism-related standards, improving the quality of services, increasing the variety of experiences offered to tourists, channeling access to finance to industry participants to enable them to enhance quality and variety of services, packaging tourism products, participating in public-private partnerships to enhance tourism sites and/or the experiences offered at those sites. The private sector also has a critical role as industry advocate to ensure better coordination amongst the private sector actors, from ferry operators to tourism-service providers in the countries, as well as tour operators abroad.

### **Relationship to CAS**

14. The proposed OECS Competitiveness programme (OECS-CP) supported by the Bank is fully aligned with the World Bank Group (WBG) FY15-19 OECS Regional Partnership Strategy (RPS). The overall goal of the new RPS is to support the OECS in laying foundations for sustainable inclusive growth. The strategy is anchored on a sector-focused approach geared towards strengthening the competitiveness of the leading sectors of the economy, particularly tourism. The present operation supports the goals of the RPS by laying the foundations to improve the competitiveness of the tourism sector.

## **II. Proposed Development Objective(s)**

### **Proposed Development Objective(s) (From PCN)**

15. The programme's objective is to lay the foundation to improve the competitiveness of the tourism sector in the OECS region. This will be achieved through (a) increasing tourism spending at selected pilot programme locations in each of the participating countries; (b) establishing a strategic

approach to tourism development; (c) facilitating the movement of people among participating islands, using existing ferry systems; and (d) supporting better quality of services in the tourism sector.

### **Key Results (From PCN)**

16. The achievement of regional PDO will be measured using the following key indicators:
- (i) Total tourism spending at pilot programme locations;
  - (ii) Number of tourism development and promotion plans formulated;
  - (iii) Number of people who take the ferries to visit other islands;
  - (iv) Number of tour operators who report higher satisfaction with the quality of services.

## **III. Preliminary Description**

### **Concept Description**

#### **A. Concept**

17. The total cost of the programme is estimated at US\$25 million. The regional programme would cover four countries: Grenada, St. Vincent and the Grenadines, St. Lucia, and Antigua and Barbuda who expressed strong interest in participating, and would be tailored to countries' stage of tourism development and needs. For the components other than the partial credit guarantee scheme (Component C.2), St. Lucia and St. Vincent and the Grenadines would each borrow about US\$5 million under IDA terms, while Antigua and Barbuda and Grenada would each borrow the same amount under IBRD terms. As for the partial credit guarantee scheme, each participating country will borrow approximately an additional US\$1.3 million under IBRD, to add up to approximately \$5 million for the region for this sub-component.

18. While the current programme will include the four countries indicated above, there is an ongoing dialogue with Dominica and St. Kitts and Nevis regarding their participation in a possible second phase of the programme. An assessment of their readiness will be carried out at a later stage.

19. The approach proposed under this programme is innovative, as it encourages a regional approach to tackle regional constraints in a coordinated manner while, at the same time, respecting and promoting the national tourism vision and unique positioning of each island. This approach would increase the likelihood of the programme's success. On the one hand it allows the countries in the region to come together to tackle the challenges to tourism at a regional level and to carry-out joint tourism marketing and attraction of new markets; and, on the other hand it provides them with the space to invest in unique assets and rehabilitate identified main tourism attractions products that will highlight the uniqueness of each islands (see Component A.2).

20. The programme design demonstrates a strong regional dimension, which would qualify the programme to access regional IDA funds.

#### **B. Description**

21. The programme will have the following components common to all member countries:

A. Tourism Development Plans and Pilot Tourism Investments (US\$14 million) will include the following sub-components and activities:

A.1. Technical assistance, advisory services and equipment including: (i) supporting the Ministries of Tourism to prepare/refine/deepen tourism development plans and policies, when necessary; (ii) developing and implementing regional marketing initiative through joint promotional materials and joint participation in trade fair representations with aim of attracting new markets and consolidating existing markets and better coordination of the promotion of the region with foreign-based tour operators; (iii) developing an annual OECS Tourism Events directory; (iv) supporting Tourism authorities to develop a regional e-tourism online platform that will be connected to popular internationally-recognized tourism search engines; (v) developing a sustainable methodology and approach for Tourism Authorities in the region to coordinate amongst them, with the Caribbean Tourism Organization and with the private sector (sustainable PPD mechanism), to be able to continue these initiatives after the life of the Project. This mechanism is particularly important for to ensure the development of coherent tourism strategies, policies and master plans, as well as a mechanism to ensure ongoing dialogue on the constraint the sector faces and opportunities that the sector must leverage. This is a country and regional sub-component.

A.2. Improving selected pilot tourism sites/attractions and developing new tourism products that would enhance the unique positioning of each island , including: (i) feasibility studies and detailed designs for the rehabilitation of sites identified in each island; (ii) improvement rehabilitation of (a) Fort George historic site and access in Grenada; (b) Layou Petroglyph Park and access in St. Vincent and the Grenadines (c) community-based tourism in the Baboneau region in St. Lucia; and (d) Fort James in Antigua and Barbuda; and (iii) capacity-building in sustaining and maintaining the sites, and development of site management plans including risk reduction and disaster management. This is a country specific sub-component.

B. Facilitation of the movement of people (US\$2 million) will include the following sub-components and activities:

B.1. Technical assistance to the region to support the development of a single regional space for Immigration and Customs entry of international tourists: (i) review of the existing regional immigration system (CARISEC); (ii) review of existing OECS Treaty on common economic space and identification of potential regulatory gaps on free movement of people and goods; and (iii) development and implementation of regional legislation on OECS visa. This is a regional sub-component.

B.2. Development of a Pilot Regional Ferry Corridor: through (i) technical assistance to improve the dialogue between the government and the existing private ferries, and to review and strengthen the existing agreements, logistics schemes, coordination and standards on safety and comfort of passengers; (ii) technical assistance, software and equipment for the setting up of a centralized/ regional ferry scheduling system (any IT system used and developed could also have a spill-over benefit of being used by cargo ships currently running in the region to coordinate their logistics better); and (iii) small improvements/refurbishing in the passenger ferry terminals and/or jetties in Grenada, St. Vincent, and Antigua and Barbuda. The purpose of this pilot is to increase intra-regional travel within the participating OECS islands through an alternative and most cost-effective (than air) mode of transport. Given that the ferries and cargo ships already exist (albeit with sub-standard levels of service provision and reliability), this is a low-cost pilot that will test the idea of whether a large scale regional ferry system could be viable in the future that would facilitate the movement of people and goods. This is a regional and national sub-component.

C. Enhancement of services in the tourism sector (US\$7 million) will include the following sub-components and activities:

Technical assistance to support improvements in tourism skills and implementation of sector related standards: (i) TA to support the governments to strengthen the dialogue between the tourism sector and the existing educational programmes, in order to ensure that the skills programs being developed are aligned with the market needs including the adequacy of content of the courses offered reflect the needs of the tourism industry; (ii) train trainers across the region in the area of soft skills, to complement the existing vocational training provided by learning institutions; (iii) TA to support the promulgation of the standards for accommodation sites, attractions and tourism-related services leveraging existing regionally accredited certification programmes. This is a regional sub-component.

C.2. Improved access to finance: increase access to credit through a partial credit guarantee scheme (to be implemented jointly with the IFC and the Caribbean Development Bank) to increase the offering of tourism-related activities in the region, and to improve services. This is a regional sub-component.

C.3. Improved dialogue amongst governments, tourism service providers and local transport providers: technical assistance to support the existing Tourism Authorities to facilitate dialogue with (and among) the private sector actors, including tourism-related service providers, ferry operators and the tour operators to make create a diversified network of tourism products available to tourists. This is a regional sub-component.

D. Programme Implementation Support (US\$2 million) will include: provision of technical assistance, training and logistical support (as the case may be, including office equipment and/or software) to strengthen the capacity of the Project Implementation Units (PIU) on procurement, financial management, safeguards, and monitoring and evaluation in each OECS member country, during the execution of the programme; (ii) monitoring and evaluation of programme's results, including performance indicators; and (iii) consulting services for project audit in each country.

#### IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04	x		
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

**V. Financing (in USD Million)**

Total Project Cost:	25.00	Total Bank Financing:	25.00
Financing Gap:	0.00		
Financing Source			Amount
BORROWER/RECIPIENT			0.00
International Bank for Reconstruction and Development			15.00
International Development Association (IDA)			10.00
Total			25.00

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