



CONFORMED COPY

Program Agreement Number: 538-K-604  
Project Number: 538-0141

PD-AAW-341  
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GRANT AGREEMENT  
BETWEEN  
THE COMMONWEALTH OF DOMINICA  
AND  
THE UNITED STATES OF AMERICA  
ACTING THROUGH  
THE AGENCY FOR INTERNATIONAL DEVELOPMENT  
FOR  
STRUCTURAL ADJUSTMENT

DATE: September 15, 1987

APPROPRIATION: 72-117/81037

BUDGET ALLOWANCE: LES787-35538-KG-31

THE COMMONWEALTH OF DOMINICA

AND

THE UNITED STATES OF AMERICA

FOR

STRUCTURAL ADJUSTMENT

GRANT NO. 543-K-603

PROJECT NO. 538-0141

Agreement, dated the 15th of September, 1987, between the Commonwealth of Dominica ("Grantee") and the United States of America acting through the Agency for International Development ("A.I.D."), together referred to as the "Parties".

Whereas, the United States, acting through A.I.D., desires to assist the Grantee to maintain economic stability and to foster economic growth;

Now, therefore, the Parties hereto agree as follows:

Article I. The Assistance

AID agrees to grant to the Grantee, under the terms of this agreement, not to exceed One Million Five Hundred Thousand United States Dollars (US\$ 1,500,000) (The "Grant") to assist the Grantee in maintaining stability, revitalizing its public finances, and promoting private sector economic growth. The Grant will provide financing to enable the Grantee to continue its efforts to implement a structural reform program. The Grant shall be disbursed in one tranche, in accordance with the conditions precedent set forth below. The activities contemplated herein are amplified in the Program Description set forth in Annex I of this Agreement.

Article II. Conditions Precedent to the Disbursement

SECTION 2.1 Conditions Precedent to the Disbursement

Prior to the disbursement under this Grant of \$1,500,000, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

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(a) An opinion of the Attorney General of the Grantee stating that this Agreement has been duly authorized and/or ratified by, or executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms.

(b) A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee together with a specimen signature of each person certified as to its authenticity.

(c) Evidence that the Grantee has, in connection with the Tight Consultative Group process, drawn up a plan for responding to the findings and recommendations of the technical assistance team that evaluated Dominica's tax and revenue system. If the plan includes proposals for tax reform, the government will present to A.I.D., in form and substance satisfactory to A.I.D., with tables and documentation illustrating how the Government intends to fully finance its budget without access to A.I.D. budget support in excess of that proposed in the present Grant.

(d) Evidence that the Grantee has drafted, or enacted, legislation to regulate wage negotiations in the public sector which will be instrumental in assisting the Government of Dominica in achieving the targets established by Government as set forth in Section 5.8 of this Agreement. An estimated timetable for implementation of the legislation will be included in the documentation.

#### SECTION 2.2. Notification

When A.I.D. has determined that the conditions precedent to disbursement specified in Section 2.1 have been met, it will promptly notify the Grantee.

#### SECTION 2.3. Terminal Date for Conditions Precedent

If the conditions precedent set forth in Section 2.1 have not been met within one hundred and twenty (120) days from the date of this Agreement, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

### Article III. Disbursement

#### SECTION 3.1. Deposit of Disbursed Funds

After satisfaction of the applicable conditions precedent, at the written request of the Grantee, A.I.D. will arrange for deposit of the proceeds of the Grant in the Eastern Caribbean Central Bank for the account of the Government of Dominica.

#### SECTION 3.2. Date of Disbursement

Disbursement by A.I.D. will be deemed to occur on the date(s) the proceeds of the Grant are deposited in the bank or banks designated pursuant to Section 3.1.

#### SECTION 3.3. Terminal Date for Requesting Disbursement

Except as A.I.D. may otherwise agree in writing, the terminal date for requesting disbursement of the grant proceeds shall be nine months from the date of this Agreement.

### Article IV. Purposes of Funds

#### SECTION 4.1. Uses

The Grantee agrees that the grant funds will be used for purposes set forth in Article I and will not be used for (i) financing military requirements of any kind, including the procurement of commodities or services for military purposes, or (ii) luxury items or pesticides which are not registered by the U.S. Environmental Protection Agency without restriction.

### Article V. Covenants

#### SECTION 5.1. Records

The Grantee will maintain financial records, in accordance with generally accepted accounting principles, to assure compliance with this Agreement, such records to be maintained for at least three years after the date of the last disbursement hereunder and to be made available upon request for examination at any reasonable time by authorized representatives of A.I.D.

SECTION 5.2. Local Currency

The Grantee, using the highest lawful rate of exchange existing at the date of the local currency deposit, will immediately upon disbursement of the Grant deposit local currency into a designated government account in Dominica, in the equivalent amount of the Grant proceeds, and the Grantee shall provide evidence satisfactory to A.I.D. that such a deposit has occurred.

SECTION 5.3. Reports

The Grantee covenants to provide, within one calendar year from the date of disbursement of the Grant, a list of domestically funded, development-related, agricultural development and research projects, public sector investment projects and critical recurrent expenditures that have been carried out within the 1986/87 or 1987/88 fiscal years, and that are attributable to funds provided under this Grant. This attribution list shall be at least equivalent to the amount of the Grant and shall only include categories of projects acceptable to AID.

SECTION 5.4. Publicity

The Grantee covenants that it will give appropriate publicity to the Grant.

SECTION 5.5. Execution of Program

The Grantee shall carry out the Program or cause it to be carried out with due diligence and efficiency.

SECTION 5.6 Importation of U.S. Commodities

The Grantee covenants to (1) import from the United States goods, from those import categories previously approved by A.I.D. and furnished to the Grantee, in an amount at least equivalent to disbursements under the Grant over a one year period from the date of the first disbursement hereunder; (2) monitor such imports and keep A.I.D. informed as to progress; and (3) certify and document in form and substance acceptable to A.I.D. the value of imports actually made from approved categories during a one year period from the disbursement of the Grant.

SECTION 5.7. Consultation

The Grantee covenants to meet at regular intervals with A.I.D. in order to consult concerning the effectiveness of the activities undertaken through the Agreement.

SECTION 5.8. Miscellaneous Financial and Program Covenants

The Grantee covenants:

(a) To make every effort to restrict increases in the public sector wage bill to no more than three percent per year between Government of Dominica's Fiscal Years 1987/88 and 1988/89, and 1988/89 and 1989/1990. The Grantee further covenants that civil service wage and salary payments will equal no more than 53 percent of recurrent revenue in Fiscal Year 1987/88 and that every effort will be made to reduce civil service wage and salary payments to a level not to exceed 50 percent of recurrent revenue by Fiscal Year 1989/90, if tax reforms are not implemented. The Grantee further covenants to make every effort to ensure that civil service wages and salaries will not exceed 57 percent of current expenditure in Fiscal Years 1987/88 and 1988/89. The Grantee further covenants to provide to A.I.D., at the request of A.I.D., expenditure data demonstrating the progress that the Grantee is making toward attaining the targets for wage and salary expenditures.

(b) To make every effort to contribute to public sector savings by taking actions necessary to produce a surplus in the current account of the Government budget equal to at least 6.5 percent of current revenue in Fiscal Year 1987/88 and 9.1 percent of current revenue in Fiscal Year 1988/89, if tax reforms are not implemented. Grantee further covenants that if a tax reform program is introduced which reduces the growth of revenues to levels below that which would prevail in the absence of that reform, that it will make every effort to take actions necessary to produce a surplus in the current account of the Government budget equal to at least 3.5 percent of current revenue in Fiscal Year 1987/88 and to at least 3.7 percent of current revenue in Fiscal Year 1988/89. The Grantee further covenants to provide to A.I.D., at the request of A.I.D., revenue and expenditure data demonstrating the progress that the Grantee is making toward attaining the targets for current account surpluses.

(c) To provide to A.I.D., prior to August 1, 1988, except as the parties may otherwise agree in writing, in form and substance satisfactory to A.I.D., a report on measures taken or planned by the Grantee to remove fiscal, regulatory, or other disincentives to private investment in Dominica.

(d) To provide to A.I.D., prior to January 1, 1989, except as the parties may otherwise agree in writing, in form and substance satisfactory to A.I.D., a plan and an implementation timetable for further privatization of state-owned enterprises.

#### Article VI. Refunds

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. dollars to A.I.D. within sixty (60) days after a request therefor;

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that the Grant is not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement in U.S. dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(c) The rights under subsection (a) or (b) to require refund of any disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

Article VII. Miscellaneous

SECTION 7.1. Communications

The Grantee undertakes to provide to A.I.D. such information relating to the economic and financial situation of Dominica as may be necessary. Any notice, request, documents, or other communication submitted by either party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Grantee: Prime Minister and Minister of Finance

Mail Address: Government Headquarters  
Roseau, Dominica

Cable Address: Telex No. 8613 DOM EXTERNAL

To A.I.D.: Director, Regional Development  
Office/Caribbean

Mail Address: USAID/Bridgetown  
Box 302, U.S. Embassy  
Bridgetown, Barbados

All such communications will be in English. Other addresses may be substituted for the above upon the giving of notice.

SECTION 7.2. Representatives

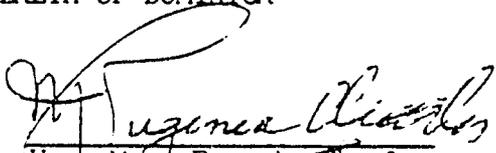
For all purposes relevant to this Agreement, the Grantee will be represented by the individuals holding or acting in the position of Minister of Finance, Government of the Commonwealth of Dominica and A.I.D. will be represented by the individual holding or acting in the position of the A.I.D. Director, Regional Development Office for the Caribbean, in Barbados, each of whom, by written notice, may designate additional representatives. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized an instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

IN WITNESS WHEREOF, the Commonwealth of Dominica and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the date and year first above written.

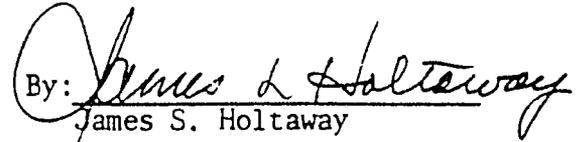
COMMONWEALTH OF DOMINICA

UNITED STATES OF AMERICA

By:

  
Hon. Mary Eugenia Charles

By:

  
James S. Holtaway

Title:

Prime Minister and  
Minister of Finance

Title: Director, RDO/C

PROGRAM DESCRIPTION

The Economic Structural Adjustment program consists of the disbursement of US\$ 1,500,000 to the Government of the Commonwealth of Dominica (GOCD). The Grant proceeds will be deposited in the Eastern Caribbean Central Bank (ECCB) for the account of the Government of Dominica. The ECCB, immediately upon receipt of the dollar proceeds, will transfer the local currency equivalent to the dollar amount made available under the Grant into a designated government account to be maintained in a domestic commercial bank in Dominica.

The immediate program objective is to support a multidonor structural adjustment program, being undertaken under the auspices of the "Tight Consultative Group." The Grant will enable Dominica to undertake the program without being encumbered by additional nonconcessional debt that would merely add to its need for support thereafter. The medium-term objectives to be served by the structural adjustment program are to increase the rate of economic growth with a view to reducing unemployment and improving living standards, while strengthening the country's fiscal and balance of payments positions. Specific program objectives include raising the GDP growth rate from 1.1 percent in 1985 to about 4 percent in 1986-88. The program will develop incentives, infrastructure and other facilities to stimulate private sector investment in order to promote growth of output and employment. The program also aims to strengthen public finances by establishing public sector savings targets. A further objective is to reduce the balance of payments current account deficit as a percent of GDP. The TCG structural adjustment strategy is providing AID with the opportunity, through policy dialogue and technical assistance, to assist the Government of Dominica in moving toward a longer-range development perspective with a more systematic approach to assigning Public Sector Investment priorities, rationalizing parastatals and improving the efficiency of government operations. In order to meet the growth and employment objectives, capital expenditures are to be significantly increased, calling for a large increase in donor project assistance. As drawn up by the IMF and the World Bank, in conjunction with the Government of Dominica, the program also requires budget support estimated at nearly US\$ 13 million over the three-year life of the program. This is to be provided by the IMF, the World Bank, the Caribbean Development Bank and by A.I.D. It will finance fiscal gaps that remain beyond the financing available from identifiable sources, including donor support.

AID and other donor budget support over the three year period will enable Dominica to finance the program along the course set by the TCG and as outlined in the Policy Framework Paper and the Public Sector Investment Program (PSIP).

AID's analysis confirms the validity of the performance targets set by the GOCD and the multidonor agencies. Specific Conditionality requirements in this Grant therefore focus on assuring adequate progress in pursuing a comprehensive structural adjustment program with special focus on incentives to private sector development.

The Government of Dominica and A.I.D. concur in the understanding that if any future budgetary assistance is provided, it will take place in the context of a structural adjustment program, under the "Tight Consultative Group" mechanism.

Support of Central Government Budget:

The local currency equivalent of US\$ 1,500,000 will be used to help fund the central government's unfinanced budget deficit so that Government will not have to resort to additional nonconcessional borrowing or further reductions in its public sector investment program. Furthermore, without the additional resources provided by the Grant, Government would have to incur additional debt, the repayment obligations of which would reduce its ability to finance the 1987/88 public sector investment program. Within one calendar year from the date of disbursement of the Grant, the Government of Dominica and A.I.D. will review the 1986/87 and 1987/88 budgets and attribute local currency expenditure to domestically funded, development-related, agricultural development and research projects, public sector investment projects and critical recurrent expenditures that have been or will be carried out within the 1986/87 or 1987/88 fiscal years.