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CONCEPT PAPER

DOMINICA STRUCTURAL ADJUSTMENT SUPPORT

THE REGIONAL DEVELOPMENT OFFICE
TO THE CARIBBEAN (RDO/C)

July 21, 1987

LIST OF ACRONYMS

CGCED	Caribbean Group for Cooperation in Economic Development
EC$	Eastern Caribbean Dollar
ECCB	Eastern Caribbean Central Bank
EFF	IMF Extended Fund Facility
GDP	Gross Domestic Product
GOCD	Government of the Commonwealth of Dominica
IBRD	International Bank for Reconstruction and Development (World Bank)
IMF	International Monetary Fund
OECS	Organization of Eastern Caribbean States
PMPP	Public Management and Policy Planning project
PSIP	Public Sector Investment Program
RDO/C	Regional Development Office/Caribbean
SAC	World Bank Structural Adjustment Credit
SAF	IMF Structural Adjustment Facility
SDR	Special Drawing Rights
TCG	Tight Consultative Group

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I. RECOMMENDATIONS AND SUMMARY

A. Recommendation

The staff of the AID Regional Development Office/Caribbean recommends that the Mission Director authorize an Economic Support Fund Grant of $4.5 million to the Government of the Commonwealth of Dominica (GOCD). The funds will be disbursed in three equal tranches. The second two tranches will be obligated through amendments to the grant agreement. The first tranche will be disbursed as soon as the Conditions Precedent are met. The second tranche will be obligated and disbursed after January 1, 1988. The third tranche will be obligated and disbursed after January 1, 1989. The January 1 deadlines mark the midpoints of the respective GOCD fiscal years and will make possible a projection of progress toward fiscal targets for each year. Before each of the second and third tranches are disbursed, AID Washington will be provided with a brief update of Dominica's economic and fiscal situation and will be informed of proposed conditionality for the disbursement.

Grantee

The Grantee will be the Government of the Commonwealth of Dominica, acting through the Ministry of Finance.

B. Program Summary

The grant will be used to support the Government of the Commonwealth of Dominica (GOCD) in its ongoing structural adjustment program. In the long term, Dominica is working toward policies which will expand investment and exports, which will increase public sector savings, and which will restrain growth of the public sector. It is unlikely that domestic savings will be sufficient to support needed private and public infrastructure, so concessional foreign capital inflows will be required to supplement domestic savings. IMF and World Bank analysts have concluded that despite government's best efforts, financing a public sector investment program sufficient to help the economy reach a self-sustaining growth rate will require substantial foreign capital inflows.

In 1986 Dominica embarked upon a three-year, multidonor-funded structural adjustment program under the auspices of the "Tight Consultative Group" (TCG).1/

1/ The TCG provides coordinated concessional structural adjustment support from the IMF, the IBRD and other donors (See Annex D). The IMF provides resources from its new Structural Adjustment Facility (SAF). The World Bank's contribution is provided from IDA funds. IDA VIII will be the last IDA for the Organization of Eastern Caribbean States (OECS).

Dominica is the first OECS country to participate in a TCG structural adjustment program. The TCG concept has been endorsed by the United States Government at World Bank-led Caribbean Group (CGCED) meetings over the past 18 months.

The Dominica program covers the GOCD fiscal years 1986/87 through 1988/89 (July 1, 1986 - June 30, 1989). In 1986 the GOCD reached agreement with the IMF and the World Bank on a Policy Framework Paper (PFP) which sets out the structural adjustment program. The IMF disbursed the first of three annual tranches of its Structural Adjustment Facility (SAF) in December, 1986. In June 1987, an IMF team visited Dominica to assess progress toward agreed-upon targets and to begin negotiations on conditionality for a second disbursement. Under terms of the original TCG program, it was expected that USAID would disburse US$1.5 million its contribution to the first year of the structural reform effort.

Due to the time required for RDO/C negotiations with the government, actual disbursement of the intended FY86/87 tranche will not be available until after the July 1 start of the GOCD 1987/88 fiscal year.2/ To finance its 1986/87 budget, the government was therefore forced to incur additional short-term domestic debt in anticipation of the AID grant.

According to the schedule proposed above, the government of Dominica will receive both the delayed FY86/87 AID tranche and the scheduled second AID tranche in its 1987/88 fiscal year. The first World Bank tranche was similarly delayed by negotiation and is thereby being carried over from the last GOCD fiscal year.

The delayed first $1.5 million tranche of the AID Economic Support Fund grant will be disbursed as soon as possible after July 1, 1987 if the Conditions Precedent to that disbursement are met. AID and other donor budget support over the three year period will enable Dominica to finance a structural adjustment 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 support represents the single largest share of the adjustment program and accounts for approximately one third of the structural reform package.

2/. After the tax reform study was completed, the GOCD was eager to implement many of the recommendations as part of its FY87/88 Budget. This complicated negotiations with donors because the GOCD requested additional grant support from AID to help cover the revenue shortfall that would accrue from its proposed reform. RDO/C brought in additional technical assistance to re-evaluate the revenue projection model and the estimates of revenue loss. GOCD made its own estimate, and IMF yet another. RDO/C informed the government that additional budget support was not available to cover a revenue-negative tax reform. In the following weeks GOCD discussed with AID, the IMF and the IBRD alternative means of achieving the government's incentive objectives within the framework of the TCG. As of the end of June, GOCD had yet to make a final decision on a course of action for the tax reform.

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.

II. PROGRAM RATIONALE

A. Background

In September, 1983, AID authorized a $2 million cash transfer to cover GOCD's fiscal 1983/84 financing gap. Despite a tax effort which has increased the tax revenue/GDP ratio from 26.3% in fiscal 1981/82 to 27.3% in 1986/87 and expenditure controls which have reduced current expenditure from 33.6% of GDP to 27.9% during the same period, GOCD faced a EC$9.5 million financing gap for fiscal 1985/86. That gap was covered by an AID cash transfer, by curtailing capital expenditures, and by additional borrowing. In addition, the Government of Dominica was, and continues to be, in arrears in its obligations to regional and international organizations by approximately $1.7 million. The country has experienced a substantial economic recovery since the hurricane devastation of 1979 and 1980, but repeated storms and fiscal constraints have limited GOCD's ability to keep up with the economy's infrastructure needs while striving to maintain a manageable debt service burden. The structural adjustment program supported by this grant and assistance from other donors is designed to enable GOCD to continue to support the country's productive sectors without incurring debt service burdens so large that they will intensify its financing problems in the future.

B. Program Objectives

The immediate program objective is to support a multidonor structural adjustment program, being undertaken under the auspices of the "Tight Consultative Group." 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 and 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$ 12 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. and will finance fiscal gaps that remain beyond the financing available from identifiable sources, including donor support.

C. Program Setting

1. Present Environment

The present Government of Dominica has made substantial progress and some politically unpopular decisions in its efforts to regain control of a fiscal situation that was out of control at the time it took office in 1980. Three hurricanes had eroded the tax base, British budgetary assistance had been phased out and large wage and salary awards to public employees had placed the government's finances in a precarious situation. Under the IMF's Extended Fund Facility (EFF), the revenue base was broadened, taxes were raised, and the revenue collection mechanism was strengthened. Better management of public enterprises, increases in their tariffs and a reduction in subsidies to them have greatly reduced the drain of parastatals on the budget. Port Authority tariffs were increased in July, 1986 enabling it to service debt incurred in improving the port facilities. The recent merger of two commodity boards into the Dominica Export and Import Agency (DEXIA) is intended to be a move toward greater efficiency. A study of the Water Authority is underway, with an eye to improving its efficiency and with a longer-term view toward privatization.

GOCD shares in large measure AID's views on the importance of privatization and is taking steps to privatize enterprises. The limited number of potential buyers in a tiny economy slows the pace at which large enterprises can be privatized. In its discussions with the government, RDO/C will continue to press for privatization of parastatals. The Government acted to privatize the electric company by offering 1.2 million shares (60 percent of the stock) of DOMLEC on the open market. At the end of June, officials reported to RDO/C that all of the shares had been sold.

Despite the additional strains placed on it by IMF repurchases, the government's fiscal situation improved so that there was a small current account surplus in 1984/85 and a 1985/86 current account surplus of US$ 2.5 million. The projected 1986/87 current account surplus is US$ 1.96. The US$ 1.5 million fiscal gap was to be financed by an AID grant, but due to delays in disbursement, GOCD had to resort to short-term borrowing. The AID disbursement will be carried over as the first of two tranches to be made in 1987/88. ECCB and commercial bank borrowing ceilings have been nearly reached.

Performance under the IMF's EFF was quite good. The tax base was broadened, and revenue collections improved. These changes were instrumental in reducing government deficits. Government entered into an IMF standby in 1984/85. Because Government exceeded the programmed ceiling on nonconcessionary borrowing, it was not able to make all the drawings under that standby. At the March 12, 1986 CGCED VII Dominica Subgroup meetings, the IMF representative emphasized that Dominica would require more concessional assistance over the following two years, extending to the medium term if donors are to help Dominica reach self-sustained growth, and yet keep debt service at a manageable level. The alternative is to cut the Public Sector Investment Program, which has only recently been upgraded. The IBRD and IMF began discussions with the Government of Dominica in May, 1986 with respect to a government request for assistance. Dominica thereby became the first OECS country to enter into a structural adjustment program under the "Tight Consultative Group" (TCG) concept. A joint IMF-IBRD Policy Framework Paper

(PFP) was developed in November, 1986. Dominica made its first drawing from the IMF Structural Adjustment Credit (SAF) of approximately US$ 1 million in December. Discussions between the GOCD and IBRD were more prolonged, and while a tentative agreement was reached in May, 1987, GOCD will be unable to draw on its Structural Adjustment Credit until its FY 1987/88.

2. Previous Program Assistance

a. IMF Extended Fund Facility

In 1981, the government of Prime Minister Charles negotiated a three-year, US$11 million EFF agreement with the IMF. The core of the EFF agreement, a portion of whose proceeds was used to finance the civil servants' salary arrearages, was fiscal prudence. Limits were placed on the overall budget deficit and the current account deficit was targeted for reduction from 18 percent of GDP to balance. In order to avoid "crowding out" of private investment, limits were placed on government borrowing from commercial banks. Major elements in that program included fiscal reforms to improve government finances, including: revisions of customs tariffs; an increase in the foreign exchange tax; imposing hospital fees and charges; increase in consumption fees on fuels; limiting current Central Government spending to EC$67.2 million, with capital expenditures of EC$43.3 million; reorganization of public enterprises, especially in the banana industry; increased water tariffs; and a wage guideline of 10 percent for government workers. Public enterprise losses were virtually eliminated. Government performance under the EFF was good. Payments were on time, and agreed-upon reform measures were undertaken. Under the 1983/84 program, government was unable to draw its April quota because it exceeded the programmed ceiling on nonconcessionary borrowing. This additional borrowing was necessary to cover the additional burdens imposed by an unseasonable spring storm which required emergency spending and substantial tax refunds that the government wanted to make before the end of the fiscal year. By September, government finances were back on stream and they were able to draw the remaining balance of the EFF. The EFF expired on February 5, 1984 and certification was provided that GOCD had satisfied all performance criteria.

b. 1983/84 AID Cash Transfer.

On September 30, 1983 AID signed a Grant Agreement with the Government of Dominica, providing $2 million in funds through cash transfer. The goal was economic stabilization. The objective was to "support GOCD's extraordinary efforts to rationalize its economy through economic policy reforms consistent with IMF, IBRD, and AID recommendations." The major purpose was to eliminate a projected FY1983/84 capital account deficit, and the balance of payments gap that was a direct outgrowth of the fiscal deficit. The list of public sector development activities to be supported by the Government included twenty-five activities, falling into 3 categories: 12 in Agricultural Diversification, 4 in Economic Infrastructure, and 9 in Social Infrastructure.
Conditionality was derived from the premise that for the most part, GOCD employed sound economic policies. Use of administered prices or exchange controls was not pervasive, and the operations of the ECCB do not permit it to print money to finance government expenditures. At the time, GOCD was already operating under the $11 million dollar IMF Extended Fund Facility that had been introduced in 1981. The AID cash transfer was disbursed in three

tranches, each of which was conditioned on GOCD being in substantial compliance with the EFF Agreement, and that the local currency aspects of the AID Program were proceeding satisfactorily.

Since the third tranche of the cash transfer had not yet been disbursed, the timing of the end of the EFF, prior to the planned disbursement date of the third tranche of AID funds, meant that de facto, conditionality for the third tranche had already been met. Performance criteria for the cash transfer were met, and 23 of the 25 public sector development activities were completed.

c. IMF 1984/85 Standby

In 1984/85 the government negotiated a standby arrangement with the IMF for SDR 1.4 million. The standby was suspended in February of 1985, when bad weather made it necessary to spend one million EC dollars to restore damaged communications. The government rejected the Fund's urgings to further reduce expenditures because it would have involved reductions in civil service positions beyond the 200 that had already been cut. The reasons for rejection were that the action would have been politically explosive and the required severance pay would have temporarily increased expenditure. Failure to reach agreement on this issue led to suspension after approximately 1.1 million of 1.4 million SDR's had been drawn. The current account of the budget continued to improve, and showed a small surplus in 1984/85.

d. 1985/86 AID Cash Transfer

In June 1986 AID disbursed a $1.5 million budget support grant to help Dominica cope with its short run liquidity problem and to encourage the Government to immediately begin the design of a structural adjustment program. Structural adjustment support from the TCG was not to be available before the end of Dominica's FY1985/86 fiscal year, which ended June 30, 1986. As bridge financing, the grant enabled Dominica to enter a structural adjustment program without being encumbered by additional nonconcessional debt. Conditionality requirements in that Grant focused on assuring adequate progress in designing a comprehensive stabilization program as a precondition for a subsequent structural adjustment effort.

Since then, the Government of Dominica has continued to work to improve its operations. RDO/C's Public Management and Policy Planning Project (PMPP) provided technical assistance for economic planning and for a tax reform study. PMPP resources will continue to be available for future technical assistance needs.

III. PROGRAM DESCRIPTION

A. Introduction

Dominica has seen very significant progress in macroeconomic and balance of payments performance, and in its public finances under the Government of Prime Minister Charles. From 1979/80 until 1984 annual GDP growth averaged nearly 4 percent. This slowed to 1.85 percent in 1985 and resumed a 4 percent rate again in 1986. The balance of trade deficit has been reduced from 46 percent of GDP in 1981 to an estimated 25 percent in 1987. The central government's current account deficit moved from an equivalent of 10 percent of GDP in 1980/81 to near balance in 1984 and to a projected surplus of about 1.7 percent of GDP in 1986/87.

However, Dominica still has a backlog of infrastructure requirements. An ambitious Public Sector Investment Program will be a critical element in supporting private sector growth in future years. Despite a tax effort which increased the tax/GDP ratio from 26 percent in 1981/82 to 27 percent in 1986/87, combined with a reduction in current expenditure from 34 percent to 28 percent of GDP in the same period, government finances continue to be strained. In 1983/84, Dominica received $US 2 million in program support from AID. In 1984/85 the government borrowed on nonconcessionary terms, and in 1985/86 it received US$ 1.5 million in AID program support, to help close its financing gaps.

B. The Need for Budgetary Assistance

Budget demands for 1986/87 have produced an unfinanced gap which the government estimates at 4.1 million EC (1.5 million U.S.) dollars. This gap remains after government reduced its contribution to public investment from a planned level of EC$ 9.1 million to 5.0 million. Additional financial needs are created by the need to reduce outstanding debt obligations. Under TCG projections the government plans to make net repayments to the IMF of EC$ 7.2 million each in its FY 88 and FY 89. In addition, the plan calls for net repayments to commercial banks of 6.2 and 4.0 million, 2.3 million to the ECCB and 7.4 and 11.9 million to nonconcessionary lending sources.

In the long term, Dominica is working toward policies which will expand investment and exports, which will increase public sector savings, and which will restrain growth of the public sector. TCG analysts have concluded that despite government's best efforts, financing a public sector investment program sufficient to help the economy reach a self-sustaining growth rate will require substantial foreign capital inflows.

In May, 1986 Dominica became the first OECS country to begin to negotiate a medium-term structural adjustment program under the new "Tight Consultative Group" (TCG) concept (see Annex D). Under this coordinated approach, program assistance is being provided from the IMF under its new "Structural Adjustment Facility" (SAF), from reprogrammed World Bank IDA VII funds, from Caribbean Development Bank (CDB) program lending and by project assistance from other donors. The World Bank also made its assessment and is in the final stages of negotiation with the Government of Dominica on the IBRD portion of the program. It is expected that agreement on a second IMF tranche can be reached later this year. U.S. Program assistance which will be disbursed during Dominica's fiscal 1987/88 and 1988/89 will support the medium-term structural adjustment program. A more detailed Balance of Payments and Fiscal Analysis follows.

C. Present Balance of Payments Situation

Dominica does not face an imminent balance of payments crisis. The IMF projections in Table 1 indicate the country could experience continued surpluses in its balance of payments until 1990. This scenario, however, hinges critically on the ability of Dominica to upgrade agricultural and manufacturing export production, to attract increasing flows of private investment, and to maintain prudent public sector policies.

Inflows of the foreign goods required to support private and public investment at levels sufficient to generate solid growth rates will probably continue to produce trade deficits. It is unlikely that domestic savings will be sufficient to support needed private and public infrastructure, so concessional foreign capital inflows will be required to supplement domestic savings. In order to keep this dependence on foreign capital at a manageable level, attention must be focused on expanding exports and on restraining the growth of imports, especially of consumer goods. Export growth must center on agriculture and on light manufacturing. Agriculture has been the engine of growth and the major foreign exchange earner in 1986 and 1987, but heavy reliance on banana-financed growth and foreign exchange generation represents a precarious base. In order for agriculture to compete in international markets, continued productivity improvements must be forthcoming in traditional products, and diversification must occur in order to reduce the dependence on established markets.

Recent performance of the traditional agriculture subsectors has been strong. Improved price incentives, banana marketing and farmer efficiency have led to two years of rapid growth in banana exports. Other sectors are performing relatively less well but hold promise for the near future. The accompanying projections assume that Dominica will be able to increase its exports of bananas from the present 60,000 tons to over 70,000 tons by 1989. To achieve this grower prices will have to be sustained to maintain production incentives. In 1986, the government attempted to renegotiate the industry's debt to commercial banks, in order to reduce the debt burden and thereby increase the net price to farmers by 3 EC cents per pound. The effort became moot as windfall banana profits enabled the Banana Marketing Association to fully repay its debt to two commercial banks ahead of schedule. Remaining debt is on very concessional terms. The reduced debt burden combined with a strengthening of sterling vis a vis the dollar have significantly increased grower incentives. Improved use of fertilizer and pesticides and better management techniques still need to be introduced. Coconut production has been restored to pre-hurricane levels. Further expansion will require new access roads and technical assistance. Dominica may be able to make further inroads into regional and extra-regional citrus markets if Government continues to divest lands and making them available to those who can put them to effective use. Market identification, introduction of new techniques, increased foreign investment, and technical assistance are forthcoming. Assistance on a project basis from USAID and from other donors is being provided.

Industrial sector performance has been disappointing. Government is exploring ways to provide investor incentives without unnecessarily eroding the long-term revenue base. Tax, licensing, customs, and other public policies are being reexamined in the context of their impact on investor incentives. The Public Sector Investment Program should be carefully tailored to meet the infrastructure needs of the private sector. The present government is favorably disposed to the private sector. The balance of payments can be maintained on sound footing if the government successfully cooperates with private investors who can lead a diversification effort in agriculture and in manufacturing.

TABLE 1

DOMINICA: SUMMARY BALANCE OF PAYMENTS

							Projections			
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	(In millions of U.S. dollars)									
Current Account Balance	-13.8	-8.8	-6.0	-3.9	-8.8	-4.2	-6.8	-11.8	-11.9	-11.6
Trade Balance	-30.6	-23.0	-19.6	-30.2	-28.9	-16.8	-29.3	-32.8	-33.9	-35.0
Exports (f.o.b.)	19.1	24.5	27.5	25.6	28.3	38.9	42.0	45.8	50.0	54.5
Imports (f.o.b.)	-49.7	-47.5	-47.1	-55.8	-57.2	-55.7	-71.3	-78.6	-83.9	-89.5
Travel (net)	1.4	4.3	6.0	8.5	7.3	7.5	8.2	8.9	10.0	11.0
Interest payments (net)	-0.5	-0.8	-1.7	-2.0	-2.0	-2.1	-2.1	-2.1	-2.5	-2.5
Other services (net)	0.5	0.3	-0.1	-1.1	-3.7	-4.3	-4.3	-4.4	-4.5	-4.5
Private transfers (net)	5.8	4.6	5.0	6.3	6.5	6.8	7.1	7.4	7.7	8.0
Official Transfers (net)	9.6	5.8	4.4	14.6	12.0	4.7	13.6	11.2	11.3	11.4
Capital Account	5.3	7.3	1.6	9.6	8.3	9.4	10.3	15.7	16.0	14.5
Public sector borrowing (net)	2.7	8.2	5.3	4.7	4.6	5.1	8.1	12.9	13.7	12.0
Commercial banks (net)	0.7	-1.6	-2.4	3.0	-0.8	-2.9	-0.7	-0.5	-0.4	-0.6
Direct investment (net)	0.0	0.2	0.2	2.3	3.0	6.1	3.0	3.3	2.6	3.0
Short-term capital (including errors and omissions)	1.9	0.5	-1.5	-0.4	1.5	1.1	-0.1	0.0	0.1	0.1
SDR allocation	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall surplus or deficit (-)	-8.2	-1.5	-4.4	5.7	-0.5	5.2	3.5	3.9	4.1	2.9
Financing	8.2	1.5	4.4	-5.7	0.5	-5.2	-3.5	-3.9	-4.1	-2.9
Change in official reserves	3.4	-1.8	-3.0	-5.6	2.2	-4.2	-1.9	-1.5	-1.5	-1.5
Change in foreign assets	-1.0	0.2	-0.4	0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Net purchases from IMF	5.8	3.1	1.8	-0.3	-1.5	-0.7	-1.3	-2.1	-2.3	-1.1

Source: 1981-1989, IMF Estimates. 1990 Mission estimate.

D. Central Government Finances, 1986/87

The Government of Dominica's stated goal is to improve public sector performance with the aim of generating sufficient budgetary savings to service its external debt and to contribute to the capital development program.

Table 2 presents comparative data on the Government of Dominica's fiscal performance since 1981 and includes preliminary estimates for FY 86/87. The fiscal situation continued to improve in some respects in Fiscal Year 1986/87, which ended June 30, 1987. Tax revenues increased by 10.7 percent over the previous year. While this is a slower rate of increase than between the previous two years, the latter included several ad hoc revenue measures designed to cope with a cash flow crisis and emergency demands on the budget. Part of the 1986/87 increase reflects improvements in tax administration resulting from AID-funded technical assistance.
There was a decrease in the overall deficit before grants, but an increase in the deficit after grants. The sharp decrease in foreign grants derives from the completion of several major infrastructure projects and is reflected in the 31 percent decrease in capital expenditure. The government's own contribution was EC$ 5 million, but this represents a decrease from the planned level of EC$ 9.1 million. The reduction was forced on government by financial exigency.

Current expenditures increased by 5.8 percent, compared to 9.5 percent the previous year. Wage and salary expenditures are notably the largest item, accounting for 57 percent of current expenditure. Wage payments continued to rise, reflecting the built-in effects of the three-year wage agreement reached in 1985. With interest payments, retirements, and transfers representing mainly obligatory expenditures, and with 85 percent of the capital budget financed from outside sources, wages and salaries and goods and services represent virtually the only opportunities to exercise discretionary control over its current expenditures.

Although government experienced a significant increase in its current account surplus, it was unable to increase its contribution to capital expenditures. This is partly explained by the need to continue repayment to the IMF, the ECCB and domestic commercial banks, for debts incurred in previous years. As originally formulated, the 1986/87 portion of the structural adjustment program included EC$ 6.8 million in budget support (including 4.05 from AID) and approximately $2.7 million in structural adjustment credits from the World Bank. This would have left no unfinanced gap. However, while the government drew its first tranche of the IMF SAF in midyear, protracted analysis and negotiation of the fiscal reform proposals delayed disbursement of the AID and the IBRD funds until after June 30. To eliminate the fiscal gap the government therefore resorted to shaving its capital activities and to a large increase in domestic borrowing, mainly in the form of issuing treasury bills to certain parastatals.

Short-term resources available to the government include borrowing from the Eastern Caribbean Central Bank. The ECCB charter sets borrowing limits based upon revenues from current and previous years. For FY85/86, Dominica's limit was $EC 4.1 million, which it exceeded. This was short term debt which should be repaid within one quarter. In 1985/86 GOCD used this facility to finance its IMF repurchases. Entering the current fiscal year, the government thus felt compelled to make sufficient repayment to fall below its ECCB borrowing limit. In September, it repaid EC$ 1 million. Going into the fourth quarter of FY1986/87, GOCD had exhausted its ECCB limit for treasury bills and debentures. Its bills allocation at that point was EC$ 6.6 million, of which it had used 5.3 million (leaving 1.31 available). However, its debenture allocation was 3.98 million and Dominica had used 5.37 million, for a negative balance of 1.39 million. The net result was excess usage amounting to EC$ 0.08 million. This did not include the outstanding advances that had been used to pay the Fund, so the total outstanding obligation to the ECCB was on the order of $EC 3.5 to 4.0 million. This compared to EC$ 4 million the preceding June. In short the net position with ECCB had changed little. Government intended to repay 2.7 million during FY86/87, but ultimately repaid 2.2 million. Until the IMF SAF they had been paying the Fund. After receiving the SAF, government began using drawings with the Fund to repay the ECCB, effectively reversing the previous pattern.

In addition, the government has commercial bank overdraft limits which reached their effective limit in the liquidity crunch of 1985/86. Entering the fourth quarter of FY86/87, the overdraft was reduced. However, since this was accomplished by issuing more debentures, the overall borrowing limit had been exceeded. At that point the obligation to the commercial banks was EC$ 11.2 million. However, a trust fund deposit provided an offsetting credit of 1.4 million, for a net debit of 9.8 million. Of that, 6.5 had been converted to loan, for a net overdraft of EC$3.3 million (Parliament has authorized commercial lines of credit of EC$18 million, but GOCD is constrained in its borrowing by the willingness of the banks to lend and by the limits negotiated with the Fund under the SAF arrangement). In assessing real obligations, the trust fund must be included, yielding a total obligation to the commercial banks of EC$4.7 million. Government did manage to make 3.2 million in net payments to commercial banks. It accomplished this in part by issuing increasing amounts of treasury bills to domestic buyers, notably the Banana Association.

TABLE 2

DOMINICA CENTRAL GOVERNMENT OPERATIONS, 1981-87
(MILLION EC DOLLARS)

	1981/82	1982/83	1983/84	1984/85	1985/86	Prelim. 1986/87
Total Revenue, Including Grants	69.0	72.6	90.4	110.5	121.5	109.3
Current Revenue	56.7	57.7	69.7	74.5	84.7	91.6
Tax Revenue	49.0	49.4	60.2	65.8	76.3	84.5
Nontax Revenue	7.7	8.3	9.5	8.7	8.4	7.1
Capital Receipts	0.1	0.5	0.2	0.1	0.1	2.1
Foreign Grants	12.2	14.4	20.5	35.9	36.7	15.6
of which: budgetary grants	2.2	1.0	0.0	0.0	4.1	0.0
Total Expenditure	85.7	88.3	104.1	125.7	127.5	118.0
Current Expenditure	62.7	62.6	69.5	74.5	81.6	86.3
wages and salaries	38.2	35.8	39.6	42.3	47.1	49.3
of which, back pay	5.9	0.0	0.0	0.0	0.0	0.0
goods and services	11.6	12.0	13.4	12.9	14.0	16.4
interest	3.9	4.7	6.3	7.3	7.6	6.9
retirement benefits	3.3	4.3	4.3	5.0	5.0	5.3
transfers	5.7	5.8	5.9	7.0	7.9	8.4
Capital Expenditure & Net Lending	23.0	25.7	34.6	51.2	45.9	31.7
of which: locally financed	8.9	4.7	2.1	2.4	7.2	5.0
Current Account Balance	-6.0	-4.9	0.2	0.0	3.1	5.3
Overall Balance Before Grants	-28.9	-30.1	-34.2	-51.1	-42.7	-24.3
Overall Balance After Grants	-16.7	-15.7	-13.7	-15.2	-6.0	-8.7
Concessionary foreign borrowing	3.8	12.0	10.5	9.2	4.6	9.4
IMF Structural Adjustment Facility (SAF)						2.6
Earmarked bank deposit operations	0.0	-4.8	0.9	2.6	0.0	0.0
Nonconcessionary Financing	12.9	8.5	2.3	3.4	1.4	-3.3
Reserve-type transactions	9.0	7.5	2.1	-0.2	-0.5	-7.8
IMF(net purchases)	8.7	7.6	0.7	-2.1	-4.5	-4.7
Change in government foreign assets (increase: -)	0.3	-0.1	-0.6	-0.4	-0.8	-0.9
Other foreign	0.0	0.0	0.0	0.2	0.0	0.0
ECCB borrowing	0.0	0.0	2.0	2.1	4.8	-2.2
Domestic commercial banks	4.2	1.8	0.0	0.8	-5.0	-3.2
Social Security Scheme	-0.1	-0.1	2.0	2.0	4.2	0.0
Other domestic	-0.2	-0.6	0.0	0.0	0.6	7.7
Residual	0.0	-0.1	-1.8	0.8	-2.4	.0

Source: International Monetary Fund

Between 1981 and 1983, GOCD drew nearly US$11 million from Fund facilities. Since 1984, GOCD has made net repayments to the Fund, amounting to EC$ 4.7 (US$ 1.74) million in 1986/87.

As the preceding paragraphs indicate, the fundamental short term fiscal problem is the recurrent threat of liquidity shortage imposed by debt servicing requirements. A continuous juggling act utilizes drawings from one source to repay another.

E. Government Finances and the Structural Adjustment Program

While the government occasionally experiences short term liquidity anxiety, the longer term fiscal problem is to create a fiscal environment consistent with the aims of the TCG structural adjustment effort. As noted earlier, the government of Dominica has made substantial progress in managing its public finances: turning current account deficits into surpluses, eliminating parastatal deficits, taking steps toward privatization and contributing moderately to capital expenditures. But this has been accomplished at some cost. Revenues as a proportion of GDP are very high and the high rates of taxation are providing a disincentive to private investment.

Yet, the demands for public services are large. Dominica's infrastructure base is modest and expensive to construct and to maintain, given the country's storm-prone climate and rugged terrain,. Improved infrastructure is an essential prerequisite to attracting private investors. The events of 1984-86 highlight the importance of the PSIP as a determinant of short-term economic cycles as well as providing the base for long-term growth.

The Structural Adjustment Program developed with the Tight Consultative Group seeks to strengthen the country's fiscal and balance of payments positions. The Policy Framework Paper calls for a program designed to, "increase private investment and exports, to contain the public external debt burden within manageable proportions, and to strengthen the potential for increased domestic savings." The program also calls for a high quality public sector investment program at a level sufficient to support strong growth in agriculture, manufacturing and tourism. A key element in the program as originally designed is an effort to increase the government's contribution to savings, thereby increasing domestic savings as a proportion of GDP and of total savings. The ratio of revenue to GDP is already very high, so the policy framework paper emphasizes expenditure restraint, particularly wage restraint. Revenue measures proposed in the PFP are to include improved collection and administration and rationalizing the tax structure. The intent is to provide a "cushion of borrowing capacity against adverse external developments."

Both the government and the TCG donor participants agree that rationalization of the tax structure should receive a high priority. Government undertook a tax reform study intended to suggest system reforms to: (a) remove disincentives to investment and productivity; (b) broaden the tax base and (c) simplify the tax structures. Toward that end, the 1985/86 AID grant agreement contained two covenants concerning the tax system:

"(a) The Grantee covenants to undertake an analysis of the fiscal system that will fit into a larger structural adjustment program. This analysis will include an examination of the effect of revenue measures on private sector incentive and of means of adjusting current account expenditures in order to generate public sector savings.

(b) The Grantee covenants in the course of developing a Structural Adjustment Program through the Tight Consultative Group process, to examine ways in which fiscal, regulatory, and other government actions can be made to foster a more favorable climate for private investment, particularly as it relates to the industrial sector."

In late 1986, AID though its Public Management and Policy Planning Project, funded a team of experts to analyze Dominica's tax system. Bearing in mind the thrust of the PFP fiscal recommendations, in RDO/C's discussions with the Government, and in its discussions with the fiscal analysis team, RDO/C emphasized that any consideration of tax reform should as far as possible be revenue neutral. The team completed its work in May 1987. The analysis included several alternative reform scenarios that exhibited different levels of incentive and of revenue loss. The government faced the dilemma of choosing between a tax package essential to attracting more private investment while at the same time meeting the previously established PFP savings targets.

F. Government's Tax Reform Proposal

The government used the fiscal team's report as a basis for developing its own position paper. That paper is attached as Annex E. GOCD's intention was to to present a tax reform package as part of its budget for FY1987/88, to be announced in June 1987. As of the end of June, Government was still considering the merits of the position paper. The fundamental problem is the lack of revenue neutrality. Government officials are convinced that while some scenarios result in no revenue loss compared to the "base case" (no reform), the incentive effects of those alternatives are not significant and the equity consequences are undesirable. Moreover, a tax reform will require the approval of the IMF and the World Bank, since it may require a modification of the targets established under the PFP. As of the end of June, those two entities were still reviewing the proposal and Government had not enacted a reform package.

In its negotiations, RDO/C has informed the Government that additional grant funding is not available merely to offset a tax-reform-induced revenue shortfall and has urged the government to explore ways in which its tax reform proposal could be modified to reduce or eliminate revenue loss. It has also recommended that in the event that the Government's developmental and equity objectives for tax reform cannot be met with a revenue neutral tax reform, that the expenditure side of the budget be carefully reviewed with an eye to identifying cost savings. One of the conditions of the proposed grant agreement therefore requires that if the government plans to undertake a tax reform program, that it submit to AID a fiscal plan including the proposed reform which demonstrates that the reform can be accomplished yet yield a fully financed budget that would not require budget grant support beyond the requirements already identified by the TCG as existing in the absence of tax reform (in short, that donors will not have to finance budget shortfalls that might arise from tax cuts).

Dominica's current tax system is complex and tax rates are very high (see ANNEX F). The system tends to distort incentives in unproductive ways and, given the high rates of certain taxes, may reduce incentives to save and to invest productively. Taxes on business inputs increase carrying costs. Tax holidays are inefficient in encouraging investment. Individuals and categories of income are treated equitably. "High marginal income tax rates dampen Dominica's overall economic climate. Marginal rates of 30 percent apply at incomes above EC$ 8,000 (US$ 2,963), and the 50 percent marginal bracket begins at EC$ 25,000 ($US 9,250). After adjusting for all deductions and allowances, the effective average rate for the latter group in 1986 was 30.3 percent. The consultants' report states that ". . . there is little doubt that the present high levels of income tax affect the wage at which employees are willing to work. They are clearly a factor, therefore, in the country's overall structure of wages and prices; its ability to compete in international markets; and its attractiveness to foreign investors."

Other criticisms of the current system are: It includes too many separate taxes with too many annual changes. Depreciation schedules are out of date and illiberal. Business inputs are taxed too heavily. There is excessive use of tax holidays. The application of indirect taxes increases the carrying cost of business inventories. Agricultural income is excluded from the income tax. Real property is not taxed.

The government's position paper adopts most of the recommendations designed to improve the system. Specifically, it proposes to:

- Adopt a flat rate consumption tax, with some exemptions for productive inputs and with a 15 percent surcharge on luxuries.
- Introduce a 3 percent wholesale/retail sales.
- Abolish the 5 percent stamp duty on imports.
- Unify the customs service charge at 1.5 percent.
- Modify the personal income tax to exclude incomes below EC$ 9,000 from the tax, eliminate all deductions except for mortgage interest, introduce a simplified four-bracket rate scale of 0,25,35, and 45 percent with the latter beginning at incomes in excess of EC$ 50,000.
- Establish a unified corporate tax rate of 35 percent.

The centerpiece of the reform is the adoption of an investment credit to supplement the present tax holiday scheme to encourage both local and foreign investors. The most notable exception to the report's recommendations is the government's decision not to extend the income tax to agriculture on the grounds that it would be politically and socially unacceptable at this time. Instead, a special "cess" on banana exports is proposed (a source of difficulty for the IBRD since it seen as an export tax and therefore may tend to discourage exports).

The other notable departure from the consultant's recommendations is the decision to postpone the implementation of a property tax and to use an unimproved site value method of valuation if one is adopted.
While some of these changes increase revenue, other decrease it. For several scenarios the result is neutral, compared to the present system, for others there is a net revenue loss, and hence a point of concern for the government and for the TCG. The government takes the position that the fundamental problem is that the level of tax effort is too high. Government argues that strict revenue-neutrality merely shifts the tax burden from one group to another and does not address the fundamental problem of incentives. Government maintains that tax reform is an investment that will pay for itself in long-term development benefits, and that short-term revenue losses are merely the price of that investment. The magnitude of the loss and the speed of recovery are a point of some disagreement among government and some donors. The consultants' report included estimates of a net loss of EC 5 million in the first year of tax reform, with a rapid narrowing of the gap until it was closed in the fourth year of the reform. The assumptions of this projection were criticized as being optimistic. Other estimates showed smaller losses in the first year, but gaps persisting for several years beyond the original projections. The government's proposal does not cut some taxes as much as the consultants had assumed and therefore government's own estimates show a loss of 3.6 million in the first year, falling to zero by the fourth year. For purposes of consistency with other data, the tables here include IMF preliminary estimates of yearly shortfalls in during the TCG planning period of: 3.1, 5.8, 7.0 million EC. IMF specialists are still analyzing the proposal.

G. Closing the fiscal Gap

Table 3 presents central government fiscal operations for the three-year term of the structural reform program (FY 1986/87-1988/89). The table is divided into three sections. Three columns contain data pertaining to the original TCG program, as developed during FY 86/87, and the implicit performance targets for the PFP. The first, combined with the last two, columns present the actual performance for FY86/87 and the projected performance without tax reform. The first three columns together represent the Revised TCG Program and include IMF preliminary estimates of the effects of the proposed tax reform.

The PSIP was finalized after the original IMF estimates were generated. Compared to the original program, there is therefore a substantial increase in estimated capital expenditures under both the projected and the revised programs. As in the past, the capital budget will be largely financed through foreign grants and concessionary loans. Foreign grants for FY 87/88 include $EC 8.1 (US$ 3.0) million in budget support grants. These represent the proposed FY 87/88 AID structural reform grant (US$ 1.5 million) and the delayed disbursement of the FY 86/87 AID grant (US$1.5 million), both to be authorized under this PAAD. This paper also requests authority for budget support of US$ 1.5 million (EC$ 4.1 million) in Dominica's FY 1988/89. The 1989/90 figure is merely an IMF projection. Authority for 1989/90 budget support is not being requested in this paper.

Zeros in the Residual row indicate a fully-financed program for a given year. The original program identified a EC$ 6.8 million financing gap which was to be covered by an equal amount of budget support grants from AID "and other donors." As noted earlier, with AID unable to disburse before June 30, the 1986/87 gap was temporarily financed by a large increase in "other domestic" borrowing in anticipation of a later AID disbursement

Without tax reform, the IMF projects moderate revenue growth, including increases in tax revenues of between 5 and 7 percent. Although they are presented here for consistency, the Mission feels that the tax estimates are very conservative. With the TCG's implicit 7.5 percent nominal growth rate of the economy, and a tax elasticity of 1.05, tax revenues should grow at 7.5 to 8.0 percent. Except for a temporary influx due to water sales (to be privatized, and hence off the budget in later years) and land sales, capital receipts will be zero. From this revenue base, GOCD must finance a small portion of the capital budget in addition to current expenditures and debt repayments. The program calls for increased public savings. The current account surplus therefore increases from 5.3 million to 9.4 million over the TCG period, increasing as a proportion of the budget as well as of GDP. This is to be mainly accomplished through control of recurrent expenditures. In the Dominica context, this necessarily involves control of the wage bill. Wage and salary expenditures increase rather sharply between the first and second year, reflecting contractual obligations made in 1985. The program then calls for moderate increases, and a reduction in the share of wages in the budget. In addition to increased public savings, the program is designed to improve the government's debt position through reduction in debt obligations. It therefore includes substantial repayments of nonconcessional debt as well as of obligations to the ECCB and to commercial banks. (Table 3). Under this program, the IMF identifies financing gaps of 8.1 and 4.1 million for the last two years of the program, which are to be covered by AID grants.

There is a degree of tradeoff between the objective on one hand of increasing the soundness of Dominica's fiscal position through increased public savings and reduced debt obligations, as presented in the PFP and the objective of removing disincentives to the private sector on the other. The program outlined in the previous paragraph seeks to accomplish the first objective. The tax reform option chosen by the government is revenue-negative (i.e., there is not an actual decrease, but rather less revenue is generated each year than would be the case without the reform). In Table 3, this appears as residuals of EC$ 3.1, 5.8 and 7.0 million in successive years through 1989/90. Government argues that revenue negativity is an important part of its strategy. While economists generally agree that marginal, rather than average, tax rates are the more important cause of economic distortions, the government argues that Dominica's high average rates are also a source of disincentive to the private sector, thereby necessitating a reduction in the overall tax burden. The government argues further that it will be difficult or impossible to meet its expenditure targets unless it can use reduced taxes as an enticement to achieve more modest wage settlements in both the public and the private sectors.

The Fund is still examining the implications of the tax reform proposal. Under the terms of the SAC, the IBRD will have to approve in principle a tax reform package. To date the World Bank has indicated some reluctance to accept a revenue-negative package unless the shortfall is covered by budget grants (i.e., by AID). The government has appealed to AID on several occasions for additonal grant support to fund the tax reform. RDO/C has indicated to both the IBRD and to the government that it is unable to make such a commitment and that if such a reform is to be adopted, it will be necessary to inform RDO/C how a revenue-negative tax reform proposal can be financed through expenditure reduction or other adjustments that will not require AID budget support above the EC$8.1 and the EC$4.5 million already projected.

Ultimately, the government, the Fund and the Bank must work out a final accommodation, or else there will be no tax reform. However, it is not possible to specify at this time what such an accommodation will produce. Table 4 presents one scenario whereby a fully-funded tax reform can be accomplished. Compared to the non-reform program, the funded tax reform shows an increase in overall gaps from 10.5 and 28.1 to 13.6 and 33.9 million. Public savings are reduced from 6.5 and 9.4 to 3.4 and 3.6. Financing is adjusted in two ways. First, payback of nonconcessionary loans is reduced from 7.4 and 11.9 million to 4.3 and 6.1 million. Secondly, repayment of commercial bank obligations is reduced from 6.2 and 4.0 in two years to a repayment of 3.1 in FY87/88 and net borrowing in FY88/89. If agreement cannot be reached with the Fund and the Bank on revised savings targets, government will need to modify its tax reform, adjust expenditures or both.

The ultimate outcomes of the IMF and Bank negotiations with the government are yet to be determined. In the cooperative spirit of the TCG, the conditions of the proposed AID grant agreement are therefore structured to encourage the government to move in the directions already set out in its PFP, but with enough flexibility to prevent AID conditions from potentially conflicting with those that might be imposed by the IMF or the IBRD. Closer coordination on performance criteria is complicated by the fact that AID is proscribed from directly linking its disbursement to IMF or IBRD performance targets.

By drawing on the scenario presented in Table 4, the conditions proposed in this PAAD minimize the possibility of conflicting targets because in a sense, the program outlined above is a "worst case" scenario in that it assumes no further reductions in spending and no modification of the proposed tax reform. Since its revenue estimates seem to be conservative, it is also possible that the IMF estimates of the fiscal gaps are somewhat high. Therefore, by requiring the government to <u>at least</u> meet the savings and wage expenditure targets implicit in the Table 4 scenario, AID does not rule out the possibility that government may agree to more stringent targets in its discussions with the Fund or the Bank. On the other hand, if AID were to require compliance with targets closer to those in the non-reform scenario it would run the risk of conflicting with the Fund and the Bank should they agree with the government on a scenario such as that outlined in Table 4.

H. Future Financing Requirements

Program assistance will help Dominica pursue its structural adjustment program while enabling it to effect some reductions in its nonconcessional financing obligations. Every effort should be made to assure that such financing is kept to manageable levels. Prolonged resort to costly financing will place an onerous debt burden on government finances, will interfere with the Public Sector Investment Program, and ultimately will forestall sustained economic growth.

Under the TCG, further efforts will be made to improve the underlying structure of Dominica's government finances, including increasing the efficiency of the revenue collection system, maintaining restraint in government current expenditures, and attempting to maintain or increase government's contribution to national savings. For at least the rest of this decade, and probably for some time beyond, Dominica will require sustained and significant levels of external assistance. Its external assistance requirements are related mainly to the public sector investment program which is designed to foster the economic objectives of the structural adjustment program. The focus of the PSIP is support for the directly productive sectors and for economic infrastructure. Public investments are to be directed at meeting the infrastructure requirements of a growth-oriented economy. At the discussions of the CGCED subgroup meeting in St. Lucia in March, 1986 (at which time GOCD indicated its willingness to be the first country to attempt a structural reform program under the Tight Consultative Group) it was indicated that the structural reform program would require substantial budgetary support assistance. Even with the aid of significant structural adjustment assistance, it is unlikely that the economy will generate sufficient domestic savings to fully finance its capital needs. Furthermore, the policy framework paper recognizes that with its weak infrastructure and its propensity for natural disasters, "Dominica's dependence on concessional external assistance may persist beyond the medium term [i.e., beyond the TCG reform period], albeit at reduced rates." Tables 3 and 4 illustrate what these needs will be through 1990.

I. Policy Issues

The main development issues in Dominica center on the need to increase exports and to increase public sector savings. As noted elsewhere in this paper, the government feels that there is a tradeoff between these objectives in the short run. The conditions precedent and covenants for this Grant are designed to encourage the Government of Dominica to take actions to analyze and to address these issues, and which will support Dominica's participation in the new donor facility, the first elements of which (the PFP and the PSIP) are already in place.

TABLE 3
DOMINICA CENTRAL GOVERNMENT OPERATIONS
FISCAL GAPS AFTER FISCAL REFORM
(MILLION EC DOLLARS)

	Prelim 1986/87	TCG Revised Program 1987/88	TCG Revised Program 1988/89	Proj. 1989/90	TCG Original Program 1986/87	TCG Original Program 1987/88	TCG Original Program 1988/89	TCG Projected Without Tax Reform 1987/88	TCG Projected Without Tax Reform 1988/89
Total Revenue, Including Grants	109.3	127.4	119.5	138.2	114.6	119.8	135.1	130.5	125.3
Current Revenue	91.6	94.1	97.9	104.2	90.4	95.9	100.6	97.2	103.7
Tax Revenue	84.5	85.5	88.8	94.6	81.1	85.3	89.2	88.6	94.6
Nontax Revenue	7.1	8.6	9.1	9.6	9.3	10.6	11.4	8.6	9.1
Capital Receipts	2.1	1.2	0.0	0.0	0.0	0.0	0.0	1.2	0.0
Foreign Grants	15.6	32.1	21.6	34.0	24.2	23.9	34.5	32.1	21.6
of which: budgetary grants	0.0	8.1	4.1	4.1	6.8	6.8	6.8	8.1	4.1
Total Expenditure	118.0	141.0	153.4	168.6	125.5	124.9	133.8	141.0	153.4
Current Expenditure	86.3	90.7	94.3	99.0	85.9	89.5	91.2	90.7	94.3
of which: wages and salaries	49.3	52.8	54.4	56.0	49.4	52.8	54.4	52.8	54.4
Capital Expenditure & Net Lending	31.7	50.3	59.1	69.6	39.6	35.4	42.6	50.3	59.1
of which: locally financed	5.0	8.9	8.2	5.4	9.1	7.6	6.4	8.9	8.2
Current Account Balance	5.3	3.4	3.6	5.2	4.5	6.4	9.4	6.5	9.4
Overall Balance Before Grants	-24.3	-45.7	-55.5	-64.4	-35.1	-29.0	-33.2	-42.6	-49.7
Overall Balance After Grants	-8.7	-13.6	-33.9	-30.4	-10.9	-5.1	1.3	-10.5	-28.1
Concessionary foreign borrowing	9.4	16.1	38.2	33.8	5.3	12.3	6.6	16.1	38.2
of which, IBRD Struc. Adj. Credit	0.0	5.4	2.7	0.0	2.0	3.4	0.0	5.4	2.7
IMF Structural Adjustment Facility	2.6	1.8	1.8	0.0	2.4	1.7	1.7	1.8	1.8
Nonconcessionary Financing	-3.3	-4.3	-6.1	-3.4	3.2	-8.9	-9.6	-7.4	-11.9
Reserve-type transactions	-7.8	-1.2	-7.9	-5.7	1.9	-7.4	-7.9	-1.2	-7.9
IMF(net purchases)	-4.7	-7.2	-7.2	-5.0	-4.2	-6.2	-6.3	-7.2	-7.2
Change in government foreign assets (increase: -)	-0.9	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Other foreign	0.0	9.0	0.0	0.0	8.1	-0.5	-0.9	9.0	0.0
ECCB borrowing	-2.2	-2.3	0.0	0.0	-1.3	0.0	0.0	-2.3	0.0
Commercial banks	-3.2	-6.2	-4.0	-4.7	1.3	-1.5	-1.7	-6.2	-4.0
Social Security Scheme	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other domestic	7.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual	.0	3.1	5.8	7.0	.0	.0	.0	.0	.0

TABLE 4
DOMINICA CENTRAL GOVERNMENT FINANCING
FULLY FINANCED FISCAL REFORM
(MILLION EC DOLLARS)

	Prelim	TCG Revised Program		Proj.	TCG Original Program			TCG Projected Without Tax Reform	
	1986/87	1987/88	1988/89	1989/90	1986/87	1987/88	1988/89	1987/88	1988/89
Overall Balance after grants	-8.7	-13.6	-33.9	-30.4	-10.9	-5.1	1.3	-10.5	-28.1
Concessionary Foreign Borrowing	9.4	16.1	38.2	33.8	5.3	12.3	6.6	16.1	38.2
Drawings	11.1	17.9	40.1	35.6	7.0	14.1	8.5	17.9	40.1
Project related loans	11.1	9.8	34.7	35.6	5	10.7	8.5	9.8	34.7
IBRD Struc. Adj. Credit	0.0	5.4	2.7	0.0	2.0	3.4	0.0	5.4	2.7
CDB Struc. Adj. credit	0.0	2.7	2.7	0.0	0.0	0.0	0.0	2.7	2.7
Amortization	-1.7	-1.8	-1.9	-1.8	-1.7	-1.8	-1.9	-1.8	-1.9
Earmarked bank deposit operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF Structural Adjustment facility	2.6	1.8	1.8	0.0	2.4	1.7	1.7	1.8	1.8
Nonconcessionary financing	-3.3	-4.3	-6.1	-3.4	3.2	-8.9	-9.6	-7.4	-11.9
IMF (net purchases)	-4.7	-7.2	-7.2	-5.0	-4.2	-6.2	-6.3	-7.2	-7.2
Credit tranches	0.0	-0.9	-1.7		0.0	-0.8	-1.5	-0.9	-1.7
CFF	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
EFF	-4.7	-6.3	-5.5		-4.2	-5.4	-4.8	-6.3	-5.5
Other foreign loans	0.0	9.0	0.0	0.0	8.1	-0.5	-0.9	9.0	0.0
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in foreign assets	-0.9	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Sinking fund account	1.3	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
SDR holdings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ECCB borrowing	-2.2	-2.3	0.0	0.0	-1.3	0.0	0.0	-2.3	0.0
Treasury bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debentures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Temporary Advances	-2.2	-2.3	0.0	0.0	-1.3	0.0	0.0	-2.3	0.0
Commercial Banks	-3.2	-3.1	1.8	2.3	1.3	-1.5	-1.7	-6.2	-4.0
Treasury bills and debentures	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans, Advances, and overdraft	-0.7	-3.9	1.8	2.3	1.3	-1.5	-1.7	-7.0	-4.0
Deposits	-4.0	0.8	0.0	0.0	0.0	0.0	0.0	0.8	0.0
Statutory bodies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Social Security	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other domestic	7.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual	.0	.0	.0	.0	.0	.0	.0	.0	.0

Source: RDO/C calculations based on IMF data

a. Increasing Exports. Efforts to increase exports include activities and policies designed to enhance the productivity and marketability of agricultural and manufactured goods. The present constraints on exports have been discussed elsewhere in this paper. RDO/C's HIAMP advisor is developing proposals for several potentially exportable commodities, including passion fruit, vegetables and cut flowers. Equity investments are currently being considered for pepper sauce and aloe vera. The government has been working to encourage the production of herbs and essential oils. Efforts have begun to take advantage of Dominica's forest resources by developing a furniture industry for domestic and export markets. The proposed tax reform is designed to reduce barriers to both domestic and foreign investment in order to stimulate production for export. In addition, RDO/C is contemplating small infrastructure projects that will enhance the productivity of the private sector, such as feeder road extensions and storage/preparation facilities for exportable agricultural commodities. RDO/C is also considering a feasibility study for supporting infrastructure that would enable a private investor to construct a freshwater marina. The marina would appeal to sailing enthusiasts and thereby stimulate upscale tourism (the fresh water quickly removes barnacles from boats, and the marina is therefore expected to provide a strong appeal as a service facility).

b. Rationalization of the PSIP selection process. One of Dominica's longer term problems is the ability of government to foster the growth process by providing infrastructure. Increased revenues and slower growth in recurrent expenditures will help to meet this need. Donor assistance will be expected to fill most of the gap for some time to come. To supplement these efforts, it will be necessary to carefully husband the capital budget as well. Long term efficiency in the use of GOCD's limited resources and of donor-financed infrastructure will require that investment decisions be based upon a long term strategy that relates public investment to identifiable development goals. In conjunction with the IBRD, the government has developed a Public Sector Investment Program which meets these criteria and which will serve as a guide for capital expenditure decisions through the structural adjustment period and beyond.

c. The budgeting system. Though there has been some restructuring in the past year, there are still apparent weaknesses. The system works well now because of the close working relationship of the individuals in charge of planning and finance. Consideration should be given to introducing an integrated program budgeting system.

d. Public employee wage costs. Restraining growth in the wage bill will be necessary in order to reduce drain on current account. In its last contract negotiation, the government managed to reduce public employees' wage demands from a 47 percent increase in the first year to a 20 percent increase over three years. While this showed a great deal of strength on the part of the government, GOCD cannot really afford even that concession. Excessive future wage increases will place a heavy burden on government finances, will hinder its capacity to contribute to capital development and could effectively sabotage a carefully constructed tax reform program. The government has already taken some positive steps. In 1986 it abolished the system of automatic annual salary increments for civil service. Officials estimate that this will save EC$ 1.5 million per year. Legislation is soon to be introduced to regulate wage negotiations in the public sector by creating a single negotiating unit and by providing for arbitration. The objective of this legislation is to reduce the wage push factor in Dominica's budget and cost structures.

There are 2099 civil service employees (compared to about 7,000 in Grenada and nearly 4,000 in St. Lucia), most of whom are police, nurses, teachers and agriculturalists. "Hard core" civil servants number perhaps 500 or less. With this relatively small civil service the scope for significant savings through large scale retrenchment is not great and is probably not desireable. The present government has eliminated, or left vacant, a number of positions (the Prime Minister has said in excess of 200 since she took office) but is awaiting the outcome of the manpower study before making any significant changes in civil service staffing. That study is expected to produce information that will be helpful in: (a) streamlining the civil service, improving job descriptions and classifications, and paving the way for more efficiency through merit pay and, (b) identifying areas where there are redundant workers. Since there is considerable understaffing in some offices, a reallocation of personnel seems to be a rational first step. After that, redundant positions will be more easily identified. The study was originally intended to be completed by April, 1987. Government officials now think that it could be early 1988 before the results are completed and digested by the government. For that reason, this PAAD does not propose specific conditionality concerning employment for the first tranche. By 1988 the information should be sufficient to permit the government to submit to AID a plan of action for dealing with the civil service salary question. While the scope for savings might be small, RDO/C feels that there must be some room for savings in the wage bill (at least in slowing its growth) that can be explored after the study is completed. Submission of a plan of action will be a condition of the second (CY 1988) tranche of the proposed grant. The main concern is not the number of employees per se, but rather the number of dollars spent. Wage targets proposed for this grant are therefore stated in terms of the wage bill rather than the number of employees.

As a CP to the disbursement of the first tranche, it is proposed that the government submit a draft of the proposed legislation or other evidence of a plan of action to modify the public sector wage negotiation process. Conditions for the subsequent tranches will be tied to progress toward meeting targets for restraining increases in the civil service wage bill.

e. Taxes and Fiscal Reforms. As a condition of the previous AID budget support grant, the Government undertook a study of its tax system and developed a tax reform proposal based upon it. The proposal would eliminate many of the more undesirable elements of the current system, and would provide a better tax climate for private investment and risk-taking. As a condition to disbursement of the first tranche, the grant agreement will require that the government submit evidence of a plan of action for following up on the study. This might be a modified version of the position paper, a new proposal, or draft legislation, or no change at all, depending on the government's assessment of the costs and benefits of introducing tax reform at this time. RDO/C is aware of the dilemma of having to choose between savings targets and the desire to increase private sector incentives. Yet, it is felt that it is an important part of the stuctural adjustment process for government to face explicitly the tradeoffs involved, and to weigh them. Therefore, no additional budget support beyond that already identified for the TOG process is anticipated or proposed at this time. The conditions for disbursement of the first tranche will require that if the government's plan of action for followup of the tax study includes a tax reform, the government must submit financial projections that indicate how such a reform would be financed in the absence of additonal grant support. The proposed conditions for disbursement of subsequent tranches will be tied to progress toward meeting savings targets (or proxies for them).

f. Privatization. The government has already begun the process of privatization of parastatals by offering 60 percent of the equity of the electric utility for public purchase. The Central Water Authority was abolished in July, 1986 and thereafter converted to a government department. A technical assistance team is working on management improvements of the water authority. Staff costs have already been reduced by one third. When the team's work is completed a new organization will be established. The government hopes that the new entity will then be sufficiently attractive to investors to merit privatization if buyers can be found. The grant agreement will covenant the government to continue to seek opportunities for further privatization of public enterprises and/or to continue to increase the efficiency of these enterprises in order to further reduce their claim on the country's resources.

IV. Program Elements

A. Use of U.S. Dollar Resources

In light of the guidance provided in State 52618, RDO/C understands that this series of 3 US$1.5 million grants is below the dollar limit beyond which U.S. dollar resources must be formally tracked. Hence, with no formal AID requirement that these resources be tracked, RDO/C will, as in previous program assistance grants to Dominica, require only that the GOCD report that Dominica has imported from the U.S. goods and service in an amount at least equivalent to the amount of program assistance provided under this Grant.

Any discussion that would contain sound recommendations concerning the practicality and feasibility of establishing a mechanism for tracking of ESF US dollar funds for member states of the ECCB would require negotiations with not only the Eastern Caribbean Central Bank, but also with the member governments. Furthermore, the central bank would be in no position to consider modifications of its existing practices without formally conferring with its member governments. The following paragraphs are a preliminary discussion of this issue, and Mission will follow up this discussion with a cable to AID/W by the end of this fiscal year that contains a complete discussion of the situation as it applies to all OECS countries.

The first point to be made about the Eastern Caribbean currency union is that the convertible currencies maintained by the ECCB are held in a pool, without any country designations attached. In other words, it is the union that owns convertible currency resources, not individual member governments. When convertible currencies in the hands of governments are exchanged at the ECCB for Eastern Caribbean (EC) dollars, the converting government has a claim on the pool for the convertible currency equivalent of the EC dollars it now holds. Therefore, the government does not have a claim on exactly those convertible currency resources that it surrendered to the ECCB. Consequently, any tracking of US dollar resources required by the US Government would require the establishment of totally new procedures at the ECCB, and these procedures would be in conflict with the established procedures in the Articles of the ECCB.

Theoretically. it would be possible for the ECCB to set aside incoming convertible currency for a particular country. The ECCB could then track the specific uses of those convertible currency resources. The utility of this approach is not readily apparent, except as a means of meeting U.S. Government requirements. In the case of the OECS countries, imports from the U.S. on an annual basis are several times any forseeable level of program assistance for a similar period. Thus, it would not in principle appear difficult for RDO/C's program assistance recipients to meet the requirements of State 208446. The willingness of ECCB members (and hence the central bank itself) to establish a mechanism, however, must await further consultation.

B. Use of Local Currency

In light of the guidance provided in State 52618, RDO/C understands that this series of 3 US$1.5 million grants is less than the dollar limit beyond which separate accounts are required for deposits of local currency. Hence, with no formal AID requirement that these resources be programmed from a separate account, RDO/C will as in the most recent program assistance gran: to Dominica, require only that the GOCD report that Dominica has expended the local currency on (a) developmentally related projects selected from its Budgets and from the Public Sector Investment Program (PSIP) which has been developed under the auspices of the Tight Consultative Group, or (b) on critical recurrent expenditures which GOCD would have been able to cover if it were not undergoing a structural adjustment program.

The Government of Dominica will use the local currency deposited as a result of this grant to maintain its activities without having to further reduce expenditures already identified under its agricultural development and research program and Public Sector Investment Program. Examples include: coconut rehabilitation; emergency housing program; development of national parks; slide clearance and road repairs; land development and settlement; other infrastructure projects supportive of the private sector.

C. Cash Transfer versus Commodity Import Program (CIP)

In designing the program, the Mission weighed the merits of a Cash Transfer versus a CIP and the experience with both in other countries in the Caribbean Basin and elsewhere. Based on an analysis of the advantages and disadvantages of both approaches, the Mission concluded that the Cash Transfer mechanism was the best means to achieve the objectives of this $1.5 million program. The problem facing Dominica is not fundamentally a shortage of foreign exchange with which to import commodities. It is a shortage of resources necessary to implement its public sector investment program and the structural adjustment program while simultaneously reducing its accumulated debt obligations. The procedures and controls required to implement a CIP would impose a degree of public sector intervention and control over the allocation and use of foreign exchange which would be contrary to both Dominica's and USG's policy of relying on the market mechanism. The Cash Transfer approach will also require less staff time to administer, both on the part of Dominica and the Mission. The GOCD's manpower base is already stretched to the limit, and a heavy demand exists on Mission staff to implement the RDO/C assistance program. Under terms of the agreement (see below) the government is already required to import from the United States goods equivalent in value to the amount of the grant.

D. Reports

The Government will be required to provide, within one calendar year from the date of each disbursement of the Grant, a list of (a) domestically funded, development-related, agricultural development and research projects and public sector investment projects that are included in the 1986/87, 1987/88, and 1988/89 Public Sector Investment program, and (b) critical recurrent expenditures which it would have been able to cover if it were not undergoing a structural adjustment program, 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 expenditures acceptable to AID. Further specification of content and timing of Grantee's reporting requirements will be contained in a Project Implementation Letter.

E. Importation of U.S. Commodities

It is expected that Dominica will be able to import commodities from the United States in value equal to or exceeding that of the Grant. Dominica's imports from the U.S. were US$ 13.3 million in 1982, 10.9 million in 1983, 14.8 million in 1984 and 12.6 million in 1985. They should therefore far exceed the requirements noted below in Covenants.

V. Conditionality Under the Present Cash Transfer

A. Incremental Nature of the Program

The Grant will be disbursed in increments, the initial $1,500,000 being made in accordance with the Conditions Precedent to the First Disbursement, as specified below. Subsequent increments estimated to total Three Million United States Dollars (US$3,000,000) will be subject to the availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of subsequent increment, to proceed. As additional funds are made available to A.I.D. the Grant Agreement will be amended accordingly. Increments will be subject to conditions precedent to be specified in the Grant Agreement, as amended. It is expected that the Conditions Precedent to the second two tranches will be as specified below.

The second tranche will be disbursed immediately upon satisfaction of the Conditions Precedent to that tranche, but not before January 1, 1988. The third tranche will be disbursed immediately upon satisfaction of the Conditions Precedent to that tranche, but not before January 1, 1989.

B. Conditions Precedent

1. Conditions Precedent to the First Disbursement

Prior to the first 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.:

(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 restraining increases in its wage and salary budget expenditures. An estimated timetable for implementation of the legislation will be included in the documentation.

2. Conditions Precedent to the Second Disbursement

Prior to the second 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.:

(a) A timetable for implementing wage and salary cost-containment measures based on the Grantee's response to the findings and recommendations of the Organization, Methods and Manpower technical assistance team.

(b) Data demonstrating that the Grantee is making satisfactory progress toward attaining the targets for wage and salary expenditures, as stated in Covenant 8(a), below.

(c) Data demonstrating that the Grantee is making satisfactory progress toward attaining the targets for public sector savings, as measured by the balance on recurrent account in the revenue and expenditure accounts of the Government of Dominica, as stated in Covenant 8(a), below.

3. Conditions Precedent to the Third Disbursement

Prior to the third 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.:

(a) Data demonstrating that the Grantee is making satisfactory progress toward attaining the targets for wage and salary expenditures, as stated in Covenant 8(a), below.

(b) Data demonstrating that the Grantee is making satisfactory progress toward attaining the targets for public sector savings, as measured by the balance on recurrent account in the revenue and expenditure accounts of the Government of Dominica, as stated in Covenants 8(b), below.

(c) Evidence that it has implemented wage and salary cost-containment measures based on the Grantee's response to the findings and recommendations of the Organization, Methods and Manpower technical assistance team. The Grantee will provide data and evidence demonstrating the cost savings to be achieved by these measures.

4. 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 by means of a Project Implementation Letter (P.I.L.).

5. Terminal Date for Conditions Precedent

If the conditions precedent for the first disbursement under this grant as set forth in Section 2.1 of the Grant Agreement 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. If the conditions precedent to the second tranche are not met within a reasonable time after January 1, 1988, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee. If the conditions precedent to the third tranche are not met within a reasonable time after January 1, 1989, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

C. Covenants

The Grantee covenants that:

1. Records

It 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.

2. Local Currency

Using the highest rate of exchange which is not unlawful existing at the date of the local currency deposit, the Grantee will immediately upon disbursement of the Grant deposit the 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.

3. Reports

To provide, within one calendar year from the date of each disbursement of the Grant, a list of (a) domestically funded, development-related, agricultural development and research projects and public sector investment projects that are included in the 1986/87, 1987/88, and 1988/89 Public Sector Investment program, and (b) critical recurrent expenditures which it would have been able to cover if it were not undergoing a structural adjustment program, 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 expenditures acceptable to AID. Further specification of content and timing of Grantee's reporting requirements will be contained in a Project Implementation Letter.

4. Publicity

That it will give appropriate publicity to the Grant.

5. Execution of Program

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

6. Importation of U.S. Commodities

To (1) import from the United States goods, from those import categories previously approved by A.I.D. and furnished to the Government of the Commonwealth of Dominica, in an amount at least equivalent to disbursements under the Grant over a one year period from the date of the each 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.

7. Consultation

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

8. Miscellaneous Financial and Program 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 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. Government 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, such data to be used in determining satisfaction of the Conditions Precedent to the Second and Third disbursements under this Grant.

(b) To make every effort to contribute to public sector savings by taking actions necessary to produce a surplus in the recurrent 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 recurrent 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 that the Grantee is making toward attaining the targets for current account surpluses, such data to be used in determining satisfaction of the Conditions Precedent to the Second and Third disbursements under this Grant.

(c). to provide to A.I.D., prior to August 1, 1988 except as the parties may otherwise agree in writing, furnish to A.I.D., 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, furnish to A.I.D., in form and substance satisfactory to A.I.D. a plan and an implementation timetable for further privatization of state-owned enterprises.

ANNEX A

THE DOMINICAN ECONOMY THROUGH 1986

GDP Growth

After a strong recovery from hurricane damage in 1979-80, real GDP expanded at an average annual rate of 2.5 percent in 1982-83, 6.2 percent in 1984, 1.85 percent in 1985 and 4.01 percent in 1986. The resource gap declined from US$ 38.8 million 1980 to about $ 24 million in 1985. Gross domestic savings went from a negative 21 percent of GDP to a positive 6.6 percent of GDP in 1984.

Preliminary GDP statistics for 1986, indicate that there was a distinct recovery that year, with growth exceeding 4 percent. The recovery appears to be continuing into 1987, where growth could exceed that in 1986. The economy started from a very low post-hurricane base in 1980. The relatively high growth rates from 1980 to 1984 were attributable in considerable measure to the large investments required for the reconstruction and rehabilitation program. Public sector investment accounted for nearly 60 percent of total investment during the period. That activity has virtually ended. A major road construction program, including a major AID project is near completion. Government's own investment program has had to be phased down for budgetary reasons. Private investment has not been sufficient to fully offset the decline.

Balance of Payments

There are no complete official balance of payments estimates for Dominica. Data provided in the tables were estimated by IMF officials in June, 1987 on the basis of information about selected external transactions compiled by Dominican officials. Data interpretation must therefore be made with this in mind.

Dominica's trade balance improved steadily each year between 1980 and 1983, but temporarily reversed in 1984. The balance of trade deficit declined from nearly 74 percent of GDP in 1980 to 25 percent of GDP in 1983, before rising again in 1984 and 1985. The deficit in the balance of trade is expected to remain at about 25 percent of GDP over the TCG structural adjustment period, reflecting in part the importation of capital goods for the PSIP. The increase will therefore be largely funded by external assistance. Exports increased rapidly in 1981/82 as production of bananas, coconuts and citrus fruits recovered from the devastation of the 1979/80 hurricanes. This was supplemented by an increase in manufactured exports, as new operations came on stream. With the establishment in 1979 of a larger soap plant, and the 1982-84 startup of several small assembly plants, manufacturing increased from 12 percent of exports in 1978 to 40 percent in 1983-84. From 1980 to 1983, imports decreased as emergency aid was phased down. But, in 1984 exports fell by 7 percent and imports increased by 18.5 percent, partly due to the import requirements of major infrastructure projects. Bananas account for over 40 percent of Dominica's exports. In 1984, the volume of exports increased from 29 thousand to 32 thousand tons. However, since bananas are contracted in sterling, the strong dollar had the effect of lowering the unit price received by 11 percent, leaving the value of shipments virtually unchanged from 1983.

Exports of other agricultural crops stagnated after 1982 but are expected to increase as diversification and productivity efforts begin to have an impact. Dominica has had difficulty achieving pre-hurricane levels of citrus fruits and coconut product exports, since it finds itself in competition with producers who can achieve lower production costs because of new techniques. Banana export tonnage exceeded pre-hurricane levels for the first time in 1986 (50,000 compared to 33,000 in 1985), and the value of exports benefited by the fall of the dollar vis a vis sterling. Fresh Vegetable and plantain exports expanded in 1983-84. Plaintain exports increased only slowly in 1986 and 1987 as farmers diverted time and effort toward increased banana production. Much of the coconut output is processed into toilet and laundry soaps, a large portion of which is marketed in Jamaica and Trinidad. Soap exports increased from 5100 tons in 1980 to 6800 tons in 1981/82. By 1984, exports had fallen to 4200 tons and the value of soap products fell by 27 percent, because of competition from Jamaican producers, and because of the sharp appreciation of the EC$, which is pegged to the U.S. dollar, vis a vis sterling and the Jamaican dollar. In 1985 there was a 29 percent increase in soap sales as a result of newly-opened markets. Preliminary indications are that there was continued growth in 1986, but at a decelerating rate, and 1987 is reported to be a modest year. The establishment of a corrugated roofing sheet plant and two garment factories led to sharp increases in exports of manufactures between 1981 and 1983. The value of these exports increased from zero in 1980 to US$ 4 million in 1983. In 1984 one of the garment factories closed down, and another began experiencing difficulties in selling its output. Exporters will continue to experience difficulty in the CARICOM market in the near term. After the sharp increase in 1984, the rate of increase in imports returned to its long term trend. Imports are expected to increase again in support of increased capital project activity.

Dominica's tourism industry is very small. There are only about 370 rooms to accommodate visitors. Because it lacks white sand beaches, it stands as a secondary destination from other islands for persons wanting to visit its rain forests and natural areas in the interior. The island has no night landing facilities and cannot accommodate passenger jet aircraft. The government is making efforts to market the island as a unique Caribbean destination, but in the near term growth in this sector is expected to be small.

Net private transfers come mainly from Dominicans living abroad, and have remained in the 5 to 7 million dollar range for several years. Official transfers declined from 18 million dollars in 1980 to only 4.4 million in 1983, before increasing sharply to 14 million in 1984, 12 million in 1985 and falling to 4.7 million in 1986. Most of the variation reflects changes in project-related donor grants, and official transfers are projected to increase again in the 1987-1990 period as TCG-related donor funding is disbursed.

The public sector increased its external borrowing substantially from 1981 to 1984, largely to finance infrastructure development, including roads, agricultural infrastructure and factory shells. In part as a consequence of this effort, private direct investment increased from nearly zero in 1980 to about 6.1 million in 1986. Public sector borrowing will increase substantially during the remainder of the decade as implementation of the PSIP progresses. Short-term capital movements in recent years were dominated by the buildup of arrearages by Jamaican soap importers, which were repaid in 1984. Arrearages from CARICOM buyers continue to pose a problem.

Between 1980 and the end of 1985, Dominica's external debt, including debt to the IMF, increased from $US 17 million (30 percent of GDP) to $US 48.4 million (50.9 percent of GDP). Net purchases under IMF facilities accounted for nearly one fourth of this increase. CDB accounted for another 11 million, IDA 3 million, IFAD 1 million and OPEC 2 million. Except for that due to the Fund, most of this debt is on highly concessional terms, with interest rates of under 4 percent, grace periods of 5 years, and repayments of 15 to 20 years. The terms of the Fund debt have been the main reason for an increase in the debt service ratio from 4 percent in 1980 to 9.2 percent (4.5 excluding Fund debt) in 1986. Government has serviced its Fund debt on a timely basis and has not incurred any additional normal Fund obligations since the 1984/85 Standby. In 1985/86 it agreed to a concessional Structural Adjustment Facility (SAF) credit from the Fund.

Debt service absorbs increasing portions of both export earnings and of the public budget. Interest and amortization payments are equivalent to 14 percent of government's recurrent revenues. In 1986/87, with a shortfall in resources to make repurchases from the IMF, government was faced with the prospect of increasing its nonconcessional borrowing from other sources in order to finance the Fund obligations. Borrowing at nonconcessional terms would have increased the debt service burden and potentially have threatened its credit rating in the international community. Government was obviously anxious to avoid this eventuality. AID budgetary support helped the government avoid a cash flow crisis. In the short term, debt servicing will occasionally impose a cash flow problem, which can be eased by budget support or commercial borrowing. Long-term health of the public finances, however, will depend upon the ability of the government to foster sustainable export-led economic growth.

Exchange Rate

Dominica's currency is the Eastern Caribbean (EC) Dollar, which is also used by the other OECS countries. The EC dollar is pegged to the U.S. dollar at a rate of 2.7 EC dollars to one U.S. dollar. The official exchange rate can be changed only by a unanimous vote of the OECS countries. The Real Effective Exchange Rate (REER) for a given state changes as the value of the U.S. dollar vis a vis other currencies changes, and as inflation rates among trading partners vary. The extent to which the effective exchange rates among OECS states differ will therefore depend upon the commodity mix of each country's exports, and the relative importance of different trading partners in their overall trade.

Between 1980 and 1987, Dominica's trade-weighted real effective exchange rate appreciated by 14 or 17 percent, depending upon which weights are used in making the calculations (See Annex C, Table 2.C). Compared to other OECS States, Dominica engages in proportionally more trade with the U.K, Trinidad and Jamaica. Thus, the REER appreciation was due largely to the appreciation of the U.S dollar against sterling. When the December, 1985 devaluation of the Trinidad dollar is added to that, the overall appreciation is greater than for any other OECS state except Grenada (table not shown).

Appreciation in Dominica was almost continuous between 1978 and 1984, reversing in 1985. The U.S. dollar depreciation in 1985 caused the REER for Dominica to depreciate by 13.6 percent, but this was partially offset by devaluation in Trinidad. The latter, combined with the U.S. dollar effect, yielded a net 7.7 percent depreciation for Dominica in 1985. Some improvement has occurred and more can be expected as the U.S. dollar depreciates further. The sharp fall in the U. S. dollar in early 1987 was not sufficient to fully offset the decline since 1980. According to Mission estimates, given current prices and relative inflation rates, a further 25 to 30 percent depreciation of the U.S. dollar vis a vis the other countries in the Dominica trade weight basket would be required to virtually remove any overall appreciation for Dominica, despite the heavy trade weight accorded to the U.K. With only a bilateral exchange rate adjustment, the price of sterling would have to rise from approximately US$ 1.62 to US$ 2.48, a 52 percent further depreciation of the dollar vis a vis the pound, in order to accomplish the same result.

Dominica's main export markets are in the U.K., Trinidad and Jamaica. Manufacturing and nontraditional agricultural exports are thus severely hurt by the economic crises that have developed in the latter two countries. This is not offset by nonfactor service earnings, since Dominica's tourist trade is the smallest in the OECS except for Montserrat.

On the other hand, Dominica benefits as the U.S. dollar weakens. Banana quotas are sold in sterling. As sterling gains against the dollar, the dollar value of bananas moves toward previous levels, reversing the events of the early 1980's. About one fourth of Dominica's imports are from the U.S. As the dollar weakens, there should therefore be only moderate increases in import prices. Thus wage demands that are often associated with increased costs of imports may not be as great as one might expect.

Trade with Jamaica and Trinidad, and probably with the rest of CARICOM, will continue to be a problem until there is significant recovery in those economies. Dominica probably is hurt more by the quantitative restrictions in both places than by adverse price relationships. Both Jamaica and Trinidad have been high-inflation countries and their recent devaluations have been attempts to bring their price structures back into line with the rest of the world. Indeed, their devaluations brought the real exchange rate between themselves and Dominica back to where it had been just a few years before. Quantitative restrictions imposed by these two countries were imposed as their exchange rate situation worsened before devaluation. In the case of Jamaica, these controls may remain in effect until that country has its exchange rate under control. In the case of Trinidad, with a new government it is too early to tell but if history is a guide, their restrictions will be eased only gradually. On the other hand, a very encouraging prospect appeared in June, 1987 when the CARICOM ministers of trade announced that all barriers to intra CARICOM trade would be removed by September, 1988.

Despite these problems, Dominica's balance of payments generally improved from 1980 to 1984. Exports increased and reconstruction led to sizeable imports. Except for 1985, the current account has improved since then. In 1984, a road rehabilitation program caused a notable increase in imports, financed mostly with official transfers. As a percent of GDP, the current account deficit fell from 21 percent in 1981 to 6 percent in 1985. Projections by RDO/C and the IMF indicate a current account deficit increasing in 1988, then declining as a percent of GDP from 9 percent of 1988 to 7.8 percent in 1990.

While Dominica's manufacturing and nontraditional agriculture would benefit from further depreciation of its effective exchange rate, unilateral alteration of the exchange rate is not a policy option. An across-the board devaluation of the EC dollar is neither possible nor desirable at this time. It is not desirable, because only Grenada and Dominica have experienced significant appreciation in recent years, and there is little reason to believe that the EC dollar is generally overvalued. In the case of Antigua, there are suggestions that it is undervalued. It would therefore be impossible for Dominica to muster the votes necessary to revalue the EC dollar, even if it chose to do so. Relief will come in the short run if the U.S. dollar continues to fall. In the medium to long term, increased capability to export a variety of products outside the region would reduce Dominica's dependence on Jamaican and Trinidadian trade, and should help restore a real effective exchange rate that is consistent with sustainable high levels of exports.

The most effective means of improving Dominica's balance of payments performance therefore lies not in exchange rate manipulation, but in efforts that will contain costs, directly encourage exports, and discourage nonessential imports. Improved efficiency in production and marketing of traditional agricultural crops, and introduction of new agricultural and manufactured exportable commodities should help improve Dominica's trade balance in the coming years. External support will be needed in the short run to assist Dominica through the period required for the current account to improve.

For its part, the Government of Dominica must make every effort to make the country more cost competitive. This involves measures to increase the productivity and vitality of the private sector (e.g., by providing supportive infrastructure, by reducing unnecessary regulatory constraints and by creating a fiscal environment conducive to private investment), but also keeping a firm hand on public wage costs and increasing the efficiency of the public sector..

Agriculture

In agriculture, production is just now reaching pre-hurricane levels. Bananas are the major export crop and production is now recovering from the adverse effects of the 1979-80 hurricanes and the earlier depreciation of the pound sterling against the U.S. (and hence, the EC) dollar. The depreciation was responsible for a 7 percent reduction in the price paid to growers between 1980 and 1984. Government had targeted production at 40,000 tons by 1985, but only 33,000 tons were forthcoming. As recently as 1984, while bananas accounted for almost 20 percent of the value of agricultural production, their value was still 23 percent below its 1978 level. With external technical assistance, the Dominica Banana Marketing Corporation is encouraging measures to increase productivity. Through one of RDO/C's more successful projects, the marketing aspect of the banana industry has been substantially restructured. Field packing accounted for 20 percent of banana exports in 1982, 50 percent in 1984, and was targeted to reach 90 percent by the end of

1986. The practice should be nearly universal in 1987. These and other improvements helped to increase the grower's price as a proportion of export price from 39.5 percent in 1982 to 46 percent in 1984. The depreciation of the U.S. dollar compared to sterling provided further stimulus. The effects of these various changes began to manifest themselves in 1986, when banana output jumped from 33,000 tons to over 50,000 tons in one year. It is expected that this will be followed by exports of more than 60,000 tons in 1987. Coconuts are the basic input into Dominica's soap industry. By 1983, an extensive replanting program had brought coconut output back to 85 percent of 1978 levels. In 1984, reduced regional demand and protectionist policies in key regional markets adversely affected the soap industry and cut the demand for coconuts by 6 percent. While the rehabilitation program continues, market prospects are limited by developments elsewhere in the region. Dominica is moving to diversify its agriculture into expansion of citrus fruits, broilers for the local market and Arabica coffee. RDO/C's HIAMP advisor is exploring the commercial production of passion fruit, cut flowers, pepper sauce and exportable vegetables. The moist and relatively cooler climates of its higher elevations give Dominica an advantage over some of its neighbors in the production of certain crops, and there is some potential for timber.

Manufacturing

Although entrepreneurs are given generous fiscal incentives, and factory shells have been constructed to lure foreign enclave industries, growth in manufacturing output has generally been disappointing. Contributing factors include lack of infrastructure and scarcity of entrepreneurial and marketing talent. After increasing rapidly until 1982, manufacturing output grew at only 2 percent in 1983 and declined by 1 percent in 1984. This is accounted for to some extent to the decrease in exports of coconut products, including soap, which faced tough competition from Jamaica and which suffered from the appreciation of the EC dollar vis a vis the Jamaican and Trinidadian currencies. In 1983-84, the adverse developments in coconut related industry were partly offset by the initiation of several new industries, including a galvanized steel operation, garment manufacturing, and several other operations. However, since then a refrigerator assembly operation has shut down, two garment manufacturers have closed down, and the output of the galvanized steel plant was by 90 percent. There wasa good sector performance in 1985 despite the fact that it was partially masked by the weak growth in agriculture and therefore in the economy as a whole. In 1986, manufacturing growth was estimated to be a modest 3 percent. The tax reform proposals that grew out of the 1986/87 tax study are aimed particularly at spurring this sector. There is presently much liquidity in the Dominican economy and Government hopes to alter the incentive structure by removing distortions and tax disincentives in order to encourage investors to tap this liquidity.

Tourism

Tourism, never a major industry, will probably continue to show little growth in the near term. Dominica lacks the proliferation of white sand beaches that typify the Caribbean in the minds of tourists and tourism promoters, and has very limited accommodation facilities. The past two years have seen some investment in the sector with the construction of a small hotel and several guest houses. A major restoration of a derelict landmark hotel is planned for completion in the coming year. For the time being, the sector will rely on its role as a secondary destination for tourists from other islands who wish to enjoy the natural attractions of the rain forests in the interior. There is some potential for niche market tourism and the government is working to develop cooperative tour packages with some of its neighbors which would include stopovers in Dominica. There is also some potential for health spas and similar specialty offerings. Government officials feel that significant improvements in tourism cannot be expected without improved international air connections. Unfortunately, although the tiny country already has two air fields, neither is particularly well suited to handling either large scale tourist arrivals or many types of freight exports. The tiny Canefield airport can handle only small interisland aircraft and given its windswept location presents a harrowing landing adventure for any passenger. The other, Melville Hall, cannot accommodate jet aircraft, has no night landing facilities and little potential for expansion. Consequently, government is beginning a feasibility study for a new airport in a more hospitable part of the country. Meanwhile, although there is some room for growth, tourism will contribute relatively little to the economy in the forseeable future.

To summarize the preceding sections, the best growth prospects in the near term are to be found in revitalizing agriculture and in regaining lost investments in light manufacturing or agro-processing. Industries were initially attracted to Dominica by relatively low wages, generous fiscal incentives and a stable political environment. The recent plant closures have introduced an element of uncertainty into the picture which must be counteracted if foreign investment is to be attracted again to Dominica. Policy makers must be on guard against wage increases that outstrip productivity and hence could threaten the already shaky cost competitiveness of the Dominican economy.

Government Finances

When the current government took office in 1980, it faced a situation in which the recent loss of U.K. budgetary support, a previous excessive public employee wage increase, and the revenue loss and expenditure demands imposed by three hurricanes, had combined to create severe budgetary strains. The government approached the IMF and negotiated a three-year Extended Fund Facility. Under that program, the government broadened the revenue base, raised taxes and strengthened the revenue collection mechanism, while pursuing a policy of expenditure restraint. As a result, the Central Government's current account deficit declined from EC$17 million (10 percent of GDP) in 1980/81, to near balance in 1983/84 and has experienced modest surpluses since then. In addition, improved management of public enterprises has eliminated their previously heavy demands on the public budget. The deficits of earlier years have turned into surpluses. The government continues to work on improving the performance of public enterprises. A major technical assistance effort is aimed at improving the management of the central water authority, with a long term aim of privatizing that entity if buyers can be found. The electric utility was recently moved toward privatization when sixty percent of the shares were offered for public purchase. Those entities now require virtually no transfers from Central Government. In spite of these changes, through the early 1980's deficits had not yet turned into surpluses, and government had no resources to contribute to a capital program. In 1983/8420Dominica received $US 2 million in program support, the local proceeds of which were applied to capital projects.

The following year, the government's current account balance continued to improve, but its financing requirements increased further as IMF repayments became due. Dominica then entered into a standby arrangement with the Fund for SDR1.4 million for 1984/85.

Dominica's performance under both IMF arrangements was good. Payments were on time, and agreed-upon reform measures were undertaken. Under the 1983/84 program, government was unable to draw its April quota because it exceeded the programmed ceiling on nonconcessionary borrowing. This occurred first because an unseasonable spring storm required emergency spending and second because of substantial tax refunds that the government wanted to make before the end of the fiscal year, which had an unintended effect on nonconcessional borrowing. By September, they were back on stream and were able to draw the remaining balance of the EFF. The 1984/85 standby had to be suspended in February of 1985. On that occasion bad weather made it necessary to spend one million dollars EC to restore damaged communications. Failure to reach agreement on what the government felt to be excessively costly conditionality led to suspension, after approximately 1.1 million of 1.4 million SDR's had been drawn. The current account continued to improve, and showed a small surplus in 1984/85. In 1986/87 the government began a structural adjustment program under which USAID, the IMF, the World Bank and the Caribbean Development Bank each provide program support.

The 1985/86 budget included a series of tax reforms aimed at providing incentives for private sector savings and investment and controlling consumption expenditure. Nuisance taxes were removed and taxes on nonessential consumer items were increased. The planned increase in revenues of EC$9.4 million would have increased tax effort from 31 percent to nearly 34 percent of GDP. A planned surplus on current account of $10.1 million EC dollars was to have permitted contributions to capital projects and a repayment of 4.9 million to the IMF. This would have left a financing gap of EC$3 million. Several events intervened to alter these plans and to generate the present cash flow problem. First, a November 1985 storm caused damage that required additional expenditure of EC1 million dollars. It was determined that a new ad valorem customs charge significantly increased production costs and discriminated against manufactures. Government felt it necessary to reduce the ad valorem rate. Economic stagnation lowered demand with a resultant drop in consumption taxes. Despite a concerted effort to restrain the public wage bill, threat of a protracted strike led government to concede a civil service wage increase of approximately 20 percent over three years. While this was a substantial improvement over the 47 percent increase that the union had demanded for the first year, it nonetheless added 8.5 million EC dollars to that year's wage bill. The originally estimated current account surplus was therefore reduced from 10.1 million to about 3 million EC dollars. A short-term liquidity crisis was avoided by cutting back on nonwage current expenditures, on capital expenditures, and by a USAID budget support grant of EC$ 4.05 million.

Prices and Wages

Inflation, as measured by the Consumer Price index, moderated each year from 1980 to 1985. In 1980 prices increased at an annual rate of 30.5 percent. In 1981, the rate had fallen to 13.3 percent, and dropped to a little over 4 percent in 1982 and 1983 and decreasing again to a little over 2 percent in 1984 and 1985. The main contributing factors to these changes were: import prices, which increased slowly in 1981 and declined from 1982 to 1984; a marked slowing in the increase in wages; and larger food supplies. In 1986 prices began to rise again at an average rate of 3 percent, as import prices, utility rates and excise taxes all increased. Inflation may be in the 4 to 5 percent range in 1987.

Fifty-five imported items, mostly food and construction items, are subject to maximum markups of 8 percent at wholesale and 12 percent at retail. Utility and petroleum product prices are regulated. While such controls are not pervasive, in its policy dialogue RDO/C will encourage critical review of those that exist and removal of those which are significant impediments to efficient economic performance. These will also undergo careful scrutiny during the structural adjustment program.

The government of Prime Minister Charles has made substantial progress in moderating wage demands. Early in her administration, the PM took steps to sever the automatic link that existed between inflation and civil servants' wage increases. She agreed to pay wage arrearages that had resulted from the the pay accord negotiated by the previous government. In return, the Civil Servant's Association agreed to settle for 10 percent annual wage increases during the 1982-84 period. Wages in the private sector have been held below that 10 percent ceiling, but have been influenced by public sector wage settlements. Even the 10 percent ceiling was considerably higher than the rate of inflation over the same period. Wage costs are still a major source of difficulty in the government's ability to control its finances. Despite improved labor relations in recent years, government was faced with a potentially Demanding public employees strike and in December 1985 settled a wage agreement in excess of 20 percent over three years. While both government and outside observers are concerned about this, it did represent a considerable improvement over the 47 percent one-year increase originally demanded by the employees.

The government's wage policy is critical to its structural reform program, and indeed might represent its major economic management tool. As noted elsewhere, the structure of the ECCB and the monetary arrangements of the OECS effectively eliminate monetary policy as a tool for individual countries in the region. With an overvalued effective exchange rate, control of costs, and therefore of wages, will be necessary if the objectives of the structural reform program are to be met. This will entail encouraging restraint in private sector wage settlements, but it is equally important for the government's own fiscal management that public sector wages be held to manageable levels and that Government strive to decrease the public employee wage bill as a proportion of its current revenues. Some steps have already been taken. In July, 1986 the government of Dominica abolished automatic annual increments in civil service salaries. A technical assistance team is presently working on an organization, methods and manpower survey designed to raise civil service productivity and reduce government employment.

ANNEX B

DOMINICA ECONOMIC OUTLOOK FOR 1987

Performance during the first quarter of 1987 indicates that Dominica may have another year of solid economic growth, essentially a repeat of 1986. As usual, with agriculture playing such a dominant role in the Dominican economy the major threat to realizing its growth potential, and the major source of uncertainty in making a forecast, is the weather. With favorable weather a 5 percent rate of real growth should be readily achievable and judging from performance thus far it is possible that it will approach 6 percent for the year. Under less favorable assumptions, growth will be in the 3.5 to 4.0 percent range.

The "optimistic" projection in the accompanying table assumes that first quarter performance will continue throughout the year. The more conservative second projection allows for some shortfall in one or more sectors. In fact, the projections differ only in the projected performance for three sectors: agriculture, construction, and trade.

For several sectors and subsectors, a simple time trend gives a very good fit to historical data and 1987 projections are largely or entirely based on this historical pattern. These sectors are: livestock; forestry; fishing; mining and quarrying; electricity and water; hotels and restaurants; transport; communications; banks and insurance; real estate and housing; government services; other services; and the imputed service charges. In the case of several sectors, time series analysis was supplemented by current information on production and sales. Projections for agricultural crops, manufacturing, construction, and trade are based on current data and on interviews with individuals close to those sectors.

Agriculture:

Barring major storm damage, banana production is likely to reach 60,000 tons, which would represent an 18.5 percent increase over the 50,500 tons produced in 1986. Production through midyear nearly equals the total for all of 1985. Some industry sources feel that 65,000 tons is achievable in 1987. Even without a severe wind or rain that would devastate production for the remainder of the year, weather has had some adverse impact on production. There was been virtually no rain for the first quarter of 1987. As a result, there was some plant breakage and crop destruction. The growers association thinks that there may have been a 5 to 10 percent banana loss due to drought. Better estimates will not be available until the second quarter harvest is complete, since the effects of the drought will be felt only with a two to three month lag. Others close to the industry think that with recent timely rains, these temporary losses can be offset and the 60,000 ton budget met or exceeded. The "conservative" GDP projection allows for roughly a 10 percent shortfall due to drought damage.

Coconut production is expected to increase by about 15 percent as a result of expansion of that subsector. Citrus production could be 10 to 15 percent larger than in 1986 because of agro-processing. The production of other crops, especially of dasheens and some ground provisions is projected to remain unchanged or to fall slightly, reflecting farmers' increased shift to bananas. Production of plaintains, an export crop, may increase slightly, but the emphasis in agriculture has shifted to bananas. Livestock, forestry and fishing are projected to repeat their respective recent historical performances.

Mining and Quarrying

Activity in this sector is closely tied to government construction, since much of the production is aggregate for roads. There will be some modest stimulus in 1987 due to the construction of the Canefield air terminal and activity could increase late in the year if feeder road construction begins.

Manufacturing

Little improvement is expected in the manufacturing sector, reflecting the continued lack of bouyancy in demand from CARICOM markets. A small new plastics firm has opened in recent weeks, but the sector is dominated by Dominica Coconut Products. Both projections assume a repeat of the 3 percent growth rate of 1986, since the sector has exhibited at least modest growth in all but U.S. recession years.

Construction

In recent years performance of the the construction sector was heavily influenced by government projects. It suffered a 17 percent decline between 1985 and 1986 as these major construction projects phased down. Some recovery is expected in 1987 with the construction of the Canefield airport terminal and perhaps some road construction. The main impetus will come from the private sector, however, where there has been a notable increase in activity. Building permits appear to be running about 6 percent ahead of last year. Additional stimulus to home building should come from an anticipated EC$ 10 to 15 million loan program later in the year.

Wholesale and Retail Trade

Comments from traders would indicate a weak performance this year. However, this pessimism may in part merely reflect individual perceptions based on the erosion of sales and profits of established traders due to increased competition. Several new boutiques and "supermarkets" have sprung up around the island and appear to be reducing the market share of Roseau-based established traders. It seems plausible therefore that some modest growth in the sector can be expected, based on expansion of the number of firms.

Hotels and Restaurants

The number of tourist arrivals increased significantly in 1986 and may repeat in 1987. However, this will probably not have a significant impact on the hotel and restaurant trade since one area of increase is in cruise ship passengers and the other consists of Dominicans living abroad who return for vacations but stay in private residences. For these reasons, growth in this sector is not expected to exceed the modest trend of recent years.

Transportation

A modest increase is anticipated in transportation, partly a reflection of the increased needs of the banana subsector.

Inflation

In 1986, price increases averaged 3.0 percent for the year. However; there are signs that inflation began to pick up at the end of the year: The January to January increase was 4.5 percent, February to February, 5.1 percent and March to March 6.1 percent. The increases reflect higher import costs, increased housing costs, higher utility rates and air fares, some increase in fruits and vegetables and, after July, an increase in excise taxes.

DOMINICA GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY, AT FACTOR COST
IN CONSTANT 1977 PRICES (EC$ MILLION)

	1980	1981	1982	1983	1984	1985	1986	OPTIMIST. 1987	CONSERV. 1987
1. AGRICULTURE	23.66	28.92	29.59	29.84	31.47	30.68	33.99	37.70	35.75
1.1 CROPS	17.02	20.82	21.55	21.57	22.86	21.23	24.23	27.51	25.56
1.2 LIVESTOCK	1.61	2.14	2.32	2.51	2.39	3.32	3.49	3.69	3.69
1.3 FORESTRY	1.69	2.54	2.60	2.60	2.65	2.20	2.27	2.50	2.50
1.4 FISHING	3.34	3.42	3.12	3.16	3.57	3.93	4.00	4.00	4.00
2. MINING & QUARRYING	0.72	0.74	0.80	0.79	1.00	0.97	0.92	0.95	0.95
3. MANUFACTURING	6.20	7.30	8.57	8.74	8.65	9.86	10.16	10.50	10.50
4. ELECTRICITY & WATER	1.67	1.81	1.83	1.98	2.12	2.27	2.34	2.46	2.46
5. CONSTRUCTION	11.90	10.08	8.75	8.26	11.64	10.37	8.61	9.50	9.00
6. WHOLESALE & RETAIL TRADE	11.46	12.08	12.05	11.82	11.98	13.06	14.10	15.03	14.57
7. HOTELS & RESTAURANTS	0.90	0.87	0.96	1.10	1.13	1.09	1.45	1.50	1.50
8. TRANSPORT	4.46	3.74	4.28	5.77	6.06	6.75	7.39	7.75	7.75
8.1 ROAD TRANSPORT	3.60	2.74	3.26	4.66	4.80	5.54	6.09	6.43	6.43
8.2 SEA TRANSPORT	0.66	0.81	0.81	0.88	1.01	0.97	1.05	1.07	1.07
8.3 AIR TRANSPORT	0.20	0.19	0.21	0.23	0.25	0.24	0.25	0.25	0.25
9. COMMUNICATIONS	1.40	1.74	1.96	2.13	2.23	2.47	2.59	2.71	2.71
10. BANKS & INSURANCE	5.64	5.77	5.80	5.83	5.95	6.25	6.44	6.46	6.46
11. REAL ESTATE & HOUSING	5.52	5.62	5.71	5.82	5.88	5.94	6.01	6.11	6.11
12. GOVERNMENT SERVICES	21.09	21.93	22.59	22.93	23.39	23.97	24.21	24.90	24.90
13. OTHER SERVICES	1.09	1.10	1.17	1.19	1.21	1.23	1.27	1.30	1.30
14. LESS: IMPUTED SERVICE CHARGE	3.50	3.58	3.61	3.63	3.78	3.97	4.09	4.13	4.13
TOTAL	92.21	98.12	100.45	102.57	108.93	110.94	115.39	122.74	119.83
GROWTH RATE	16.44	6.41	2.37	2.11	6.20	1.85	4.01	6.37	3.85

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ANNEX C

Table 1.C
DOMINICA BILATERAL REAL EXCHANGE RATE INDICES

	US	UK	CANADA	TRINIDAD	BARBADOS	JAMAICA
1976	1.259		1.517	1.097	1.186	
1977	1.244		1.408	1.138	1.192	
1978	1.135	0.910	1.193	1.064	1.107	0.920
1979	1.070	0.956	1.120	1.033	1.060	0.953
1980	1.000	1.000	1.000	1.000	1.000	1.000
1981	0.974	0.789	0.984	1.009	1.011	0.995
1982	0.989	0.691	1.018	1.076	1.068	1.014
1983	0.981	0.626	1.035	1.207	1.080	0.590
1984	1.002	0.514	0.565	1.339	1.106	0.491
1985	1.016	0.663	0.967	0.941	1.126	0.635
1986	1.006	0.680	0.963	0.996	1.108	0.608
1987	0.975	0.737	0.992	0.972	1.055	0.597

Larger values for the index indicate effective depreciation, and smaller values effective appreciation, of the EC dollar compared to the 1980 base year value of 1.00.

Table 2.C
DOMINICA NOMINAL AND REAL EFFECTIVE
EXCHANGE RATES

	NEER STANDARD	REER STANDARD	NEER EXTRA	REER EXTRA
1976	0.506			
1977	0.502			
1978	0.924	1.012	0.946	0.993
1979	0.965	1.009	0.971	0.999
1980	1.001	1.001	1.001	1.001
1981	0.899	0.886	0.916	0.905
1982	0.835	0.853	0.863	0.880
1983	0.801	0.830	0.757	0.791
1984	0.720	0.771	0.659	0.732
1985	0.750	0.828	0.678	0.809
1986	0.756	0.839	0.683	0.814
1987	0.792	0.857	0.713	0.829

Note: See Note to Table 1.C. "Standard" designates US, UK, Canada and Trinidad trade weights. "Extra" includes these four plus Barbados and Jamaica. All calculations include the effect of the December 1985 Trinidad devaluation.

ANNEX D

AID'S PARTICIPATION IN THE "TIGHT CONSULTATIVE GROUP"

Early in 1936 the OECS Economic Affairs Secretariat, with country assistance, developed a proposal for an "Eastern Caribbean Development Facility." The ECDF was designed around the concept that the OECS states would engage in codified structural adjustment programs in return for budgetary support from the donors. However, because the majority of donors either could not provide budgetary support (by their own laws) or could not participate in such a pooling of program assistance (by their charters), the ECDF was declared unworkable at March 1986 Caribbean Group meetings in St. Lucia and an alternative, the "tight consultative group" (TCG) concept, was tabled by the World Bank.

At the March 1986 meetings the US delegation, under instructions from Washington, endorsed the TCG concept. RDO/C will use the resources planned under the "Structural Reform Support Project" (538-0141) for FY87 and FY88 and beyond to support the TCG approach. The current program for Dominica is the first TCG effort in the region.

The TCG concept is still evolving but it promises to be an effective means of focusing program and project assistance on structural adjustment problems in the OECS. The focusing of resources should greatly enhance the efficiency of their use in bringing about structural adjustment. Our current understanding of the TCG concept, and what appears to be its composition, is set out below.

(A) Tight Consultative Group Approach. CGCED donors and recipients have agreed, in principle, on a "tight consultative group" approach to coordinating structural adjustment programs in OECS states. For OECS countries interested in embarking on structural adjustment programs that make use of the IMF and World Bank program assistance, the TCG would likely replace the CGCED subgroup meetings held heretofore. The TCG is envisioned as a "tight" group in that participating donors would be limited to those that are actively and financially contributing to the structural adjustment program in the OECS state in question. In addition to the IMF and itself, the World Bank expects the US (as the only other donor able to provide program assistance) to participate in and be guided by the TCG in its decisions on not only program assistance but also project assistance to the OECS state in question. The World Bank also is looking forward to the participation in the TCG by those bilateral donors who expressed their inability to participate in the program assistance inherent in the Eastern Caribbean Development Facility (ECDF), but who said that they would strongly support structural adjustment efforts in the OECS in any other way they could. The TCG approach aims to better focus external assistance to the OECS states, although it also potentially entails something of a loss of flexibility in deciding what projects to either continue or initiate.

(B) Medium-term Structural Adjustment Programs. In order to gain and maintain access to the resources available under the TCG approach, a country must agree to a medium-term (three-year) structural adjustment program. The

MTSAP contains relatively clear-cut targets for the ensuing year and less clearly defined ones for remaining years in the program. The IMF, World Bank, and the recipient country--and presumably other donors participating in the TCG--will all have to agree on the program. The World Bank has offered to assist any country that so wishes to design the MTSAP. Thus far, Dominica has agreed to a PFP and is engaged in a program, while Grenada has indicated its willingness to participate in the TCG and is taking the preliminary steps toward developing a program.

(C) Structural Adjustment Facility. IMF decided to make trust fund reflows (about USDOLS 2.7 billion) available to IDA-eligible LDCs worldwide on very concessional terms in a "Structural Adjustment Facility" (SAF). Funds equivalent to 20 percent of (IMF) quota would be available in the first year, with 13.5 percent in each of two subsequent years. (Dominica, with an SDR 4 million quota therefore had access to SDR 800,000 the first year and SDR 540,000 in each of two subsequent years.) The funds are loaned at 0.5 percent interest, with 5-year grace periods and another 5 years to repay. Access by a given country to its share of the funds is contingent on IMF and World Bank determination that that country has a "sound macroeconomic framework" in place and on that country's agreeing with the World Bank and the IMF on a medium-term (three-year) structural adjustment program. Performance targets are more like World Bank targets than the strict quantitative targets imposed by the IMF in its normal stabilization facilities. The IMF Board approved the SAF program in late March 1986.

(D) IDA VIII Program Assistance. The World Bank has decided to make that amount of IDA VIII that will go to the OECS countries available for program (as opposed to project) assistance. That amounts to roughly $20-25 million over the IDA VIII period (July 1987-June 1990). As part of the impending OECS "graduation" from IDA, these funds are not solely IDA, but would be mixed with regular IBRD resources, thus implying loan terms somewhat less concessional than those under the IMF SAF program. Again, access to these resources by any country is contingent on IMF and World Bank determination that that country has a "sound macroeconomic framework" in place and on that country's agreeing with the World Bank and the IMF on a three-year structural adjustment program. As an interim experiment, in 1986 the World Bank indicated to Dominica its willingness to take $2 million of the World Bank's $5 million IDA contribution to the Dominica hydroelectric project and apply it to Dominica as program assistance. It is expected that a total of $ 3 million will be available from IBRD over a three-year period. In addition, the Caribbean Development Bank (CDB) is making a total of $ 2 million dollars of structural adjustment loan funds available over a two-year period.

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July 22, 1987

Peter Kolar
LAC/CAR
Room 3242
Department of State
320 21st Street N.W.
Washington, D.C. 20523

Dear Peter:

Per our recent telephone conversation, enclosed please find two copies of the Concept Paper for Dominica Structural Adjustment Support. Please pass one copy to LAC/DR, Patty Buckles and get a copy to DP as soon as you can. Thank you very much.

As I told you on the telephone, RDO/C does not plan at this time to send a representative to the review. I call your attention to the Guidance on the FY88/89 Annual Action Plan, where the following decision was made:

"(1) AID/W will review concepts papers for multi-year country assistance programs prior to the first obligation. A Mission representative would attend the review if RDO/C or AID/W believe there are substantive issues that would make representation desirable.

"(2) Changes in conditionality from that proposed in the concepts paper would be the subject of cable consultation prior to initial obligation of funds.

"(3) The Mission will send a reporting cable prior to obligation of funds in subsequent years which summarizes progress to date, identifies any issues requiring further consultation, and presents any changes in performance targets and conditionality proposed for the year."

Given the urgency of meeting Bureau obligation targets, I hope that questions about this concept paper can be resolved by telephone and cable, to permit early PAAD approval and obligation.

Regards,

Roy J. Grohs
Program Economist
RDO/C

Clearance: David Mutchler, PRM

cc: Al Bisset, D/DIR
James Holtaway, DIR

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ANNEX E

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GOVERNMENT OF DOMINICA
POSITION PAPER
TAX REFORM

BACKGROUND

Dominica had been making gradual changes in its tax structure from 1980 to 1986. The most recent changes caused a significant shift of taxes from direct to indirect. However, little attempt had been made to broaden the tax base because of the fragility of the productive sectors, particularly the agricultural sector.

The burden of taxation fell heaviest on personal income and consumption. Before the last budget 1986/87, minor adjustments had been made to the income tax; but with the lapse of time, the steep progressivity of the rates and the effects of fiscal drag, the tax on personal income became punitive. Attempts to streamline the consumption tax led to the introduction of new taxes, notably the stamp duty on imports, the Customs Service Charge and the stamp duty on sales, all of which complicated the tax assessment procedure and increased the carrying cost of inventories.

Ad hoc measures to relieve investment costs for manufacturing created inequities and complexities in the tax system. It became clear that a major overhaul was required to examine each sector and find a simple and efficient tax code that would help to reallocate resources and minimise disincentives in the system.

The tax study completed last February was constrained by its overriding concern that the transitional loss of revenue that could arise from major important changes had to be kept to the barest minimum.

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General Principles

The main principles guiding the study were

i a tax system should be designed to suppress private consumption while discouraging production as little as possible;

ii it is far better to tax income after it is earned than to tax iputs to the production process that generates income;

iii it is better to tax the actual disposition of income at the time of consumption;

iv taxation of wealth is better than income taxation;

v an incremental or "marginalist" approach to tax reform is better than wholesale upheaval of an entire revenue system;

vi a system of broadbased taxes is superior to one made up of several little taxes at different rates and on different bases;

vii consideration must be given to administrate feasibility even at the cost of adopting a second-best solution.

In general, government accepts the validity of the above. However, with regard to the fifth principle, government considers that the package of policies contained in the report must be implemented in a cohesive manner if it is to achieve its objective. A too gradual approach could lead to a dilution of its effectiveness, distortions, inequities and attendant social problems. The full impact of investment credits will not be felt without an improvement in labour productivity that could be realised from adjustments in taxes on personal income and consumption. Similarly the proposed wage restraint policy might not be successful without concessions on taxes on wages etc.

Much concern has been expressed that the tax reform must of necessity be revenue neutral. This concern could be valid in a situation where structural rigidities do not exist and where the tax effort of the country is not already too high, as in the case of Dominica with a tax/GDP ratio of close to 34%. A simple redistribution of the tax burden would merely transfer inefficiencies or disincentives from one sector to another without achieving the overall objective to stimulate investments and economic activity in a planned and orderly manner. Where the overall tax effort is already too high, a revenue loss is inevitable if adjustments are to be made effectively.

1. Indirect Taxes

The report recommends the following changes in the indirect taxes:

i the 5% stamp tax should be abolished;

ii the customs service levy should be reduced to a single rate of 1% and extended to all imports, including imports by the Banana Marketing Corporation

iii there should be a basic rate of consumption tax at 20% except for petrol, alcoholic beverages, tobacco which should continue to be taxed at the present specific rates. Consumer durables and luxury items should bear a surcharge of 15%;

iv consumption tax should be abolished for machinery, equipment, tools, business machines, computers, office supplies, raw materials and packaging materials;

v there should be a 3% sales tax on wholesale/retail sales, including petrol sales.

2. Consumption Tax

Government accepts the recommendation for a flat rate of 20% consumption tax except for petrol, alcoholic beverages and tobacco which should continue to be taxed at the present specific rates. Government also accepts the recommendation for a 15% surcharge on consumer durables and luxury items.

Government accepts the recommendation that the production inputs should be free of consumption tax. However, the list of identified raw material ignores the range of intermediate goods (such as domestic sugar, component parts etc) which go into processing or manufacturing. While the argument that treatment of producer goods should depend on the nature of the goods and the kind of activity they support rather than whether or not the importer is a manufacturer etc. (page 6 of paper on Indirect Taxes) is generally valid, special treatment will have to be given to manufacturers or processors who use intermediate or finished products in the production process. These will have to be considered on a case by case basis.

The zero rating of business machines, and office supplies will require the cooperation of the distributors to avoid excessive mark-ups. This concession should be reviewed annually with a view to curtailment of extensive use is made of it for private purposes.

The lower rate of 10% consumption tax on sales of locally manufactured products, although discriminatory, has not caused any reactions except favourable responses from domestic manufacturers. The "special rate" should be held over a transitional period of at least one year. This measure provides

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much needed support to some of the fledgling industries with marginal profitability and restricted markets. A policy of economic diversification will not succeed in our situation if the few productive enterprises established at great risk and facing severe competition cannot be encouraged and supported during the initial years of operation. For this reason governmentconsiders it appropriate to continue to apply a lower rate of consumption tax (i.e. 10%) on locally manufactured products.

3. Sales Tax

Basic foods now bear a consumption tax of 5% and 10% plus the stamp duty of 5%, plus the customs service charge of 5%; an effective rate of 16% and 21%. The proposed change to a flat 20% of consumption tax plus a 1% customs service charge (i.e. an effective rate of 23%) would not materially affect tnese items and should have negligible effect on the cost of living. However, there is a 3% sales tax applied downstream on both wholesale and retail sales. This could increase the price of foods and other items sold wholesale and retail by as much as 6%.

Government is concerned about the cascading effect of applying the tax on both wholesale and retail, and examined various alternatives for dealing with the problem including a modified VAT system of allowing tax credits to the few businesses involved in both wholesale and retail in respect of their wholesale transactions. However, a number of problems were identified:

i. the unreliability of the accounting system presently in use in the commercial firms;

ii the lack of clear distinction between bulk purchases and wholesale transactions.

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These are some of the same problems that could contribute to the non-viability of a VAT in our situation.

Appendices 2A, B, C and D illustrate the effect of the sales tax on prices of selected basic foods.

Government accepts the recommendation for a 3% sales tax on wholesale/retail sales as the most feasible option available at this time.

4. Stamp Duty on Imports

Government accepts the recommendation for the abolition of the 5% stamp duty on imports. The retention of this tax, in addition to the 3% sales tax on wholesale and retail sales would foster disequilibrium in prices and incomes and defeat two of the important objectives of restructuring the indirect tax system - i.e. a reduction in the carrying cost of inventories and a reduction in the number of border taxes.

5. Customs Service Charge

Government favours a unified rate of the Customs Service Charge instead of the 1% on manufacturing inputs and 5% on general imports presently applied. In order to reduce the revenue loss government approves of a unified rate at 1.5% on all imports, including imports by the Banana Marketing Corporation, previously exempt.

Direct Tax

6. Tax on Personal Income

Since a new Income Tax Act was introduced in 1966 rate adjustments have been made at two nine-year intervals - 1975 and 1984. The effect of "fiscal drag" during this period was aggravated by the extraordinarily high inflation rates (especially after 1979) and the rapid upward movement of wages.

Marginal rates became excessively steep and the highest rate of tax applied to a relatively low level of income.

An attempt was made in 1986 to adjust the increase in some of the allowances - personal, wife and children - and by broadening the tax bands. But even at a cost of more than $5 m. The changes made could only be considered marginal.

As compared to other regional administrations, the tax on personal income was still excessively high. This could engender lower productivity, demands for wage increases and the loss of valuable skills - all of which could affect adversely Dominica's competitiveness in the region.

In addition, the complexity of the tax system required a lot of effort on the part of the tax payer and the small revenue staff.

The report recommends the removal of a number of small allowances, the establishment of a threshold large enough to absorb all allowances except allowances for mortgage interest and a three-tier rate schedule. These recommendations will facilitate the move towards self assessment, free the revenue staff for selective audit and collection, analysis and reporting, while at the same time producing additional relief to the small and middle income earner. The threshold recommended in the report is at $10,000. The present threshold is at $3,700.

Alternative D of the Appendices to the paper on Tax on Personal Income appears to be the most attractive option from the point of view of

i simplicity

ii the even distribution of benefits

iii cost of implementation.

It should be noted that in Appendix D the highest income earners will benefit substantially more in terms of money values. Alternative E has the advantage of a more equitable distribution of benefits; but at higher cost and at the expense of simplicity. The relative costs are $5.1 m. for Alternative D and $7.8m. for Alternative E. While Alternative F can be done at even lower cost than Alternative D, the gains at the lower and middle level incomes are too marginal and would not have significant impact on savings or productivity.

However, Alternative D removes 3971 additional persons from any tax liability; and in terms of percentage gains (as distinct from dollar value gains) the low income earners have the advantage of savings at the new tax threshold ranging from 87% at the low end 3.6% at the top end of the salary scale.

In an attempt to reduce costs, variations have been made in the threshold as shown in Appendices 3A, B, C and D in this paper. While Appendices 3A and 3B show substantial reductions, the distribution of gains is very uneven. In the case of Appendix 3A, a large number of tax payers in the middle range might even have to pay more tax. The second most attractive in terms of benefit distribution is Appendix 3C. This option also allows a saving of about $1.3 m.

Attempts to vary the rates have resulted in very unequal distribution of the benefits or large losses of revenue.

Among all the alternatives offered, government considers that the option at Appendix C in this paper is the preferred option from the point of view of the distribution of benefits and cost. This option allows for -

(a) a threshold of $9,000 with no allowances except for mortgage interest

(b) a simplified rate schedule

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$ 0	-	$ 9,000	0%
9,000	-	25,000	25%
25,000	-	50,000	35%
50,000	and over		45%

7. Corporation Tax

In 1986/87 government reduced the rate of corporation tax on profits from manufacturing enterprises from 40% to 30% while increasing the tax on other corporate income to 45%. Government accepts the validity of the recommendation to reunify the rate of the tax. However, government is concerned that the incentive given to the manufacturing sector by reducing the tax should not be significantly diminished. Government has decided to establish a unified rate for all corporate enterprises at 35%.

8. Tax on Agricultural Incomes

The report recommends that agricultural income should be brought into the tax net and treated in the same way as income from other sources.

Agricultural income has always presented difficulties to the revenue for assessment. When that sector was removed from the tax net in 1973, less than $250,000 was collected out of total income tax receipts of $3.4 m. The loss at the time of exemption was therefore not significant. At that time, too, losses on agricultural activities could be offset against other income, so that the net receipts from agriculture would have been even less. Present tax laws prevent the offsetting of loss in one activity against income from another.

It is generally agreed that the tax base should be broadened and that agriculture should contribute a fair share to the revenue. The question remains which method of doing this is most feasible and politically/socially acceptable. Five options were considered:

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A. Ordinary assessment of all agricultural income

B. Selective assessment of larger growers

C. A withholding tax on sales

D. A levy on the marketing agency

E. A continuation of B and C above.

It is important that the option selected must be acceptable to the farming community. Agriculture has been exempt from income tax for about thirteen years and it is natural that there could be political or social resistance to the restoration of tax on that sector unless the method of application is acceptable. Furthermore, there are over five thousand growers in the banana industry alone, with farm sizes, ranging from 0.06 acres to over 50 acres. More than half the number of banana farmers cultivate less than 1 acre of bananas. A similar distribution would obtain for other crops.

A. Ordinary assessment of all agricultural income

In the circumstances described above it would be an extremely arduous undertaking to attempt to obtain tax returns from a large number of small farmers, most of whom would not know how to keep proper records. There would certainly be strong resistance to requests for the submission of returns.

Secondly, using shadow-priced production costs prepared by the DBMC at $4,200 per acre, most banana farmers cultivating less than 5 acres would be below the present tax threshold. What this indicates is that about 299 farmers cultivating above 5 acres with taxable income of about $2.3 m. from

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bananas could be taxed. The estimated tax yield could be about $700,000. Assuming all of these farmers are engaged in farming other crops, tax yield could be in region of $1 million.

The advantage in using this alternative is that all income from agriculture will be captured; but at considerable administrative cost.

B. Selective assessment of larger growers

The small number of taxable farmers suggests that the number of farmers to be targeted could be restricted to farmers with a minimum acreage to be established for each crop, or where mixed farming exists, to farm sizes over a certain size. The danger here is that there could be fragmentation of production units so as to escape the tax.

C. A withholding tax on sales

One of the simplest methods so far discussed is a withholding tax on sales of agricultural produce. This could be in the form of a fixed or variable percentage or unit of value deducted from sales.

A number of objections have been raised against this method

i it is inequitable and regressive, weighing heaviest on the small producer;

ii it resembles too closely an export tax since it will be applied almost exclusively on export sales;

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iii it will not capture all agricultural income; but only those crops marketed through established marketing outlets.

All three objections have merit; but the overwhelming argument in favour of this method is its simplicity and cost effectiveness.

Applying this method to banana sales alone, at a tonnage of 50,781 for 1986, with an estimated net income of 7 cents per lb., a deduction of 1 cent per lb could yield a little over $1 million.

D. A levy on the marketing agency

A levy on the marketing agency appears to be the most acceptable method of taxing agriculture. Some objections have been raised against this method of taxation on the grounds that it too closely resembles an export tax. But the effect of this method is not the same as an export tax since it does not increase the f.o.b. price of exports. Although the tax is levied on the marketing agency, it is passed on not to the consignee of Dominica's agricultural exports, but to the producer as an expense of the marketing agency. Consultations held among the farming community indicate that this method of taxation is at this stage the most socially acceptable.

Two methods of application of the tax were examined -

i a unit of value per lb. of bananas sold (or an equivalent percentage of sales)

ii a unit of value per lb. of bananas sold up to an agreed base price, together with a surtax on any amount over that base price.

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Both methods are illustrated in Appendix 4A and Appendix 4B. Another option considered was a variation of Option C - A withholding tax on sales in which a withholding tax at a fixed or variable rate could be deducted through the marketing agency from all producers. Each producer would be required to submit tax returns for all agricultural income. Tax refunds would then be made to all farmers whose net incomes fall below the tax threshold, or those whose tax deductions exceed the years' tax assessment.

Small farmers could suffer the inconvenience of reduced cash flow; but there could be a benefit in enforced savings.

For most farmers there could be an incentive to submit tax returns in the expectation of a tax refund.

However, Option D is the preferred option. It appears at this time, that bananas are the only viable ~~crops~~ crop with an organized marketing outlet that can be brought through this method into the tax net.

Appendix 4A and B shows what the tax yield from banana sales could be using various rates and two different formulations of the cess. In column (1) of Appendix 4A, revenue yields using varying units of value (1c, 1 1/2c, 2c and 2 1/2c per lb) are shown. In column (2) percentage rates applied to gross income are used to determine revenue yields.

In Appendix 4B, the unit of value is applied to a base income of $52.73 per lb. to the Association. Any income above the base income is taxed further at the rate of 25%. The yield from this form of tax is considerably higher. For instance using a straight cess of 1c per lb. the yield is estimated at $1.3 m. Using the formulation in Appendix 4B, the yield increases to $2.2 m.

The yield increases correspondingly as the unit value of tax per lb. increases as indicated in the two Appendices.

Government has adopted the following proposal

i a tax of cents per lb. on a base price of cents per lb. payable to the Corporation;

ii a surcharge of 25% on any amount over the base price of ... cents per lb payable to the Corporation.

9. Tax Incentives for Investment

The report argues strongly for an investment credit or allowance to be introduced as an alternative to the present tax holiday scheme. For all the reasons advanced this recommendation is strongly supported.

There should be selective application of the investment credit or allowance to those sectors favoured by government for accelerated growth. The report argues in part that all sectors are developmental and should be treated equally. In principle, this is true; but in the Dominica context this is misleading. The distributive sector, for instance, in more developed (especially industrialised) economies play a supportive role in distributing locally produced goods. Its role in this regard in the Dominica context, is diminished since distribution is essentially of imported goods which invariably compete with domestic production. There is non-the-less a limited role for this sector to support domestic production by efficient procurement of intermediate goods. That role is not sufficient to warrant incentives to this sector. For this reason the investment credit should be selectively applied to those sectors which government considers priority sectors.

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Such incentives should be available equally to foreign as well as domestic investment.

If the investment credit is applied to new investment only there will be no revenue loss. If it is in respect of expansion or diversification of existing businesses the loss could be quite significant. However, the figures shown in the report as tax losses arising from this credit are much too high. For one thing the level of investment shown will not come from domestic entrepreneurs; and being new and foreign, will not materially affect the level of taxes now being collected. A more conservative approach would be to take the level of domestic investment at half the total figure shown in the report and reduce the revenue loss arising from investment credits by 50%. The figure could be even lower if selectivity is applied so that the credits would only be granted for productive investments. The loss could, therefore, be reduced by $1.4 m. in the first full year of the reform programme.

Government accepts the recommendation for an investment credit/allowance equivalent to 10% of new investments. This will not apply where fiscal incentives have already been granted.

10. Withholding Taxes

This has not been specifically dealt with in the report. Withholding taxes are applied at varying rates on external payments in respect of profit transfers, royalties, interest, dividends, rentals, annuities, commissions etc. Paragraph 1(3) of the Third Schedule of the Income Tax Act provides for the payment of the tax at the end of a basis period even though the external payment has not been made. This is not in harmony with the current policy to induce the retention of profits etc. for reinvestment locally.

Government has always urged the foreign banks, for instance to retain their after tax profits for reinvestment locally. If the after tax profits are to be further taxed as dividends whether or not they are transferred, then there is very little incentive for the banks to retain them. The Act should be amended so that withholding tax will only apply when profits etc are being transferred out of the country. There could be a revenue loss in the initial year, possibly to the extend of $0.2 m. If dividends are retained for reinvestment, the multiplier effect of such investment should offset the revenue losses in subsequent years.

11. Tax Treatment of Savings, Financial Investments etc

The report recommends that the exclusion of the first $5,000 of interest income from taxable income be terminated.

This recommendation is accepted. In the present situation where all banks operating in Dominica hold excess funds that are not being channelled into productive investment, savings incentives could be directed towards more critical areas where growth in savings could stimulate growth in investment. The incentives recommended for the creation of a development fund is a much more effective method of harnessing savings for investment.

However, it should be noted that this does not affect current policy to exempt from taxation interest earned on mortgage lending for housing and on long-term deposits specifically for mortgage financing.

The recommendations with respect to Personal Income Tax include the retention of mortgage interest expense as a deductible allowance for tax assessment. There does not appear to be much merit in also excluding from the tax the income equivalent of the interest expense. The benefit should not extend to both the borrower and the lender.

12. Establishment of a "Development Fund"

The principal objectives of the tax reform programme include growth in domestic savings and investment. In the particular situation of small undeveloped economies such as Dominica, there is seldom a direct/automatic correlation between growth in domestic savings and growth in investment for the reason that there is lacking the catalytic intervention of effective monetary instruments and developed financial institutions. Thus the commercial banks as financial intermediaries do not play a dynamic role in channelling funds towards productive investment. In fact, their short term, high cost lending are more suited to consumption expenditure rather than long-term investment. The Central Bank which could mop up excess deposits for effective reallocation has not assumed the central and dynamic role in the monetary system that it was set up to do.

The creation of a "Development Fund" to capture some of the additional savings that will accrue from the Tax Reform is important, especially in view of the problems affecting the commercial banks and the business community.

13. Property Taxes

The report recommends the introduction of a property tax using the improved site value (capital value) method. The minimum yield estimated is $1.5 m. to $3.0 million. While the recommendation for a property tax is accepted the method of valuation proposed is not considered the best in our situation. What is needed is a simple form of valuation that can be applied equitably on both rural and urban properties. The capital value method weighs more heavily on urban properties than on rural properties, even though the income yield from rural properties may be higher. A tax based on unimproved site value is simpler to operate, is more suited to developmental policies and less contentious.

Harry Manning, F.A.I.V., F.A.I.M.A., a reputable property tax expert writes in the "Valuer" as follows:

"With all the most conscientious and experienced work and research possible under either the annual or the capital value systems, there still are likely to be so many imponderables and so many aspects open to personal judgement that, do what he may to reduce them, in the witness box, if called upon to support his assessments, the range of possible questioning could still be embarrassingly wide.

"What would be a better alternative to either the annual value or the capital value property tax systems? The answer suggested is property taxation based solely on the value of the land, that is, you value the land as if the buildings and other improvements on it do not exist, though not ignoring the nature of the development including the buildings adjoining, adjacent to and surrounding it. So that you are freed from all the pettifogging detailed research necessary where annual or capital values have to be determined."

It does not necessarily follow that, from a tax point of view, the unimproved site value method is a lower-yielding tax.

What is important is that we adopt a method that is manageable on a sustained basis by the staff that is available.

Another consideration to be borne in mind is that at times of disaster the revenue will not be drastically curtailed by loss of property since land values will always remain whether or not the structures on them are destroyed.

It should be noted that the property tax will be administered by central government. The taxes now collected by municipal authorities and village councils will no longer exist.

Part of the tax collected by central government will have to be shared among the municipal authorities and village councils. The estimated yield of the tax may, therefore, be less than indicated. A fair estimate of gross and net yield should be possible by the end of 1987 when the property lists for the urban areas will have been completed. The net yield from property tax (tax less administrative expenses and subventions to local government) could be reduced to only $1.0 m.

Government will introduce a property tax based on unimproved site value. The date of implementation will be 1990/91.

14. Fees and Licences

The report acknowledges that not much work was done on fees and licences. Except for motor vehicle and drivers licences, the revenue from this source is not very high. Some of the licences are not being efficiently administered because they are not worthwhile pursuing, especially in the rural areas.

Consideration is being given to divesting the collection of some of these licences - shops, liquor, bakers, boats, and animal licences - to the municipal authorities and village councils. This will lead towards more efficient collection and policing and improve their revenues. Transfer from government could be reduced correspondingly.

The more significant, specialised or regulatory licences and fees will be retained and reviewed by government - motor vehicles and drivers' licences, banking licences, trade and professional licences, insurance and company licences etc.

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15. Revenue Effects of Tax Reform

Some of the assumptions on which the revenue impact of the tax reform is calculated have been re-examined.

A private investment response of $26 m. in the first year of the tax reform is too much to expect from a private sector which has been dormant for more than a decade. Moreover, the tax reform by itself is not sufficient to attract a massive inflow of foreign private capital. Other problems, mainly infrastructural, need to be addressed simultaneously - logistics and cost of air and sea transportation being one of the main bottlenecks to new investment flows. The domestic private sector will need some time before it can regain and develop the necessary entrepreneural capacity. In addition, although there is presently no shortage of private capital, it will take some time before the commercial banks can begin to adopt a more aggressive and imaginative investment policy to increase private sector flows.

For the above reasons assumptions concerning fiscal stimulus and the multiplier effect of investment have to be approached with caution.

Revenue projections have been made on the basis of a very gradual increase in private investment, with a moderate upward trend in GDP growth as shown below. A deflator of 3.5% is used throughout to convert real GDP growth assumptions to GDP growth at current prices:

	Real GDP Growth	GDP Growth at current prices
1986	4%	7.5%
1987	4.5%	8.0%
1988	5.0%	8.5%

1989	5.5%	9.0%
1990	5.0%	8.5%

Revenues have been projected to grow on that basis, taking account of changes in the tax reform package.

An elasticity of 1.05 is assumed for personal income tax revenues in addition to a general tax buoyancy of 1.05.

The effect of the changes accepted at 1 to 14 above are shown in detail in Appendix IB.

FINAL POSITION AFTER ADJUSTMENTS

The cost in revenue of the tax reform programme on an annual basis is indicated below (see also Appendix IA):

1987/88	$3.6
1988/89	4.2
1989/90	2.5

There should be full fiscal recovery by 1994/95.

SUMMARY OF TAX REFORM PROPOSALS

1. <u>Indirect Taxes</u>

(a) abolish 5% stamp duty on imports;

(b) establish a uniform rate of 1.5% for Customs Service Charge;

(c) remove consumption tax on machinery, equipment, tools, office machines (not to include computers), office supplies, raw material and packing material;

(d) replace present multiple rate consumption tax system with a flat rate of 20% (except for cars, consumer durables, petrol, tobacco and alcoholic beverages which will continue at present higher rates); apply a 15% surcharge on consumer durables;

(e) replace present 1% stamp duty on wholesale and retail sales with a 3% gross receipts or sales tax;

(f) extend 3% sales tax to the wholesale price of pe

2. <u>Personal and corporation income taxes</u>

(a) eliminate personal allowance, earned income and interest income exemptions, and insurance premium deductions; increase tax threshold from present $2,000 to $9,000 and reduce marginal rates to three as follows:

$ 9,000	to	$25,000	25%
25,000	to	50,000	35%
50,000 and over			40%

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(b) unify corporation income tax rate at 35%;

(c) extend the income tax to agriculture in the form of a levy on sales payable by the marketing agency - the only commodity affected at this time is bananas; the levy to be computed as follows:

... cents per lb. on a base price of ... cents per lb;
25% of any amount over the base price of ... cents per lb;

(d) initiate investment credit of 10% on new capital investments;

(e) remove withholding tax on profits retained locally;

(f) initiate property tax by 1990/91;

(g) review licences and fees.

3. Establish Development Fund during 1987/88.

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PROJECTIONS OF FISCAL GAP ARISING FROM TAX REFORM

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93
Revenue projections before tax reform based on 7.5% GDP growth (at current prices)	96.7	103.9	111.7	120.1	129.1	138.8
Revenue projections after tax reform	93.1	99.7	109.2	120.0	130.9	142.6
Annual revenue, loss/gain	-3.6	-4.2	-2.5	0.1	1.8	3.8
Cumulative loss/gain	-3.6	-7.8	-10.3	-10.4	-8.6	-4.8

Note 1. Deflator of 3.5% is used througnout.

Note 2. Projection of revenue after Tax reform based on first full year of tax Reform 1989/90 See Appendix 1C

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APPENDIX

CALCULATION OF REVENUE EFFECTS
OF TAX REFORM

	1987/88	1988/89	1989/90	1990/91	1991/92
Gross revenue effects of Tax Reform					
.. Indirect Tax					
(a) abolish 5% stamp duty on imports;	(3.3)	(3.6)	(3.8)	(4.1)	(4.5)
(b) establish a uniform rate of 1.5% for Customs Service Charge	(1.8)	(2.0)	(2.0)	(2.2)	(2.4)
(c) remove consumption tax on machinery, equipment, tools office machines (not to include computers), office supplies, raw material and packing material	(0.8)	(0.9)	(1.0)	(1.0)	(1.1)
(d) replace present multiple rate consumption tax system with flat rate of 20% (except for cars, consumer durables, petrol and alcoholic beverages which will continue at present higher rates)	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)
(e) replace present 1% stamp duty on wholesale and retail sales with a 3% gross receipts or sales tax	3.7	4	4.3	4.6	5
(f) extend 3% sales tax to wholesale price of petrol	0.8	0.9	0.9	1	1.1
(g) one time transmission loss	(1.0)				
	(2.8)	(2.0)	(2.1)	(2.2)	(2.5)

CONT'D

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Personal and corporation income taxes					
(a) eliminate personal allowances earned income and interest income exemptions, and insurance premium deduction; increase tax threshold from present \$2,000 to \$9,000 and reduce rates to three \$ 9,000 - \$25,000 25% 25,000 - 50,000 35% 50,000 and over 45%	(2.2)	(4.7)	(5.1)	(5.6)	(6.0)
(b) Unify corporation tax at 35%	(0.3)	(0.7)	(0.7)	(0.8)	(0.8)
(c) Extend income tax to agriculture	1.5	3.2	3.5	3.8	4.1
(d) Initiate tax investment credit	(0.1)	(1.4)	(1.5)	(1.6)	(1.7)
(e) Remove withholding tax on profits retained	(0.2)	(0.2)			
	(1.3)	(3.8)	(3.8)	(4.2)	(4.4)
Introduce property tax effective 1990/91				1.1	1.2
	(4.1)	(5.8)	(5.9)	(5.3)	(5.7)

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APPENDIX

REVENUE LOSS CALCULATIONS
1987/88 - 1988/89*
(* First full year of tax reform)

Assumptions
GDP growth rates at current prices

1987/88	8.0%
1988/89	8.5%
1989/90	9.0%
1990/91 onwards	8.5%

	1986/87	1987/88	1988/89
Revenues before tax reform and before adjustment for growth	89.9	89.9	89.9
Gross revenue loss (not including property tax)		(4.1)	(5.8)
	89.9	85.8	84.1
Add growth and tax buoyancy		7.3	15.5
Add income tax elasticity			0.1
	89.9	93.1	99.7

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EFFECTIVE RATE OF TAX ON SELECTED COMMODITIES

(1) Chicken Parts   Backs & Necks 6x5 lb boxes

	on wholesale and retail	on retail only	without sales tax
CIF	$23.64	$23.64	$23.64
Import Duty			
Consumption Tax	$4.73	$4.73	$2.48
Customs Service Charge	$0.24	$0.24	$1.18
Stamp duty			$1.18
Wharfage	$0.08	$0.08	$0.08
Tailgate	$0.10	$0.10	$0.10
Handling Charges	$1.00	$1.00	$1.00
Bank charges 1% CIF	$0.24	$0.24	$0.24
Cold Storage	$3.00	$3.00	$3.00
Landed cost	$33.03	$33.03	$32.90
Wholesaler's Mark Up 8%	$2.64	$2.64	$2.62
Wholesale Price	$35.67	$35.67	$35.52
Wholesale Tax	$1.08		
Retailer's Mark Up 12%	$4.41	$4.28	$4.25
Retail Price	$41.16	$39.95	$39.77
Retail Tax 3%	$1.23	$1.20	
Retail Selling Price	$42.39	$41.15	$39.77
Per Box (5 lbs)	$7.07	$6.85	$6.63
Per lb	$1.41	$1.37	$1.33
Total Tax	$7.28	$6.17	$4.84
Effective Tax Rate	30.8	26.1	
Effective	30.80%	26.1%	20.0%
Wholesale Retail Tax rate	9.77%	5.1%	

EFFECTIVE RATE OF TAX ON SELECTED COMMODITIES

(2) Dutch Baby Powdered Milk - 24x454GR - $30.75US per ctn

	on wholesale and retail	on retail only	without sales tax
CIF	$83.54	$83.54	$83.54
Import Duty			
Consumption Tax	$16.71	$16.71	$4.39
Customs Service Charge	$0.84	$0.84	$4.18
Stamp duty			$4.17
Wharfage	$0.08	$0.08	$0.08
Bank charges .75% CIF	$0.63	$0.63	$0.63
Other Charges 2 1/2% of Total	$2.55	$2.55	$2.55
Landed Cost	$104.35	$104.35	$99.55
Wholesaler's Mark Up 5%	$5.21	$5.21	$4.98
Wholesale Price	$109.56	$109.56	$104.53
Wholesale tax 3%	$3.28		
Wholesale selling price	$112.84	$109.56	$104.53
Retailer's Mark Up 10%	$11.28	$10.95	$10.45
Retail Price	$124.12	$120.51	$114.98
Retail Tax 3%	$3.72	$3.61	
Retail Selling Price	$127.84	$124.52	$114.98
Per Tin	$5.33	$5.17	$4.79
Total Tax	$24.55	$21.16	$12.74
Effective Tax Rate	29.39%	25.3%	15.2%
Effective Wholesalers/ Retailers Tax Rate	8.33	4.4%	

EFFECTIVE RATE OF TAX ON SELECTED COMMODITIES

(3) Dutch Baby Fullcream Unsweetened Condensed Evaporated Milk
48x410GR - $16.80 US PER CTN

	on wholesale and retail	on retail only	without sales tax
CIF	$16.80		
CIF	$45.65	$45.65	$45.65
Import Duty			
Consumption Tax	$9.13	$9.13	$2.40
Customs Service Charge	$0.46	$0.46	$2.28
Stamp duty			$2.28
Wharfage	$0.08	$0.08	$0.08
Bank charges .75% CIF	$0.34	$0.34	$0.34
Other Charges 2 1/2% of Total	$1.39	$1.39	$1.39
Landed Cost	$57.05	$57.05	$54.42
Wholesaler's Mark Up 5%	$2.85	$2.85	$2.72
Wholesale Price	$59.90	$59.90	$57.14
Wholesale tax 3%	$1.80		
Wholesale sellling price	$61.70	$59.90	$57.14
Retailer's Mark Up 10%	$6.17	$5.99	$5.71
Retail Price	$67.87	$65.89	$62.85
Retail Tax 3%	$2.04	$1.98	
Retail Selling Price	$69.91	$67.87	$62.85
Per Tin	$1.46	$1.41	$1.31
Total Tax	$14.43	$11.57	$6.96
Effective Tax Rate	29.4%	24.8%	15.2%
Effective Wholesalers/ Retailers Tax Rate	8.4%	4.2%	

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- EFFECTIVE RATE OF TAX ON SELECTED COMMODITIES

(4) Strong Bakers Flour - 3000 bags - CIF $147,185.20 T/T
100LB BAG

	on wholesale and retail	on retail only	without sales tax
CIF Value	$110,742.15	$110,742.15	$110,742.15
Import Duty			
Consumption Tax	$22,148.43	$22,148.43	$5,813.96
Customs Service Charge	$1,107.42	$1,107.42	$5,537.11
Stamp duty			$5,573.11
Wharfage	$379.20	$379.20	$379.20
Bank charges 2% CIF	$2,214.83	$2,214.83	$2,214.83
L.S. and D. Charges	$12,947.17	$12,947.17	$12,947.17
Other Charges 2 1/2% of Total	$3,738.48	$3,738.48	$3,579.29
Landed Cost	$153,227.70	$153,227.70	$146,750.82
Landed Cost per bag 8%	$51.09	$51.09	$48.92
Wholesaler's Mark Up 5%	$4.09	$4.09	$3.91
Wholesale Price	$55.18	$55.18	$52.83
Wholesale tax 3%	$1.65		
Wholesale selling price	$56.84	$55.18	$52.83
Retailer's Mark Up 12%	$6.82	$6.62	$6.34
Retail Price	$63.66	$61.80	$59.17
Retail Tax 3%	$1.91	$1.85	
Retail Selling Price	$65.57	$63.65	$59.17
Per bag	$0.66	$0.64	$0.59
Total Tax	$11.32	$9.61	$5.62
Effective Tax Rate	30.67%	26.0%	15.2%
Effective Rate Wholesalers/ Retailers Tax	9.69%	5%	

Income Year: 1986 APPENDIX 3D

Growth Rate: 7.5

I. Retain mortgage interest deduction, but eliminate all other present allowances, exclusions, and deductions.

and

II. Change rate structure from: to:

Present (1986) rates				Alternative rates			(%)
$0	to	$2,000	0%	$0	to	$10,000	0
$2,000	to	$4,000	15%	$10,000	to	$25,000	25
$4,000	to	$5,000	10%	$25,000	to	$50,000	35
$5,000	to	$8,000	20%	$50,000	to		45
$8,000	to	$12,000	30%		to		
$12,000	to	$16,000	35%		to		
$16,000	to	$20,000	40%		to		
$20,000	to	$25,000	45%		and		
$25,000	to	$50,000	50%				
$50,000	to	$151,000	55%				
$151,000	and	over	50%				

INCOME RANGE ('86 CHARGEABLE INC) from		to	NUMBER OF TAX-PAYERS	REVENUES PRESENT CODE	ALTERNATIVE TAX	CHANGE TOTAL INCR.OR DECR.(-)	CHANGE AVG. PER TAXPAYER
0	-	2,000	3305	0	0	0	0
2,000	-	3,000	1328	108,846	0	(108,846)	(82)
3,000	-	4,000	1217	351,114	0	(351,114)	(289)
4,000	-	5,000	816	329,111	0	(329,111)	(403)
5,000	-	6,000	895	549,922	30,687	(519,235)	(580)
6,000	-	8,000	995	996,442	422,500	(573,942)	(577)
8,000	-	10,000	1174	1,878,206	1,201,722	(676,484)	(576)
10,000	-	12,000	679	1,597,292	1,154,736	(442,556)	(651)
12,000	-	16,000	1,065	3,659,625	2,754,475	(905,150)	(850)
16,000	-	20,000	444	2,369,238	1,758,510	(610,728)	(1,374)
20,000	-	25,000	192	1,475,936	1,112,941	(362,995)	(1,888)
25,000	-	35,000	120	1,381,322	1,056,907	(324,415)	(2,709)
35,000	-	50,000	48	890,990	699,737	(191,253)	(3,967)
50,000	-	75,000	20	580,113	489,709	(90,405)	(4,428)
75,000	-	150,000	7	391,693	315,489	(76,204)	(10,180)
150,000	-	OVER	4	575,755	489,537	(86,219)	(21,236)
		SUMS/AVG.	12309	17,135,605	11,486,949	(5,648,657)	(459)

APPENDIX 4B

DBMC - Revenue from cess (based on 60,000 tons)

BASIC1 1/2c, 2c
+ "Windfall"
of 25% of diffce above base say 52.73

(i)	2249173
(ii)	2921173
(iii)	3593173

	Basic	"windfall"	TOTAL
(b) (i)	305760		305760
	348320	334387	682707
	371840	444349	816189
	318080	126437	444517
	1344000	905173	2249173
(b) (ii)	458640		458640
	522480	334387	856867
	557760	444349	1002109
	477120	126437	603557
	2016000	905173	2921173
(b) (iii)	611520		611520
	696640	334387	1031027
	743680	444349	1188029
	636160	126437	762597
	2688000	905173	3593173

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Appendix 4A

REVENUE FROM CESS (BASED ON 60,000 TONS)

		1 STRAIGHT X cents/lb	2 PERCENTAGE of value to DBMC
(a) Total Year		EC$	EC$
@ 1c		1344000	1489840
@ 1 1/2c		2016000	2234476
@ 2c		2688000	2979680
@ 2 1/2c		3360000	3724600
(b i) Weekly		@ 1c	@ 2%
		EC$	
(13,650 t)	13 wks @ 52.73	305760	322480
(15,550 t)	56.57	348320	394115
(16,600 t)	57.51	371840	427695
(14,200 t)	54.32	318080	345540
		2016000	2234746
(b ii)		@ 1 1/2c	@ 3%
(13,650 t)	13 wks @ 52.73	458640	483722
(15,550 t)	56.57	522480	591172
(16,600 t)	57.51	557760	641543
(14,200 t)	54.32	477120	518309
		1344000	1489840
(biii)		@ 2c	@ 4%
(13,650 t)	13 wks @ 52.73	611520	644962
(15,550 t)	56.57	696640	788229
(16,600 t)	57.51	743680	855390
(14,200 t)	54.32	636160	691079
		2688000	2979650
(b iv)		@2 1/2c	@ 5%
(13,650 t)	13 wks @ 52.73	764400	806203
(15,550 t)	56.57	870800	985287
(16,600 t)	57.51	929600	1069238
(14,200 t)	54.32	795200	863849
		3360000	3724577

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ANNEX F

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APPENDIX II.

Dominica: Summary of the Tax System as of January 1, 1987
(All amounts in Eastern Caribbean dollars)

Tax and Nature of Tax	Exemptions and Deductions	Rates
1. Taxes on Income and property 1.1 Taxes on income Liability to income tax: individuals are taxed on income from any source within Dominica. Where any trade, profession, or vocation is carried on or exercised partly within and partly without Dominica by a resident individual whose home is in Dominica the whole of the gains or profits from such trade etc., is liable to tax in Dominica. Income tax is levied on the income of any company registered in Dominica and on the income of foreign companies which is generated in Dominica. Basis of assessment: the basis of assessment is the income of the previous calendar year for individuals and companies. Separate assessment of husband and wife is mandatory. Wage and salary earners are subject to a simple noncumulative pay-as-you-earn system, but are still liable for assessment on the preceding year's income. In 1985, an amendment to the Income Tax Act made provisions for current payment of income tax from 1986 on by those taxpayers who are not subject to the PAYE system in order to bring such taxpayers in line with wage and salary earners.	Exemptions: official emoluments of the President, income of local authorities, ecclesiastical, charitable and educational institutions (other than that derived from trade or business), of statutory bodies, registered agricultural credit, building, or firendly societies or registered trade unions. Income of the Dominica Chamber of Commerce, the Government Savings Bank or other government institutions or concern, of any institution established for the encouragement of thrift which Cabinet may declare to be exempt, of individuals not belonging to Dominica who have retired and taken up residence in ministers of religion derived from their occupa- tion as such. Income derived by way of travel and subsistence allowance to public officers and parliamentarians; from scholarships and educational endowments; from development projects exempted by Cabinet; from agriculture. Emoluments to members of staff and heads of diplomatic missions and consulates, armed forces; wound and disability pensions and gratuities to armed forces; income derived from investments on deposits of approved superannuation funds; the first $5,000 of interest on savings or deposits in banks in Dominica by any resident person, or non-resident individual; the first $3,600 of pension for past services accrued in Dominica; interest from government-sponsored investments. Income from mortgage financing for residential accommodation provided interest and service charge do not exceed 10 percent and mortgage does not exceed $150,000; interest in respect of approved debanture borrowings by mortgage companies or building societies for on-lending just mentioned. Income of hotels and industries granted relief under the Hotel Aids and Fiscal Incentive Ordinances and dividends paid therefrom. Income from rental of industrial buildings (including factory shells) of not less than 5,000 sq. ft. and for a period of ten (10) years after construction; from rental or sale of residential accommodation erected under agreement with Government for ten (10) years after construction; income accruing from agriculture.	Income Tax is payable at graduated rates on chargeable income of individuals and at a flat rate for companies as follows: A: Individuals (a) Where the chargeable income does not exceed $151,000 on the first $2,000 — 0 percent on the next $2,000 — 15 percent on the next $1,000 — 10 percent on the next $3,000 — 20 percent on the next $4,000 — 30 percent on the next $4,000 — 35 percent on the next $4,000 — 40 percent on the next $5,000 — 45 percent on the next $25,000 — 50 percent on the next $101,000 — 55 percent (b) Where the chargeable income exceeds $151,000 the tax is 50% of the whole of chargeable income. B: Companies 30 percent manufacturing 45 percent all other

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Dominica: Summary of the Tax System as of January , 1987

Tax and Nature of Tax	Exemptions and Deductions	Rates
1.1 Taxes on income (continued) :	Deductions include normal operating rents of land and deprec'ation on agricultural and industrial buildings and on plant and machinery; expenditure for management charges payable to a nonresident or to an overseas head office by a local branch may be restricted to 5 percent of other expenses; contributions to the Social Security Scheme and to approved supperannuation funds; losses of previous five years not already offset against income and not to reduce tax liability for any year to less than one half. Dividends are given dependent on the rate of tax attributable to the inclusion of the dividend.	

Personal reliefs:

Earned income relief: 10 percent of earned income not to exceed	$ 500
Personal allowance	$1,200
Wife	$ 700
Alimony paid	Full amount
Children	
(a) under age 16	$ 600
(b) over 16, under 25 at school or college locally or invalid	$ 600
(c) at school or college abroad	$ 820
Housekeeper (to a widow or widower and in respect of a female relative)	$ 125
Dependent relative (limit of $250 on dependent's income)	$ 125
Life insurance and approved pension fund (limit of higher of 1/10 of assessable income or $3600)	whole premium
Medical expenses not to exceed	$ 400
Contribution to Education Trust Fund, National Development Foundation of Dominica, Council of Legal Education, Scholarship to secondary (local) or University (UWI) education	Full amount

Interest from moneys in any bank account in Dominica or from investments sponsored by Govt.

Tax and Nature of Tax	Exemptions and Deductions	Rates
1.2 Nonresident withholding tax payments made to nonresident and which would be assessable as income in Dominica are subject to withholding tax. These include dividends, rents, management fees, royalties, annuities, alimony, interest or discounts. The whole of the after-tax profits of any agency or branch in Dominica of a nonresident company as dividend and subject to withholding tax.		(percent) Independent personal services 25 Rents - immovable property 10 Movable property 25 Management charges 25 Royalties, annuities alimony, or other annual payments 25 Dividends or other income distributions by a company 15 Interest or discounts 25 Public entertainers 30 Independent personal services 25 Any other income-like payment 25
2.1 Consumption Tax Most consumption duties are ad valorem applicable to the c.i.f. value and import duties. Duties on cigarettes, beer, and alcoholic beverages are specific. Duties on imported goods are collected at the moment of importation.	A list of goods considered essentials are exempt under the provisions of the Second Schedule Act, February 1, 1981. Of a total of 420 items in the nomenclature used in Dominica, a list containing 64 items (17 percent) is on the exempt list: Schedule 2. These items are comprised of foods, insect- icides, clothing, containers, machinery, boats, ships, microscopes, orthopedic appliances, etc.	The ad valorem rates range from 5 percent to 50 percent. Imported goods subject to specific duties include: wiskey $45 per L. gal. brandy $25 per L. gal. rum $20-25 per L. gal. gin $30 per L. gal. vodka $40 per L. gal. cigars $17.50 per kg. cigarettes $25 per kg. A 10 percent rate is applied on the manufacturer in respect of: coffee, pepper cinamon, cloves, nutmegs, cocoa paste, macaroni/spaghetti, jams, fruit jellies, fruit preparations, fruit juices, sauces, soup/broths, other fermented beverages, essences, mattresses, cushions, foam pillows and garments. Rum produced locally attracts consumption tax at the rate of $9.00 per gallon not exceeding the strength of proof; $12.00 per gallon other. Following consumpt. tax rates apply to locally manufactured tobacco products: Cigarettes/cigars $13.20 per kg. Black leaf tobacco $ 1.32 per kg. Medium cut tobacco $19.80 per kg.

Tax and Nature of Tax	Exemptions and Deductions	Rates
2.2 Hotel occupancy tax Levied on hotel room and liquor and tobacco sales.	None.	10 percent
2.3 Embarkation tax Passengers embarking at ports and airports for travel overseas.	(a) bona fide students leaving for study; (b) distressed persons being repatriated; (c) guests of government, members of diplomatic missions, ministers or officials of the Government of Dominica traveling on government business; (d) in transit passengers leaving the same day; (e) persons in poor circumstances leaving for medical advice or treatment and (f) children.	$ 15
3. Taxes on International trade		
3.1 Import Tax Tariff of duties on goods imported into the State. Imports are subject to the common external tariff of the East Caribbean Common Market (ECCM). Special rates of are applied to a limited number of goods, including alcoholic beverages, for which no common duties have been established. The ECCM tariff conforms to the Customs Cooperation Council nomenclature.	Most imports from CARICOM are exempt, provided they satisfy area origin requirements. Complete or partial exemption is granted for certain types of goods. These include: live animals, milk, eggs, fertilizers, and most agricultural and industrial machinery; also, imports exempt under industrial incentives legislation; under hotel incentives ordinance; and under CARICOM management; diplomatic personnel.	Most rates are ad valorem on c.i.f. value, which range from 0 to 45 percent. Representative rates are: some essential food stuffs, 10-15 percent; fish, 30 percent; building materials, 15-25 percent; textiles, 20-30 percent; domestic appliances, 25-40 percent; machinery, 0-15 percent; motor vehicles, 25-45 percent.
3.2 Stamp duty on imports Flat fiscal duty on bills of entry for imported goods.	Bills of entry for goods exempt from import duty under provisions of the second schedule to the Customs Import and Export Tariffs Ordinance; goods falling within chapters 30 and 31 of the Customs Tariff; goods imported by enterprises under license under the Fiscal Incentives Act or the Hotel Aid Ordinance; and bills of entry for vegetable seeds and planting materials, sera vaccines and other bacterial cultures, artificial limbs, orthopedic appliances and equipment solely for the use of cripples or chronic invalids, hearing aids, optical and dental appliances, school text books and supplies, insecticides, fungcides, weed killers, vermin killers, and animal feed stuffs.	5 percent

Tax and Nature of Tax	Exemptions and Deductions	Rates
3.3 Customs service charge Ad valorem charge on the c.i.f. value of goods imported into the State.	Goods imported by the Government; goods imported by passengers as personal baggage or household and personal effects; goods temporarily imported under the provisions of international conventions to which the Government of the Commonwealth of Dominica has acceded.	Inputs for manufacturing, 1 percent. Other imports, 5 percent.
3.4 Sales of foreign exchange Tax on sales of foreign exchange.	Trade transactions.	1.5 percent
4. Other taxes		
4.1 Stamp duties Specific duties levied on a range of specified instruments including receipts, certificates, and other legal documents.	None	Representative rates (on valuation) Below $100 — $ 1.50 100 - 199 — 2.50 200 - 299 — 4.00 300 - 499 — 6.50 500 - 999 — 15.00 1,000-1,499 — 20.00 1,500-1,999 — 25.00 2,000 and above — 30.00
4.2 Stamp duties Paid on annual sales by wholesalers and retailers; deductible for income tax purposes.	Retailers and wholesalers with annual sales less than $10,000.	1 percent on annual sales.
4.3 Licenses and fees:		
4.3.1 Bank license Annual license fee for commercial banks	None.	a) In respect of main place of business: (i) if total current, time and savings deposits exceed $20 mill., $50,000 (ii) less than $20 mill., $10,000 b) In respect of any branch $5,000
4.3.2 Company license registration Annual registration license for companies	None.	a) Where registered capital is $100,000 or less, $500 per annum; b) Where registered capital is more than $100,000, $500 plus $50 for each $100,000 or part thereof in excess of $100,000.

Dominica: Summary of the Tax System as of January 1, 1987

Tax and Nature of Tax	Exemptions and Deductions	Rates
4.3 Licenses and fees: (continued)		
4.3.3 Liquor license License to sell Liquor	None.	Licenses range from $80-240 per half year depending on the type of license (e.g., hotel, tavern) and locality (e.g., urban, rural).
4.3.4 Dealer's license (part of Motor Vehicles and Road Traffic Ordinance) License to sell vehicles.	None.	$1,000 per annum
4.3.5 Trade and professional license License to trade commercially and to engage in certain professions and callings.	Persons in government employment who enjoy private practice in any of the professions or callings pay 50 percent of the fee.	a) Professional: Range from $75-100 p.a. b) Trade: (i) Stock not exceeding $1,000: In Roseau and Portsmouth $30 p.a. Elsewhere $20 p.a. (ii) Stock: $ 1,001 to 9,999 $ 60 p.a. 10,000 to 50,000 $ 120 p.a. 50,000 to 100,000 $ 175 p.a. 100,000 to 250,000 $ 550 p.a. 250,000 to 500,000 $ 1,100 p.a. 500,000 to 750,000 $ 2,750 p.a. 750,000 to 1,000,000 $ 5,500 p.a. More than $1,000,000: $5,500 plus $500 p.a. each additional $1,000,000 stock or part thereof.
4.3.6 Insurance companies' license registration Annual registration license for insurance companies.	None.	$500 per annum

Dominica: Summary of the Tax System as of January 1, 1982

Tax and Nature of Tax	Exemptions and Deductions	Rates
4.3 Licenses and fees: (continued)		
4.3.7 Wheel license (Motor Vehicles and Road Traffic Ordinance) License fees for motor vehicles and drivers.	None.	Motorcycle, $40; with sidecar $70; Vehicles of less than 1,800 lbs. $170; 1,800 - less than 2,800 lbs. $200; 2,800 - less than 3,800 lbs. $230; 3,800 lbs. and above $270. Lorries and buses $230 first ton weight, $110 each additional ton. Trailers $30/cwt.
4.3.8 Other licenses	None.	Driving licenses $20-$50; visitors temporary license $30; learners $30; motor vehicle registration $50; driving test $25; duplicate license $30; examination of vehicle $20.
4.3.9 Passport fees	None.	$20.
4.3.10 Warehouse license fees		$1,000 per calendar year for general warehouses. $750 per calendar year for private warehouses. $10 per visit by an Officer to a warehouse.

Source: IMF and Ministry of Finance

ANNEX G

NOTE: THE FOLLOWING TABLES, AND THE TEXT TABLES DERIVED FROM THEM, ARE BASED ON IMF FIELD STAFF PRELIMINARY ESTIMATES, AND NOT APPROVED FUND ESTIMATES. AS SUCH, THEY SHOULD NOT BE PUBLICIZED NOR CIRCULATED OUTSIDE OF THE CHANNELS NECESSARY FOR APPROVING THE CONCEPTS PAPER AND THE PAAD.

TABLE G.1
DOMINICA CENTRAL GOVERNMENT OPERATIONS
(MILLION EC DOLLARS)

	Prelim	TCG Revised Program		Proj.	TCG Original Program			TCG Projected Without Tax Reform	
	1986/87	1987/88	1988/89	1989/90	1986/87	1987/88	1988/89	1987/88	1988/89
Total Revenue, Including Grants	109.3	127.4	119.5	138.2	114.6	119.8	135.1	130.5	125.3
Current Revenue	91.6	94.1	97.9	104.2	90.4	95.9	100.6	97.2	103.7
Tax Revenue	84.5	85.5	88.8	94.6	81.1	85.3	89.2	88.6	94.6
Nontax Revenue	7.1	8.6	9.1	9.6	9.3	10.6	11.4	8.6	9.1
Capital Receipts	2.1	1.2	0.0	0.0	0.0	0.0	0.0	1.2	0.0
Foreign Grants	15.6	32.1	21.6	34.0	24.2	23.9	34.5	32.1	21.6
of which: budgetary grants	0.0	8.1	4.1	4.1	6.8	6.8	6.8	8.1	4.1
Total Expenditure	118.0	141.0	153.4	168.6	125.5	124.9	133.8	141.0	153.4
Current Expenditure	86.3	90.7	94.3	99.0	85.9	89.5	91.2	90.7	94.3
of which: wages and salaries	49.3	52.8	54.4	56.0	49.4	52.8	54.4	52.8	54.4
Capital Expenditure & Net Lending	31.7	50.3	59.1	69.6	39.6	35.4	42.6	50.3	59.1
of which: locally financed	5.0	8.9	8.2	5.4	9.1	7.6	6.4	8.9	8.2
Current Account Balance	5.3	3.4	3.6	5.2	4.5	6.4	9.4	6.5	9.4
Overall Balance Before Grants	-24.3	-45.7	-55.5	-64.4	-35.1	-29.0	-33.2	-42.6	-49.7
Overall Balance After Grants	-8.7	-13.6	-33.9	-30.4	-10.9	-5.1	1.3	-10.5	-28.1
Concessionary foreign borrowing	9.4	16.1	38.2	33.8	5.3	12.3	6.6	16.1	38.2
of which, IBRD Struc. Adj. Credit	0.0	5.4	2.7	0.0	2.0	3.4	0.0	5.4	2.7
IMF Structural Adjustment Facility	2.6	1.8	1.8	0.0	2.4	1.7	1.7	1.8	1.8
Nonconcessionary Financing	-3.3	-4.3	-6.1	-3.4	3.2	-8.9	-9.6	-7.4	-11.9
Reserve-type transactions	-7.8	-1.2	-7.9	-5.7	1.9	-7.4	-7.9	-1.2	-7.9
IMF(net purchases)	-4.7	-7.2	-7.2	-5.0	-4.2	-6.2	-6.3	-7.2	-7.2
Change in government foreign assets (increase: -)	-0.9	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Other foreign	0.0	9.0	0.0	0.0	8.1	-0.5	-0.9	9.0	0.0
ECCB borrowing	-2.2	-2.3	0.0	0.0	-1.3	0.0	0.0	-2.3	0.0
Commercial banks	-3.2	-6.2	-4.0	-4.7	1.3	-1.5	-1.7	-6.2	-4.0
Social Security Scheme	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other domestic	7.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual	.0	3.1	5.8	7.0	.0	.0	.0	.0	.0

DOMINICA CENTRAL GOVERNMENT REVENUE
(MILLION EC DOLLARS)

	Prelim	TCG Revised Program		Proj.	TCG Original Program			TCG Projected Without Tax Reform	
	1986/87	1987/88	1988/89	1989/90	1986/87	1987/88	1988/89	1987/88	1988/89
Current Revenue	91.6	94.1	97.9	104.2	90.4	95.9	100.6	97.2	103.7
Tax Revenue	84.5	85.5	88.8	94.6	81.1	85.3	89.2	88.6	94.6
Taxes on Income	23.4	22.6	21.6	22.9	24.4	25.5	26.0	23.1	24.9
Individuals	15.7	14.8	13.6	14.1	16.4	18.3	19.0	17.0	17.9
Companies	7.7	7.8	8.0	8.8	8.0	7.2	7.0	6.1	7.0
Tax on property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Estate duty	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on production and consumption	10.1	16.7	18.1	19.0	9.5	6.7	7.1	10.2	10.8
Consumption tax	2.8	3.0	3.3	3.4	2.8			3.0	3.2
Entertainment tax	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Electricity sales tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank deposit levy	0.5	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Health levy (soc security)	0.7	0.9	1.1	1.1	1.0	1.1	1.2	0.9	1.0
Stamp duty/sales tax	3.0	9.6	10.4	11.1	2.5	2.6	2.8	3.2	3.4
Licences	3.0	3.2	3.3	3.3	2.8	2.9	3.0	3.1	3.2
Taxes on international transactions	51.0	46.2	49.1	52.7	47.2	53.1	56.1	55.3	58.9
Consumption tax on imports	30.1	31.2	33.6	36.0	24.3	28.8	30.5	32.4	34.9
Package tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hotel occupancy tax	0.3	0.3	0.4	0.5	0.3	0.3	0.4	0.3	0.4
Embarkation tax	0.5	0.6	0.6	0.7	0.6	0.6	0.7	0.6	0.6
Import duties	10.4	11.4	12.3	13.1	12.1	12.9	13.7	11.4	12.3
Export duties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign exchange levy	0.6	0.7	0.0	0.0	0.4	0.4	0.0	0.7	0.0
Travel tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stamp duty on imports	4.5	0.0	0.0	0.0	4.5	4.8	5.1	4.9	5.3
Customs service charge	4.6	2.0	2.2	2.4	5.0	5.3	5.7	5.0	5.4
Nontax revenue	7.1	8.6	9.1	9.6	9.3	10.6	11.4	8.6	9.1
Rents and interest	0.9	1.1	1.2	1.3	1.0	1.1	1.2	1.1	1.2
Departmental revenue and other fees	5.1	6.0	6.2	6.5	6.3	7.5	8.1	6.0	6.2
Currency profits	1.1	1.5	1.7	1.8	2.0	2.0	2.1	1.5	1.7
Capital Revenue	2.1	1.2	0.0	0.0	0.0	0.0	0.0	1.2	0.0

TABLE G.3
DOMINICA CENTRAL GOVERNMENT EXPENDITURE
(MILLION EC DOLLARS)

	Prelim	TCG Revised Program		Proj.	TCG Original Program			TCG Projected Without Tax Reform	
	1986/87	1987/88	1988/89	1989/90	1986/87	1987/88	1988/89	1987/88	1988/89
Current Expenditure	86.3	90.7	94.3	99.0	85.9	89.5	91.2	90.7	94.3
Wages & Salaries	49.3	52.8	54.4	56.0	49.4	52.8	54.4	52.8	54.4
Goods and Services	16.4	16.5	17.5	19.5	16.2	16.7	17.2	16.5	17.5
Interest	6.9	7.2	7.5	7.9	6.9	6.8	6.3	7.2	7.5
Retirement Benefits	5.3	5.5	5.8	6.1	5.0	5.0	5.1	5.5	5.8
Transfers	8.4	8.7	9.1	9.5	8.4	8.2	8.2	8.7	9.1
Local governments	1.3				0.7	0.7	0.7		
Broadcasting corporation	0.0				0.0	0.0	0.0		
Tourist Board	0.4				0.4	0.4	0.4		
Housing Development Corporation	0.0				0.0	0.0	0.0		
Ind. Development Corporation	0.4				0.4	0.4	0.4		
Banana Growers Association	0.0				0.0	0.0	0.0		
Central Water Authority	0.0				0.0	0.0	0.0		
Port Authority	0.0				0.0	0.0	0.0		
Agricultural Marketing Board	0.0				0.0	0.0	0.0		
Schools and scholarships	2.5				2.6	2.6	2.6		
Abroad	3.6				3.6	3.6	3.6		
Other	0.2				0.7	0.5	0.5		
Capital expenditure and net lending	31.7	50.3	59.1	69.6	39.6	35.4	42.6	50.3	59.1
Budgetary	31.8				29.9	35.4	42.6		
Extrabudgetary	0.0				9.7	0.0	0.0		
Net lending	-0.1				0.0	0.0	0.0		

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TABLE G.4
DOMINICA CENTRAL GOVERNMENT FINANCING
(MILLION EC DOLLARS)

	Prelim 1986/87	TCG Revised Program 1987/88	TCG Revised Program 1988/89	Proj. 1989/90	TCG Original Program 1986/87	TCG Original Program 1987/88	TCG Original Program 1988/89	TCG Projected Without Tax Reform 1987/88	TCG Projected Without Tax Reform 1988/89
Overall Balance after grants	-8.7	-13.6	-33.9	-30.4	-10.9	-5.1	1.3	-10.5	-28.1
Concessionary Foreign Borrowing	9.4	16.1	38.2	33.8	5.3	12.3	6.6	16.1	38.2
Drawings	11.1	17.9	40.1	35.6	7.0	14.1	8.5	17.9	40.1
Project related loans	11.1	9.8	34.7	35.6	5	10.7	8.5	9.8	34.7
IBRD Struc. Adj. Credit	0.0	5.4	2.7	0.0	2.0	3.4	0.0	5.4	2.7
CDB Struc. Adj. credit	0.0	2.7	2.7	0.0	0.0	0.0	0.0	2.7	2.7
Amortization	-1.7	-1.8	-1.9	-1.8	-1.7	-1.8	-1.9	-1.8	-1.9
Earmarked bank deposit operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF Structural Adjustment facility	2.6	1.8	1.8	0.0	2.4	1.7	1.7	1.8	1.8
Nonconcessionary financing	-3.3	-4.3	-6.1	-3.4	3.2	-8.9	-9.6	-7.4	-11.9
IMF (net purchases)	-4.7	-7.2	-7.2	-5.0	-4.2	-6.2	-6.3	-7.2	-7.2
Credit tranches	0.0	-0.9	-1.7		0.0	-0.8	-1.5	-0.9	-1.7
CFF	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
EFF	-4.7	-6.3	-5.5		-4.2	-5.4	-4.8	-6.3	-5.5
Other foreign loans	0.0	9.0	0.0	0.0	8.1	-0.5	-0.9	9.0	0.0
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in foreign assets	-0.9	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Sinking fund account	1.3	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
SDR holdings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ECCB borrowing	-2.2	-2.3	0.0	0.0	-1.3	0.0	0.0	-2.3	0.0
Treasury bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debentures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Temporary Advances	-2.2	-2.3	0.0	0.0	-1.3	0.0	0.0	-2.3	0.0
Commercial Banks	-3.2	-6.2	-4.0	-4.7	1.3	-1.5	-1.7	-6.2	-4.0
Treasury bills and debentures	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans, Advances, and overdraft	-0.7	-7.0	-4.0	-4.7	1.3	-1.5	-1.7	-7.0	-4.0
Deposits	-4.0	0.8	0.0	0.0	0.0	0.0	0.0	0.8	0.0
Statutory bodies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Social Security	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other domestic	7.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual	.0	3.1	5.8	7.0	.0	.0	.0	.0	.0

Source: International Monetary Fund

ANNEX H

International Bank for Reconstruction and Development
International Development Association

ANNEX H

FOR OFFICIAL USE ONLY

SecM86-1208
IDA/SecM86-317

FROM: Vice President and Secretary

November 4, 1986

DOMINICA: Policy Framework Paper, 1986/87-1988/89

1. Attached is a paper on the medium-term policy framework for Dominica. It was prepared jointly by the staffs of the Bank and the Fund and the Government of Dominica. The paper reviews recent performance and outlines the Government's development objectives over the next few years as well as the proposed policy measures. There is currently no Bank structural adjustment operation or IMF arrangement in Dominica. The principal areas for policy adjustment under the Government's program include (a) tax reform and investment incentives to stimulate private sector activity; (b) agricultural sector policies and programs, including strengthening marketing arrangements for traditional and nontraditional crops, aimed at expanding output and exports; and (c) measures in the area of public sector management to improve the efficiency of public sector operations, increase public sector savings and strengthen the Government's capacity to formulate and monitor the public sector investment program. A policy matrix as well as macro-economic indicators which were prepared by the Bank's staff are attached to the paper.

2. The paper also indicates the estimated external assistance requirements for the Government's three-year program. A part of this requirement is expected to be met by future IDA lending. But the volume and timing of such lending, both project and adjustment related, will continue to be dealt with in the usual manner under the Bank's normal procedures.

3. This document will be considered by the Executive Directors meeting as the Committee of the Whole on November 18, 1986.

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

*Questions on this document should be referred to Ms. Elvis (73484).

Dominica - Policy Framework Paper

I. Background

1. Dominica[1] is a small mountainous island (750 sq. km. and 84,284 population) with an economy primarily based on agriculture. Its principal resources are its largely unexploited tropical forests and its many swift rivers with potential for hydro-power and export of potable water. Economic development has been constrained, however, by inadequate infrastructure, limited skilled and managerial manpower and frequent natural disasters such as hurricanes, floods and windstorms. Moreover, the rugged terrain contributes to the high cost of providing public services and developing and maintaining infrastructure.

2. Dominica has a sizable agricultural export sector, consisting mainly of bananas, citrus fruits and coconut products (agricultural crops are 22.5% of GDP at factor cost). However, the high cost, low productivity and quality of bananas and citrus fruits relative to other exporting countries have constrained the growth of these exports. As a result, Dominica has been exporting bananas only to the preferential UK market and has virtually lost its major UK market for citrus fruits to competitors. A small manufacturing sector (7% of GDP), consisting mainly of agro-based industries and some enclave industries is oriented toward exports, primarily to the CARICOM region. Notwithstanding various incentives and institutional support from the Government, the growth of manufacturing has been hampered by inadequate infrastructure and local entrepreneurial talent, especially with regard to marketing, and in the past two years also by increased economic difficulties and trade restrictions within the CARICOM region. The tourism sector is small, only 1% of GDP. Dominica does not have significant white sand beaches but offers other natural tourist attractions which could be appealing to cruise-ship passengers and excursionists. However, it has limited tourist infrastructure and management skills and has not been effectively engaged in tourist promotion.

3. Dominica's economic performance is characterized by low production and productivity, structurally weak public finances and balance of payments, and heavy dependence on external assistance. The resource gap in 1984 was some 25% of GDP; and though the tax burden is high, Government's savings are inadequate to cover its investment and debt obligations. In 1984 and 1985, concessional external assistance represented some 20% of GDP. The unemployment rate is estimated at 15-20%.

4. The challenge for Dominica is to enhance productivity in its traditional sectors and to diversify its productive base, expanding nontraditional agriculture, developing secondary activities from its agricultural and other natural resources, developing its tourism potential and attracting labor-intensive light manufacturing. Given the country's small size and development constraints, a sustainable long-term rate of economic growth would depend crucially on Dominica's ability to raise investment and exports. However, given the country's limited financial

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1/Dominica is a member of the Caribbean Community (CARICOM) and the Eastern Caribbean Central Bank (ECCB).

8. The current account deficit of the balance of payments (including official transfers) narrowed from about 21% of GDP in 1981 to 6% of GDP in 1985, reflecting mainly the decline in the ratio of imports to GDP but also, a recovery of exports from the low level of 1979-80 and a rise in transfers. However, the volume of traditional agricultural exports (bananas and citrus fruits) has not yet recovered the prehurricane level, while manufacturing exports--after rising rapidly in 1981-83--were depressed in 1984-85 by adverse developments in the Caribbean region, as mentioned earlier. The value of imports, which fell in 1981-83, increased sharply in 1984 with the implementation of the road rehabilitation program; it rose moderately in 1985. Tourism recovered the prehurricane level in 1984 but fell back by an estimated 4% in real terms in 1985. In 1981-83, the current account deficit was financed mainly by concessionary loans and drawings on the Fund; in 1984-85, concessionary loans and private sector capital inflows more than covered the current account deficit and Dominica made net repayments to the Fund, amounting to US$1.8 million.

9. Dominica's development efforts in the last few years involved a rapid accumulation of external debt which almost doubled between 1981 and 1985. At US$48.5 million, the debt now represents a ratio of 1.27 in relation to exports of goods and nonfactor services (51.0% of GDP). While the average terms are concessional, debt service, including service of IMF debt, is 11.0% of exports of goods and nonfactor services (9.4% of exports of goods and services and net private transfers). Because of the institutional arrangements, which limit the macroeconomic policy instruments available to Dominica, a more appropriate indicator of the debt burden is its impact on Government's finances. In 1985, external debt service represented some 15% of government current revenues, and the ratio of outstanding external debt to government revenues was 1.66.

III. Medium-term Objectives

10. Government's medium-term economic objective is to achieve a sustainable 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. Thus, the proposed program for FY86/87 to FY88/89 seeks to increase private investment and exports, to contain the public external debt burden within manageable proportions, and to strengthen the potential for increased domestic savings.

11. More specifically, the proposed three-year program is aimed at raising the annual rate of growth of real GDP from an estimated 1.1% in 1985 to around 4% in 1986-88. (Population growth averaged 1.4% per annum in 1980-84.) As outlined in Section IV below, the program will develop appropriate incentives and facilities to stimulate private sector investment, both domestic and foreign, thus promoting the growth of output and employment. This would require that the public sector investment program be of high quality and at a level appropriate to support strong growth in agriculture, manufacturing and tourism. A key element of the structural adjustment program will be a strengthening of the fiscal position in the medium term partly through a gradual increase in government savings in relation to GDP, as discussed in Section IV below. Together with operating improvements envisaged for the public enterprises and improvements in private sector savings, domestic savings are expected to

15. Similarly, the fiscal incentives for investment are expected to conform broadly to the "harmonized" system of fiscal incentives within CARICOM; however, within this constraint, Government has already introduced measures to expand incentives for export-oriented investments, and is considering ways to identify and remove disincentives to further growth in investment.

16. Given the above constraints on economic policies in Dominica, the overall policy framework will focus on the strengthening of the fiscal situation and pursuing a prudent wage policy. In this context, subject to the overall requirements of the structural adjustment program, Government will aim at increasing its savings gradually from an estimated 1.2% of GDP in FY85/86 to 2-3% of GDP by FY88/89. This effort will focus mainly on expenditure restraint given that, as a result of several revenue measures taken in the past five years, the ratio of current revenue to GDP is already high (an estimated 31.8% of GDP in FY85/86). The growth of the wage bill, which in FY85/86 is estimated at 57.7% of recurrent expenditure, will be contained. Government will examine areas such as the merit increase system, the level of public employment, and rationalization of the civil service with a view to increasing its productivity and to developing a time-phased action program. (The present wage agreement with the civil servants will expire in June 1988.) It will be necessary also to analyze the structure of expenditures to determine where savings could be made so as to limit growth of outlays on goods and services and other current expenditure. On the revenue side, the plan is to strengthen the tax collection procedures and to rationalize the tax structure. These policies are expected to allow the Government to reduce its reserve liabilities over the medium term, thereby providing for a reconstitution of the needed cushion of borrowing capacity against adverse external developments.

17. While considerable progress has been made in recent years in improving the performance of the public enterprises, further steps will be taken to streamline their operations, particularly the Central Water Authority and the marketing boards. In this context, Government intends to revise water and electricity rates as part of an overalll reorganization and expansion program, and will continue to review the pricing policies of other public enterprises. Also, given Government's policy of limiting public sector involvement in economic activity, it is seeking to divest itself of the electricity company in which it became a majority shareholder in 1983.

18. The planned strengthening of the public finances will enable the domestic commercial banks to accommodate a growing volume of credit to the private sector while preserving their liquidity position.

19. Pursuit of these overall economic policies, together with the sectoral development policies described below, can be expected to result in expanding exports, sustaining a higher level of imports than otherwise and in a strengthening of Dominica's balance of payments position in the medium term. Thus, Dominica will be expected to improve its reserve position while meeting its external debt obligations.

b. Sectoral Policies

20. The main objectives of the sectoral policies are to enhance productivity in Dominica's traditional sectors, to diversify and expand the

24. Dominica's tourism could play a larger role than in the recent past in creating employment and strengthening the country's foreign exchange earnings. Since some of the major road rehabilitation work has been completed, the Government proposes to reconstruct access roads to the main tourist attractions and to direct promotion efforts toward special target groups and tour operators in the region. Dominica is participating in the development of a joint program with St. Christopher and Nevis, and St. Vincent and the Grenadines, which would offer special tourist programs covering all three countries in one package.

25. The inadequacy of Dominica's infrastructure is an increasingly critical factor in the further development of the productive sectors and infrastructural requirements will be examined carefully in the context of the medium-term public sector investment program. The Government intends to build farm access roads to enhance the productivity of the banana and citrus industries. In order to encourage investment in manufacturing, Dominica assigns priority to a proposed hydro-electric project as a source of indigenous power and the establishment of adequate airport facilities. Government is concerned that the absence of international airport facilities could be a major deterrent to expansion in investments and exports.

While it may not be economically or financially viable to establish full-fledged international airport facilities immediately, it is essential that present facilities be upgraded to facilitate more regular and frequent traffic, including air cargo transport and safer all-weather conditions. Government intends to relocate the present airport at Melville Hall to an area already identified and surveyed that will allow safer traffic conditions, including nightlanding facilities, and that will have the potential for further development in the longer term. This new facility will be central to the development and expansion of agriculture, tourism and manufacturing in the area with the greatest potential. Dominica's export-oriented strategy emphasizes the need to alleviate the deficiencies of existing sea and air transport facilities, including infrequency of shipping schedule, inadequacy of air cargo facilities, and transshipment problems for marketing of nontraditional exports, such as exotic fruits, ornamental foliage and certain manufactured goods. In the interim, Government is cooperating with other OECS governments to develop joint marketing arrangements. It would be possible to advance along all these fronts in the context of a rational PSIP, provided the required level of external assistance would be forthcoming.

V. External Assistance Requirements (FY86/87-88/89)

26. Dominica's external assistance requirements are related mainly to the public sector investment program which is designed to foster the economic objectives stated earlier. In recent years, public sector investment has emphasized support for directly productive activities and economic infrastructure. This focus will continue over the medium term as the economic diversification efforts proceed and investments are directed at meeting the infrastructural requirements for a growth-oriented economy. In addition, efforts will be intensified to improve Dominica's administrative capability so that it can reduce the heavy dependence on external assistance in the management of the PSIP.

Dominica - Selected Data

Area	750 sq. kilometers
Population (1985)	84,284
GDP (1985)	US$95.2 million
GDP per capita (1985)	US$1,130

Origin of GDP (1985)	(In percent)
Agriculture and mining	29.9
Manufacturing	7.2
Construction and utilities	10.1
Transport and communication	13.9
Government services	23.5
Other	15.4

Ratios to GDP (1985)	
Government current revenue 1/	31.8
Government current expenditure 1/	30.6
External current account balance before grants	-21.4
External current account balance	-6.0
External public and publicly guaranteed debt (end of year)	50.9

	1982	1983	1984	Prel. 1985
	(annual percentage changes)			
Real GDP (at factor cost)	2.4	2.1	6.2	1.1
Nominal GDP at market prices	9.1	9.7	11.2	8.2
Consumer prices (annual averages)	4.4	4.1	2.2	2.1

	1982/83	1983/84	1984/85	Proj. 1985/86
	(millions of Eastern Caribbean dollars)			
Central Government finances 1/				
Current account balance	-4.9	0.2	0.1	3.1
Overall balance after external grants	-15.7	-13.7	-15.2	-4.7
Overall balance after external grants and concessionary loans	-8.5	-2.3	-3.4	-3.5
Borrowing from ECCB (net)	-	2.0	2.1	4.8

	1982	1983	1984	Prel. 1985
	(millions of US dollars)			
Balance of Payments				
Merchandise exports (f.o.b.)	24.5	27.5	25.6	28.4
Merchandise imports (c.i.f.)	-47.5	-47.1	-55.8	-57.2
Balance on current account 2/	-8.8	-6.0	-3.9	-5.8
Official borrowing (net)	8.2	5.3	4.7	4.5

1/ Refers to fiscal years beginning July 1.
2/ After external grants.

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DOMINICA - GOVERNMENT'S STRUCTURAL ADJUSTMENT PROGRAM

Policy Area Objectives/Issues	Measures Already Taken	Measures to be Taken
Tax Reform & Investment Incentives		
Objective - To reduce disincentives to investment and export. Tax burden is relatively high, tax structure complex and not favorable for exports; investment application review process and customs administration need to be streamlined.	1. Removal of export taxes. 2. Reduction of customs service charge for manufacturers, FY85/86. 3. Reduction of company profits tax from 45% to 30% for manufacturers. 4. Reduction of number of bands in consumption tax to 3;10%, 20%, 40%.	1. Full review of tax system and implementation of recommendations for (revenue-neutral) tax reform. 2. Reform of customs administration. 3. Possible establishment of an export processing zone. 4. Design and implementation of measures to improve investment incentives.
Agricultural Sector Policies & Programs		
Objective - To increase agricultural production and exports and increase returns to farmers. Rehabilitation programs underway for banana & coconuts. New market for processed citrus requires increase in scale of production; marketing organizations for fresh grapefruit and for nontraditional agricultural exports need strengthening. Large government-owned estates largely unutilized, underutilized, or being worked by squatters. Large numbers of farmers are either tenants or own uneconomic size holdings of less than one acre.	1. Banana Market Corporation reorganized and management strengthened. UK-financed banana expansion program initiated. 2. Government reactivated citrus processing plant and secured US outlet for processed citrus. 3. Government initiated lime and grapefruit rehabilitation programs. 4. Treecrop diversification scheme launched; planting phase completed 1985. 5. Government created Dominica Export/Import Agency by merging former marketing agency with importing agency. 6. Government initiated land distribution and land settlement program to improve land utilization.	1. Restructuring of Citrus Growers' Association (the grapefruit marketing organization) so as to increase operating efficiency. 2. Review of pricing policies for grapefruit with a view to improving production incentives. 3. Review of Ministry of Agriculture's expenditure program to establish priorities among its proposed activities. 4. Implementation of citrus rehabilitation program - 250 acres limes; 250 acres grapefruit. 5. Continued distribution and settlement of government-owned land under integrated rural development project with proposed IFAD financing.

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DOMINICA - Key Economic Indicators

	1980	1981	1982	1983	1984	1985	Est. 1986	Projected 1987	Projected Annual Aver. 1988-89
				(Annual Percentage Changes Unless Otherwise Indicated)					
GDP (constant f.c.)	16.4	6.4	2.4	2.1	6.1	1.1	4.0	3.5	3.5
Exports a/	4.8	76.9	37.8	13.6	2.5	4.6	15.3	12.1	10.5
Imports a/	35.7	-4.8	-3.8	-0.8	20.5	5.5	13.4	3.5	7.3
				(In Percent of GDP, unless Otherwise Indicated)					
External Sector									
Exports a/	22.1	34.8	44.0	45.5	41.9	40.5	43.6	45.9	49.2
Imports a/	92.8	78.8	69.5	62.8	68.1	66.4	70.4	68.2	69.2
Curr. Balance	-56.0	-35.2	-20.2	-13.8	-20.9	-21.4	-22.4	-18.2	-16.0
Debt Service	1.1	1.7	2.0	3.5	5.0	4.5	4.6	5.0	5.5
Debt Serv. Ratio b/	4.1	4.9	4.5	7.3	11.7	11.2	10.9	10.6	11.2
Debt Serv./Govt. Revenue	4.1	5.7	6.5	11.0	16.5	14.7	14.5	15.6	17.4
Central Government c/									
Current Revenue	24.9	29.3	29.4	29.8	30.3	31.0	31.8	31.7	31.3
Curr. Rev. & Ext. Grants	44.3	40.4	36.2	38.0	41.0	45.0	42.8	39.9	40.8
Total Expenditure	50.7	49.1	44.7	46.2	48.1	49.0	45.6	42.7	43.0
Curr.Def.(-) or Surplus (+)	-13.2	-6.5	-2.8	-1.1	0.0	0.6	1.4	1.9	2.5
Gross Investment	50.1	31.9	28.2	27.0	27.5	31.2	29.4	27.7	28.4
Public c/	16.8	18.5	16.9	17.5	19.0	22.6	20.7	18.4	18.1
Private	33.3	13.4	11.3	9.5	8.5	8.6	8.7	9.3	10.3
Public/Private	0.6	1.4	1.5	2.0	2.3	2.6	2.4	2.0	1.8
Domestic Savings	-15.8	-11.5	2.7	8.8	2.6	6.0	4.7	7.2	8.7
National Savings	-6.1	-3.5	7.9	13.2	6.3	9.7	8.4	10.6	11.9
Public c/	n.a.	-7.5	-2.6	0.0	1.9	3.3	4.7	5.3	5.9
Private	n.a.	4.0	10.5	13.2	4.4	6.4	3.7	5.3	6.0
				(Millions of US Dollars)					
Current Balance	-33.0	-23.3	-14.6	-10.9	-18.4	-20.4	-22.9	-19.8	-19.1
Debt Service	0.6	1.1	1.4	2.8	4.4	4.3	4.7	5.4	6.5

a/ Imports and Exports include non-factor services and growth rates are in nominal terms.

b/ Expressed as ratio of exports of goods and non-factor services.

c/ For purposes of comparability within this table all fiscal year (July 1 to June 30) data have been converted to calendar year basis.

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ANNEX I

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DOMINICA

PUBLIC SECTOR INVESTMENT PROGRAM

1986/87-1988/89

EIGHTH MEETING OF THE

CARIBBEAN GROUP FOR COOPERATION IN ECONOMIC DEVELOPMENT

WORLD BANK

WASHINGTON. D.C.

JANUARY 28TH 1987

DOMINICA

THE PUBLIC SECTOR INVESTMENT PROGRAM.
1986/87-1988/89.

Our Public Sector Investment Program for the three financial years 1986/87 to 1988/89 places emphasis on the the provision of infrastructure required for economic growth and to encourage private sector investment in manufacturing, agro-processing and in agriculture. We have also placed emphasis on improving the efficiency of the public sector so that the programs and projects can be efficiently designed, planned and administered.

Projects have been included in the Public Sector Investment Program (PSIP) on the strength of their expected contribution to the achievement of our policies in respect of sectoral priorities, and to complement fiscal policy. Transportation Infrastructure, Agriculture, and Power have received greatest attention and account for some 69% of total proposed investment expenditure. This is a considerable proportion of the total program but it emphasises the critical importance of these sectors to the growth and development of the country. Proposed expenditure on infrastucture alone including the essential services of water and sewerage accounts for 84% of our total program for the triennium up to 1989. Water services expenditure includes provision for investment in a bulk water export facility which is to be implemented during 1987. These large expenditures may seem to over-shadow our concerns in Manufacturing and Tourism; however a significant level of

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EC$1.75million direct investment in the tourism sector is now underway with financing from the European Development Fund. It cannot be over-emphasised however that our investments in the infrastucture sectors are essentially to service and facilitate manufacturing, agro-industry, tourism and the agricultural sector. Expenditure levels in the social sectors reflect our policy to consolidate achievements and to make gradual improvements and undertake only essential expansion so as to maintain levels of operational expenses while enhancing efficiency. An example of this approach is our provision of hospital services in a more cost effective manner.

As a general rule we do not include projects in the ANNUAL Public Sector Investment Program or Capital Estimates unless the Ministry concerned or the Ministry of Finance can indicate a confirmed source of financing; i.e. we exclude projects classified as IDEA; which means that the projects do not yet have an identified source of financing and/or requires further project design and preparation work. The timing of this CGCED meeting however is most opportune and useful as it permits us to present for financing, projects which are important to the total Public Sector Investment Program and for the realisation of our development policy. I would take this opportunity to request that you look favourably on the projects which may still be with you for final decision and to pledge for the unfinanced projects which are presented both here in our circulated document and in the submission made by World Bank staff. These unfinanced projects are presented in the annex.

SECTOR ANALYSIS.

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AGRICULTURE

Proposed investment in the agriculture sector, excluding projects in feeder roads is 20% of the total program, if we include feader road investment this percentage moves up to 26.7%. This is consistant with our policy to strengthen the sector in terms of increasing the productivity of existing crops and in terms of encouraging investment in new tree crops and new areas of agricultural activity, such as floriculture, essential oils and prawn farming to name a few new avenues of farmer enterprise.

The agriculture sector (including livestock, fisheries and forestry) contributed 29% to GDP at factor cost in 1985, and accounted for 57% of domestic exports, with the banana sector accounting for 89% of the sectors exports. The sector's importance is further underscored by its links to manufactured exports. Exports from agro-industries (mainly soap and other coconut products) amounted to 32% of domestic exports in 1985 so that overall exports from agriculture and agro-industry totalled 89% of domestic exports. It is worth while to note here that despite the sectors importance to domestic output and exports, the imports of food and beverage amounted to 26% of total imports in 1985 and to 18% of GDP. This condition calls for considerably more local production: This can be acheived through the strengthening of our livestock production capability, and expanding our domestic food production. Our policies for increasing food production and for removal of price controls on protein food items such as fish and meat, are complementary to our investment program.

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Some major contraints to the performance of the agricultural sector are land tenure, extension services and marketing. These are tackled by The Extension Services Program of Action being appraised by management in the MInistry of Agriculture, and within the Public Sector Investment Program, by the following projects:-

1. The Integrated Rural Development Project, being implemented at Geneva and Grand Bay in the south, and Castle Bruce in the east.
2. The Dominica Export and Import Agency: DEXIA.

The integrated rural development project will settle 648 farmers on government owned estates in Geneva and Castle Bruce; to date 374 farmers have been settled on the Geneva lands and 50 of the 251 plots at the Castle Bruce area have already been surveyed. The Project provides for farm roads, grading stations input storage warehouses and a line of credit through the Agricultural and Industrial Development Bank, at a total cost of approximately EC$8 million, half of which is funded by the International Fund For Agricultural Development, (IFAD).

Our efforts in agriculture emphasise diversification and the expansion of traditional export crops. Major agricultural deversification projects include integrated rural development, tree crop diversificationm, coffee expansion, and floriculture development. Marketing, marketing intelligence, and packaging facilities are therefore critical support services to the programs and projects which seek to increase productivity, output and exports. Our strategy has been to invite and encourage private sector enterprise in the provision of these services. Our invitations however, have not generated the required responses and have made it necessary that we, hopefully for a short period, exspand the operations of DEXIA to include the active marketing of produce. The funding of the project for the development of the marketing facilities of DEXIA is therefore of particularly high priority.

The tree crop projects included in the Public Sector Investment Program are the next phases of the BDD financed tree crop and spices project and calls for the planting of new varieties such as red grapefruit, passion fruit and tangerine on 450 acres. The coffee project also financed by the BDD represents the other major thrust in agricultural diversification. Under phase I, 150 acres of Arabica coffee destroyed by the hurricane in 1979 were rehabilitated and acreage was expanded to 200 acres. Under phase two, the project will be expanded by an additional 200 acres. Eventually we hope to expand the acreage in coffee production to 1,000 acres.

Attempts to diversify the sector will complement efforts to raise productivity and the volumne of output in traditional foreign exchange earners. The BDD-financed banana expansion project provided inputs to the banana farmer, through the provision of inputs on short term credit to the Banana Marketing Corporation at a subsidised rate. The Project's aim to raise output from 34,000 tons in 1985 to 50,000 by 1988 was achieved within a period of two years. This was the result of both the

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project and an intensive island wide program carried out by the Government, to educate the farmer on the benefits to be derived from efficient field practices and field packing of the banana harvest.

The CIDA financed coconut rehabilitation and expansion program will continue into phase II, which entails the maintainance of acreage rehabilitated under phase I, expansion by 2,000 acres, and the upgrading and construction of roughly 10 miles of access roads.

The coconut expansion project will enable Dominica to provide the inputs to the cocnut agro-industry and to re-enter the market for whole dry nuts, which is more lucrative to the farmer than the processing of the nuts into dessicated product.

MANUFACTURING

The manufacturing sector contributed 7% to GDP af factor cost in 1985 and is dominated by soap and other coconut products which are produced primarily for export markets. After rapid growth of 21% per annum between 1980 and 1982 the sector has suffered in recent years as a result of import restrictions in CARICOM markets,and the unavailability of factory space for enclave industries. The sectors growth has been hampered by:

1. The shortage of credit for local manufacturers;
2. A high tax burden and its distortionary effects on savings, investments and productivity;
3. A cumbersome fiscal incentives application process;
4. Air transport bottlenecks due to the inadequate quality of passenger and cargo services provided to Dominica.

The PSIP provides for projects to correct each of the foregoing shortcomings of the manufacturing investment and operating environment, and relflects the efforts of government to improve the policy environment for both local entrepreneurs and foreign investors:

1. The Tax Reform Program now underway with the assistance of the USAID is examining ways and means to alleviate the tax burden on the economically productive sectors of the economy and to provide more effective fiscal incentives to potential investors.

2. The air transport bottleneck is a serious constraint to development and is to be addressed by the present airport facilities development program..

3. The investmemt application review process, has been identified frequently as an nuisance to investors. We are seeking ways and means of cutting back on the number of stages, so that each application will no longer have to be acted upon at several different levels of review.

Government's role in this sector is consistent with its overall strategy of promoting private investment by limiting government's direct involvement in productive activities while upgrading the country's infrastructure. Government will also continue to encourage those industries which utilize local raw materials and resources. The main instruments of the strategy are the fiscal incentives scheme, the provision of factory shells at subsidized rates, and the use of the investment program to secure financing for infrastructure rehabilitation and expansion.

Timely provision of factory shells is a necessary condition for foreign manufacturers to locate in Dominica, provision is therefore made for a moderate program of construction of factory shells. High priority is given to the industrial estates program, as well as to the provision of additional of factory space.

The essential oils project is at the stage to be moved into commercial production levels. Market studies have been carried out and demand is at the level of ten tons per year at the price of US$14. per kilo. The present production level is one ton per year. Financing and technical assistance is required to enable the project to make this transition.

Tourism in Dominica is relatively small, and the island will never be the sand, sun and sea attraction as are some of our sister islands.

We see Dominica tourism based on visitors who wish to relate to nature and to features such as the boiling lake, health spas, and hiking along forest trails. We wish to attract visitors from neighbouring destinations as part of twin island holiday packages. As part of the program to attract more visitors we have undertaken with EDF financing, a program to build forest trails, to improve scenic sites, provide directional signs, picnic shelters and related facilities for national parks, and to provide promotional material. The Integrated National Park project will develop and protect the present environment, enhance access to the island's major natural attractions, and provide interpretive facilities.

Another high priority tourism project is the provision of berthing facilities at Portmouth to accommodate cruise ships which now have to stand out to sea and transport visitors to land in small launches. At present this project is receiving the attention of the CIDA, which has undertaken to finance the study for the project.

We consider the inadequacies of air passenger transport and cargo services in Dominica to be major constraints to the further development of Dominica and particularly of manufacturing, agriculture and tourism. Passenger travel to and from Dominica is plagued with uncertainty due to scheduling of the regional carrier, and difficulty of obtaining reservations. Air travel to the island is of particular concern to us since the absence of adequate facilities, especially night landing coupled with the current schedules of the major international carriers to nearby destinations make it difficult to reach Dominica in one day from countries outside of the region. Though some small adjustments can be effected in the short run to partially alleviate these setbacks a realistic approach to the air transpoartation bottleneck requires a more medium to long term program. It is essential therefore, especially as the necessary processes take such a long time to be finalised, that work begins on the studies for airport development. It is with great satisfaction that I mention the commencement in April of this year, of studies for this project by a team from the United Kingdom.

FEEDER ROADS.

The feeder roads program is of course high on our priority list. Both the EDF and CDB financed program will lead to increased agricultural production and income. Also a further 1,000 acres of new lands will be brought into the production of bananas, citrus, coconuts and mixed fruit. Construction work on both the CDB financed and EDF financed projects begin in February.

In addition to the EDF and CDB financed feeder road programs we are seeking funding for the construction and upgrading of some 12 miles of road, to access land with significant agriculture, tourism and forestry potential. This is the Governor Fond Trove' road. The lands in the area through which the road is to pass, are owned by government and are earmarked for large-scale farming of non-traditional crops. The project requires funding for feasibility studies and it is estimated that the cost level will be some EC$15 million.

In its program of primary and feeder road development Government has always emphasised the need to develop a capability in road maincenance both at the level of technical and managerial capacity and for financing. We are therefor examining alternative approaches to the issue of cost recovery to finance maintenance cost of the roads system.

POWER

The main objectivies of government in the power sector are to expand the elctricity supply so as to increase the percentage of the population having access to electricity, satisfy rising demand through the increased use of hydro-power, and (on the determination of its cost effectivenes), through the development of geothermal power. Supportive action to this program is the encouragment of rational and efficient use of electricity by effecting sound tariff policy.

The USAID financed rural electification program has extended the transmission and distribution lines to settlements on the East Coast. In December of last year electricity was provided for the first time to these vellages. The project is expected to be completed during the 1986/87 financial year.

The next major power project of the Public Sector Investment Program is to expand the hydroelectric resources. The project will cost some US$16million (EC$43.20million) and will be financed jointly by IDA, CDB, EIB, Caisse Central de Cooperation Economique and the Dominica Electricity Company (DOMLEC). The project will provide a dam of 200,000 cubic meters, new and expanded hydroplants, and an improved transmission and distribution system. The project entails the institutional strengthening of DOMLEC and the application of appropriate tariffs.

WATER.

The provision of potable water supplies on an efficient basis is a prime objective of Government. To achieve this we have dissolved the former Central Water Authority and introduced new legislation to create a new agency. The water development program has at its centre the CIDA financed project which provides both technical and material inputs. The new Board of Commissioners will include representation from consumers. And as soon as the service provided has improved, new rates will be introduced. The ultimate objective of my Government is to make this public utility, as with all other public corporations, a self sustaining venture in which the private sector can be encouraged to invest.

SEWERAGE.

This sector is very underdeveloped and current inadequate sewerage disposal presents a serious health hazard. The mortality rate from typhoid fever has been as high as 44 cases per 100,000, and reflects the urgent need for major improvements in this sector. Projects in this area so far, are relatively small: A mojor sewerage rehabilitation and expansion program is required and a project has been included in the PSIP with a nominal cost estimate of EC$1 million.

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Assitance is required for the development of a full program for the sewerage sector, which will take into consideration requirements for proposed programs in tourism, manufacturing, agro-industry, housing and related development.

SOCIAL SECTORS.

My Government is determined to ensure that the education system prepares people for making a useful contribution to the development of the country. Skills training is therefore a critical component in our education program. This is particularly relevant to our efforts to encourage new enterprise in agro-industry, manufacturing and other productive ventures. Our education policy also requires compulsory education for children between the ages of 5 and 15, and increasing adult literacy. Some 14,000 pupils are enrolled at 58 primary schools locatead throughout Dominica. A large number of students completing primary education are unable to gain entrance to secondary schools. The Junior Secondary Program provides education for students up to the age of 15, and equips each student with at least one basic skill by the end of the three year program. The training requires a period of attachment with a firm or business enterprise during the final year. The PSIP provides for a Junior Secondary School in Roseau to try to alleviate the severe shortage of school places for students leaving the primary school system.

The Health Services sector has received a lot of our attention. We

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are very much aware that the provision of health facilities and services can become a heavy burden on central government if the business of health is seen as a soley government matter and not the concern of all persons and communities. My Government's health program has ensured that all persons actively participate in health care by the provision of primay health care through community health centres, and the emphasis on environmental health as the main thrust of health policy. The provision of a main referral centre is being achieved through the gradual upgrading of hospital facilities and establishing systems and methods to reduce the costs of medicines, and other materials and services used at this institution.

My government has taken a number of measures to ensure that the health sector can cover its costs. Fees for services including hospital fees and charges for X-rays and surgery are now paid by the user of the service. Another major initiative was the establishment of a drug revolving fund in 1984. Under this scheme, drugs are purchased in bulk by the Central Medical Stores. From its annual budgetary allocation each district hospiital purchases from this agency which in turn deposits the returns from these sales into an account in the Treasury. In addition to reducing unit cost through bulk purchasing, the scheme also prevents waste and ensures that adequate supplies of essential drugs are always available.

France has provided invaluable assistance in this sector particularly with clinics, the polyclinic at the central hospital, and the development of systems for the hospital dispensary.

Housing is a sector which requires considerable investment and the full participation of the private sector. We have taken a decision that Government must not get directly involved in the construction and sale of houses as this is an area of private sector enterprise. Infrastructure and services will be provided by Central Government as in the case of the Simon Bolivar Housing Project for which government is providing the "Sites and Services". Financial resources for housing however, are in extremely short supply. Use is being made of Social Security funds and the financing received from the CDB and executed through the AID BAnk and the Credit Union system. Use of these funds are retricted however to the higher income groups by the interest rates and relatively high construction costs. The large group of low income potential home owners can ill afford a unit at a cost ofEC$20,000 to EC$30,000: Housing projects however originally designed for this level of outlay now cost some EC$50,000. We are therefore looking for some practical solutions to providing housing to the lower income groups in our communities; solutions of design, materials usage and financing at a cost that can be faced by the income groups presently excluded from the available finance.

Government has undertaken a program to mobilise domestic savings through the commercial banks to provide mortgage financing for potential home owners. This program gives tax exemption on interest earned on mortgages and income earned on special deposits for housing loans. To date however only the National Commercial Bank has attempted to make use of this facility. The other banks have held the view that funds available to them are short term and preclude their use for longer term mortgage financing programs. We are in discussion with organisations to obtain funding, both in the form of equity and long term deposits from sources outside of the country, for a special mortgage facility, for medium and low income groups.

PROJECT AND PROGRAM DEVELOPMENT AND IMPLEMENTATION CAPABILITY.

I mentioned earlier the concern which we have for improving the efficiency of the public sector. This entails improvement in management at its different levels. We are in the middle of an organisation and management development exercise which has already began to put in place essential management practices and systems. For example first draft work programs have been set out for some ministries and for component functions within departments, and work schedules with specific output targets are being developed for review during the first quarter of this year. Complementary to this project is government's program to strengthen our sector planning and project management capabiltiy. To effect this we have brought the Economic Development Unit into the Ministry of Finance, placed essential project staff in the former, and requested assistance for macro-economic planning, sector progrmming, project coordination and project implementation planning, monitoring, reporting and evaluation. The macro-economics and the project coordination technical assistance personnel are in place and are financed by USAID and CFTC respectively. The The sector progrmming technical assistance team will be provided by June of this year by the Republic of China and t! ə request for assistance in project implementation planning and related project implementation mangaement expertise has been approved in principle by CIDA. The project will place project implementation expertise in key ministries and the Economic Development Unit, to work with and train 'hands-on', all staff working in project implementation and evaluation. We would be happy to receive at this meeting confirmation of assistance for the complete package, as project implementation expertise, and project and program evaluation are critical inputs not only to project development, but to our whole program for the improvement of public sector managenment.

In order to ensure timely implementation of projects and to set the stage for the technical assistance programs, the Economic Development Unit has begun to assist ministries in the preparation of implementation plans as a basis for improved project management, and to undertake regular reviews of all projects every four months. The information base for these reviews will be a summary report on all projects, Ongoing, New and Idea with projections for up to three years beyond the ongoing financial year. This will permit timely adjustments to projects in the preparation or implementation stages, provide regular up-dating of PSIP projections, and the resultant document (which in fact reflects the composition of the annual plan), will serve as a guide to all agencies of government in the preparation of the Public Sector Investment Programme and recurrent budget. Procedures for preparing and reviewing this annual plan and budget have beeen developed and presented to each ministry in a series of work sessions, and will be gradually upgraded over time to permit more thourough appraisal and evaluation. This program of work is complementary to, and an essential component of, the w der program of improvement to the organisational framework and management practices of the public service, being coordinated by the Personnel Department.

Sectoral planning is to be established as an integral component of management within each ministry and coordinated by the Ministry of Finance and Development. Counterpart staff for the Economic Development Unit will be in post by April of this year. The sector programming process will enhance the project identification effort, and is in fact a major source of new project ideas, and will provide further information and analysis for policy formulation.

The Ministry of Finance and Development, and the operating Ministries have been developing mechanisms to link the sector programming and project development cycles to the existing administrative processes: Initialy every effort is being made to cause as little disruption as practicable, to the institutional framework, and to generate little if any additional costs. One sub-system which is being introduced and which seeks to assist this integration, traces explicitly the stages of development of the project from the concept stage to its completion and evaluation. This was developed with the assistance of the Organisation of the America States as part of the Project Monitoring System. The key characteristics of this "system" are

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as follows:

1. It requires that each relevant level of management within the operating ministry, the EDU, and Finance, explicitly appraise critical stages of the project design and development process.

   (This system does not introduce any new concepts: It provides an explicit guide from one stage of project development and decision making levels to the next; and will ensure that all the departments, agencies and decision making bodies are called to contribute to the process at the appropriate stage).

2. The data and information collected using the formats of the system will be used to generate status reports, reflecting such information as the stage of project development, source(s) of financing, and status of negotiation of financing, contracts etc. and other summary information useful to management decision making and for guiding the project towards implementation.

3. To facilitate the generation of the reports referred immediately above at sub-section -2- the whole system has been placed on a computer program: The program has been delivered by the OAS and will come into operation during the first quarter of this year.

The purpose of the process referred above, is to ensure that all

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levels of management participate in the work programme for development, which will therefore have greater chance of being understood and efficiently implemented.

Programme performance budgeting for recurrent expenditures has been introduced for some years now. This process is to be strengthened so that it performs the function as a planning and evaluation tool for the recurrent budget equivalent to, and inter-related with that for the determination, review and evaluation of the Public Sector Investment Program.

Complementary to its other assignments the Ministry of Finance and Development is to strengthen its capacity to perform macro-economic analysis and to examine issues of development from the perspective of overall national development objectives and strategy. The inputs required for this are being provided by the the technical assistance project provided within the Public Management and Policy Planning Programme.

We will not be able to mention every project now underway in Dominica. However we wish to mention that we have continued to receive valuable assistance from a number of agencies and governments. We have ongoing projects with the UNDP and other UN agencies, with the OAS which has continued to give us valuable assistance in education, agriculture and in the science and culture fields.. The French Government and the Agence, South Korea and The Republic of China continue to provide

Dominica with financing for development projects and technical assistance. The projects and programs which are financed by all sources of aid are reflected in our annual budget and point to the many friends who have been generous in supporting our efforts towards development.

Dominica Core PSIP, 1986/87 - 1988/89
(EC$ '000)

PROJECTS	SOURCE OF FINANCE	FINANCING STATUS		1986/87 - 88/89 EXPENDITURE AMOUNT	%
AGRICULTURE				25,715	19.80%
Agric. Training, R&D Center	FRANCE	GRANT	ONGOING	743	0.57%
Banana Support Scheme	UK	LOAN	ONGOING	7,410	5.71%
Coconut Rehab. & Expansion I&II	CIDA	GRANT	ONGOING	398	0.31%
Coffee Development II	UK	LOAN	NEW	2,039	1.57%
Export/Import Agency (DEXIA)	UK	LOAN	NEW	984	0.76%
Floriculture Development	US/HIAMP	GRANT	NEW	856	0.66%
Integrated Rural Development	IFAD	LOAN	NEW	4,329	3.33%
Integr. Rur. Dev.-Govt. Contr.	GOCD		NEW	1,590	1.22%
Lime Rehabilitation	EDF	GRANT	ONGOING	800	0.62%
Tropical Tree Crops and Spices	BDD	LOAN	IDEA	1,082	0.83%
Coconut Expansion Phase II	CIDA	GRANT	IDEA	1,000	0.77%
Dairy Development	UNKNOWN		IDEA	2,500	1.92%
Livestock Training & Dev. Centre	UNKNOWN		IDEA	1,000	0.77%
Strengthening Fisheries	FAO	GRANT	NEW	984	0.76%
EDUCATION				2,363	1.82%
Basic Needs Trust Fund-Schools	CDB/USAID	GRANT	ONGOING	243	0.19%
Student Loan III	CDB	LOAN	ONGOING	120	0.09%
Student Loan IV & V	CDB	LOAN	ONGOING	2,000	1.54%
HEALTH & COMMUNITY SERVICES				508	0.39%
Basic Needa Trust Fund - Health	CDB/USAID	GRANT	ONGOING	16	0.01%
Integrated Envir. Sanitation	USAID	GRANT	NEW	492	0.38%
HOUSING				0	0.00%
MANUFACTURING				6,044	4.65%
Essential Oils	EDF	GRANT	ONGOING	60	0.05%
Essential Oils II	EDF	GRANT	NEW	575	0.44%
Export Processing Zone	UNKNOWN	LOAN	IDEA	1,270	0.98%
Industrial Estate V	CDB	LOAN	ONGOING	4,139	3.19%
POWER				29,174	22.46%

Dominica Core PSIP, 1986/87 - 1988/89
(EC$ '000)

PROJECTS	SOURCE OF FINANCE	FINANCING STATUS		1986/87 - 88/89 EXPENDITURE AMOUNT	%
Hydro Electricity Project	MULTI	LOAN	NEW	26,420	20.34%
Rural Electfication	USAID	GRANT	ONGOING	2,754	2.12%
TOURISM				2,805	2.16%
Development of National Parks	LOCAL	LOCAL	ONGOING	1,050	0.81%
Tourism Development Programme	EDF	GRANT	NEW	1,755	1.35%
TRANSPORTATION				34,335	26.44%
Airport Facilities - Canefield	CIDA	GRANT	ONGOING	736	0.57%
Berthing Facilities & Port Crane	UNKNOWN	GRANT	IDEA	1,100	0.85%
Canefield Airport Terminal Bldg.	FRANCE	GRANT	NEW	2,864	2.21%
Feeder Roads	EDF	GRANT	NEW	10,500	8.08%
Feeder Roads III	CDB	LOAN	ONGOING	7,625	5.87%
Governor-Fond Trove Feeder Rd.	UNKNOWN	GRANT	IDEA	8,000	6.16%
Road Maintenance	UK	LOAN	ONGOING	750	0.58%
Road Maintenance	IDA	LOAN	ONGOING	900	0.69%
Airport Development (Study)	UK	GRANT	NEW	500	0.38%
Farm Access Roads	CDB	LOAN	NEW	1,360	1.05%
WATER AND SEWERAGE				20,092	15.47%
Bulk Water Facility	REP.CHINA	LOAN	NEW	9,500	7.31%
Sewerage	UNKNOWN	GRANT	IDEA	1,000	0.77%
Water Phase I	CIDA	GRANT	ONGOING	86	0.07%
Water Phase II	CIDA	GRANT	NEW	6,126	4.72%
Water Phase III	CIDA	GRANT	NEW	3,380	2.60%
PUBLIC BUILDINGS				5,022	3.87%
Constr. & Reconstr. of Gov't Blgs.	LOCAL	LOCAL	NEW	5,022	3.87%
OTHER				3,818	2.94%
Global Line of Credit II	CDB	LOAN	ONGOING	3,818	2.94%
TOTAL CORE				129,876	100.00%

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Dominica PSIP, 1987/88
(EC$ '000)

PROJECTS	SOURCE OF FINANCE	FINANCING STATUS		19887/88 EXPENDITURE AMOUNT	%
AGRICULTURE				16,678	30.11%
Essential Oils & Spices Phase II	EDF	GRANT	IDEA	575	1.04%
Agric. Training Centre	GOCD		ONGOING	62	0.11%
Extension of Forestry Facilities	GOCD	GOCD	NEW	100	0.18%
Strengthening Fisheries	FAO	GRANT	ONGOING	243	0.44%
National Resource Management	OAS	GRANT	ONGOING	834	1.51%
Devel. Fish Marketing Facilities	CIDA	GRANT	ONGOING	466	0.84%
Lime Rehabilitation	EDF	GRANT	ONGOING	380	0.69%
Fisheries Dev. Train. & Rescue	Rep./China	GRANT	ONGOING	210	0.38%
Coconut Restor. & Expansion	CIDA	GRANT	ONGOING	500	0.90%
Int. Research & Micro Project	FAC/FRANCE	GRANT	NEW	1,558	2.81%
Dairy Development	UNKNOWN	GRANT	IDEA	1,600	2.89%
Woodwork Training Centre	UNKNOWN	GRANT	IDEA	316	0.57%
Dev. & Improvement of Charcoal Prod.	UNKNOWN	GRANT	IDEA	345	0.62%
Project Management Development		GRANT	IDEA	70	0.13%
Iivestock Marketing Facilities	UNKNOWN	GRANT	IDEA	200	0.36%
Reforestation & Soil Conservation	UNKNOWN	GRANT	IDEA	1100	1.99%
Cadastral Survey Phase I	UNKNOWN	GRANT	IDEA	200	0.36%
Floriculture Development	HIAMP/EDF	GRANT	IDEA	406	0.73%
Implementation of Forest Management	UNKNOWN	GRANT	IDEA	655	1.18%
Livestock Training & Dev. Centre	UNKNOWN	GRANT	IDEA	1,135	2.05%
Banana Industry Support Fund	UK	LOAN	ONGOING	2,730	1.93%
Integrated Rural Development	IFAD/OAS	LOAN	ONGOING	353	0.64%
Coffee Development Phase II	UK	LOAN	NEW	739	1.33%
Devel. Marketing facilities. DEXIA	UK	LOAN	NEW	984	1.78%
Tropical Tree Crops and Spices	UK	LOAN	IDEA	532	0.96%
Fruit fly Control	UK	LOAN	IDEA	100	0.18%
Control(Survey) /Mapping of Dominica	UNKNOWN	UNKNOWN	IDEA	285	0.51%
EDUCATION				2,003	3.62%
Basic Needs Trust Fund-Schools	CDB/USAID	GRANT	ONGOING		0.00%
Student Loan III	CDB	LOAN	ONGOING		0.00%
Student Loan IV & V	CDB	LOAN	ONGOING		0.00%
Junior High School Roseau (Constr.)	UNKNOWN	GRANT	NEW	2,003	3.62%
HEALTH & COMMUNITY SERVICES				848	1.53%
Basic Needs Trust Fund - Health	CDB/USAID	GRANT	ONGOING	0	0.00%
Integrated Envir. Sanitation	USAID	GRANT	NEW	164	0.30%
Helminthiasis Control	IDRC(?)	GRANT	ONGOING	57	0.10%
Nutrition Programme	UNICEF	GRANT	ONGOING	219	0.40%
Solid Waste	GOCD	GOCD	ONGOING	33	0.06%
Health & Family Life Education	UNFPA	GRANT	ONGOING	211	0.38%
Environment Sanitation Project	UNFPA	GRANT	ONGOING	164	0.30%
HOUSING				0	0.00%
					0.00%
					0.00%

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MANUFACTURING				3,075	5.55%
Essential Oils & Spices II	EDF	GRANT	NEW	575	1.04%
Export Processing Zone	UNKNOWN	LOAN	IDEA	1,500	2.71%
Industrial Estate V	CDB	LOAN	ONGOING	1,000	1.81%
POWER				11,468	20.70%
Hydro Electricity Project	MULTI	LOAN	ONGOING	10,468	18.90%
Rural Electfication	USAID	CHCK DLEC	NEW	1,000	1.81%
TOURISM				1,500	2.71%
Development of National Parks	LOCAL	LOCAL	ONGOING	500	0.90%
Tourism Development Programme	EDF	GRANT	NEW	1,000	1.81%
TRANSPORTATION				17,233	31.11%
Airport Facilities - Canefield	CIDA	GRANT	ONGOING	206	0.37%
Berthing Facilities & Port Crane	UNKNOWN	GRANT	IDEA		0.00%
Canefield Airport Terminal Bldg.	FRANCE	GRANT	NEW	3,285	5.93%
Feeder Roads	EDF	GRANT	ONGOING	5,850	10.56%
Feeder Roads III	CDB	LOAN	ONGOING	5,000	9.03%
Governor-Fond Trove Rd.(Study)	UNKNOWN	GRANT	IDEA	50	0.09%
Road Maintenance	UK	LOAN	ONGOING		0.00%
Road Maintenance	IDA	LOAN	ONGOING		0.00%
Airport Development (Feasibility)	UK	GRANT	NEW	500	0.90%
Farm Access Roads	CDB	LOAN	ONGOING	1,360	2.46%
Melville Hall Facilities	CIDA	GRANT	ONGOING	982	
WATER AND SEWERAGE				2,222	4.01%
Bulk Water Facility	REP.CHINA	LOAN	NEW		0.00%
Sewerage	UNKNOWN	GRANT	IDEA		0.00%
Water Phase I	CIDA	GRANT	ONGOING		0.00%
Water Phase II	CIDA	GRANT	ONGOING	2,222	4.01%
Water Phase III	CIDA	GRANT	NEW		0.00%
PUBLIC BUILDINGS				370	0.67%
Constr. & Reconstr. of Gov't Blgs.	GOCD	GOCD	ONGOING	210	0.38%
Repairs/Refurbishing Police Stations	GOCD	GOCD	ONGOING	160	0.29%
OTHER				0	0.00%
Global Line of Credit II	CDB	LOAN	ONGOING		0.00%
TOTAL CORE				55,397	100.00%

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annex 3:

DOMINICA
PROJECTS SEEKING FINANCING
PSIP 1986/87-1988/89

1. Tropical Tree Crops and Spices.
2. Floriculture development.
3. Essential Oils and Spices Phase II.
4. Fruit Fly Control.
5. Livestock Training and Development.
6. Livestock Marketing Facilities.
7. Dairy Development.
8. Woodwork Training Centre.
9. Forest Management.
10. Reforestation and Soil Conservation.
11. Cadastral Survey, and equipment.
12. Control Survey/Mapping of Dominica.
13. Urban Development (Pound-Roseau).
14. Export Processing Zone.
15. Governor Fond Trove' Road.
16. Airport Development (feasibility).
17. Sewerage.
18. Berthing Facilities & Port Crane.
19. Project Development Management.
20. Implementation, Monitoring and Evàluation.
21. Junior Secondary School (Roseau).