

72-117/81037  
1988

Program Agreement Number:  
Project Number: 538-0141

GRANT AGREEMENT  
BETWEEN  
THE COMMONWEALTH OF DOMINICA  
AND  
THE UNITED STATES OF AMERICA  
ACTING THROUGH  
THE AGENCY FOR INTERNATIONAL DEVELOPMENT  
FOR  
STRUCTURAL ADJUSTMENT II

DATE: September 30, 1988

			<u>AMOUNT</u>	<u>PAAD NO.</u>
APPROPRIATION:	(1) 72-1181037	(2) 72-117/81037	964,388.00	538-K-604A
BUDGET ALLOWANCE:	(1) LESA-88-35538-KG31	LES7-88-35538-KG31	78,512.00	538-K-604B
		TOTAL	<u>\$1,042,900.00</u>	

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THE COMMONWEALTH OF DOMINICA

AND

THE UNITED STATES OF AMERICA

FOR

STRUCTURAL ADJUSTMENT II

GRANT NO. PAAD NO.: 538-K-604A & PAAD 538-K-604B  
PROJECT NO. 538-0141

Agreement, dated the 30th of September, 1988, between the Commonwealth of Dominica ("Grantee") and the United States of America, acting through the Agency for International Development ("A.I.D."), together referred to as the "Parties".

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

Now, therefore, the Parties hereto agree as follows:

Article I. The Assistance

AID agrees to grant to the Grantee, under the terms of this agreement, not to exceed One Million Forty Two Thousand Nine Hundred United States Dollars (US\$ 1,042,900) (The "Grant") to assist the Grantee in maintaining stability, revitalizing its public finances, and promoting private sector economic growth. The Grant will provide financing to enable the Grantee to continue its efforts to implement a structural reform program. The Grant is anticipated to be disbursed in one tranche after satisfaction of the Conditions Precedent set forth below. The activities contemplated herein are amplified in the Program Description set forth in Annex I of this Agreement.

Article II. Conditions Precedent to the Disbursement

SECTION 2.1 Conditions Precedent to the Disbursement

Prior to the disbursement of the Grant, or any part thereof, 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, and 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 of the names of the persons holding or acting in the office of the Grantee specified in Section 7.2 and a specimen signature of each person specified in such statement.
- (c) Evidence that the Grantee has established, or has caused to be established, a separate, interest-bearing U.S. dollar account with a designated U.S. correspondent bank, to be used solely for the disbursements of the U.S. dollar proceeds of this Grant, and evidence that adequate accounting procedures are in place to accurately track the sources of deposits into, and the uses of withdrawals from, this account. Procedural guidance will be provided by A.I.D. to the Grantee in the form of an Implementation Letter.
- (d) Evidence that the Grantee has established, or has caused to be established, a separate local currency account to be used solely for the deposit of local currency specified in Section 5.3 of this Agreement, and evidence that adequate accounting procedures are in place to accurately track the sources of deposits into, and the uses of withdrawals from, this account. Procedural guidance will be provided by A.I.D. to the Grantee in the form of an Implementation Letter.
- (e) Evidence that the Grantee is making satisfactory progress in implementing the Civil Service Reform program in cooperation with the Organization, Methods and Manpower technical assistance team, and in keeping with the objective of restraining increases in the government's wage and salary expenditures.
- (f) Evidence that the Grantee is making satisfactory progress toward attaining the targets for wage and salary expenditures, as stated in Section 5.8 (a), below.
- (g) Evidence 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 Section 5.8 (b), below.

#### SECTION 2.2. Notification

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

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

If the conditions precedent to disbursement as set forth in Section 2.1 have not been met by January 31, 1989, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

Article III. Disbursement

SECTION 3.1. Deposit of Disbursed Funds

After satisfaction of the conditions precedent, at the written request of the Grantee, A.I.D. will arrange for deposit of the proceeds of the Grant in the designated U.S. correspondent bank for the account of the Grantee or its designated, jointly approved agent.

SECTION 3.2. Date of Disbursement

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

SECTION 3.3. Terminal Date for Requesting Disbursement

Except as A.I.D. may otherwise agree in writing, the terminal date for the Grantee to request disbursement of the Grant proceeds shall be nine months from the date of this Agreement. After such date, A.I.D. may deobligate funds from this Grant without further notice to the Grantee.

Article IV. Uses of Funds

SECTION 4.1. Uses of U.S. Dollar Grant Proceeds.

The Grantee agrees that the Grant proceeds disbursed into the separate account specified in Sections 2.1(c) and 5.2 will be used to finance, during a period of one year following the first disbursement under this Grant and in accordance with procedures to be described in Implementation Letters, imports from the United States of raw materials, intermediate and capital goods, essential consumer goods, and such other classes of commodities or imports that may be agreed to by A.I.D. It is expressly understood and agreed that the Grant proceeds will not be used to finance military or paramilitary equipment or services, surveillance equipment, police or other law enforcement equipment or services, abortion equipment or services, luxury goods or gambling equipment, weather modification equipment, or pesticides which are not registered by the U.S. Environmental Protection Agency without restriction. The Grantee further agrees to redeposit in the said separate account any amounts, as directed by A.I.D., representing funds applied to a disallowed use, and to reprogram such funds to a permitted use.

SECTION 4.2. Uses of Deposited Local Currency.

The Grantee agrees that the Eastern Caribbean dollars deposited in the account specified in Sections 2.1(d) and 5.3 will be used only for support of the Grantee's Development Account in accordance with procedures to be described in Implementation Letters. It is anticipated that funds in the local currency account will be fully disbursed during the 24-month period immediately following the disbursement of this Grant. It is expressly understood and agreed that funds in the account will not be used to finance police training or for military or

paramilitary purposes. The Grantee further agrees to redeposit in the said separate account any amounts, as directed by A.I.D., representing funds applied to a disallowed use, and to reprogram such funds to a permitted use.

Article V. Covenants

The Grantee covenants that:

SECTION 5.1. Records

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

SECTION 5.2. U.S. Dollars

The U.S. dollar proceeds of the Grant will be deposited and maintained in the separate account established in accordance with 2.1(c) above until use as authorized by this Agreement. The Grantee further covenants that the U.S. dollars in such account will not be commingled with funds from any source other than disbursements under this Grant.

SECTION 5.3. 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 each disbursement of the Grant deposit, or cause to be deposited, an amount of Eastern Caribbean Dollars equivalent to the Grant into a separate government account at the National Commercial Bank of Dominica (NCB), and the Grantee shall, within 45 days of each disbursement under this Agreement, provide evidence satisfactory to A.I.D. that such a deposit has occurred. The Grantee further covenants that the local currency deposited in the separate account will not be commingled with funds from any other source and will be expended only for purposes approved under this Agreement.

SECTION 5.4. Reports

(a) The Grantee will present to A.I.D., on a quarterly basis, itemized documentation of the disbursements from the separate U.S. dollar account at the designated U.S. correspondent bank for purposes authorized by this Agreement. This documentation shall include: (1) the disbursement orders that the Grantee or its designated, jointly approved agent has communicated to the designated U.S. correspondent bank to release funds from the special dollar account, and (2) copies of the statements of the special dollar account, verifying that the funds have been appropriately released.

(b) The Grantee will provide, beginning ninety days after disbursement of the U.S. dollar resources, and until funds in the special local currency account have been liquidated, quarterly reports documenting that funds from the special local currency account have been released to the Development Account of the Government of Dominica.

Further specification of the content and timing of the Grantee's reporting requirements will be contained in an Implementation Letter.

SECTION 5.5. Publicity

The Grantee will give appropriate publicity to the Grant.

SECTION 5.6. Execution of Program

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

SECTION 5.7. Consultation

The Grantee will meet at regular intervals with A.I.D. in order to consult concerning the effectiveness of the activities undertaken through the Agreement. The Grantee will provide to A.I.D. such information relating to the economic and financial situation of Dominica as may be reasonably requested by A.I.D.

SECTION 5.8. Miscellaneous Financial and Program Covenants

(a) The Grantee shall 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 between 1988/89 and 1989/90. 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 1988/89 and 1989/90. 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 disbursements under this Grant. Mindful that A.I.D.'s request will occur before the end of the Grantee's fiscal year, the Grantee will be prepared to present its most currently available actual performance data along with full 1988/89 fiscal year projections before January 1, 1989.

(b) The Grantee shall 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 11 percent of current revenue in Fiscal Years 1988/89 and 1989/90. 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 disbursements under this Grant. Mindful that A.I.D.'s request will occur before the end of the Grantee's fiscal year, the Grantee will be prepared to present its most currently available actual performance data along with full 1988/89 fiscal year projections before January 1, 1989.

(c) The Grantee shall provide to A.I.D., prior to January 1, 1989, except as the parties may otherwise agree in writing, in form and substance satisfactory to A.I.D. a report on further measures taken or planned by the Grantee to remove fiscal, regulatory, or other disincentives to private investment in Dominica.

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

(e) The Grantee shall increase the Government of Dominica's budget for road and infrastructure maintenance by at least 10 percent each year between its Fiscal Year 1988/89 and Fiscal Year 1989/90.

#### Article VI. Refunds

If the failure of Grantee to comply with any of its obligations under this Agreement has the result that the Grant is not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement in U.S. dollars to A.I.D. within sixty (60) days after receipt of a request therefor. Such right to require refund of any disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

Article VII. Miscellaneous

SECTION 7.1. Communications

Any notice, request, documents, or other communication submitted by either party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Grantee: Prime Minister and Minister of Finance

Mail Address: Government Headquarters  
Roseau, Dominica

Cable Address: Telex No. 8613 DOM EXTERNAL

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

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

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

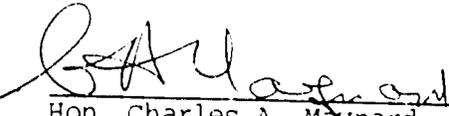
SECTION 7.2. Representatives

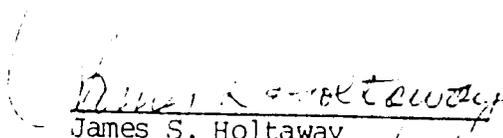
For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the position of Minister of Finance, Government of the Commonwealth of Dominica and A.I.D. will be represented by the individual holding or acting in the position of the A.I.D. Director,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

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

COMMONWEALTH OF DOMINICA

UNITED STATES OF AMERICA

By:   
Hon. Charles A. Maynard

By:   
James S. Holtaway  
4/30/88

Title: Acting Prime Minister  
and Minister of Finance

Title: Director, RDO/C

PROGRAM DESCRIPTION

The immediate program objective is to support a multi-donor structural adjustment program, being undertaken under the auspices of the "Tight Consultative Group." The Grant will enable Dominica to undertake the program without being encumbered by additional nonconcessional debt that would merely add to its need for support thereafter. The medium-term objectives to be served by the structural adjustment program are to increase the rate of economic growth with a view to reducing unemployment and improving living standards, while strengthening the country's fiscal and balance of payments positions. Specific program objectives include raising the GDP growth rate from 1.1 percent in 1985 to about 4 percent in 1986-88. The program will develop incentives, infrastructure and other facilities to stimulate private sector investment in order to promote growth of output and employment. The program also aims to strengthen public finances by establishing public sector wage and salary and savings targets. 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\$ 7.6 million between Fiscal Years 1986/87 and 1988/89, with an additional need of US\$ 1.5 million projected for 1989/90. Budgetary support is being provided by the IMF, the World Bank, the Caribbean Development Bank and by A.I.D. It will finance fiscal gaps that remain beyond the financing available from identifiable sources, including donor support.

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

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

Support of Central Government Budget

The local currency equivalent of the Grant will be used to help fund the central government's unfinanced budget deficit so that Government will not have to resort to additional nonconcessional borrowing or further reductions in its public sector investment program. Furthermore, without the additional resources provided by the Grant, Government would have to incur additional debt, the repayment obligations of which would reduce its ability to finance the public sector investment program. The Government of Dominica will provide quarterly reports documenting that funds from the special local currency account have been released to the Development Account of the Government of Dominica.