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Program Agreement Number: 538-K-605  
Program Number: 538-0176

GRANT AGREEMENT  
BETWEEN  
THE GOVERNMENT OF THE COMMONWEALTH OF DOMINICA  
AND  
THE UNITED STATES OF AMERICA  
ACTING THROUGH  
THE AGENCY FOR INTERNATIONAL DEVELOPMENT  
FOR  
DOMINICA AGRICULTURAL SECTOR SUPPORT

DATE: August 14, 1991

<u>APPROPRIATION</u>	<u>BUDGET PLAN CODE</u>	<u>PAAD NO.</u>	<u>AMOUNT</u>
72-111/21037	LES1-91-35538-KG31	538-K-605	\$1,000,000

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**THE GOVERNMENT OF THE COMMONWEALTH OF DOMINICA  
AND  
THE UNITED STATES OF AMERICA  
FOR  
DOMINICA AGRICULTURAL SECTOR SUPPORT  
PROGRAM NO. 538-0176**

AGREEMENT, dated the 14th day of August, 1991 between the Government of 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 increase its capacity to broaden the economic and export base of the economy through diversifying agricultural production.

Now, therefore, the Parties hereto agree as follows:

**ARTICLE I**

**THE ASSISTANCE**

A.I.D. agrees to grant to the Grantee, under the terms of this Agreement, not to exceed One Million United States Dollars (US\$1,000,000) (the "Grant") to assist the Grantee in its efforts to broaden the economic and export base of its economy through the planning and implementation of an agricultural diversification program. The Grant is anticipated to be disbursed in two tranches of Five Hundred Thousand United States Dollars (\$500,000) each, after satisfaction of the Conditions Precedent set forth below. The program contemplated herein is amplified in the Program Description set forth in Annex 1 of this Agreement.

**ARTICLE II**

**CONDITIONS PRECEDENT TO DISBURSEMENT**

**Section 2.1 Conditions Precedent to the First Tranche**

Prior to the disbursement of the first US \$500,000 tranche 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. This evidence will be further described in a countersigned Implementation Letter.
- (d) Evidence that the Grantee has established, or has caused to be established, a separate, interest-bearing 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. This evidence will be further described in a countersigned Implementation Letter.
- (e) Evidence of the Grantee's commitment to develop a comprehensive agricultural diversification strategy (ADS). As evidence, the Grantee will furnish to A.I.D, in form and substance satisfactory to A.I.D, a letter from the Prime Minister of the Grantee that states the commitment of the Grantee to develop, approve and implement an ADS that will address the following significant elements:
  - i) a policy agenda that outlines the scope of the specific macroeconomic and sectoral policy issues which affect agricultural expansion and diversification, and for which policy development is required;
  - ii) a more efficient marketing system, such as a vertically integrated market ordering system governed by market forces and managed by the private sector;
  - iii) an action program to implement the diversification strategy; and
  - iv) a sub-sectoral item in the Ministry of Agriculture's supplemental budget to promote diversification, identified as "Agricultural Diversification Support".

## **Section 2.2 Conditions Precedent to Second Tranche**

Prior to disbursement of the second tranche of US\$ 500,000, the Grantee will furnish to A.I.D., in form and substance satisfactory to A.I.D., the following evidence that the Grantee has developed, reviewed and approved an ADS and an action program to implement the strategy:

- a) a copy of the section of the official minutes of the Grantee's Cabinet meeting, or other official document, pertinent to and reflecting the decision taken by the Cabinet to approve an ADS;

- b) documentation indicating that a sub-sectoral item for "Agricultural Diversification Support" has been created in the 1991-1992 Ministry of Agriculture supplemental budget and constitutes an element of the diversification strategy; and
- c) documentation indicating that the Eastern Caribbean (EC) dollar equivalent of US \$500,000 has been allocated to the "Agricultural Diversification Support" sub-sectoral item in the 1991-1992 supplemental budget, that the Ministry of Agriculture has authority to draw down the budget, and that the funds will remain available in the separate account required by Sections 2.1(d) and 5.3 until disbursed to the Ministry of Agriculture to fund such supplemental budget item.

### **Section 2.3 Notification**

When A.I.D. has determined that the conditions precedent to disbursement specified in Section 2.1 and Section 2.2 have been met, it will promptly notify the Grantee.

### **Section 2.4 Terminal Date for Conditions Precedent**

If the conditions precedent to disbursement of the first tranche as set forth in Section 2.1 have not been met by December 31, 1991, and the conditions precedent to disbursement of the second tranche as set forth in Section 2.2 have not been met by June 30, 1992, or such later date or dates 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 applicable to each tranche of the Grant, at the written request of the Grantee, A.I.D. will arrange for deposit of the proceeds of the respective tranche 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 first tranche of Grant proceeds shall be twelve 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 in each tranche into the separate U.S. dollar account specified in Sections 2.1(c) and 5.2 will be used to finance, during a period of one year following the respective disbursement under this Grant and in accordance with procedures agreed to under Section 2.1(c), 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. 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 EC dollars deposited in the separate local currency account specified in Sections 2.1(d) and 5.3 will be used only for support of the Grantee's Agricultural Diversification Support budget in accordance with procedures agreed to under Section 2.1(d). 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**

The Grantee shall, within five (5) days following each disbursement of the Grant, deposit, or cause to be deposited, an amount of EC dollars equivalent to the Grant disbursement, into a separate, interest-bearing government account of the National Commercial Bank of Dominica (NCB). Such equivalency shall be calculated using the highest rate of exchange not unlawful for U.S. Dollars existing on the date the Grant disbursement is made. The Grantee shall within the reports provided for in Section 5.4, 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 separate U.S. dollar account, and (2) copies of the statements of the separate U.S. 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 separate local currency account have been liquidated, quarterly reports documenting that funds from the separate local currency account have been released to the Ministry of Agriculture to fund the sub-sectoral budget item for Agricultural Diversification Support.

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 Financial and Program Covenants**

The Grantee covenants as follows:

- a) the Grantee will seek to achieve a 1991 current account surplus of at least seven percent;
- b) the Grantee will seek to restrain growth in central government civil service wage and salary payments so that they do not exceed forty-nine percent of current revenue and fifty-four percent of current expenditure;
- c) the Grantee will continue to implement the cost-containment measures based on the Grantee's response to the findings and recommendations of the Organization, Methods, and Manpower technical assistance team and keep AID informed of implementation progress; and
- d) the Grantee will not employ U.S. dollars granted by A.I.D. to the Grantee under this Agreement, or the EC dollars deposited by the Grantee into the separate local currency account, for the procurement or use of pesticides.

## **ARTICLE VI**

### **REFUNDS**

If the failure of the 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  
Mail Address: Regional Development Office/Caribbean (RDO/C)  
USAID  
P.O. Box 302  
Bridgetown  
Barbados.

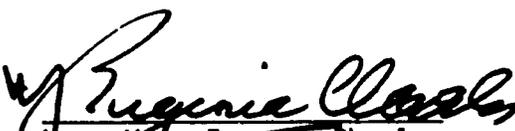
All such communications will be in English. Other addresses may be substituted for the above upon the giving of notice.

#### Section 7.2 Representatives

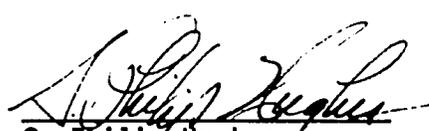
For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the position of Minister of Finance, Government of the Commonwealth of Dominica, and A.I.D. will be represented by the individual holding or acting in the position of the A.I.D. Director, 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 Government of 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

By:   
Title: Hon. Mary Eugenia Charles  
Prime Minister  
and Minister of Finance

UNITED STATES OF AMERICA

By:   
Title: G. Philip Hughes  
Ambassador

By:   
Mosina H. Jordan  
Director, RDO/C

PROGRAM DESCRIPTION

I. SUMMARY

The Agreement provides a grant of US \$1.0 million of Economic Support Funds (ESF) to the Government of the Commonwealth of Dominica (GOCD). The purpose of the grant is to assist the GOCD's efforts to broaden the economic and export base of the economy through a private sector-led program of expanded and diversified agricultural production.

The specific program objective is to promote the elaboration and implementation of an agricultural diversification strategy which the GOCD can implement to achieve increased and diversified agricultural production for local consumption and for export.

II. BACKGROUND

Agriculture in Dominica is the largest contributor to GDP (30%), provides nearly one half of employment, and earns 75% of the foreign exchange. Ten thousand farmers, mostly smallholders, cultivate about 25,000 acres of land.

A wide variety of tropical crops are produced both for domestic consumption and export. For the past decade, export bananas have been the predominant cash crop, stimulated by the United Kingdom (UK) guaranteed market at heavily subsidized prices. Other significant agriculture-dependent export products include coconut oil, grapefruit concentrate, bay oil, and various root crops. Among less significant agricultural exports are other citrus, exotic fruits, cocoa, coffee, spices, flowers and ornamentals, aloe vera gel, and vegetables.

Bananas, Dominica's principal export product, account for about 93% of the value of agricultural production and 70% of total exports. Without the U.K. market subsidy, it is estimated that Dominica banana revenues could fall by as much as 50%. Yet, analysis indicates that Dominica production costs are high and quality constraints may compromise the competitiveness of Dominica bananas in world markets if preferential access to the U.K. market is lost.

The comparative advantage for bananas exists not only because of the U.K. guaranteed placement and the subsidized price, but also because the marketing system in Dominica is arranged for priority support of banana production. The banana market is vertically integrated from the farmgate to the shipping dock, thereby virtually eliminating all marketing risks for the banana farmer. Moreover, a number of services--input supply, aerial spraying, and technical counsel--are provided to banana farmers which reduce production risks. Further, disaster insurance covers rehabilitation and replacement costs for windstorm damage to bananas, thereby alleviating important climatic risks.

In contrast, farmers who grow diversified crops rather than bananas are faced with insecure market access, unstable prices, a fractionated and unreliable market, the absence of built-in production services and the absence of disaster insurance. Thus, farmers growing diversified crops must directly assume many more of the production costs from farmgate to dock than does the banana farmer, and must assume the entire burden of the associated risks. Farmers heavily discount potential returns when faced with high risks. Comparative risk conditions clearly induce farmers to produce bananas rather than other export crops or foodstuffs for local consumption, even though net returns from diversified crops could be significantly higher.

Because the subsidy has led farmers to shift scarce factors of production (land, labor, and capital) away from other production options to bananas, supplies of other products are not dependable. The result has been the loss of diversified product markets and low capacity utilization by processors of non-banana products. This in turn has wrought ever greater dependence on bananas for foreign exchange and farmer incomes.

Finally, it is important to note that the subsidized foreign exchange return on banana production has made food imports the financially superior means of meeting local food requirements and demand. Two thirds of internal foodstuff consumption, especially meat, is sourced from imports.

### III. PROBLEM TO BE ADDRESSED BY THE PROGRAM

The national economy and its agricultural sector are excessively dependent on banana exports to the subsidized United Kingdom market.

The planned unification of the European market and of its external tariff policies in 1992 may reduce or eliminate the preferential market access Dominica currently enjoys. Foreign exchange earnings will likely fall when the banana subsidy is reduced or abolished. If not prepared for the change in market conditions, the Dominican economy could face destabilizing effects. Large segments of the population may face considerable hardship triggered by substantial decreases in income.

Two obstacles to achieving future competitiveness for Dominican agriculture are:

- 1) subsidy-engendered distortions of relative prices between bananas and other export crops; and
- 2) deficiencies in the diversified export, processing, and marketing sub-systems for fresh and processed produce.

#### IV. PROGRAM RATIONALE

The program is intended to encourage and promote diversification from bananas to other crops that are competitive and potentially strong income earners in the regional and world markets. Secondary results should include decreasing food import costs and decreased foreign exchange requirements to pay for food imports. High dependence on imported foodstuffs renders the availability of basic food required by the population vulnerable to balance of payments problems that the diminished or eliminated subsidy on bananas could severely test. It is in Dominica's interest to produce economically viable foodstuffs that reduce the food import bill, respond to local demand, and efficiently utilize Dominica's agricultural potential. Thus, agricultural diversification can address both excessive dependence on banana exports to a subsidized market and the associated need to reduce the food import bill.

#### V. PROGRAM SUPPORT FOR AGRICULTURAL DIVERSIFICATION

A.I.D. assistance will directly support the elaboration of an Agricultural Diversification Strategy and, should A.I.D. assistance be continued in a second phase, the implementation of the strategy.

Market disincentives, price distortions, and lack of attention to domestic agricultural policy have inhibited movement toward diversification over recent years. However, changing international conditions and accompanying uncertainty make a strong case for Dominica to identify, adopt, and implement policies and action programs that will broaden and diversify its export base. Elaboration of a diversification strategy is a departure point.

A.I.D. assistance is intended to encourage and support the development of such policies and programs, and to mitigate the difficulty of adjustment away from subsidized banana production into diversified products that are competitive and strong income earners in regional and world markets.

Diversification is intended to reduce the nation's dependency on banana exports for foreign exchange, promote the expansion of other agricultural exports, reduce foreign exchange requirements for imported foodstuffs, and enhance food security.

A.I.D. will obligate US\$ 1.0 million as a grant and thereafter disburse the funds to the GOCD within twelve months. Disbursements will be made in separate tranches of US\$ 500,000, governed by the satisfaction of conditions which A.I.D. will ask the GOCD to meet.

The program will also aid the GOCD with the elaboration of an Agricultural Diversification Strategy by making assistance available from other A.I.D. projects and programs that operate in the region, such as the O.E.C.S.-managed

Tropical Produce Support Project (TROPRO). Funds amounting to US \$300,000 will be added by A.I.D. to the TROPRO Project, targeted specifically for Dominica to finance any studies, analyses, or other assistance needed to elaborate the strategy.

The Agricultural Diversification Strategy is expected to include several essential elements:

- o the identification and tuning of macroeconomic, agricultural, and other sectoral policies which influence agricultural expansion and diversification;
- o a more efficient marketing system, such as vertically integrated market ordering system;
- o budgetary resources to support diversification;
- o an Action Program to implement the strategy; and
- o recognition of environmental factors that affect diversification.

1. Government policy should be tuned to support diversification. Complementarity between macroeconomic, agricultural, and other sectoral policies that influence agriculture will be necessary. Thus, an important objective of the Agricultural Diversification Strategy will be the identification of policies that need development, refinement, or abolishment.

2. A more efficient marketing system is required to expand production and processing, improve marketing efficiencies, enhance market competitiveness, and increase market penetration for various products. Thus, a key feature of the diversification strategy is likely to be a vertically integrated market ordering system, governed by market forces and managed by the private sector. The creation and operation of such a system is seen as essential to help Dominica make the transition from an economy predominantly reliant on subsidized banana exports to an economy supported by diversified production in a competitive international market environment. The market ordering system will also play a significant role in implementing other aspects of the strategy.

3. In the elaboration of a policy agenda and an Action Program for implementation of the strategy, a budget which reflects the costs of diversification--both in the public and private sectors--should be drawn up. The government will have to consider an increase in national budget allocations to the Ministry of Agriculture, as well as revised allocations within the Ministry and for targeted private sector assistance, to promote diversification. The Ministry of Agriculture will need a sub-sectoral item in the budget for Diversification Support that can fund private or public sector efforts. The budget item will be funded by the Eastern Caribbean Dollar equivalent of the U.S. dollar grant provided by A.I.D.

4. An Action Program for implementing the diversification strategy will likewise constitute an important element. It will need a timetable with discernible benchmarks against which implementation progress can be measured. Special legislation may also be identified as an important component of the Action Program.

5. Finally, the Agricultural Diversification Strategy and Action Program will need to address the environmental factors associated with agricultural diversification in order to utilize and conserve renewable and non-renewable resources by the most efficient means possible.

A.I.D. expects to be able to provide funds in U.S. Fiscal Year 1992, subject to their availability, to assist the government with the subsequent key step in the diversification process--the implementation of the strategy. The sum of US\$ 1.0 million will be targeted for implementation support. Additional assistance--the amount to be determined--for survey research, further policy analysis, training, or other needs, will be furnished, if necessary, through the TROPRO project to enhance the success of the diversification program.

Through regular correspondence and dialogue, A.I.D. and the GOCD will exchange information and views concerning the development of the Agricultural Diversification Strategy. It is also expected that the GOCD will have substantive interaction and dialogue with the private sector and design the strategy collaboratively with the private sector. Such collaboration will help assure that the resulting strategy will encourage the private sector to contribute effectively and efficiently to agricultural expansion and diversification.

This program has been jointly designed by the Ministry of Agriculture and Ministry of Finance of the GOCD and A.I.D.