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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D. C. 20523

REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

PROJECT PAPER

DOMINICA STRUCTURAL ADJUSTMENT

Amendment No. 2

AID/LAC/P-496  
CR P-491 416

Project Number: 538-0141.03  
538-K-604C

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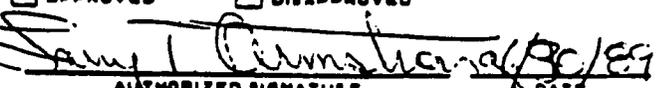
AID 172-1 (D-881)		DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT		1. PAAD NO 538-0141.03 538-R-604C	
PAAD		PROGRAM ASSISTANCE APPROVAL DOCUMENT		2. COUNTRY Dominica Amendment No. 2	
				3. CATEGORY Cash Transfer	
				4. DATE June 1989	
5. TO Larry T. Armstrong Acting Director				6. OVS CHANGE NO.	
7. FROM Roy Grohs, Acting Chief, Program Office				8. OVS INCREASE	
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 600,000				10. APPROPRIATION - ALLOTMENT 72-119/01037 LES9-89-35538-KG31	
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD June 1989 to June 1991	14. TRANSACTION ELIGIBILITY DATE Date of Agreement		
15. COMMODITIES FINANCED					

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:		U.S. \$600,000	
Limited P.W.:		Industrialized Countries:	
Free World:		Local:	
Cash: U.S. \$600,000		Other:	

18. SUMMARY DESCRIPTION

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, increase public sector savings, and restrain growth of the public sector. Domestic savings will not be sufficient to support needed private and public infrastructure. IMF and World Bank analysts have concluded that despite the 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. Dominica is the first OECs country to participate in a Tight Consultative Group structural adjustment program. The Dominica program covers the GOCD fiscal years 1986/87 through 1988/89. Conditionality in this Grant focuses on assuring adequate progress in pursuing a comprehensive structural adjustment program with special emphasis on fiscal targets and incentives to private sector development.

Per STATE 207838 dated 06-30-89 funds are available upon signature of AA/LAC or his designee for total amount not to exceed U.S.\$600,000. Thomas Fallon, CONT. Date 6/30/89

19. CLEARANCES		20. ACTION	
RLA:RJOHNSON (initial)	DATE 6/13/89	<input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED	
A/C/PDO:JWOOTEN SE	DATE 6/13/89	 AUTHORIZED SIGNATURE DATE 6/30/89	
A/D/DIR:TFALLON JW	DATE 6/30/89		
		LARRY T. ARMSTRONG, Acting Director	
		TITLE	

CLASSIFICATION:

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PAAD AMENDMENT NUMBER 2  
DOMINICA STRUCTURAL ADJUSTMENT SUPPORT

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

June 30, 1989

## 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, RATIONALE AND SUMMARY

### A. Recommendation

The staff of the AID Regional Development Office/Caribbean recommends that the Acting Mission Director amend Program Assistance Approval Document number 538-0141.03 to authorize a \$ 600,000 increase in an Economic Support Fund Grant to the Government of the Commonwealth of Dominica (GOCD), thereby raising the total authorized level of this program assistance to \$3,142,900. The first amendment increased the authorized level by \$ 1,042,900 to a total of \$2,542,900. [NOTE: for convenience of presentation, in the PAAD general references round the \$1.64 million increase due to this and the previous amendment, to "\$1.6 million"]. The funds will be disbursed in one tranche, as soon as the Conditions Precedent are met.

### Grantee

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

### B. Purpose of the Amendment

The sole purpose of this amendment is to increase the authorized level of funding for this project by an additional \$600,000. The Grant Agreement will also change the Terminal Disbursement Date from January 31, 1989 to July 31, 1989 to accommodate the extra time needed to add FY89 funds to the Grant. The original PAAD (Attachment A to Amendment Number 1) was written in support of a three-year, \$4.5 million, AID contribution to a multi-year structural adjustment program for Dominica. Funding constraints, however, permitted authorization of only \$1.5 million in September 1987, leaving the program incompletely funded. Funding constraints also prohibited authorizing \$1.5 million in FY88 for a second tranche, as had originally been intended. Rather, authorization Amendment Number 1, dated September 30, 1988 increased the LOP by only \$1,042,900. Funds obligated under that authorization are to be disbursed simultaneously with those authorized by the present amendment, thereby increasing the second tranche to approximately its originally intended amount.

Pursuant to discussions with AID Washington since September, 1988, the Planned Life of Project funding level has been increased to \$5.1 million and the number of planned tranches increased from three to four. Based on the present authorization amendment, the mission will amend the September, 1988 Grant Agreement to supplement the undisbursed \$1,042,900 in FY88 funds with \$600,000 in FY 89 funds, for a total obligation of \$1,642,900. A third PAAD Amendment for \$1,400,000 will be prepared in July, 1989 to authorize a third tranche under this program. It is anticipated that, subject to funding availability, additional authorization and obligation amendments for \$557,000 will be made in FY90 for a fourth tranche that will eliminate the remaining project mortgage. The present amendment increases the authorization part way toward the planned \$ 5.1 million LOP level for this program.

All references to \$ 1,042,900, or \$ 1.043 million (rounded to \$1.0 million), contained in the September 30, 1988 PAAD Amendment are hereby

changed to: \$1,642,900 (or \$ 1.643 million, rounded to \$ 1.6 million). The Fiscal and Balance of Payments tables, respectively, have been amended accordingly (Attachment A). All references in the September 30, 1988 Authorization Amendment to the amount of assistance, the planned LOP and shortfalls in financing the second tranche, are hereby presumed to be altered by implication in order to be editorially consistent with the above changes.

Section H of the September, 1988 Amendment, is hereby deleted and replaced with the following (only the amended tables are reproduced as Annex A):

'H. Closing the fiscal Gap

Table 3A presents central government fiscal operations for the three-year term of the structural reform program (FY 1986/87-1988/89) and beyond. Dual columns for some years compare TOG program targets with actual or projected performance.

The PSIP guides the capital expenditure line item in the budget. As in the past, the capital budget will be largely financed through foreign grants and concessionary loans. As envisioned in a fully-funded program, foreign grants for FY 88/89 and FY89/90 would include \$EC 8.2 (US\$ 3.0) million in budget support grants. The proposed amendment will cover slightly more than one-half of that two-year gap.

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

Following the recent tax reform, the IMF projects moderate revenue growth, including increases in tax revenues of 2.3 percent in 1988/89 and 7.6 percent in 1989/90. 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 is targeted to increase from EC\$13.4 million in FY88/89 to EC\$21.1 million in 1990/91. This is to be accomplished through particular emphasis on the control of recurrent expenditures. In Dominica, this necessarily involves controlling the wage bill. Wage and salary expenditures increased rather sharply between the first and second years of the TOG program, reflecting contractual obligations made in 1985. The program calls for moderate increases in the future, and for 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 external debt as well as of obligations to domestic commercial banks. (Table 3A). Under this program, the IMF identifies financing gaps of EC\$4.1 million for 1988/89 and 1989/90. Table 3B illustrates the impact of failure to secure any budgetary support grants. Table 3C illustrates the impact of the anticipated level of AID support in 1988/89, as provided in the present proposed grant, and retains the assumption that funding from unidentified sources (including potential future AID funds) will be forthcoming in FY 1989/90. For

presentational purposes, the effect of lower than anticipated budgetary support is shown in tables 3B and 3C as an increase in the residual (or "unfinanced gap"). However, the mission anticipates that the actual impact of reduced budgetary support grants will in fact be absorbed by a combination of reduced capital expenditure and slower repayment of nonconcessionary debt (or indeed even by the need to resort to nonconcessionary borrowing)."

All other sections of the September 30, 1988 PAAD Amendment remain unchanged.

**ANNEX A**  
**REVISED BALANCE OF PAYMENTS AND FISCAL TABLES**

AMENDED  
Table 2  
Dominica Balance of Payments 1/  
(US\$ Million)

	1984	1985	1986	Prel. 1987	-----Projections----- 1988	1989	1990	1991
<b>CURRENT ACCOUNT BALANCE</b> (before grants)	-18.5	-20.6	-3.8	-11.1	-11.3	-14.3	-13.1	-12.8
Trade Balance	-30.2	-28.7	-11.5	-20.3	-19.7	-22.8	-22.3	-23.8
Exports, f.o.b.	25.6	28.5	44.2	46.0	53.6	59.6	64.6	69.1
Imports, c.i.f.	-55.8	-57.2	-55.7	-66.3	-73.3	-82.4	-86.9	-92.9
Travel (net)	8.5	7.3	7.5	8.3	9.1	9.8	10.5	11.7
Interest Payments (net)	-2.0	-2.0	-2.0	-1.9	-1.8	-2.0	-2.1	-2.2
Other services (net)	-1.1	-3.7	-4.3	-4.0	-5.5	-6.0	-6.0	-5.5
Private Transfers (net)	6.3	6.5	6.5	6.8	6.6	6.7	6.8	7.0
<b>CAPITAL ACCOUNT</b>	24.7	19.7	9.0	19.8	12.5	17.2	16.7	16.1
Official grants <u>2/</u>	11.0	15.6	8.6	11.4	7.8	11.4	14.1	12.5
Public sector borrowing <u>2/</u>	4.8	4.5	4.1	3.9	7.8	7.8	4.8	3.3
Commercial banks	3.0	-0.8	-2.9	-12.7	-6.0	-5.5	-5.7	-3.2
Direct investment	2.3	3.0	6.1	6.0	3.5	3.5	3.5	3.5
Short-term capital (incl. errors & omissions)	3.6	-2.6	-6.9	11.2	0.0	0.0	0.0	0.0
SDR ALLOCATION	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>OVERALL SURPLUS OR DEFICIT(-)</b>	6.2	-0.9	5.2	8.7	1.8	2.9	3.6	3.3
<b>FINANCING</b>	-6.2	0.9	-5.2	-8.7	-1.8	-2.9	-3.6	-3.3
Change in official reserves <u>3/</u> <u>4/</u>	-6.1	2.7	-4.2	-8.1	-3.3	-1.5	-1.6	-1.7
Change in for. assets	0.2	-0.3	-0.3	-0.2	3.6	0.9	-0.6	-0.7
Net credit from IMF <u>5/</u>	-0.3	-1.5	-0.6	-0.4	-2.1	-2.3	-1.3	-0.9

SOURCE: IMF AND GOVERNMENT OF DOMINICA

1/Based on partial data from Government of Dominica. There are no complete official balance of payments statistics.

2/IMF data adjusted to coincide with assumptions in Table 3C, below. Beyond 1988 sources of official grants and concessional borrowing have not yet been identified.

3/Refers to change in Dominica's imputed share in international reserves held by ECCB. These are not freely available to Dominica.

4/"Change in official reserves" data for 1985-87 are distorted as the result of underreporting of currency in circulation in 1985-86 on which Dominica's imputed share of ECCB international reserves is based.

5/Includes actual and projected disbursements under the IMF Structural Adjustment Facility.

ANNEXED  
TABLE 3C  
DOMINICA  
CENTRAL GOVERNMENT OPERATIONS  
WITH EDO/C BUDGET SUPPORT  
(EC\$ million)

	1984/85	1985/86	Prog. 1986/87	1986/87	Prog. 1987/88	Prel. 1987/88	Prog. 1988/89	Proj. 1989/90	Proj. 1990/91
Revenue and grants	110.6	121.5	114.6	112.4	127.4	140.5	138.9	150.8	160.2
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Current revenue	74.6	84.7	90.4	92.9	94.1	106.2	108.4	116.2	124.6
Tax revenue	65.9	76.3	81.1	84.8	85.5	95.5	97.7	105.1	113.2
Nontax revenue	8.7	8.4	9.3	8.1	8.6	10.7	10.7	11.1	11.4
Capital receipts	0.1	0.1	0.0	2.0	1.2	5.9	2.5	1.5	1.0
Foreign grants	35.9	36.7	24.2	17.5	32.1	28.4	28.0	33.1	34.6
Of which: budgetary grants /1/	0.0	4.1	6.8	0.0	9.5	4.1	4.3	4.1	1.5
Total expenditure	125.7	127.5	125.5	116.2	141.0	135.9	151.8	160.1	166.3
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Current expenditure	74.5	81.6	85.9	85.0	90.7	92.1	95.0	99.0	103.5
Of which: wage bill	42.3	47.1	49.4	49.1	52.8	52.7	54.3	55.9	57.6
Capital expenditure and net lending	51.2	45.9	39.6	31.2	50.3	43.8	56.8	61.1	62.8
Of which: local	4.7	6.6	9.1	5.1	8.9	10.7	14.8	10.2	14.5
Current account balance	0.1	3.1	4.5	7.9	3.4	14.1	13.4	17.2	21.1
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Overall balance before grants	-51.1	-42.7	-35.1	-21.3	-45.7	-23.8	-40.9	-42.4	-40.7
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Overall balance	-15.1	-6.0	-10.9	-3.8	-13.6	4.6	-12.9	-9.3	-6.1
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Concessionary foreign borrowing	9.2	5.1	7.7	8.7	20.2	15.4	25.6	15.3	12.5
of which: SAP	0.0	0.0	2.4	2.6	4.1	4.2	2.0	0.0	0.0
Nonconcessionary financing	5.9	0.9	3.2	-4.9	-6.6	-20.0	-12.7	-6.0	-6.4
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Reserve-type transactions	-0.2	-0.5	1.9	-8.3	-3.5	-10.3	-5.5	-2.7	0.0
IMF (net purchases)	-2.1	-4.5	-4.2	-4.7	-7.2	-7.4	-7.4	-5.2	0.0
Change in government foreign assets (increase: -)	-0.4	-0.8	-0.7	-0.9	-3.0	-1.0	-1.1	-1.5	0.0
Other foreign	0.2	0.0	8.1	0.0	9.0	0.0	3.0	4.0	0.0
RCCB borrowing	2.1	4.8	-1.3	-2.7	-2.3	-1.9	0.0	0.0	0.0
Commercial banks	3.5	-1.0	1.3	-1.1	-3.1	-19.2	-7.2	-3.3	-1.8
Statutory bodies	2.0	4.7	0.0	4.0	0.0	10.5	0.0	0.0	0.0
Other domestic	0.0	0.1	0.0	1.1	0.0	0.1	0.0	0.0	0.0
Residual	0.7	-2.4	0.0	-0.6	0.0	-1.1	0.0	0.0	-4.6
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