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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. 3

AID/LAC/P-500
CR P-496 491 416

Project Number: 538-0141.04
538-K-604 D

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CLASSIFICATION:

AID 1120-1 (8-68) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO 538-K-604h Amendment No. 3. 2. COUNTRY Dominica 3. CATEGORY Cash Transfer 4. DATE August, 1989

5. TO: Aaron Williams, Director	6. OYB CHANGE NO.
7. FROM: Mary Ott, PO/ED MCO	8. OYB INCREASE TO BE TAKEN FROM: Economic Support Fund (ESF)
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 1,400,000	10. APPROPRIATION - ALLOTMENT 72-119/01037 LES9-89-35538-KG31

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☐ INFORMAL ☒ FORMAL ☐ NONE	August 1989-August 1991	Date of Agreement

15. COMMODITIES FINANCED

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: $1,400,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: $1,400,000	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 began in the GOCD fiscal years 1986/87. 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.$1,400,000. Date 8/30/89
Thomas Fallon, CONT

19. CLEARANCES		DATE
RLA:RJOHNSON		8/30/89
PDO:DCHIRIBOGA		8/28/89
D/DIR:LARMSTRONG		8/30/89
A/C/PEM:CKeller	C Keller	8/28/89

20. ACTION

☒ APPROVED ☐ DISAPPROVED

A. S. Williams — 8/31/89

AUTHORIZED SIGNATURE — DATE

Aaron Williams, Director

TITLE

CLASSIFICATION:

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AMENDMENT NUMBER THREE
PROGRAM ASSISTANCE APPROVAL DOCUMENT

DOMINICA - STRUCTURAL ADJUSTMENT SUPPORT

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

AUGUST 28, 1989

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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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DOMINICA - STRUCTURAL ADJUSTMENT SUPPORT PROGRAM
THIRD AMENDMENT TO
PROGRAM ASSISTANCE APPROVAL DOCUMENT
August, 1989

(Program No. 538-0141.04)
(Grant No. 538-604D)

I. Recommendation:

That the RDO/C Mission Director approve the third amendment to the Program Assistance Approval Document (PAAD) for the Dominica Structural Adjustment Support Program and thereby authorize an additional $1,400,000 in Economic Support Funds for the Government of the Commonwealth of Dominica (GOCD).

This amendment revises the conditionality presented in the original (September 1987) PAAD, and adds $1,400,000 in Economic Support Funds for the Government of the Commonwealth of Dominica, for a program total of $4,542,900. The funds will be obligated in August of 1989, and will be provided as a cash transfer grant, to be disbursed in one tranche, as soon as the conditions precedent are met. The assistance, however, will not be disbursed prior to January 1, 1990 (halfway through the Dominica fiscal year), thereby allowing plausible full-year projections for the fiscal performance conditions precedent to disbursement. Local currencies associated with the program will be used for general budget support. The Grantee will be the Government of the Commonwealth of Dominica, as represented by the Ministry of Finance.

II. Background and Rationale:

A. Introduction:

This third amendment to the Dominica Program Assistance Approval Document (PAAD) is needed to execute the following changes:

1. To increase the authorized level of funding under the program by $1,400,000 to $4,542,900,

2. To establish conditionality for the third tranche of the multi-year series of contributions to the structural adjustment program, and

3. To update information provided in the original PAAD, and prior amendments, including fiscal and balance of payments data and the narrative on economic performance.

A chronology provided on the next page as Table 1 shows the dates of previous PAAD amendments, and disbursements of funds under the Dominica Structural Adjustment Support Program.

TABLE 1
DOMINICA
STRUCTURAL ADJUSTMENT SUPPORT PROGRAM
CHRONOLOGY

		Authorized	Disbursed
1.	Program Authorization Approval Document (proposed level was $4,500,000, but only $1,500,000 available)	September 1987	January 1988 "1st tranche"
2.	PAAD Amendment No. 1 (increased authorized level by $1,042,900, to a total of $2,542,900, and revised conditionality)	September 1988	July 1989 "2nd tranche"
3.	PAAD Amendment No. 2 (increased authorized level by $600,000, to a total of $3,142,900)	June 1989	July 1989 "2nd tranche"
4.	PAAD Amendment No. 3 (increases authorized level by $1,400,000, to a total of $4,542,900, and revises conditionality)	August 1989	1/ "3rd tranche"
5.	Proposed PAAD Amendment No. 4 (to increase authorized level by $557,000, to a total of $5,099,900)	FY 1990	1/ "4th tranche"

1/ Upon fulfillment of conditions precedent to disbursement

This PAAD Amendment provides information that is supplementary to the original PAAD and its prior two amendments. The additional information given below is keyed to the relevant sections of the original PAAD.

B. Background:

The original program objective stated in the September 1987 PAAD, to "support a multidonor structural adjustment program" in Dominica, remains valid today. Dominica has just completed the third year of its three-year macroeconomic program agreed to under the auspices of a "Tight Consultative Group" or TCG. The TCG's purpose is to provide coordinated concessional structural adjustment support to Dominica from the IMF, World Bank and other donors. The United States pledged a contribution of $4.5 million to the effort, to be granted as ESF cash transfers of $1.5 million each year for the three years of the program. (The reader is referred to the original PAAD and its two prior amendments for more detail on the specifics of the three-year TCG program.)

Funding constraints altered the schedule of disbursements of the U.S. assistance, as shown in Table 1. By mid FY 1989, only slightly more than $2.5 million in ESF had been obligated for Dominica. In late FY 1989, however, a total of $2 million in additional ESF was allocated for Dominica. The first $600,000, obligated in June of 1989, was viewed as completing the commitment of $1.5 million made for FY 1988, and for that reason was provided without conditionality over and above that attached to the FY 1988 ESF monies. This $600,000 was disbursed simultaneously with the FY 1988 ESF in July of 1989, once the relevant conditions precedent were met.

The second part of the FY 1989 portion of ESF for Dominica, the subject of this PAAD amendment, carries with it conditionality relating to the objectives of Dominica's macroeconomic program. The specific conditions will be detailed in a later section of this amendment. At this time, RDO/C has requested an additional $557,000 in ESF for Dominica, to extend the program into FY 1990 and to bring its total to $5.1 million.

C. Economic Performance To Date Under Dominica's Structural Adjustment Program:

The three-year period covered by the TCG-GOCD structural adjustment program formally ended in June of 1989. At that time, review of economic performance over the period showed many signs of success. The goal of 4 percent real GDP growth during the period 1986-1988 was surpassed - averaging 6.4 percent a year. The central government deficit fell from 15 percent of GDP to seven percent in 1988. Open unemployment fell from an estimated 18 percent to an estimated 10 percent. Table 2 (an amended version of Table 1 of the original PAAD)

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8/10/89
TABLE 2
(AMENDED TABLE 1 FROM ORIGINAL PAAD)

DOMINICA: ECONOMIC INDICATORS UNDER TCG PROGRAM

				PROGRAM /1/			ACTUAL/PROJ.		
	1985	1986	1987	1988	1989	1990	1987	1988	1989
	(Annual Percentage Changes)								
GDP at constant prices	1.7	6.8	4.6	4.5	4.0	4.0	6.8	5.6	2.8
Inflation (GDP deflator)	8.3	6.2	4.5	4.0	3.5	3.5	4.1	3.9	4.1
Exports (US$ million)	11.3	55.1	4.1	16.5	11.2	8.4	10.6	15.8	-10.0
Imports (US$ million)	2.5	-2.6	19.0	10.6	12.4	5.5	19.2	31.8	10.0
	(Percent of GDP)								
BALANCE OF PAYMENTS									
Current account deficit									
before grants	-20.7	-3.4	-8.9	-8.4	-9.8	-8.4	-7.5	-15.9	-20.0
after grants	-5.0	4.2	0.7	0.0	-1.0	0.6			
External debt	47.9	47.1	51.0	51.2	51.3	49.9			
Debt service as pct. of exports, serv., priv. transf.	9.4	7.9	9.4	8.8	7.7	6.5			
CENTRAL GOVERNMENT OPERATIONS									
Current revenue	29.3	28.8	30.2	28.5	28.4	28.3	39.3	44.6	43.6
Current expenditure	28.3	26.4	26.2	25.0	24.2	23.5	34.6	36.6	40.7
Current balance	1.0	2.4	4.0	3.5	4.2	4.8	4.8	8.0	3.0
Capital exp. & net lending	15.9	9.7	12.5	14.9	14.9	14.3	17.9	21.9	25.6
Overall balance:									
before grants	-14.9	-7.3	-8.5	-11.4	-10.7	-9.5	-11.3	-11.5	-20.5
after grants	-2.2	-1.9	-0.4	-4.1	-2.6	-2.0	-1.2	-2.9	-9.8
External grants	12.7	5.4	8.1	7.3	8.1	7.5	10.1	8.6	10.7
External concessionary loans (net, incl. IMF SAF)	1.8	2.7	4.4	6.7	3.7	2.8	5.7	9.5	5.7
Nonconcessionary financing	0.4	-0.8	-4.0	-2.6	-1.1	-0.8	-4.5	-6.6	4.1

SOURCE: IMF AND MINISTRY OF FINANCE

/1/ TCG/SAF Program beginning July 1, 1986 gives more detail about progress against the quantitative targets of the Dominican economic program.

It is certainly true that much of Dominica's positive economic performance reflects favorable commodity prices (particularly bananas) during the period. As much or more credit can be given to a much improved economic policy environment, as the Dominica program included measures to restrain the growth of public expenditure, especially of the recurrent budget, and to promote exports and tourism. The GOCD raised tariffs on utilities and took steps toward their privatization. A comprehensive fiscal reform also assisted in strengthening the Dominica macroeconomy. Donor projects to improve infrastructure also provided an impetus to growth.

Despite the many and noteworthy successes of the Dominica structural adjustment program so far (please see original PAAD and its two prior amendments for the details), more work needs to be done to keep the country on its path of strong economic growth. Measures to maintain fiscal discipline, further spur export development and diversify agricultural production are still of high priority. Moreover, Dominica's infrastructural development program has many important unfinished projects. For these reasons, assistance to Dominica's structural adjustment program by the TSG membership will continue beyond the original three-year timeframe.

III. Prognosis for the Dominican Economy During 1989 and 1990

A. National Income and Production:

The GOCD anticipates achieving a real GDP growth rate of at least 4 percent in 1989. As in the previous year, tourism is anticipated to be a leading sector in terms of growth, with an projected expansion in excess of 10 percent in real terms. GOCD analysts expect that the agriculture sector will see a less favorable year in 1989, as both banana prices and output are expected to fall. Agroprocessing and manufacturing are projected to see moderate growth, as are construction and banking.

Outside observers, on the other hand, predict that growth will slow in 1989, and that growth rates will be significantly lower until at least 1992. Despite the GOCD optimism, GDP growth is more likely to moderate to a level of 2.5 to 3.0 percent in real terms. This scenario is based on the expectation that the U.K. banana market is saturated, and that overall exports will be lower than in recent years until 1992 or later. The IMF doubts if the value of banana exports will ever recover to levels seen over the past few years. Renewed growth in both exports and GDP will depend on the country's success in diversifying agriculture.

Because the high levels of growth of the past few years are not likely to be repeated soon, the external and fiscal balances are expected to worsen over the near term. Even so, the more pessimistic observers of the Dominican economy are not alarmed at the prospects.

The level of inflation, measured by the GDP deflator, is expected to be about 4 percent in 1989, about the same as was experienced in 1988.

B. External Sector

The current year has proven one of greater difficulty for the Dominican economy. Banana tonnage is already off sharply from the over-70,000 ton level of 1988. Banana prices are now lower than in previous years, another blow to an economy for which this crop constitutes about 70 percent of exports. The impact is compounded by the fact that "green" prices in London are off, combined with a rise in the value of the U.S. dollar. The strengthening of the dollar has the effect of lowering the EC$ price to farmers, since the fruit is sold in sterling. A ton of bananas thus yields fewer EC dollars than it did a year ago.

Preliminary data from the International Monetary Fund, reflecting that institution's pessimistic outlook for the banana sector, project that exports in 1989 will be about $5 million dollars less than last year. This will contribute to a worsening of the current account deficit from an estimated $18.3 million in 1988 to $27.9 million in 1989.

With continued rising imports, the current account balance is expected to worsen sharply in the next two or three years. While the Government estimates the drop in bananas to be only about half as large as that projected by the International Monetary Fund, the situation will still be quite unfavorable compared to the past three years. Nonetheless, the projection is that even with reduced grant support, the overall balance of payments can sustain a modest surplus during this period.

On the capital account for 1989, for example, official grants and public sector borrowing, plus a higher level of direct investment than has prevailed in years past, will contribute to an estimated $5.7 million dollar balance of payments surplus. This will translate into a strengthening of Dominica's international reserve position within the Eastern Caribbean Commercial Bank. Balance of payments projections for Dominica appear as Table 3.

B. Fiscal Accounts

In 1989, as in previous years, U.S. balance of payments support for Dominica will be justified on the grounds of needed budget support, rather than due to a balance of

TABLE 3
(Amended Table 2)
Dominica Balance of Payments /1/
(US$ Million)

	1984	1985	1986	1987	Prel. 1988	-------Projections------ 1989	1990	1991	1992
CURRENT ACCOUNT BALANCE (before grants)	-18.5	-20.6	-4.6	-7.9	-18.3	-27.9	-29.5	-24.7	-20.9
Trade Balance	-30.2	-28.7	-12.3	-18.4	-32.0	-43.5	-48.0	-46.4	-46.2
Exports, f.o.b.	25.6	28.5	43.4	48.0	55.6	50.4	46.4	47.6	49.4
Imports, c.i.f.	-55.8	-57.2	-55.7	-66.4	-87.6	-93.9	-94.4	-94.0	-95.6
Travel (net)	8.5	7.3	7.5	8.5	9.1	9.8	10.5	11.7	13.0
Interest Payments (net)	-2.0	-2.0	-2.0	-1.9	-1.8	-1.9	-2.1	-2.3	-2.4
Other services (net)	-1.1	-3.7	-4.5	-3.7	-2.0	-1.5	-1.0	-0.5	0.0
Private Transfers (net)	6.3	6.5	6.7	7.6	8.4	9.2	11.1	12.8	14.7
CAPITAL ACCOUNT	24.7	19.7	9.7	16.6	18.7	33.6	32.0	25.9	21.9
Official grants /2/	11.0	15.6	8.6	11.4	8.9	12.8	11.6	8.6	5.6
Public sector borrowing /2/	4.8	4.5	4.1	3.9	7.8	8.8	9.4	7.4	6.4
Commercial banks	3.0	-0.8	-2.9	-12.7	-9.9	5.0	3.0	1.0	0.0
Direct investment	2.3	3.0	6.8	8.6	6.9	7.0	8.0	8.9	10.0
Short-term capital (incl. errors & omissions)	3.6	-2.6	-6.9	5.4	5.0	0.0	0.0	0.0	-0.1
SDR ALLOCATION	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OVERALL SURPLUS OR DEFICIT(-)	6.2	-0.9	5.1	8.7	0.4	5.7	2.5	1.2	1.0
FINANCING	-6.2	0.9	-5.1	-8.7	-0.4	-5.7	-2.5	-1.2	-1.0
Change in off. reserves /3//4/	-6.1	2.7	-4.2	-8.1	2.0	-3.4	-0.6	0.0	0.0
Change in for. assets	0.2	-0.3	-0.3	-0.2	-0.3	-0.3	-0.6	-0.3	-0.3
Net credit from IMF /5/	-0.3	-1.5	-0.6	-0.4	-2.1	-2.0	-1.3	-0.9	-0.7

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/ Beyond 1989 sources of official grants and concessional borrowing have not yet been fully identified. IMF tables altered to reflect AID grants as shown in the fiscal tables, 3A/C. Non-AID-grant scenario 3B not shown here.
/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.

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payments shortfall. (The balance of payments is expected to show a small surplus, as noted above.) The GOCD is unable, in the short term, to generate sufficient internal resources to carry out an infrastructure improvement program of the magnitude to achieve real GDP growth rates in excess of 4 percent annually. Domestic resource mobilization must be supplemented by external grants and loans to achieve the necessary investment in productive infrastructure. A corollary to this is that Dominica must make sure that scarce public sector resources are directed into investment and maintenance of physical infrastructure to the maximum extent possible, while operating expenditures are kept lean.

Table 4A on the following page shows that in their current fiscal year, excluding grants, the GOCD will face a larger deficit than the year before (EC$55 million in 1989/90 as compared to an estimated EC$31 million in 1988/89), in large part due to an increased level of capital expenditure (EC$69.1 million in 1989/90 rather than EC$59.1 million the previous fiscal year). RDO/C support to the public investment budget (added in Table 4B) reduces the overall deficit in the 1989/90 fiscal year from EC$26.5 million to EC$18.3 million. With concessional financing of EC$ 15.3 million expected to be available to Dominica during the 1989/1990 fiscal year, the RDO/C contribution reduces the need for nonconcessional borrowing to only EC$3 million.

For this scenario to materialize, the GOCD must strictly supervise its current expenditure, particularly the wage bill, and must continue its progress in putting parastatal finances in order (including privatization). The targets proposed under this year's ESF program for control of the wage bill are the following:

1. Efforts to keep the wage bill constant in real terms, but in no case exceed growth of three percent in real terms. The present forecast of 8 percent growth in the wage bill, given expected inflation of about 4 percent, means that additional effort will be required by the GOCD in this area.

2. Maintaining the wage bill at a level less than or equal to 57 percent of current expenditure. Projections for 1989/90 show that the GOCD will exactly meet this target.

3. Maintaining the wage bill at a level less than or equal to 50 percent of current revenue. Projections for 1989/90 show that this ratio will rise to nearly 52 percent, meaning that the Government must exercise extreme prudence to meet its targets.

4. Increasing the budget for road maintenance by at least 10 percent in nominal terms, to insure that investments in road construction yield their maximum benefit.

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01-Jan-85

8/10/89
TABLE 4A
(Amended Table 3B from PAAD)
DOMINICA
CENTRAL GOVERNMENT OPERATIONS
WITH NO RDO/C BUDGET SUPPORT
(EC$ million)

	1984/85	1985/86	Prog. 1986/87	1986/87	Prog. 1987/88	Prel. 1987/88	Prog. 1988/89	Prel. 1988/89	Proj. 1989/90	Proj. 1990/91	Proj. 1991/92
Revenue and grants	110.6	121.5	114.6	112.4	127.4	138.4	138.9	150.1	152.4	153.4	142.6
Current revenue	74.6	84.7	90.4	92.9	94.1	106.2	108.4	120.4	117.8	118.0	123.3
Tax revenue	65.9	76.3	81.1	84.8	85.5	95.1	97.7	109.3	104.9	104.5	109.2
Nontax revenue	8.7	8.4	9.3	8.1	8.6	11.1	10.7	11.1	12.9	12.9	14.2
Capital receipts	0.1	0.1	0.0	2.0	1.2	4.9	2.5	6.4	5.7	5.0	5.0
Foreign grants	35.9	36.7	24.2	17.5	32.1	27.3	28.0	23.3	28.9	30.4	14.3
Of which: budgetary grants /1/	0.0	4.1	6.8	0.0	9.5	4.1	4.3	0.0	8.8	8.0	0.0
Total expenditure	125.7	127.5	125.5	116.2	141.6	141.6	151.8	157.8	178.9	188.4	177.3
Current expenditure	74.5	81.6	85.9	85.0	90.7	93.3	95.0	98.7	109.8	116.3	123.4
Of which: wage bill	42.3	47.1	49.4	49.1	52.8	52.7	54.3	56.5	61.0	65.3	69.9
Capital expenditure and net lending	51.2	45.9	39.6	31.2	50.3	48.3	56.8	59.1	69.1	72.1	53.9
Of which: local	4.7	6.6	9.1	5.1	8.9	10.7	14.8	n.a.	n.a.	n.a.	n.a.
Current account balance	0.1	3.1	4.5	7.9	3.4	12.9	13.4	21.7	8.0	1.7	-0.1
Overall balance before grants	-51.1	-42.7	-35.1	-21.3	-45.7	-30.5	-40.9	-31.0	-55.4	-65.4	-49.0
Overall balance	-15.1	-6.0	-10.9	-3.8	-13.6	-3.2	-12.9	-7.7	-26.5	-35.0	-34.7
Concessionary foreign borrowing	9.2	5.1	7.7	8.7	20.2	15.4	25.6	25.6	15.3	12.5	12.5
of which: SAF	0.0	0.0	2.4	2.6	4.1	4.2	2.0	2.0	0.0	0.0	0.0
Nonconcessionary financing	5.9	0.9	3.2	-4.9	-6.6	-12.2	-12.7	-17.9	11.2	22.5	22.2
Reserve-type transactions	-0.2	-0.5	1.9	-8.3	-3.5	-10.3	-5.5	-5.5	-2.7	0.0	0.0
IMF (net purchases)	-2.1	-4.5	-4.2	-4.7	-7.2	-7.4	-7.4	-7.4	-5.2	0.0	0.0
Change in government foreign assets(increase: -)	-0.4	-0.8	-0.7	-0.9	-3.0	-1.0	-1.1	-1.1	-1.5	0.0	0.0
Other foreign	0.2	0.0	8.1	0.0	9.0	0.0	3.0	3.0	4.0	0.0	0.0
ECCB borrowing	2.1	4.8	-1.3	-2.7	-2.3	-1.9	0.0	0.0	0.0	0.0	0.0
Commercial banks	3.5	-1.0	1.3	-1.1	-3.1	-12.5	-7.2	-12.4	5.7	21.0	22.2
Statutory bodies	2.0	4.7	0.0	4.0	0.0	10.5	0.0	0.0	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	0.0	0.0
Residual	0.7	-2.4	0.0	-0.6	0.0	0.0	0.0	0.0	8.2	1.5	0.0

SOURCE: IMF AND GOVERNMENT OF DOMINICA

/1/ 1988-89 from AID Not disbursed until-1989/90, combined with 1989/90 AID

01-Jan-85

01-Jan-85

TABLE 4B

AMENDED
TABLE 3C (& 3A)
DOMINICA
CENTRAL GOVERNMENT OPERATIONS
WITH FULL RDO/C BUDGET SUPPORT
(EC$ million)

	1984/85	1985/86	Prog. 1986/87	1986/87	Prog. 1987/88	Prel. 1987/88	Prog. 1988/89	Prel. 1988/89	Proj. 1989/90	Proj. 1990/91	Proj. 1991/92
Revenue and grants	110.6	121.5	114.6	112.4	127.4	138.4	138.9	150.1	160.6	154.9	142.6
Current revenue	74.6	84.7	90.4	92.9	94.1	106.2	108.4	120.4	117.8	118.0	123.3
Tax revenue	65.9	76.3	81.1	84.8	85.5	95.1	97.7	109.3	104.9	104.5	109.2
Nontax revenue	8.7	8.4	9.3	8.1	8.6	11.1	10.7	11.1	12.9	13.5	14.2
Capital receipts	0.1	0.1	0.0	2.0	1.2	4.9	2.5	6.4	5.7	5.0	5.0
Foreign grants	35.9	36.7	24.2	17.5	32.1	27.3	28.0	23.3	37.1	31.9	14.3
Of which: budgetary grants /1/	0.0	4.1	6.8	0.0	9.5	4.1	4.3	8.0	8.2	1.5	0.0
Total expenditure	125.7	127.5	125.5	116.2	141.0	141.6	151.8	157.8	178.9	188.4	177.3
Current expenditure	74.5	81.6	85.9	85.0	90.7	93.3	95.0	98.7	109.8	116.3	123.4
Of which: wage bill	42.3	47.1	49.4	49.1	52.8	52.7	54.3	56.5	61.0	65.3	69.9
Capital expenditure and net lending	51.2	45.9	39.6	31.2	50.3	48.3	56.8	59.1	69.1	72.1	53.9
Of which: local	4.7	6.6	9.1	5.1	8.9	10.7	14.8	n.a.	n.a.	n.a.	n.a.
Current account balance	0.1	3.1	4.5	7.9	3.4	12.9	13.4	21.7	8.0	1.7	-0.1
Overall balance before grants	-51.1	-42.7	-35.1	-21.3	-45.7	-30.5	-40.9	-31.0	-55.4	-65.4	-49.0
Overall balance	-15.1	-6.0	-10.9	-3.8	-13.6	-3.2	-12.9	-7.7	-18.3	-33.5	-34.7
Concessionary foreign borrowing	9.2	5.1	7.7	8.7	20.2	15.4	25.6	25.6	15.3	12.5	12.5
of which: SAF	0.0	0.0	2.4	2.6	4.1	4.2	2.0	2.0	0.0	0.0	0.0
Nonconcessionary financing	5.9	0.9	3.2	-4.9	-6.6	-12.2	-12.7	-17.9	3.0	21.0	22.2
Reserve-type transactions	-0.2	-0.5	1.9	2.3	3.5	-10.3	-5.5	-5.5	-2.7	0.0	0.0
IMF (net purchases)	-2.1	-4.5	-4.2	4.7	-7.2	-7.4	-7.4	-7.4	-5.2	0.0	0.0
Change in government foreign assets(increase: -)	-0.4	-0.8	-0.7	0.9	2.0	-1.0	-1.1	-1.1	-1.5	0.0	0.0
Other foreign	0.2	0.0	8.1	0.0	9.0	0.0	3.0	3.0	4.0	0.0	0.0
ECCB borrowing	2.1	4.8	-1.3	2.7	2.3	-1.9	0.0	0.0	0.0	0.0	0.0
Commercial banks	3.5	-1.0	1.3	1.1	-3.1	-12.5	-7.2	-12.4	5.7	21.0	22.2
Statutory bodies	2.0	4.7	0.0	4.0	0.0	10.5	0.0	0.0	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	0.0	0.0
Residual	0.7	-2.4	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Even with the difficulty the GOCD may face in 1989/90 to meet its fiscal targets, the projection is for the government to achieve a current account surplus equal to about 2 percent of anticipated GDP. The fiscal situation, while not alarming at present, is clearly less buoyant than it has been for the past two years.

C. The June Fiscal Reform:

In her June 1989 budget address, Prime Minister Charles announced a fiscal reform to be implemented in January of 1990 aimed at simplifying the tax system and providing greater incentive for private sector investment. The fiscal data given in the afore-cited tables incorporate the income loss estimated to result from the reform, expected to be about EC$14 million on an annual basis.

The fiscal measures were designed to encourage investment by easing the corporate income tax. In this regard, the corporate tax rate will be cut by 5 percentage points to 30 percent. The distribution of corporate bonus shares will be made tax free. The hotel occupancy tax will be lowered from ten to five percent, and the bar and restaurant tax will be replaced with the regular three percent income tax. Income from interest and savings deposits will be exempt from income tax, a measure designed to attract deposits from Dominican depositors overseas, as well as other nonresident depositors.

Adjustments will also be made to the personal income tax, both to simplify its administration and to create greater incentive to productive activity. The top marginal rate will be lowered from 45 to 40 percent, and the other brackets will also have their associated rates reduced by five percentage points. The income brackets will be widened. About 850 taxpayers will be removed from the tax rolls through raising the tax threshold from EC$9,000 to EC$12,000.

Both the purpose and content of these measures respond to the objective of the GOCD economic program, and of conditionality under the multi-year ESF program, to encourage private sector investment, saving and creation of employment.

IV. Program Description:

A. Conditions and Covenants:

The conditionality associated with the additional $1.4 million grant was defined as part of the original three-year ESF program, and remains valid today. Table 5 on the next pages summarizes the quantitative conditions and covenants contained in the three prior ESF disbursements, and reports on progress by the GOCD in meeting the quantitative targets of the program.

DOMINICA ESF CONDITIONALITY
Quantified Targets
FY 1987

FY 1987 Agreement (signed September 1987) $1,500,000	FY 1988 Agreement (signed September 1988) $1,042,930	FY 1989 Agreement No. 1 (signed June 1989) $600,000	FY 1988 Agreement No. 2 (expected signing August 1989) $1,400,000	Actual Result
Conditions for 1987/88 Fiscal Year				
1. Increase public sector wage bill by amount NTE 3 percent over prior year.				1. Increased by 7.3 percent
2. Civil service wages and salaries NTE 52 percent of recurrent revenue.				2. 49.6 percent
3. Civil service wages and salaries NTE 57 percent of current expenditure.				3. 56.5 percent
4. Surplus in current account to reach at least 5.5 percent of current revenue, in absence of tax reforms.				
5. Surplus in current account to reach at least 7.5 percent of current revenue, with tax reforms.				5. 12.2 percent

TABLE 4
DOMINICA SSP CONDITIONALITY
Quantified Targets
FY 1988

Conditions for 1988/89 Fiscal Year	Conditions for 1988/89 Fiscal Year			
1. Increase public sector wage bill by amount NTE 3 percent over prior year.	1. Increase public sector wage bill by amount NTE 3 percent over prior year.			1. Increased by 7.2 percent
2. Civil service wages and salaries NTE 52 percent of recurrent revenue.	2. Civil service wages and salaries NTE 53 percent of recurrent revenue.			2. 46.0 percent
3. Civil service wages and salaries NTE 57 percent of current expenditure.	3. Civil service wages and salaries NTE 57 percent of current expenditure.			3. 57.2 percent
4. Surplus in current account to reach at least 9.1 percent of current revenue, in absence of tax reforms.	4. Surplus in current account to reach at least 11.0 percent of current revenue.			4. 10.0 percent
5. Surplus in current account to reach at least 3.7 percent of current revenue, with tax reforms.				

TABLE 5
DOMINICA SSP CONDITIONALITY
Quantified Targets
FY 1989

Conditions for 1989/90 Fiscal Year	Conditions for 1989/90 Fiscal Year	Conditions for 1989/99 Fiscal Year	Conditions for 1989/90 Fiscal Year
1. Increase public sector wage bill by amount NTE 3 percent over prior year.	1. Increase public sector wage bill by amount NTE 3 percent over prior year.	1. Increase public sector wage bill by amount NTE 3 percent over prior year.	1. Increase public sector wage bill by amount NTE 3 percent over prior year.
2. Civil service wages and salaries NTE 50 percent of recurrent revenue.	2. Civil service wages and salaries NTE 50 percent of recurrent revenue.	2. Civil service wages and salaries NTE 50 percent of recurrent revenue.	2. Civil service wages and salaries NTE 50 percent of recurrent revenue.
	3. Civil service wages and salaries NTE 57 percent of current expenditure.	3. Civil service wages and salaries NTE 57 percent of current expenditure.	3. Civil service wages and salaries NTE 57 percent of current expenditure.
	4. Surplus in current account to reach at least 11.0 percent of current revenue.	4. Surplus in current account to reach at least 11.0 percent of current revenue.	4. Surplus in current account to reach at least 11.0 percent of current revenue.
	5. Increase in GOCD budget for road maintenance of at least 10 percent.	5. Increase in GOCD budget for road maintenance of at least 10 percent.	5. Increase in GOCD budget for road maintenance of at least 10 percent.

RDO/C has negotiated the following measures to be taken as conditions precedent to disbursement of the $1.4 million in ESF assistance authorized under this PAAD amendment. These measures are key to Dominica meeting its fiscal targets during the current fiscal year, and by implication, for carrying forward a level of investment in productive infrastructure to maintain growth rates at the targeted level.

(i) Evidence that the GOCD 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.

(ii) Evidence that the GOCD has increased the national budget for road and infrastructure maintenance by at least 10 percent in nominal terms between its Fiscal Year 1988/89 and 1989/90.

(iii) Evidence that the GOCD is making satisfactory progress toward attaining its targets for wage and salary expenditures. [See covenant (i) below.]

(iv) Evidence that the GOCD is making satisfactory progress toward attaining its targets for public sector savings, as measured by the balance on recurrent account in the revenue and expenditure accounts of the Government of Dominica. (See Covenant ii below.)

(v) Evidence that the Grantee is making satisfactory progress toward privatizing the Water Authority.

The following covenants will be included in the ESF Program Agreement:

(i) The GOCD shall make every effort to keep the public sector wage bill constant in real terms, and at minimum will restrict increases in the public sector wage bill to no more than three percent per year in real terms between Fiscal Years 1988/89 and 1989/90. The Grantee will further covenant that every effort will be made to reduce civil service wage and salary payments and maintain a level not to exceed 50 percent of recurrent revenue in Fiscal Year 1989/90. The GOCD will further covenant to make every effort to ensure that civil service wages and salaries will not exceed 57 percent of current expenditure in Fiscal Year 1989/90. The GOCD will further covenant 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.

(ii) The GOCD 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 Year 1989/90.

(iii) The GOCD shall provide to A.I.D., prior to January 1, 1990 a report on measures taken or planned by the Grantee during Fiscal Year 1989/90 to remove fiscal, regulatory, or other disincentives to private investment in Dominica.

(iv) The GOCD shall provide to A.I.D., prior to January 1, 1990, an implementation timetable for further privatization of state-owned enterprises.

(v) The GOCD shall increase the amount budgeted for road and infrastructure maintenance by at least 10 percent in nominal terms each year between its Fiscal Year 1988/89, 1989/90 and 1990/91.

(Progress against quantified macroeconomic targets will be evaluated in January of 1990, when half-year actual data are available, and refined projections of full-year performance can be made.)

An additional covenant will provide for periodic meetings between the GOCD and AID to review economic performance, with macroeconomic data to be provided on a timely basis to AID by the GOCD. The ESF Program Agreement will also include the standard conditions and covenants relating to the separate dollar account, the local currency account, accounting and reporting, specimen signatures, opinion of counsel, and so on.

B. Program Elements:

The uses of ESF dollars, and associated local currencies, will follow the scheme described in the original PAAD. The reader is referred to that document for the details. The same justifications for grant funding and for providing the assistance as a cash transfer are still valid. The same reporting requirements will be retained for the additional assistance.

The amount of the additional grant is still well below Dominica's annual import requirement from the United States. Therefore, Dominica is not expected to have difficulty in importing at least $1.4 million in commodities from the U.S. under the additional grant.

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ACTION AID INFO CDA CHRON

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OO RUEHWN AUG 89 0221
DE RUEHC #9832 243?121 CN: 45064
ZNR UUUUU ZZH CHRG: AID
O 311157 AUG 89 DIST: AID
FM SECSTATE WASHDC
TO AMEMBASSY BRIDGETOWN IMMEDIATE
BT
UNCLAS STATE 279832

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E.O. 12356: N/A
TAGS:
SUBJECT: STRUCTURAL ADJUSTMENT SUPPORT - EC INICA
PROPOSED CONDITIONALITY FOR SECOND FY 89
AMENDMENT

REF: (A) BRIDGETOWN 0?74; (B) STATE 2?83?? (C) BRIDGETOWN 05172

1. LAC CONCURS WITH THE GENERAL APPROACH OF THE CONDITIONALITIES OUTLINED IN REF (C) FOR THE FY 1989 DOLS 1.? MILLION ESF GRANT. HOWEVER, WE WISH TO VERIFY DATA PROVIDED IN PARAGRAPH 3, A, REFTEL C, WHICH RESTRICTS THE INCREASE OF THE PUBLIC SECTOR WAGE BILL TO NO MORE THAN THREE PERCENT PER YEAR BETWEEN FYS 88/89 AND 89/90. FROM DATA CITED BY RDO/C IN AUGUST 24 TELCON, IT APPEARS THAT WAGE BILL INCREASES ACTUALLY HAVE BEEN AROUND SEVEN PERCENT AND MAY CONTINUE AT THAT LEVEL. PLEASE VERIFY WHICH FIGURE RDO/C WILL USE IN ITS CONDITIONALITY AND THE RATIONALE FOR SELECTION.

2. IT APPEARS THAT GOCD CIVIL SERVICE WAGES AND SALARIES MAY HAVE ALREADY PERFORMED AT OR BETTER THAN THE 50 PERCENT RECURRENT REVENUE AND 57 PERCENT

RECURRENT EXPENDITURE LEVELS. THE LANGUAGE OF THE COVENANT SHOULD MAKE CLEAR THAT THESE TARGET LEVELS ARE ALSO THRESHHOLDS WHICH SHOULD NOT BE BREACHED, RATHER THAN JUST REDUCTIONS FROM PRESENT PERFORMANCE.

3. IN ORDER TO ASSESS FUTURE PERFORMANCE OF THE GOCD REGARDING TARGETS ESTABLISHED IN THE AGREEMENT, REQUEST RDO/C PROVIDE FIGURES FOR RECURRENT REVENUES AND EXPENDITURES, AND PUBLIC SECTOR WAGE BILL FOR 87/88, 88/89; AND EXPECTED FOR 89/90.

4. IN REF C, PARA. 3 (A), THE REFERENCE IN THE LAST SENTENCE TO PRESENTATION OF PERFORMANCE DATA BEFORE JANUARY 1, 1989, SHOULD BE REVISED BECAUSE THAT DA[illegible]

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3. MISSION MAY PROCEED WITH THE AMENDMENT OF THE RELEVANT GRANT AGREEMENT. PLEASE PROVIDE LAC/DR WITH A COPY OF THE AMENDED AGREEMENT. EAGLEBURGER
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UNCLAS SECTION 01 OF * BRIDGETOWN 06172

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CLASS: UNCLASSIFIED
CHRGE: AID 08/16/89
APPRV: DIR: WILLIAMS
DRFTD: P/E:MOTT
CLEAR: 1. A/PRM:RGROHS 2" /PDO:DCHIRIBOGA 3. /DIR:LARMSTRONG
DISTR: AID CDA CHRON RF

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LAC/CAR FOR DCOHEN, LAC/DP FOR WWHEELER AND JFOX, LAC/DR FOR TBROWN

SUBJECT: PROPOSED DOMINICA ESF CONDITIONALITY

1. THIS IS AN ACTION MESSAGE FOR LAC. RDO/C PROPOSES THE ITEMS LISTED BELOW AS CONDITIONS PRECEDENT AND COVENANTS FOR FY 1989 AMENDMENT TO DOMINICA ESF PROGRAM OF $1.4 MILLION. (THIS WILL BE THE THIRD TRANCHE OF A MULTI-YEAR PROGRAM.) ONCE THE LAC BUREAU HAS CABLED APPROVAL OF PROPOSED CONDITIONS, RDO/C WILL MOVE FORWARD WITH PAAD APPROVAL IN FIELD AND OBLIGATION OF FUNDS. PLEASE NOTE THAT DOMINICA ESF IS AN AUGUST OBLIGATION. WE WILL APPRECIATE ANY AND ALL ASSISTANCE TO EXPEDITE APPROVAL OF PROPOSED CONDITIONALITY.

2. IN EARLY AUGUST, RDO/C REVIEWED NEW ECONOMIC PROJECTIONS FOR 1989 AND 1990 WITH THE GOVERNMENT OF THE COMMONWEALTH OF DOMINICA (GOCD). BASED ON THE CURRENT STATUS OF THE ECONOMY, AND EXPECTED ECONOMIC TRENDS, WE PROPOSE THAT THE FOLLOWING BE CONDITIONS PRECEDENT TO DISBURSEMENT OF THE FY 1989 $1.4 MILLION IN ESF GRANT FUNDS FOR DOMINICA.

(A) EVIDENCE THAT THE GOCD 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 GOCD WILL PROVIDE DATA AND EVIDENCE DEMONSTRATING THE COST SAVINGS TO BE ACHIEVED BY THESE MEASURES.
(B) EVIDENCE THAT THE GOCD HAS INCREASED THE NATIONAL BUDGET FOR ROAD AND INFRASTRUCTURE MAINTENANCE BY AT LEAST 10 PERCENT IN NOMINAL TERMS BETWEEN ITS FISCAL YEAR 1988/89 AND 1989/90.

(C) EVIDENCE THAT THE GOCD IS MAKING SATISFACTORY PROGRESS TOWARD ATTAINING THE TARGETS FOR WAGE AND SALARY EXPENDITURES, AS STATED IN COVENANT (A), BELOW.

(D) EVIDENCE THAT THE GOCD 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 (B), BELOW.

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(E) EVIDENCE [redacted]
PROGRESS TOWARD PRIVATIZING THE WATER AUTHORITY.

3. THE FOLLOWING COVENANTS ARE PROPOSED FOR INCLUSION IN THE ESF PROGRAM AGREEMENT:

(A) THE GOCD SHALL MAKE EVERY EFFORT TO RESTRICT INCREASES IN THE PUBLIC SECTOR WAGE BILL TO NO MORE THAN THREE PERCENT PER YEAR BETWEEN FISCAL YEARS 1988/89 AND 1989/90. THE GRANTEE FURTHER COVENANTS 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 IN 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 YEAR 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.

in real terms

over the life of the program

(B) THE GOCD 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 YEAR 1989/90. THE GOCD FURTHER COVENANTS TO PROVIDE TO A.I.D., AT THE REQUEST OF A.I.D., REVENUE AND EXPENDITURE DATA DEMONSTRATING THE PROGRESS THAT IT 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
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PREPARED TO PRESENT ITS MOST CURRENTLY AVAILABLE
ACTUAL PERFORMANCE DATA ALONG WITH FULL 1989/90
FISCAL YEAR PROJECTIONS BEFORE JANUARY 1, 1990.

(C) THE GOCD SHALL PROVIDE TO A.I.D., PRIOR TO JANUARY 1, 1990, EXCEPT AS THE PARTIES MAY OTHERWISE AGREE IN WRITING, IN FORM AND SUBSTANCE SATISFACTORY TO A.I.D. A REPORT ON MEASURES TAKEN OR PLANNED BY THE GRANTEE DURING FISCAL YEAR 1989/90 TO REMOVE FISCAL, REGULATORY, OR OTHER DISINCENTIVES TO PRIVATE INVESTMENT IN DOMINICA.

(D) THE GOCD SHALL PROVIDE TO A.I.D., PRIOR TO JANUARY 1, 1990, 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 GOCD SHALL INCREASE THE AMOUNT BUDGETED FOR ROAD AND INFRASTRUCTURE MAINTENANCE BY AT LEAST 10 PERCENT IN NOMINAL TERMS EACH YEAR BETWEEN ITS FISCAL YEAR 1988/89, 1989/90 AND 1990/91.

4. AN ADDITIONAL COVENANT WILL PROVIDE FOR PERIODIC MEETINGS BETWEEN THE GOCD AND AID TO REVIEW ECONOMIC PERFORMANCE, WITH MACROECONOMIC DATA TO BE PROVIDED ON A TIMELY BASIS TO AID BY THE GOCD. THE ESF PROGRAM AGREEMENT WILL ALSO INCLUDE THE STANDARD CONDITIONS AND COVENANTS RELATING TO THE SEPARATE DOLLAR ACCOUNT, THE LOCAL CURRENCY ACCOUNT, ACCOUNTING AND REPORTING, SPECIMEN SIGNATURES, OPINION OF COUNSEL, AND SO ON.

5. PLEASE CABLE IAC RESPONSE SOONEST, SO THAT RDO/C CAN WRAP UP NEGOTIATIONS AND SIGN BY AUGUST 31.
CLARK.

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R 152028Z JUN 89
FM AMEMBASSY BRIDGETOWN
TO RUEHC / SECSTATE WASHDC 8349
INFO RUEHUA / AMEMBASSY ANTIGUA 5123
RUEGON / AMEMBASSY GEORGETOWN 6179
RUEHGR / AMEMBASSY GRENADA 7575
RUEHKG / AMEMBASSY KINGSTON 7693
RUEHSP / AMEMBASSY PORT OF SPAIN 0170
RUEHDC / USDOC WASHDC
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UNCLAS SECTION 01 OF * BRIDGETOWN 04487

CLASS: UNCLAS
CHRGE: PROG: 06/13/89
APPRV: CDA:J:CLARK
DRFTD: E/E:SCOUTHERN
E/E:ACNEWTON
CLEAR: E/E:FABECHAM
DISTR: P/E- CDA AID
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E.O. 12356: N/A
TAGS: ESPR, EFIN, PGOV, DO
SUBJECT: SPR 0200: DOMINICA PUBLIC SECTOR
BUDGET--CHRISTMAS IN JUNE

1. SUMMARY. FOLLOWING A TRIUMPHANT ANNUAL PARTY CONVENTION ON JUNE 11, PRIME MINISTER (AND FINANCE MINISTER) CHARLES FURTHER SOLIDIFIED HER SUPPORT THE FOLLOWING DAY WITH A BUDGET ADDRESS THAT EVEN THE OPPOSITION CHEERED. IN CONTRAST TO AN UNPOPULAR [illegible] SALES TAX IMPOSED TWO YEARS AGO, FY1989/1990 WILL SEE REDUCTIONS IN SALES AND INCOME TAXES INTENDED TO ENHANCE THE ISLAND'S IMPRESSIVE ECONOMIC PERFORMANCE. END SUMMARY.

16 JUN 1989

2. PRIME MINISTER CHARLES OPENED HER BUDGET DAY ADDRESS WITH A REVIEW OF THE DOMINICAN ECONOMY'S 1988 (CALENDAR YEAR) PERFORMANCE. AMONG THE HIGHLIGHTS WERE THE FOLLOWING:

--GDP EXPANDED BY AN ESTIMATED 5.6 PERCENT, INCLUDING GROWTH OF 4.5 PERCENT IN MANUFACTURING, 10 PERCENT IN CONSTRUCTION ACTIVITY, AND 17.5 PERCENT IN TOURISM EARNINGS.

--EXPORT EARNINGS INCREASED BY NEARLY 14 PERCENT TO 54.5 MILLION USD (BANANA EXPORTS GREW BY ALMOST 22 PERCENT TO 32.7 MILLION), BUT THE CURRENT ACCOUNT DEFICIT GREW BY 54 PERCENT TO 17.3 MILLION USD.

--THE ESTIMATED UNEMPLOYMENT RATE FELL BELOW 14 PERCENT.

THE PRIME MINISTER STATED THAT THE INCREASE [illegible] ECONOMIC ACTIVITY HAD A SALUTARY EFFECT ON THE FY1988/89 BUDGET. (THE FISCAL YEAR ENDS JUNE 30.) THIS FISCAL YEAR'S RECURRENT REVENUE IS NOW EXPECTED TO REACH APPROXIMATELY 44.7 MILLION USD, 14 PERCENT MORE THAN ORIGINALLY BUDGETED, COURTESY OF INCREASED IMPORT DUTIES AND CONSUMPTION TAX EARNINGS.

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3. TURNING TO THE FY1989/90 BUDGET, CHARLES PRESENTED AN EXPENDITURE SCHEDULE OF 80.3 MILLION USD--25 PERCENT HIGHER THAN FY1988/89'S INITIAL PROJECTION. THE GOVERNMENT ESTIMATES THAT RECURRENT EXPENDITURES WILL AMOUNT TO 40.3 MILLION USD (SOME 35 PERCENT OF 1988 NOMINAL GDP); THE CAPITAL BUDGET IS AN ESTIMATED 40 MILLION USD. GIVEN PROJECTED TAX AND NON-TAX RECURRENT REVENUE OF 45.7 MILLION USD, THE EXPECTED RECURRENT SURPLUS COMES TO 5.4 MILLION USD.

4. CHARLES NEXT TOUCHED ON THE PUBLIC SECTOR INVESTMENT PROGRAM (CAPITAL EXPENDITURES). THE LARGEST SHARE (8.4 MILLION USD) WILL BE DEVOTED TO HYDROELECTRIC POWER DEVELOPMENT. (CONSTRUCTION OF A POWER PLANT AT LAUDAT HAS ALREADY COMMENCED.) COMMUNICATIONS WILL CLAIM AN ESTIMATED 7.7 MILLION USD FOR CONSTRUCTION OF FEEDER ROADS, EXTENSION OF LIGHTING OF THE CANEFIELD AIRPORT RUNWAY, AND CONSTRUCTION OF FIRE STATIONS AT BOTH CANEFIELD AND MELVILLE HALL AIRPORTS. EXTERNAL GRANTS (11.[illegible] MILLION USD) AND LOANS (16.2 MILLION) WILL ACCOUNT FOR MOST OF THE PUBLIC INVESTMENT.

5. THE BUDGET CONTAINS A NUMBER OF INDIVIDUAL AND CORPORATE TAX CONCESSIONS, DESIGNED TO SPUR VITALLY NEEDED SAVINGS AND INVESTMENT (BOTH LARGE AND SMALL-SCALE). ACCORDINGLY, EFFECTIVE JANUARY 1, 1990:

--THE CORPORATE TAX RATE WILL BE SLASHED FROM 35 TO 30 PERCENT.

--A DEDUCTIBLE ALLOWANCE WILL BE GRANTED TO INDIVIDUALS FOR NEW INVESTMENT OF UP TO 5,000 EC DOLS (1851 USD) IN THE SHARE CAPITAL OF PUBLIC COMPANIES ENGAGED IN ACTIVITIES APPROVED BY THE CABINET.

--THE DISTRIBUTION OF CORPORATE BONUS SHARES WILL BE TAX FREE.

--INTEREST ON SAVINGS ACCOUNTS WILL BE TAX EXEMPT.

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TO ASSIST THE TOURISM SECTOR, THE PRIME MINISTER ANNOUNCED THAT THE HOTEL OCCUPANCY TAX WILL BE REDUCED FROM 10 PERCENT TO FIVE PERCENT, AND THAT THE BAR AND RESTAURANT TAX WILL BE ELIMINATED AND REPLACED WITH THE REGULAR THREE PERCENT SALES TAX.

6. CHARLES HAD SOME WELCOME NEWS FOR INDIVIDUAL TAX PAYERS AS WELL. EFFECTIVE JANUARY 1, THE MAXIMUM PERSONAL INCOME TAX RATE WILL BE CUT FROM 45 TO 40 PERCENT AND THE LOWEST REDUCED TO 20 PERCENT FROM 25 PERCENT. THE MINIMUM TAXABLE INCOME WILL BE INCREASED FROM 9,000 EC DOLS (3,333 USD) TO 12,000 EC DOLS (4,444 USD). THIS WILL REMOVE SOME 850 PEOPLE FROM TAX LIABILITY AND INCREASE DISPOSABLE INCOME BY AN ESTIMATED 2.7 MILLION USD. FURTHERMORE, THE SALES TAX ON MEDICINE AND FOOD STAPLES (MILK, FLOUR, RICE, SUGAR, ETC.) WILL BE REMOVED, AS WILL THAT ON WHOLESALE ITEMS.

7. COMMENT. ALTHOUGH ELECTIONS ARE NOT EXPECTED FOR UP TO 12 MORE MONTHS, THE EVENTS OF JUNE 11-12 ADDED UP TO SOMETHING OF A KNOCKOUT PUNCH BY CHARLES' DOMINICA FREEDOM PARTY. FIRST, THE ANNUAL PARTY CONVENTION WAS THOUGHT TO HAVE BEEN THE LARGEST SUCH GATHERING (PERHAPS 5,000 PEOPLE) SINCE THE 1970'S. WHILE NO ONE (INCLUDING THE PRIME MINISTER) PAID MUCH ATTENTION TO THE INNUMERABLE SPEECHES, THE SIZE AND SPIRIT OF THE CROWD CONVINCINGLY DEMONSTRATED THE PARTY'S POPULAR SUPPORT. THE BUDGET, PRESENTED THE FOLLOWING DAY, WAS SO POPULAR THAT EVEN OPPOSITION LEADER MICHAEL DOUGLAS AND HIS COLLEAGUES FOUND THEMSELVES APPLAUDING IT.

8. CHARLES IS PRESIDING OVER A RAPIDLY EXPANDING ECONOMY--DOMINICA'S REAL GDP HAS GROWN BY AN ESTIMATED 16.3 PERCENT SINCE IT BEGAN AN IMF/WORLD BANK-DESIGNED STRUCTURAL ADJUSTMENT PROGRAM THREE YEARS AGO (86 BRIDGETOWN 3553). THE TAX CUTS, WHICH ACCORDING TO THE PRIME MINISTER WILL COST THE GOOD AT LEAST 3.4 MILLION USD IN LOST REVENUE, ARE SIMILAR IN SOME RESPECTS TO THOSE RECENTLY INTRODUCED IN ST. LUCIA (BRIDGETOWN 3153). THE GOVERNMENT OF DOMINICA WILL COUNT ON CONTINUED ECONOMIC GROWTH (FORECAST: FIVE PERCENT IN 1989) TO MAKE GOOD ON THE REVENUE LOSSES. CHARLES ENVISIONED TOURISM AND CONSTRUCTION PROVIDING "THE MAIN IMPETUS OF GROWTH." CLARE
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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

By: Mary Eugenia Charles
Hon. Mary Eugenia Charles

Title: Prime Minister
and Minister of Finance

UNITED STATES OF AMERICA

By: A.S. Will
Aaron S. Williams

Title: Director, RDO/C

Ref. No. F 140/X85/2
OUR FAX NO: 1-809-44-85200
YR FAX NO: 1-809-426-2275

MINISTRY OF FINANCE.
GOVERNMENT HEADQUARTERS.
KENNEDY AVENUE.
ROSEAU.
WEST INDIES.

1989 08 31

Ms. Mary C. Ott
USAID
P O Box 302
Bridgetown
BARBADOS

Dear Ms. Ott

The grant agreement for Student Adjustment III is acceptable to the Government of Dominica. The signed signature page is returned as requested.

Yours sincerely

G S WILLIAMS
AG. FINANCIAL SECRETARY

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