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

CARIBBEAN REGIONAL

PROJECT PAPER

PROGRAM ASSISTANCE TO DOMINICA

AID/LAC/P- 162

Project Number:538-0113

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AID 1120-1	AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO. 538-0113
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	2. COUNTRY Dominica
		3. CATEGORY Cash Transfer
		4. DATE September 30, 1983
5. TO: William B. Wheeler, DIR		6. OYB CHANGE NO.
7. FROM Arthur Warman, DR (acting)		8. OYB INCREASE
		TO BE TAKEN FROM: Economic Support Funds (ESF)
9. APPROVAL REQUESTED FOR COMMITMENT OF: $2,000,000		10. BUDGET ALLOWANCE LESA83-35538-KG31 APPROPRIATION 72-1131037

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☐ INFORMAL ☒ FORMAL ☐ NONE	FY 1984	

15. COMMODITIES FINANCED

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only: $2,000,000	U.S.: $2,000,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash:	Other:

18. SUMMARY DESCRIPTION

The grant will assist the Government of the Commonwealth of Dominica (GOCD) in carrying out its program of economic stabilization and in achieving the economic reforms that have been encouraged by an Extended Fund Facility Agreement with the International Monetary Fund. The grant will make available $2 million in foreign exchange on a Cash Transfer basis. Proceeds will eliminate the capital account and balance of payments deficits. Besides standard conditions precedent to disbursement involving a legal opinion concerning the validity of the agreement and a statement of grantee representatives, the GOCD will agree to a number of covenants and conditions precedent including principally: (1) establishment of a special account into which it will deposit Eastern Caribbean local currency in an amount equal to the value of the U.S. dollars furnished under the cash transfer: (2) agreement to use the local currency so deposited to support public sector development activities agreed upon with AID and (3) evidence that the GOCD is in substantial compliance with targets established under the IMF Extended Fund Facility.

19. CLEARANCES	DATE
RLA:TCALTER	9/23
PROG/ECON:DHARRISON	9/28
7&2 CONT:JETULEJA	9/28
PROG:TELIERCKE	9/28/83
CPO:MHUFFMAN	9/23
D/DIR:TDMORSE	9/29

20. ACTION

☒ APPROVED ☐ DISAPPROVED

29 Sept 83

AUTHORIZED SIGNATURE DATE

Director, Regional Dev. Office/Caribbean

TITLE

GLOSSARY OF ABBREVIATIONS AND ACRONYMS

AID	–	Agency for International Development
BDD	–	British Development Division
CIDA	–	Canadian International Development Agency
CDB	–	Caribbean Development Bank
Caribbean Group	–	Association of Donors in the Caribbean Region
CP	–	Condition Precedent
ECCA	–	Eastern Caribbean Currency Authority (serves many of the functions for Dominica usually associated with a central bank)
EC$	–	Eastern Caribbean Dollars ($1 = EC$2.7)
ESF	–	Economic Support Funds
EDF	–	European Development Fund
EFF	–	Extended Fund Facility
FY83/84	–	GOCD's Fiscal Year (Started July 1, 1983; ends June 30, 1984)
GOCD	–	Government of the Commonwealth of Dominica
IARM	–	Inter-Agency Resident Mision (with financial support from AID, the IARM provides technical assistance in the Eastern Caribbean)
IBRD	–	International Bank for Reconstruction and Development (World Bank)
IMF	–	International Monetary Fund
LDCs	–	Less Developed Countries
NCB	–	National Commercial Bank
OECS	–	Organization of East Caribbean States (Includes, in addition to Dominica, Antigua, Grenada, Montserrat, St. Kitts St. Lucia and St. Vincent)
OPEC	–	Organization of Petroleum Exporting Countries
OSF	–	OPEC Special Fund
PM	–	Prime Minister
PDAP	–	Project Development Assistance Program
PID	–	Project Information Document
U.K.	–	United Kingdom
UNDP	–	United Nations Development Program

PROGRAM ASSISTANCE TO DOMINICA
(538-0113)

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PROGRAM ASSISTANCE TO DOMINICA
(538-0113)

I. Summary and Recommendations

A. Recommendation

The staff of the AID Regional Development Office/Caribbean recommends that the Mission Director authorize a $2 million Cash Transfer Grant to the Government of the Commonwealth of Dominica (GOCD), utilizing FY 1983 supplemental Economic Support Funds (ESF). Funds will be furnished in three tranches. The initial tranche of $1 million will be disbursed as soon as Conditions Precedent to First Disbursement are met. The remaining $1 million will be furnished in two tranches of $500,000 each as soon as Conditions Precedent to Second and Third Disbursements are met. Satisfaction of these two Conditions Precedent will be subject to (a) satisfactory implementation of the local currency program through which the local currency equivalent of the Cash Transfer will support the country's public sector investment program and (b) continued compliance with the guidelines of the Extended Fund Facility (EFF) agreement with the International Monetary Fund (IMF).

B. Grantee

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

C. Program Summary

The goal of the program assistance is economic stabilization. The Cash Transfer, which responds to a direct request from Dominica's Prime Minister (PM) Charles and an appeal made by the IMF and World Bank at last May's ad hoc Caribbean Group meeting in Cartagena, Colombia, will support the economic reforms that the GOCD has undertaken with the encouragement of an $11 million EFF agreement with the IMF. These reforms, which are a model for the rest of the Eastern Caribbean less developed countries (LDCs), include fiscal constraints and increased reliance on the private sector and free market forces. The major purpose of the program is to eliminate the government's FY 1983/84 capital account and balance of payments deficits. While the country has made progress under the adjustment program, output has not achieved

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anticipated levels, and additional time and support are needed for the adjustment program to work.

Upon disbursement of the Cash Transfer to the GOCD, Dominica will deposit the local currency equivalent to the $2.0 million grant into a special account. This account will finance selected, previously unfunded activities in the government's FY 1983/84 capital budget, a budget that has been drawn up with the assistance of the World Bank, endorsed by the Caribbean Group and praised by the AID-assisted Inter-Agency Resident Mission for its soundness. The activities supported under the local currency program will directly or indirectly stimulate activity in the productive sector of the Dominican economy.

The activities will respond to World Bank recommendations that Dominica (a) provide support for productive sector infrastructure, (b) pursue efforts to diversify its economy especially its agricultural base, and (c) continue rehabilitation of vital social infrastructure destroyed by the recent hurricanes. Therefore, the activities will be concentrated in three basic areas: agricultural diversification, social infrastructure especially that in rural areas, and economic infrastructure . Agricultural diversification, together with the concentration of social infrastructural improvements in rural areas, will help curb migration to urban centers.

RDO/C and the GOCD have agreed that the Cash Transfer will be a one time undertaking in response to a unique situation. Dominica is the only Eastern Caribbean country that has an EFF agreement with the IMF and has undertaken appropriate self-help measures. A.I.D. does not anticipate the provision of program assistance to Dominica in the future because improvement in the country's finances coupled with continued other donor support is expected. In addition, A.I.D would expect similar conditions to those in Dominica to exist in other countries before non-project assistance would be considered for other LDCs in the Eastern Caribbean.

The proposed AID program assistance, in addition to having a positive impact on economic development, supports U.S. foreign policy objectives in Dominica and the rest of the Eastern Caribbean. The present government of Dominica was elected in 1980 in the wake of political and economic chaos. Hurricane David in August 1979 demolished a major part of the island's productive capacity, housing and social infrastructure. A year later Hurricane Allen, although less severe than David, seriously undermined rehabilitation in agriculture, most notably the critical banana industry. Economic collapse was accompanied by political upheaval. Two unsuccessful attempts were made by opposition elements to take over the country by force. U.S. and other Western donor rehabilitation assistance, however, was instrumental in facilitating the recovery of the economy.

PM Charles won in a free election with an urgent national agenda against which she is still being measured critically by the electorate. Her agenda calls for increasing the private sector role in development and openly seeks a partnership with private enterprise in creating new employment and rebuilding the island's devastated productive base. Continued demonstration of progress is vitally necessary, not only to support a friendly, democratic, free enterprise-oriented country but to promote patterns of development for small island states that lead to increased self-reliance and self-sustained growth.

The Caribbean Basin Economic Recovery Act, more commonly referred to as the Caribbean Basin Initiative (CBI), was recently enacted by the U.S. Congress at the President's initiative. The Cash Transfer's stimulating effect on the private productive sector, as well as the favorable investment climate induced by the government's economic reforms and the IMF EFF agreement, will facilitate Dominica's taking advantage of the Act's benefits. The proposed program also will enable Dominica to import from the U.S. productive sector inputs worth $2.0 million, the size of the Cash Transfer. This provision, in addition to facilitating imports from the U.S., will support the country's private productive sector.

D. Conditions and Covenants

1. Conditions Precedent to Initial Disbursement

Prior to the first disbursement under this Grant of $1,000,000, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) An opinion from 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 representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee together with a specimen signature of each person certified as to its authenticity.

(c) Evidence that a special and separate local currency account has been established in Dominica into which the East Caribbean (EC) dollar eqivalent of the Cash Transfer Grant will be deposited.

(d) A list of public sector development activities, contained in the FY83/84 official budget of the Government of Dominica, to be supported by the Grant and estimated amounts to be allocated to each activity.

(e) Evidence that the Grantee is in substantial compliance with targets established under the International Monetary Fund Extended Fund Facility.

(f) An official letter in which the Grantee agrees to (1) import from the United States goods, from those import categories previously approved by A.I.D and furnished to the Government of the Commonwealth of Dominica, in an amount at least equivalent to the Grant over a one year period from disbursement; (2) monitor such imports and keep A.I.D informed as to progress; and (3) certify and document in form and substance acceptable to A.I.D the value of imports actually made from approved categories during a one year period from the disbursement of the Grant.

2. <u>Conditions Precedent to Disbursement of Second Tranche</u>

Prior to the disbursement of the second tranche of $500,000 or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D., evidence that as of December 31, 1983, the Grantee is in substantial compliance with its Extended Fund Facility Agreement with the International Monetary Fund and that the local currency aspects of the Program are proceeding satisfactorily.

3. <u>Condition Precedent to Disbursment of Third Tranche</u>

Prior to the disbursement of the third tranche of $500,000, or to the issuance by A.I.D. of documentation pursuant to which such 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. evidence that as of March 31, 1984, the Grantee is in substantial compliance with its Extended Fund Facility Agreement with the International Monetary Fund and that the local currency aspects of the Program are proceeding satisfactorily.

4. Covenants

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

(b) The Grantee, using the highest lawful rate of exchange existing on the date of the local currency deposit, will immediately upon disbursement of the Grant deposit the local currency into the previously established special and separate account in Dominica, in the equivalent amount of the Grant proceeds, which special account shall, except as A.I.D. may otherwise agree in writing, be established and used by the Government of Dominica to support their activities in public sector investment as mutually agreed to by A.I.D. and the Grantee.

(c) The Grantee, unless A.I.D. agrees otherwise in writing, will furnish to A.I.D. four quarterly reports on the funding status of the public sector investment activities in a format acceptable to A.I.D. The first report will be due three months after initial disbursement with subsequent ones submitted at ensuing three month intervals.

(d) The Grantee covenants to collaborate with the United States Government on ways of expanding trade opportunities.

(e) Grantee covenants that it will give appropriate publicity to the Grant and activities funded thereunder as the program to which the United States has contributed.

(f) The Grantee covenants to exert its best efforts to have the particular donor agency involved, cover the required government local currency costs of its respective projects.

(g) The Grantee shall carry out the Program or cause it be carried out with due diligence and efficiency, in conformity with sound technical, financial and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this agreement.

(h) The Grantee covenants to provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Program, and, as applicable for continuing activities, cause the Program to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Program.

(i) The Grantee covenants to make best efforts to restrain in fiscal years 1984/85 and beyond (1) recurrent expenditures and (2) borrowing from the domestic commercial banking system.

(j) The Grantee covenants to meet at regular intervals with A.I.D. in order to consult concerning the effectiveness of the activities undertaken through the Agreement.

II. Analysis of Economic Conditions

A. Setting

With a population of 74,000, Dominica is perhaps the least developed of all the Eastern Caribbean states. In contrast to other states in the region who have had modest success in diversifying their economic base, Dominica still relies heavily on banana exports, and subsistence agriculture is of greater importance to the economy than in other Eastern Caribbean states. Tourism activity in the country is sharply limited by the lack of beaches. The country's rugged topography and adverse climatic conditions together with its island geography produce high economic infrastructural costs. Dominica's human resource base is thin, although the sound economic policies employed by the PM Charles' government are helping to stem emigration. In the past, the most talented individuals frequently have emigrated. The country's per capita GDP of a little over $800 per year is among the lowest in the region, and the unemployment rate, variously estimated between 12 and 15 percent, is high.

1. Agriculture

Agriculture is by far the most important sector, accounting for over 30 percent of GDP and employing 25 percent of the labor force. Almost 8,000 small farmers with average land holdings of less than three acres produce most of the agricultural output. Bananas, for which a guaranteed market exists in the United Kingdom, account for roughly 50 percent of exports, while coconuts and their by-products contribute 6 percent. Bananas also are the single largest source of income for most families in Dominica.

The country's heavy reliance on bananas suggests the need for agricultural diversification. Foreign assistance, attracted by the country's sound economic policies, is enabling the country to pursue diversification efforts. With the help of external donors, the country is pursuing the development of commodities other than bananas, including limes and patchouli (EDF), coconuts (CIDA), and tree crops including coffee (U.K.). The country is planning to conduct a pilot cadastral survey, while integrated rural community development schemes are planned for several estates. Also, the country's extension services and agricultural research activities are being strengthened with A.I.D assistance.

2. Manufacturing

The manufacturing sector is small; manufacturing, primarily agriculturally based, contributes roughly 5 percent of GDP. Manufacturing activity has been constrained by high economic infrastructural costs. Most enterprises are private and locally-owned, including agro-processing plants and factories in [illegible], cigarettes, garments, rum and soft drinks. The most dynamic operation is the production of soap, primarily from coconuts. In the past, lime juice production also was significant; however, Roses Lime Juice clos[illegible]rations after Hurricane David. The government has establish[illegible]w company to take over the lime juice operations. As [illegible]as the new company become self-sufficient, the GOCD will consider divestiture of its activities to the private sector.

As for the future, several factors augur well for manufacturing. Dominica is favored by adequate hydroelectric power, abundant fresh water, low cost labor, and offers generous fiscal incentives for industrial development. With foreign technical assistance including A.I.D's Project Development Assistance Program (PDAP), the GOCD is working to attract foreign and domestic entrepreneurs to natural resource-based ventures such as fruit processing, fresh water exports, forestry,logging and sawmilling, as well as enclave manufacturing. Infrastructural improvements also are being made that will impact favorably on manufacturing. The World Bank at the urging of A.I.D has organized a consortium of donors that will be providing up to $40 million in assistance for road rehabilitation; the disrepair of the country's road system has been a major impediment to private sector activity, including manufacturing. Under the program, work is to begin this year on the A.I.D-financed $9.6 million road rehabilitation project which will upgrade the link between the country's airport at Melville Hall and Roseau the capital. In addition, a small airstrip has been constructed at Canefield near Roseau, and the port has been rehabilitated following severe hurricane damage.

Buoyed by the private sector policies of the government of PM Charles and the infrastructural improvements, 18 small manufacturing concerns had been started by the end of 1981; the concerns, 15 of which are local, provide employment for 250 persons. Eight additional concerns, furnishing employment for 100 persons, have been started over the past 18 months. Moreover, the investment search activities conducted under the A.I.D. PDAP project will encourage more such investments in the future.

3. Tourism

Tourism is of less importance, accounting for four percent of GDP and 15 percent of foreign exchange earnings. Hurricanes and adverse publicity caused arrivals to decline almost 35 percent below the 1978-80 period. Even at their peak in 1978, arrivals were less than 10 percent of those in Barbados. Large-scale, traditional tourism development is hindered by a lack of beaches, relatively limited accessibility by air, and deficient facilities. Moreover, the Fort Young Hotel, at one time the largest and best hotel on the island, was destroyed by Hurricane David. The new Canefield airstrip is helping to bring day-trip tourists from Martinique, but the economic impact is limited.

B. Performance

During the 1979-80 period, the economy suffered sharp reverses as Hurricanes David, Frederic and Allen devastated the economy. Two successive banana crops were virtually lost; roughly 80 percent of the coconut trees were damaged; the electrical system, including hydro-electric facilities and transmission lines, was disrupted; port installations were damaged severely; the main hotel was destroyed and other hotel facilities damaged; businesses closed; 13 percent of all housing structures were destroyed and a large percentage of others damaged. In addition, a new civil servants' pay package was negotiated by the previous administration which included pay increases ranging from 50 to 120 percent and the payment of arrears. While the pay increases were the first since 1973 and reflected basically adjustments to increases in the cost of living over the period, the increased wage bill was a significant burden on government financing, especially in light of the hurricane damage. Moreover, the negotiations on the new civil servants pay package created significant labor and political turmoil, especially since the previous administration was unable to fulfill its promise to pay the arrears.

Supported by an IMF EFF agreement, the Dominica economy since 1980 has made remarkable progress, although more time and effort is required to achieve a complete turnaround. Primarily responsible are the private sector-oriented policies of PM Charles' government, which helped induce (a) a partial recovery in banana production and (b) higher output in the manufacturing and tourist sectors, together with rehabilitation of the infrastructure, including housing, hydroelectric plants and transmission lines, the port, and sea erosion defenses. The country, however, continues to encounter some economic difficulties, including the increased oil import bill resulting from the OPEC price increases of 1979-80, the depreciation of the pound sterling against the U.S. dollar (Dominica's currency is tied to the U.S. dollar and banana exports are priced in terms of the pound sterling), the recession in North America and Western Europe and the long recovery period for tree crops required in the wake of hurricane damage.

With A.I.D and other donor assistance, real GDP rebounded sharply in 1981 rising 8 percent in real terms after having declined [illegible] percent over the previous two years, and in 1982 Dominica achieved a real growth rate of 3.2 percent. Nonetheless, by yearend [illegible], real GDP still had not attained pre-hurricane levels. According to preliminary indications, real output should increase by 5 percent this year, unless constrained by fiscal and balance of payments difficulties and/or natural disasters. Recent windstorm damage may have rendered the estimate overly optimistic.

Banana export earnings of $10 million in 1982 were still lower in real terms than prior to the hurricanes. The industry experienced some difficulties, most of which were beyond the country's control. Physical exports of bananas, rising only slightly, were 20 percent below pre-hurricane levels. The industry also was hard hit by a further 15 percent depreciation of the pound sterling against the U.S. dollar, after a 20 percent fall the year before. On the other hand, the "green market" price--the price received on the British market--rose by approximately 20 percent.

The banana industry made a remarkable comeback in 1981; physical exports of the commodity more than tripled. An outbreak of leaf spot disease in 1979 had caused severe damage to the crop. In that same year, the crop was devastated by Hurricanes David and Frederic. The following year Hurricane Allen struck. Consequently, banana exports, which totaled 37 thousand tons in 1978, fell to 16 thousand tons in 1979 and then to 8.2 thousand in 1980. Foreign exchange receipts from bananas also fell precipitously, declining from $9.2 million in 1978 to $3.0 million in 1980. In 1981, in spite of the depreciation of the pound sterling, the crop produced $9.1 million in foreign exchange receipts, an increase that would not have been possible without U.K. and U.S. disaster assistance. On the whole, developments augur well for this year's banana crop, including (a) a 31 percent increase in physical exports of the commodity through the first five months of this year over the comparable period last year and (b) record high "green market" prices. However, some backsliding in production gains is now taking place because of recent windstorm damage.

Output in the manufacturing and tourist sectors has advanced over the past two years. In 1981, manufacturing output increased roughly 13 percent and last year the sector also improved. Soap and related exports have been increasing rapidly in importance, accounting for a little under 40 percent of total merchandise exports in 1982. However, that percentage is expected to decline with (a) resuscitation of the banana industry and (b) the revival of the soap industry in Jamaica, currently a significant market for Dominican soap. The increased soap exports have more than offset significant declines in the output of coconut meal, copra and coconut oils. As for tourism, although arrivals are down by 31 percent over the first three months of this year, arrivals were up 17 percent last year. Tourism output also was up the year before when arrivals rose 4.3 percent. Nonetheless, tourism has yet to regain the vitality shown earlier; arrivals remain below levels achieved prior to the hurricane damage.

C. Public Finances

The government of PM Eugenia Charles has made remarkable progress in getting its public finances back on a sound footing, although difficulties persist. The recurrent fiscal account deficit was reduced from $9.2 million in fiscal year 1979/80, roughly 18 percent of GDP, to $1.3 million in fiscal year 1982/83, approximately 1.7 percent of GDP. Recurrent expenditures were actually lower in fiscal year 1982/83 than in fiscal year 1980/81, owing to adjustment measures undertaken by the PM Charles' government in accordance with the IMF EFF agreement.

As for fiscal year 1983/84, an unfinanced fiscal account deficit of $2.1 million is projected. The recurrent fiscal account deficit is estimated at $100,000 or 0.1 percent of GDP. Capital expenditures are projected by the IMF at $16.8 million; with funding for capital expenditures of only $14.8 million lined up including (a) foreign grants and loans of $12.7 million, (b) anticipated financing from commercial banks of $1.8 million, and (c) $300,000 in net borrowing from the IMF, the country is expecting a deficit on the capital account of $2.0 million. The financing from commercial banks does not represent any new borrowing; rather it represents drawdowns on deposits in the banking system related to loans by the OPEC Special Fund (OSF) and Venezuela. Both the World Bank and the IMF at the ad hoc meeting of the Caribbean Group in May at Cartagena, Colombia appealed to donors for assistance in financing the capital deficit, citing the country's onerous, yet faithfully adhered to, self help measures.

Even if additional assistance is forthcoming over the near term, structural difficulties will persist over the medium and long term. While some cut back in the size of the civil service has already taken place, the civil service is still very large for the country's narrow resource base. To rectify this difficulty, additional curbs on public sector employment will have to be introduced. Introducing such curbs now or even over the next couple of years, however, may contribute to political instability for a country that, in addition to being a close ally of the U.S., has generally employed sound economic policies.

DOMINICA: CENTRAL GOVERNMENT OPERATIONS
(MILLION US$)

	1980/81	1981/82	1982/83 Estimate	1983/84 Budget
Domestic revenue	17.8	21.0	21.4	24.8
Direct tax	5.5	5.9	6.4	7.1
Indirect tax	10.3	12.3	12.3	14.6
Nontax revenue	2.0	2.8	2.7	3.1
Current expenditure	24.1	23.0	22.7	24.9
Salaries	13.4	14.1	13.2	14.3
Of which: back pay	(2.2)	(2.2)	(--)	(--)
Retirement benefits	1.0	1.3	1.6	1.2
Interest	1.6	1.4	1.8	2.5
Transfers to the State Enterprises	2.3	--	--	--
Other Transfers	1.9	1.9	2.0	2.2
Goods and services	3.7	4.3	4.1	4.7
Current balance (before grants)	-6.3	-2.0	-1.3	-0.1
Capital expenditure	8.3	8.5	10.2	16.8
Overall deficit (before grants and concessionary loans)	-14.7	-10.5	-11.5	-16.8
Foreign grants and loans	10.9	5.9	10.6	12.7
Budgetary grants	4.5	0.8	0.3	...
Capital grants	5.4	3.7	4.7	8.7
Concessionary loans (net)	0.9	1.4	5.5	4.0
Financing requirement	-3.8	-4.6	-0.9	-4.2

	1980/81	1981/82	1982/83 ESTIMATE	1983/84 BUDGET
Financing	3.8	4.6	0.9	4.2
IMF	3.5	3.1	3.1	0.3
ECCA	0.7	--	--	--
Foreign assets	-0.7	0.0	-0.2	--
Domestic banks	0.3	1.6	-1.1	1.8
Foreign banks	--	--		--
Other domestic	0.6	-0.1	-0.9	--
Unfinanced	--	--	--	2.1
		(As percent of GDP)		
Domestic revenue	29.5	30.5	28.0	29.3
Current expenditure	39.9	33.4	29.7	29.4
Current account deficit	-10.5	-2.9	-1.7	-0.1
Capital expenditure	13.8	12.4	13.3	19.9
Overall deficit (before grants and concessionary loans)	-24.3	-15.3	-15.0	-19.9
Foreign grants and concessionary loans (net)	17.8	8.4	13.9	15.0
Financing requirement	6.3	6.8	1.1	4.9

Source: Dominica's Ministry of Finance, Trade and Industry.

D. Balance of Payments

Even though the country has made significant strides in strengthening the balance of payments, difficulties remain. For instance, an unfinanced balance of payments gap of $2 million is now projected for this fiscal year, a gap the Cash Transfer will eliminate. At the time of the IMF review of the economy earlier this year, the deficit had been estimated at $5 million. Additional fiscal austerity, however, helped in reducing the deficit; taxes were increased and expenditures cut. In a small, open economy like Dominica's, balance of payments problems tend to be direct outgrowths of fiscal deficits. Fiscal deficits, which result from excessive government consumption, produce import increases, and this translates directly into balance of payments problems.

Reconstruction requirements and lower agricultural production induced by hurricanes in 1979 and 1980 had caused a significant deterioration in the country's payment position. According to the IMF, the current account deficit increased from $6.9 million in 1978 or 15.6 percent of GDP to $32.5 million in 1980, 55.7 percent of GDP. During this period, significant external capital inflows, including generous amounts of foreign assistance, financed the deficits.

Since 1980, substantial improvements have been made. By 1982, the current account deficit had been lowered to $13.3 million, 18 percent of GDP. Over the 1980-82 period, imports actually declined more than 10 percent. Imports of crude materials, fuels and lubricants declined as well as those of beverages and tobacco. The declines, in part, can be attributed to the government's austerity program. On the other hand, led by a more than tripling of banana exports to $10 million, domestic exports more than doubled, reaching $24 million.

Moreover, continued improvements in the country's current account position are expected in FY 1983/84; the current account deficit will fall to $11.1 million or 13 percent of GDP. Imports will continue to be restrained. Manufactured goods and fuel and lubricants imports will show little, if any, growth. Food imports also will be limited; the country policy of food import-substitution is commencing to show progress. As for exports, some modest increases are anticipated. In spite of recent windstorm damage, banana export proceeds will rise; the "green market" price is at record high levels. On the other hand, some payment difficulties will arise in FY 1983/84 from a fall-off in capital inflows. Net capital receipts will decline from 1982 levels by more than $4 million, including a $3 million drop in public sector borrowing and a decline in net receipts under the IMF EFF agreement from

$3.3 million to $300,000. The decline in capital receipts means that the assistance to be furnished under this Cash Transfer is required to sustain the country's modest public sector program.

As for the future, increased export earnings are anticipated. While banana production will be held back over the next several months because of the windstorm damage, increased external assistance will be having a positive impact on the commodity over the next several years. Moreover, the production and marketing of bananas and other agricultural commodities such as coconuts and grapefruit will be influenced positively by implementation of the IBRD-coordinated road reconstruction program. The road program also should have a positive impact on manufacturing. In addition, manufacturing production will continue to be supported by the PDAP investor search efforts. The increased agricultural and manufacturing export earnings will permit an expansion of imports of productive sector inputs, and this, in turn, will have a positive impact on economic growth. On the other hand, the country will be facing some debt-service difficulties as past borrowings become due. On balance, however, even with these debt-servicing difficulties, RDO/C believes that continued improvement in the country's balance of payments position is likely.

DOMINICA: BALANCE OF PAYMENTS
(MILLION US$)

	1978	1979	1980	1981	1982	1983	1983/84
Current account balance	-6.9	-14.7	-32.5	-21.6	-13.3	-15.0	-11.1
Trade balance	-12.6	-30.0	-43.5	-30.6	-23.0	-23.9	-19.8
Exports, f.o.b.	(15.9)	(9.4)	(9.7)	(19.1)	(24.5)	(26.3)	(28.7)
Imports, c.i.f.	(-28.5	(-39.4)	(-53.2)	(-49.7)	(-47.5)	(-50.2)	(-48.5)
Services (net)	2.1	1.6	2.0	2.8	2.7	1.6	1.9
Private transfers (net)	3.6	6.8	6.3	5.8	7.0	7.3	6.8
Insurance receipts	—	6.9	2.7	0.4	—	—	—
Capital (including official grants)	7.3	11.2	32.7	16.1	10.2	11.8	8.8
Official transfers (net)	5.6	20.6	17.2	9.1	6.0	7.0	6.6
Public sector borrowing (net)	1.1	0.7	1.4	5.0	7.1	5.8	4.0
Other capital (net)	0.6	-10.1	14.1	2.0	-2.8	-1.0	-1.8
SDR allocation	—	0.3	0.3	0.3	—	—	
Overall balance	0.4	-3.2	0.5	-5.2	-3.0	-3.2	-2.3
Financing	-0.4	3.2	-0.5	5.2	3.0	2.2	0.3
Net IMF position	—	2.9	-0.3	4.6	3.3	2.3	0.3
Net foreign assets (increase -)	-0.4	0.3	-0.2	0.6	-0.3	-0.1	—
Unfinanced	—	—	—	—	—	1.0	2.0
				(In percent of GDP)			
Trade balance	-28.4	-66.9	-74.6	-47.2	-31.5	-29.9	-22.5
Current account balance	-15.6	-32.8	-55.7	-33.3	-18.2	-17.5	-12.6

Sources: Dominica's Ministry of Finance and IMF staff estimates.

E. Government's Economic Adjustment Program

The government of Prime Minister Charles has made remarkable strides in straightening out the country's economic affairs. PM Charles' first step was to sever the automatic link that had existed between inflation and civil servants' wage increases. PM Charles' government agreed to pay arrears to civil servants, totalling almost $4 million; the arrears had resulted from the pay accord negotiated by the previous government. In return, the Civil Servants' Association agreed to settle for 10 percent wage increases annually during the 1982-84 period. The inability of the previous government to solve the arrearage issue had contributed to its loss of power.

To support the GOCD economic adjustment program, PM Charles' government negotiated in 1981 a three-year, $11 million EFF agreement with the IMF. The core of the EFF agreement, a portion of whose proceeds was used to finance the civil servants' salary arrearages, was fiscal prudence. The agreement placed limits on the government's overall budget deficit and sought to reduce the country's recurrent fiscal account deficit from 18 percent of GDP to near balance or surplus. If the government were to generate a fiscal recurrent account surplus, it could begin to make contributions to the public sector investment program. The agreement also sought to limit funding of the government's budget deficit by domestic commercial banks; such funding can "crowd out" private sector activity by reducing liquidity in the banking system. Dominica has been adhering to the EFF agreement, meeting all the targets.

On the revenue side, the government has (a) controlled more rigidly tax assessments and collections; (b) limited tax and duty concessions;(c) administered more tightly fiscal incentives and (d) imposed new tax measures including (1) increasing import and/or consumption duties on gasoline, liquor, lubricating oils, motor vehicles, and soft drinks, (2) hiking airport landing fees, company and motor vehicle licenses, company registration fees, and postal rates, and (3) placing a one percent tax on the sales of foreign exchange and a 10 percent surcharge on international phone calls. As for exenditures, constraints have been placed on non-wage current outlays such as travel authorizations. In addition, government employees leaving the civil service are not being replaced.

In the past, a significant structural difficulty in the public finances has been the transfers by the Dominican treasury to the public enterprises. The transfers have beer eliminated. In several instances, user charges and fees were increased to make the operations more self-sustainable as in the case of the Housing

Development Corporation and the Port Authority. Other efficiencies also have been introduced through consolidation of various government entities. For instance, the Forest Industries Development Corporation will come under private sector control through a merger with a private sector organization.

Management of the public sector investment program also is improving. Projects have been prioritized, and the Economic Development Unit has been established in the Prime Minister's Office to assist in implementation.

In addition to these fiscal measures, the government has introduced other reforms. PM. Charles has placed the Industrial Development Corporation under the leadership of the private sector and actively sought increased foreign and domestic private sector investment. Prior to PM. Charles' government, most businessmen in Dominica found the prevailing atmosphere to be distinctly anti-business. This related to the social, political, and industrial unrest under previous governments. Government attitudes were either unclear or perceived to be hostile, and an underlying lack of confidence in the economic management capacity of the government existed. The strong leadership and sound economic policies of the current government have produced a dramatic improvement in the investment climate in Dominica and revitalized the commitment of the private sector to Dominica's development and the sector's key role in the process. Moreover, the Prime Minister and the government are working closely with the A.I.D-financed invesment promotion program (PDAP) to attract additional private sector activity.

F. The Current Economic Dilemma

Earlier in 1983, Dominica and the IMF, which has indicated its readiness to conclude a Stand-By Arrangement with the country in FY 1984/85, were negotiating the third and final year of the current EFF. At the time of the IMF review, a major issue blocking an agreement, which had to be reached if Dominica were to make the final drawdown of $2 million, was the projected size of the overall fiscal deficit. The deficit had been estimated at $5.8 million, including a recurrent deficit of $1.6 million and a capital deficit of $4.2 million. RDO/C engaged in policy dialogue with the GOCD, indicating that the proposed Cash Transfer program was contingent on resolution of the impasse. Because of, in part, the leverage provided by this proposed program, Dominica and the IMF have since reached an agreement. Dominica all but eliminated the projected fiscal recurrent account deficit and reduced the size of the capital deficit to $2 million.

The IMF, in consultation with Dominica's Ministry of Finance, concluded that eliminating the projected recurrent fiscal account deficit of $1.6 million through reduced spending was not feasible. Contractual obligations (a) with the civil servants on the third annual 10 percent wage increment, (b) on interest due, and (c) on road maintenance called for spending increases of $2.9 million. When these increases were factored out, proposed expenditure levels for this fiscal year represented a decline in real terms. Consequently, the government is implementing new tax measures that would bring the fiscal recurrent account position into balance, rather than expenditure cuts. These measures include a tax on the operations of the External Trade Bureau which imports sugar and rice, an increase in the consumption tax on fuel, a hike in the tax on purchases of foreign exchange from 1 to 1.5 percent, a hospital levy, a reorganization of the consumption duty, and a 1 percent tax on interest paid by the government-owned National Commercial Bank--a tax that the island's other commercial banks already must pay. The government also is considering a freeze on wages in the public enterprises.

While these tax increases will probably not have significant negative economic impact, further increases would cause RDO/C concern. The increases put domestic revenue as a percent of GDP at almost 30 percent, a level that is one of the highest in all the Eastern Caribbean. RDO/C believes that further increases may actually reduce the tax in-take.

Initially, capital expenditures this fiscal year in the public sector investment program had been projected by the IMF at $17.2 million. This translated into a capital account deficit of $4.2 million, given that identified sources of financing totaled but $13.0 million. To lessen the size of the projected capital deficit, the government reduced capital expenditures to $16.8 million. In addition, the government will draw down $1.8 million in deposits in the commercial banking system related to OSF and Venezuelan loans. Any new borrowing from the banking system, however, would be worrisome in that it would limit monies available for bank lending to the private sector. The reduction in capital expenditure together with the financing from the domestic banking system has reduced the projected capital account deficit to $2 million, the size of the proposed Cash Transfer, from $4.2 million.

G. Internal Financial Analysis

On balance, this economic support program will have a favorable impact on the Dominican economy. According to monetary theory, increases in the money supply when the economy is operating at less than full employment will produce output increases rather than higher prices, which is the anticipated effect of the Cash Transfer on the Dominican economy.

Under the program, U.S dollars will be disbursed to the Federal Reserve Bank of New York, the correspondent bank in the U.S. for the East Caribbean Currency Authority (ECCA). ECCA* is the joint monetary authority for Dominica and the other OECS states. ECCA will deposit in Dominica the local currency equivalent in a special, local currency account established at the National Commercial Bank, a government-owned financial intermediary. The funds in the local currency account will be used to support investment activities in the public sector investment program that have been mutually agreed upon by the GOCD and AID.

The local currency deposit will expand the money supply. In addition, since the funds on deposit will not be drawn down immediately, they can be lent by the NCB as soon as received and made available to finance imports. The ability to finance imports results because convertibility is guaranteed. The monies are fully convertible because of ECCA's "cover ratio" provision. Under the provision, ECCA must hold foreign assets(e.g. U.S. dollars) equivalent to 60 percent of deposit liabilities. In effect, the monetary system established under ECCA can be likened to a modified gold standard. Given the extensive import requirements of Dominica's economy, the funds on deposit will be used for imports, and hence no build up of international reserves is anticipated. Because the funds on deposit will be used for imports, the money supply will fall roughly by the same amount that it had initially risen. In sum, since the support program does not produce lasting increases in the money supply, inflationary pressures will not be created. In any event, the country's high unemployment rate, estimated at between 12 and 15 percent, will have a restraining effect on price increases.

The net effect of the program is to make available to the Dominican economy additional real resources (via imports) equivalent to the Cash Transfer. This, in itself, is deflationary. Under the program, local currency will support investments in the public sector investment program, including productive sector activity and rehabilitation of vital economic and social infrastructure. Without the program's proceeds, these critically

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*The requisite legislation has been drawn up to transform ECCA into a central bank.

important activities could not go forward. In addition, monies will be attributed for imports of capital and intermediate goods on the part of the productive sectors; the availability of such goods has a positive impact on the productive potential of the economy. Consequently, the program will enhance the economy's productive capacity and thereby limit inflation.

III. Program Description

A. Objectives

The goal of the Cash Transfer is economic stabilization. The Cash Transfer will support the GOCD's extraordinary efforts to rationalize its economy through economic policy reforms consistent with IMF, IBRD, and AID recommendations. The major purpose of the program is to eliminate the GOCD's projected FY 1983/84 capital account deficit. The program also will eliminate the balance of payments gap that is a direct outgrowth of the fiscal deficit. In addition to supporting the IMF policy reforms under the EFF agreement, the GOCD will be asked to exert best efforts to (1) have donors cover local currency costs associated with their projects, (2) restrain recurrent expenditures and borrowing from domestic commercial banks and (3) collaborate with the U.S. on ways of expanding trade.

B. Inputs and Outputs

$2.0 million will be granted to the GOCD. The monies will be disbursed to the U.S. correspondent bank for ECCA, in this instance the Federal Reserve Bank of New York, and ECCA will provide the E.C. dollar equivalent to Dominica. The E.C dollars will be used to establish a capital budget support fund. This local currency fund will be managed by the GOCD and finance selected, previously unfunded public sector development activities in its FY83/84 budget. The development activities to be funded will represent only a portion of those proposed in the GOCD capital budget.

The Cash Transfer has been designed to promote productive sector activity through the activities to be financed with local currency. Two other aspects of the grant will reinforce this. First, the GOCD, because it will not have to resort to local commercial bank borrowing to fund the activities, will not be removing scarce credit from the banking system that will remain available for productive sector borrowing. Second, the goods Dominica will be importing from the U.S. are restricted to those that tend to stimulate productive sector activity.

The program grant through facilitation of productive sector activity will support the private sector; in Dominica almost all productive activity is in the hands of the private sector.

The major emphasis of the local currency program will be on farm households in the private sector. Assistance will be furnished to the farm households to facilitate production of crops, other than bananas. The local currency program will also support improvements in infrastructure--both economic and social. Economic infrastructural improvements will help not only the farm households, but also the country's neophyte private manufacturing concerns. Enhancement of the social infrastructure will assist Dominica to overcome a major constraint to private sector activity, a very thin human resource base.

The GOCD's economic policy reforms, together with this Cash Transfer and the major IBRD-coordinated road program, are helping to establish an environment in which the private sector can thrive. It is now up to the private sector to respond.

The proposed program assistance will be provided on a grant rather than loan basis. The country's debt-servicing capacity is under great strain. The Caribbean Development Bank (CDB) has declared a moratorium on any further lending to the country; Dominica is not able to service a CDB port improvement loan. The country's external debt has tripled over the past several years; the debt-service ratio has risen from 4 percent in 1981 to 11.6 percent this year. Moreover, further increases are anticipated in the near future as past borrowing comes due. The country also, along with St. Vincent, is the least developed of all the Eastern Caribbean states.

C. Exceptional Case

The Cash Transfer will be a one time undertaking, a fact that has been discussed and agreed to by PM Charles. The Grant is in response to a unique situation; Dominica has undertaken appropriate self-help measures and is the only Eastern Caribbean country that has an EFF agreement with the IMF. Moreover, the mission would expect similar conditions to exist before program assistance would be considered for other OECS states.

RDO/C believes that Dominica will not require AID-funded program support in the future because of anticipated improvement in the country's financial position and continued aid from other donors. The IMF is considering a follow-on program to its current EFF agreement with the country. The follow-on program, which would take the form of a Standby Agreement, would, at least, permit the roll-over of funds secured under the current IMF program. Moreover, any new agreement would, in all likelihood, include restraints on civil servants' wage increases. PM Charles is calling for wage restraints for fiscal year 1984/85; the previous civil servant pay package locked the government into pay increases amounting to $1.1 million for fiscal year 1983/84. In addition, increased tax revenues will be generated in the future for several reasons, including (a) the increased economic activity that will result from the implementation of the multi-donor road reconstruction program, (b) the anticipated rebound in banana exports towards pre-hurricane levels, (c) promotional efforts undertaken to spur manufacturing activity and (d) the support provided to productive sector activity under this Cash Transfer program.

On the other hand, as indicated above, some debt-servicing problems are in the offing. In addition, while we expect banana production to approach pre-hurricane levels, some backsliding in production gains is expected over the next several months because of recent windstorm damage.

Public Sector Invesment Program

From an overall development strategy perspective, Dominica's public sector investment program is considered sound. The World Bank helped draw up the program which has been endorsed by the Caribbean Group. The program, for which the World Bank and the IMF appealed at the Cartagena Caribbean Group meeting to donors for assistance, also has drawn praise from the A.I.D-assisted Inter-Agency Resident Mission. The program responds to World Bank recommendations that Dominica (a) provide support for productive sector infrastructure, (b) pursue efforts to diversify its economy especially its agricultural base and (c) continue rehabilitation of vital social infrastructure destroyed by the recent hurricanes.

Dominica is making infrastructure investments designed to stimulate productive sector activity as a means to achieve economic growth and stability. The most important element of its economic infrastructure effort is the $40 million IBRD-coordinated road program involving five donors to which AID has committed $9.6 million.

The investment program is spurring agricultural diversification as a means of increasing food self sufficiency and reducing dependence on bananas. The agricultural diversification program will promote productive sector activity in rural areas, thereby mitigating migration to the capital city Roseau.

In addition, the government's investment program calls for the continued rehabilitation of the country's social infrastructure following the hurricane damage; support for social infrastructure will enhance the human capital resource base. Moreover, the support to social infrastructure will be concentrated in rural areas, a factor that also will limit migration to urban centers.

For FY 1983/84, capital expenditures of $16.8 million in the public sector investment program are estimated. These expenditures, which are less than GOCD projections, are estimates by the IMF of the level of public sector investment activity that the GOCD can reasonably implement over this fiscal year. This level, which already represents less than 35 percent of the amounts initially requested by the government ministries, is, according to the IMF, the minimum required to sustain modest economic growth. While the level of capital expenditures projected for this fiscal year represents an almost 60 percent increase over a year earlier, the increase relates exclusively to the IBRD-coordinated major road reconstruction program whose financial requirements are to be met entirely by the external donor community. In fact, if the road expenditures were factored out, projected capital expenditures would be down from last fiscal year. The road expenditures for FY 1983/84 are primarily for mobilization and, hence, should not impede the country's ability to implement other activities in the capital budget, including those associated with the Cash Transfer. The proposed level of capital expenditures translates into a fiscal capital account deficit of $2 million, a deficit that will be closed by the Cash Transfer.

The GOCD, in consultation with RDO/C, has drawn up a prioritized list of public sector activities to be financed by the EC$5.4 million that will be made available by the $2.0 million Cash Transfer. The criteria used in selecting these activities include a number of elements. The primary emphasis of the activities must be on promotion of productive sector. Within this emphasis, agricultural diversification will be pursued and essential facilitative economic infrastructure supported. Social infrastructure also will not be entirely neglected . However, the social infrastructural activities must either contribute to rehabilitation efforts, promote the expansion of the human resource base, or help limit migration from rural areas. A secondary, but no less important criteria, is that the activities must be consistent with the government's economic recovery program. In all cases, the activities must be included in the government's approved FY 1983/84 budget. Furthermore, the activities must be short-term in nature in order to enhance the likelihood of their completion during the 1983/84 fiscal year. RDO/C, however, recognizes that some activities may not be fully implemented this fiscal year because of delays in authorizing this Program grant. In general, the emphasis on activities supportive of the productive sector will tend to strengthen the government's future financial position through expanding the tax base.

The activities selected will directly support the priorities established by the Ministries of Finance, Agriculture, Education, Health, Communication and Works, and Home Affairs. Approximately 60 percent of the funding will support activities promoting agricultural diversification. Another 20 percent will represent support to essential economic infrastructure. The remainder will permit rehabilitation of vital social infrastructure as well as enhancement of the human resource base. The finalization of a mutually approved list will be Condition Precendent to First Disbursement. However, the following represents an illustrative list of what the government will be financing:

Agriculture Diversification

Land Development and Settlement
Coconut Restoration and Expansion
Plant Propagation and Distribution
Survey Equipment and Building Repairs
Training for Surveyors
Forestry Woodwork Training Center
Plant Nursery (Botanical Gardens)
Silviculture
Livestock Disease Control
Provision of Animal Housing and Fencing for Small Livestock
Farm Records
Water Resources Development

Economic Infrastructure

Water Supply/Morne Ratchet
Equipment for Melville Hall Airport
Equipment for Canefield Airstrip
Point Michel-Soufriere-Scotts Head Road

Social Infrastructure

Furniture for Schools
Refurbishing Portsmouth Secondary School
Renovation of Dominica Grammar School
Electricity for Schools
Vector Control Program
Grand Bay Health Center

Furniture and Equipment for Hospitals and Clinics
Emergency Housing
Self-Help Projects

Dominica will make use of the facilities provided by the Inter-Agency Resident Mission (IARM) to help remove any unforseen constraints that may arise in implementing the public sector investment program. Consultancy services already have been provided by the IARM to examine implementation difficulties that have arisen on four projects in the public sector investment program, and additional assistance in this area will be available if needed in the future. Dominica also has requested the IARM to examine customs arrangements in order to increase the country's tax base through greater collections of import duties.

E. Conditionality and Economic Policies

For the most part, the GOCD already employs sound economic policies. The GOCD does not make extensive use of administered pricing or utilize exchange controls. In addition, the workings of ECCA prevent the country from printing money to finance government expenditures. Also, the most important economic constraint has been removed; the government's fiscal reforms, encouraged by an IMF EFF agreement, have sharply improved the overall investment climate. The Cash Transfer program, through (a) providing important fiscal and balance of payments assistance and (b) facilitating productive sector activity, will support the government's economic recovery program.

Earlier this year, Dominica and the IMF were negotiating the third and final year of the EFF agreement. RDO/C policy dialogue was instrumental in helping the two parties resolve differences and reach an agreement. The Mission indicated that the proposed program assistance was contingent upon Dominica's success in negotiating an accord. To reach an agreement, the country all but eliminated its projected recurrent fiscal account deficit and reduced capital expenditures.

The proposed Cash Transfer is to be provided in tranches, and this will have a positive impact on economic management. Drawings will be contingent on continued compliance with the IMF EFF agreement, as well as success in implementing the local currency program.

In addition to other selection criteria, the activities in the public sector investment program to be supported by this Cash Transfer will be carefully selected to secure maximum policy leverage. The plant propagation, livestock and coconut restoration activities will support the GOCD goal of agricultural diversification and open up alternatives for marginal banana lands and inefficient banana farmers for engagement in more productive functions. Another activity will provide infrastructure, including access roads, water etc., to assist 300 farmers to settle on 500 acres of presently underutilized land; underutilized lands have been an impediment to diversification. While the above illustrative development activities support AID priorities, others activities have already been rejected because their merits were considered questionable. Support to Dominica's Agricultural Marketing Board was rejected because of its competition with private enterprise. A request to support the establishment of a fisheries office was also denied because of fiscal recurrent cost implications. The dialogue process that led the GOCD to prioritize the activities will have a lasting benefit beyond the scope of the Cash Transfer.

F. Cash Transfer versus Commodity Import Program (CIP)

In designing the program, the Mission weighed the merits of a Cash Transfer versus a CIP and the experience with both in other countries in the Caribbean Basin and elsewhere. Based on an analysis of the advantages and disadvantages of both approaches, the Mission concluded that the Cash Transfer mechanism was the best means to achieve the objectives of this $2.0 million program. The procedures and controls required to implement a CIP would impose a degree of public sector intervention and control over the allocation and use of foreign exchange which would be contrary to both Dominica's and the USG's policy of relying on the market mechanism. The Cash Transfer approach will also require less staff time to administer, both on the part of Dominica and the Mission. The GOCD's manpower base is already stretched to the limit, and a heavy demand exists on limited Mission staff to design and implement the rapidly expanding RDO/C assistance program.

G. Monitoring

The government will covenant to provide RDO/C with four quarterly reports. The first report will be due three months after initial disbursement, with subsequent ones submitted at ensuing three month intervals. The reports will indicate all activities being supported from the special local currency account and the pace of drawdown for each. Since the local currency will be the property of the GOCD, extensive RDO/C monitoring, as conducted under AID project assistance, is inappropriate and not envisaged.

While extensive A.I.D. monitoring is not anticipated, controls will be established by the GOCD to facilitate implementation of the investment activities supported under the local currency program. For all the investment activities, the responsible Ministry will be required to submit to the country's Economic Development Unit an implementation work program together with a schedule of drawdowns prior to initial release of funds. In the case of activities of under EC$150,000, after submission of a satisfactory work program and drawdown schedule, funds will be transferred from the local currency account to the general current account from which payments will be made upon receipt of requisite vouchers. For activities exceeding EC$150,000, advances will be made in the form of tranches. These advances, which are under the control of the Accountant General, must be accounted for with evidence of payment prior to provision of any further advances.

H. Caribbean Basin Initiative

The program grant will assist the country in taking advantage of the CBI. Under the CBI, duty-free status will be accorded by the U.S. for 12 years to nearly all Dominican exports. The support furnished by the Cash Transfer to the productive sector will facilitate Dominica's production of exports. In addition, the GOCD's policy reforms, supported by the IMF EFF agreement and the proposed Cash Transfer, are contributing to a favorable investment climate which is consistent with the objectives of the CBI.

I. Dominican Imports from the U.S.

While the Caribbean Common Market (CARICOM) Common External Tariff means that Dominica, a CARICOM state, does give preference to imports from other CARICOM states, Dominica does not discriminate against U.S. imports vis-a-vis imports from non-CARICOM countries. In fact, Dominican imports from the U.S. have been increasing rapidly. They now total at least $13.2 million annually or more than 25 percent of total imports, up from under $2 million or roughly 10 percent of total imports in 1975.

The proposed program will help Dominica import from the U.S. productive sector inputs worth $2 million, the size of the Cash Transfer. Dominica will monitor such imports and certify and document that they were indeed imported during the period of one year following the disbursement of the grant. Monitoring will be undertaken by the Ministry of Finance, who will examine bills of lading and certified vouchers of U.S. suppliers.

As part of the overall CBI emphasis, the GOCD and the U.S. will be seeking ways to increase trade. The U.S. Mission in Barbados will be sending its commercial attache to Dominica to engage in dialogue with both the GOCD and the country's private sector in an effort to promote U.S. exports to the country. In addition, those local currency development activities that largely represent procurement of foreign goods will be rejected unless the anticipated origin is the U.S.

J. Negotiating Status

In preparing this ESF Program grant, close collaboration has existed between A.I.D., the Government of Dominica, especially its Ministry of Finance and Economic Development Unit, and the IMF. Upon approval by A.I.D./W of the PID on July 1, 1983, RDO/C commenced final preparation of PAAD. In accordance with redelegation of authority 133.3 and AID/W guidance, the PAAD will be authorized by the Mission. RDO/C intends to sign the Project Grant Agreement, which will be negotiated with the GOCD, and obligate FY 1983 ESF supplemental funds on September 30, 1983. The proposed obligation date will facilitate budget planning for the GOCD, whose fiscal year commenced on July 1, 1983.

09/07/83

DOMINICA: IMF Targets under the Dominica EFF

Summary of Financial Program for FY 1983/84

1. Principal assumptions

(a) Growth in real GDP of 5-1/2 per cent in 1983 and 7 per cent in 1984.

(b) An average annual increase in the consumer price index of 6 per cent and the GDP deflator of 4 per cent in 1983-84.

2. Targets

(a) Central government operations are projected to show a current account deficit of EC$0.2 million in 1983/84 and an overall deficit (before grants and foreign concessionary loans) of EC$43.5 million (19 per cent of GDP). The overall deficit is projected to be almost entirely financed by grants and concessionary loans.

(b) The current account deficit of the balance of payments is projected at US$14 million (18 per cent of GDP) in 1983; the current account deficit is expected to be reduced to the equivalent of 16 per cent of GDP in 1984.

3. Major elements of the program

(a) Revenue measures

The program provides for a tax package (estimated to yield EC$2.9 million) containing the following measures, all of which take effect as of July 1, 1983:

(i) Introduction of customs tariff on imports of the External Trade Bureau--mainly sugar and rice--(EC$0.2 million).

(ii) Increase in the foreign exchange tax from 1 per cent to 1.5 per cent (EC$0.6 million).

(iii) Imposition of hospital fees and charges (EC$0.5 million).

(iv) Increase in consumption duties on fuels (EC$0.5 million).

(v) Extension of the bank deposits levy to the National Commercial Bank (EC$0.3 million).

(vi) Transfer of profits of the External Trade Bureau (EC$0.8 million).

(b) Expenditure measures

(i) Limiting current spending of the Central Government to EC$67.2 million representing an increase of EC$5.9 million (9.6 per cent) over the estimated level of 1982/83.

(ii) Central government capital expenditures in 1983/84 have been programed at EC$43.3 million. The main sources of finance for these expenditures are (a) foreign project grants of EC$23.6 million; (b) foreign budgetary grants of EC$3.5 million; (c) foreign concessionary loans in an amount of EC$10.7 million; and (d) drawdowns of EC$5 million from balance of payments loans received in 1982 but now on deposit at commercial banks.

(c) Public enterprises

(i) A reorganization plan for the banana industry is to be initiated in 1983/84. The plan involves a phased transfer of boxing plant operations from the Dominica Banana Growers' Association (DBGA) to the private banana growers and the establishment of a small institution to concentrate exclusively on marketing activities.

(ii) Port charges will be increased by 17-1/2 per cent effective July 1, 1983.

(iii) Water rates will be increased by 10 per cent effective July 1, 1983.

(d) Other policies

(i) The wage guideline for 1983/84 is an increase of 10 per cent, the size of the wage adjustment for central government workers that takes effect on January 1, 1984.

(ii) The existing restrictions on commercial banks' credit expansion for the purchase of motor cars and consumer durables are to remain. Also, no increase in bank credit to the Central Government (except the drawdown of earmarked deposits referred to above) is programed in 1983/84.

(e) Performance criteria

Cumulative quantitative limits on central government budget financing defined as the sum of any SDR allocation, the net use of foreign resources, net borrowing from ECCA, net use of foreign assets, net borrowing from foreign commercial and net borrowing from domestic sources (including drawdowns of the earmarked resources referred to above) have been set as follows:

July 1, 1983 - September 30, 1983:	EC$2.2 million
October 1, 1983 - December 31, 1983:	EC$5.1 million
January 1, 1984 - March 31, 1984:	EC$5.2 million.

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E.O. 12356: N/A
TAGS:
SUBJECT: FY 83 ESF PROGRAM ASSISTANCE FOR DOMINICA

REFERENCE: (A) BRIDGETOWN 03426; (B) BRIDGETOWN 03711

1. ON JULY 1, 1983 THE DAEC REVIEWED SUBJECT PROPOSAL CONTAINED IN REFTEL (A). THE PROPOSAL WAS APPROVED IN PRINCIPAL FOR MISSION AUTHORIZATION, SUBJECT TO FOLLOWING CONSIDERATIONS:

2. THE DAEC REVIEWED THE IMPLICATIONS OF BALANCE OF PAYMENTS PROGRAM ASSISTANCE TO DOMINICA IN LIGHT OF ISSUES RAISED BY EMBASSY IN REFTEL (B). NOTWITHSTANDING THE NATURE OF THE NEGATIVE PRECEDENT THAT MIGHT BE SET BY APPROVING THIS ASSISTANCE TO ONLY ONE OF THE EASTERN CARIBBEAN LDCS, PROGRAM APPROVAL IS BASED ON OBVIOUS BOP PROBLEMS OF DOMINICAN GOVERNMENT, POSITIVE AND FIRM ACTIONS TAKEN BY THE DOMINICAN GOVERNMENT TO COMPLY WITH IMF/EFF AGREEMENTS, AND REQUEST FOR ASSISTANCE MADE BY IBRD. WE SEE THIS NOT AS SETTING A PRECEDENT, BUT AS AN EXCEPTION, AND WOULD EXPECT SIMILAR CONDITIONS TO EXIST BEFORE NON-PROJECT ASSISTANCE COULD BE CONSIDERED FOR OTHER LDCS IN THE EASTERN CARIBBEAN.

3. ANOTHER QUESTION OF PRECEDENCE WHICH WE THINK IS OF FUNDAMENTAL IMPORTANCE IS WHETHER PROPOSED ESF PROGRAM IS ONE TIME, EXTRAORDINARY SUPPORT OR MERE FIRST IN SERIES OF PROGRAM LOANS. GIVEN BASIC RATIONALE FOR ESF PROGRAM ASSISTANCE TO CBI BENEFICIARIES AND ACCEPTING RDO/C ECONOMIC ANALYSIS AND CONCLUSIONS ON DOMINICA, WE AGREE WITH MISSION'S OPINION THAT PROGRAM ASSISTANCE WILL NOT BE NECESSARY IN THE FUTURE. WE THINK THAT THE GOD SHOULD BE TOLD DURING NEGOTIATIONS FOR THIS ESF GRANT THAT WE DO NOT ANTICIPATE A SECOND PROGRAM LOAN OR GRANT..

4. AID/W HAS BEEN EXPLORING FUNDING OPTIONS TO PROVIDE ESF FOR BALANCE OF PAYMENTS, NON-PROJECT ACTIVITIES. WE EXPECT POLICY ISSUES TO BE RESOLVED MOMENTARILY. WE DO NOT EXPECT TO BE ABLE TO OBLIGATE DOLS. 2.0 MILLION IN FY 83, BUT INTEND TO SPLIT-FUND WITH SECOND MILLION BEING OBLIGATED IN EARLY FY 84.

5. RDO/C IS REQUESTED TO EXPLAIN IN ITS PAAD JUSTIFICATION WHY CASH TRANSFER APPROACH IS A MORE APPROPRIATE APPROACH THAN A COMMODITY IMPORT PROGRAM.
6. ACCORDING TO REF A PARA 11, QUOTE - TO OBTAIN THE PROGRAM ASSISTANCE, DOMINICA WILL HAVE TO ....REACH AN AGREEMENT WITH THE IMF ON THE THIRD YEAR OF THE EFF AGREEMENT - UNQUOTE. DOES THAT MEAN THAT AGREEMENT BETWEEN GOD AND IMF ON THIRD YEAR OF EFF WILL BE A CONDITION PRECEDENT TO SIGNING OF ESF GRANT ;OR OF DISBURSEMENT;? IF NOT A CP, WHAT SORT OF CONDITIONALITY RE IMF IS PLANNED?

7. RDO/C SHOULD ALSO EXPLORE POSSIBILITIES FOR CONDITIONS ABOVE/BEYOND, BUT COMPATIBLE WITH, IMF AGREEMENTS AND CBI TO TAKE ADVANTAGE OF ADDED LEVERAGE THIS PROGRAM MAY AFFORD. IF RDO/C DETERMINES THAT NO SPECIFIC CONDITIONS ARE REQUIRED, BEYOND THOSE STATED IN REF A, THE PAAD SHOULD INCLUDE A DISCUSSION OF THE RATIONALE FOR THIS DECISION. SEE PARAGRAPH 11 BELOW.

8. A MAJOR THRUST OF THIS BALANCE OF PAYMENTS GRANT IS TO SHORE UP THE PUBLIC SECTOR FINANCES AND TO USE THE LOCAL CURRENCY FOR DOMINICA'S PUBLIC SECTOR INVESTMENT PROGRAM. HOWEVER, REFTEL (A) EMPHASIZES THE IMPORTANCE OF THE PRIVATE SECTOR IN DOMINICA AND THE UNIQUE OPPORTUNITIES ACCORDED THE PRIVATE SECTOR BY THE CURRENT GOVERNMENT OF DOMINICA (GOD). THE PAAD SHOULD SPECIFY

HOW THIS GRANT WILL FACILITATE PRIVATE SECTOR GROWTH AS WELL AS HELP TO STRENGTHEN THE GOOD RELATIONS WHICH NOW EXIST BETWEEN THE PUBLIC AND PRIVATE SECTORS.

9. IN REGARD TO OUR MUTUAL INTENTIONS/DESIRES THAT THE ACTIVITIES FUNDED BY THE SPECIAL LOCAL CURRENCY ACCOUNT BE SUPPORTIVE OF THE PRIVATE SECTOR, WE WISH TO POINT OUT THAT AT LEAST TWO OF THE AGRICULTURAL DIVERSIFICATION PROGRAMS PROPOSED FOR FUNDING IN PARA. 7 OF REF. A E.G., FISH MARKETING AND STORAGE, AND PRAWN FARMING, IF DONE BY THE PUBLIC SECTOR, COULD ENCROACH ON AREAS BEST LEFT TO PRIVATE SECTORS. WE ARE CONFIDENT THAT MISSION WILL ASSURE COMPATIBILITY THESE ACTIVITIES WITH PRIVATE SECTOR THRUST.

10. RDO/C SHOULD ENSURE THAT GRANT AGREEMENT CONTAINS PROVISIONS TO MEET CURRENT REQUIRED CONDITIONS FOR SUCH ACTIVITIES. AT A MINIMUM, AGREEMENT SHOULD INCLUDE THE FOLLOWING:

(A) A STATEMENT THAT THE GOVERNMENT OF DOMINICA AGREES TO USE U.S. GOODS, AS WELL AS THE METHOD OF MONITORING AND REPORTING SAME;

(B) A CONDITION THAT UPON DISBURSEMENT OF THE GRANT, THE GOD ESTABLISH WITH AN APPROPRIATE DOMINICAN FINANCIAL INSTITUTION A SPECIAL LOCAL CURRENCY ACCOUNT IN AN AMOUNT EQUAL TO THE GRANT PROCEEDS TO BE USED FOR SUCH ACTIVITIES AS MAY BE AGREED UPON BETWEEN THE PARTIES AND WHICH IS CONSISTENT WITH OUR OVERALL ASSISTANCE STRATEGY IN THE EASTERN CARIBBEAN IN GENERAL AND IN DOMINICA SPECIFICALLY; AND

(C) A CONDITION TO FIRST DISBURSEMENT THAT A LOCAL CURRENCY UTILIZATION PLAN BE AGREED TO BY BOTH PARTIES AND THAT LOCAL CURRENCY BE ALLOCATED TO THE SPECIFIC DEVELOPMENT AND INVESTMENT ACTIVITIES CONTAINED IN THE PLAN.

11. THE GAO HAS COMPLETED A REPORT TO A.I.D. CONCERNING PROGRAMS OF THE TYPE PROPOSED IN REFTEL (A). MAJOR CONCERNS RELATED TO:
(A) THEIR PERCEPTION OF A LACK OF EMPHASIS ON OBTAINING POLICY CHANGE;

(B) THE PERCEIVED INSUFFICIENT INVOLVEMENT BY USAIDS IN DIRECTING THE PROGRAM AND MANAGING LOCAL CURRENCY;

(C) THEIR PERCEPTION OF THE DESIRABILITY TO STRUCTURE PROGRAM ASSISTANCE SO AS TO GAIN ADDITIONALITY OF U.S. IMPORTS; AND

(D) THEIR VIEW OF THE DESIRABILITY OF USING THE COMMODITY IMPORT PROGRAM MECHANISM TO GAIN THAT ADDITIONALITY.
Commodity Import vs Cash Transfer

THESE GAO CONCERNS AND AID/W'S RESPONSES TO THEM SHOULD BE TAKEN INTO CONSIDERATION AS THE PAAD IS DEVELOPED. PLEASE DETERMINE THE DEGREE TO WHICH THEY CAN BE INTEGRATED INTO PROGRAM DESIGN WHILE MAINTAINING DESIRED PROGRAM IMPACT AND DIRECTION. THE GAO REPORT, AID/W'S RESPONSES, AND A MODEL PROJECT AGREEMENT WERE HANDCARRIED BY KIM FINAN TO MISSION. SHULTZ
BT
#0184

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3A - (1) COUNTRY CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source of the program.

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such/country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents or from entering the U.S. unlawfully?	No.
2. FAA Sec. 620 (b). If assistance is to a government, has the Secretary of State determined that is not controlled by the international Communist movement?	Dominica is not controlled by the international communist movement. The country's Prime Minister is a staunch supporter of the United States.
3. FAA Sec. 620 (c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?	No.
4. FAA Sec. 620(e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	No.

5. FAA Sec. 620(f), App. Sec. 108. Is recipient country a communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia, or Laos?	Dominica, the recipient country, is not communist.
6. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?	No.
7. FAA Sec 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?	No.
8. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?	Through no fault of the country, an investment guarantee agreement with the United States was terminated recently as part of a new U.S. Treasury Department policy initiative.
9. FAA Sec. 620 (o); Fishermen's Protective Act of 1967, as amended, Sec. 5 If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters, (a) has any deduction required by Fishermen's Protective Act been made? (b) has complete denial of assistance been considered by AID Administrator?	Dominica has neither seized nor imposed any penalty or sanction against U.S. fishing activities.
10. FAA Sec. 620(q); App. Sec. 504. (a) Is the recipient country in default on interest or principal of any AID loan to that country? (b) Is country more than one year in default on interest or principal on U.S. loan made pursuant to program for which funds appropriated under Approp. Act, unless debt was earlier disputed, or appropriate steps taken to cure default?	No.

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11. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistanced Staff (PPC/RC).	Dominica no longer allocates any portion of its budget for military expenditures. In fiscal year 1980/81, military expenditures had accounted for roughly one percent of the country's recurrent budget.
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	No.
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?	Dominica is not in arrears on its U.N. obligations.
14. FAA Sec. 620A; Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?	No.
15. FAA Sec. 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by the United States, and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?	The U.S. does not have a military base in Dominica.
16. FAA Sec. 669,. Has the country, delivered or received nuclear reprocessing enrichment equipment, materials, or technology, without specified arrangements or safeguards, etc.?	No.

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17. FAA Sec. 670 Has the country delivered or received nuclear reprocessing, equipment, material or technology? Is the country not a "nuclear-weapon state" as defined in Article IX(3) of the Nuclear Non-Proliferation Treaty and on which detonates a nuclear explosive device?	Dominica, which is not a "nuclear-weapon state," does not deliver or receive nuclear reprocessing equipment, material or technology.
18. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate?	No.

B. FUNDING SOURCE CRITERIA FOR COUNTRY

1. Security Supporting Assistance Criteria

a. FAA Sec. 502B. Has the Department of State made findings which indicate that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, is program in accordance with policy of this Section?	Department of State has not made any findings that indicate that Dominica has engaged in gross violations of human rights.
b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance.?	Yes.
c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country have Special Account (counterpart) arrangements been made?	N/A. Program support is to be furnished in the form of a cash transfer rather than commodities.

2. Development Assistance Country Criteria

a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth (4) equality of income distribution, and (5) unemployment.	N/A. Source of funding is Economic Support Fund (ESF).

b. FAA Sec. 115 Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, has the Congress specifically authorized such funds, or is assisance for population programs, humanitarian aid through international organizations, or regional programs?

c. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State made findings which indicate that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?

d. FAA Sec. 201(b)(5),(7)&(8); Sec. 208 211(a)(4),(7). Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(3) Increasing the public's role in the developmental process.

(4) (a) Allocating available budgetary resources to development.

(b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations.

(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

(6) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

e. FAA Sec. 201(b), 211(a). Is the country among the 20 countries in which development assistance loans may be made in this fiscal year, or among the 40 in which development assistance grants (other than for self-help projects) may be made?

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec. 653(b)
   (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

   Congressional notification will be transmitted.

   (b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%.

   Source of funding will come from RDO/C's fiscal year 1982/83 supplemental ESF allocation.

2. FAA. Sec. 611(a)(2) If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   N/A.

3. FAA Sec. 209, 619 Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

   To achieve desired impact, the bilateral mode is preferred, although the program complements strongly other donor programs.

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic

   The program will have a positive impact on international trade and private initiative and competition.

practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The program will have positive impact on Dominica's growth prospects, which in turn will encourage (a)U.S. private trade and investment abroad and (b) private U.S. participation in foreign assistance programs.

6. FAA. Sec. 612(b); Sec636(h). Describe steps taken to assure that to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

Local currency equivalent will help fund Dominica's required counterpart contributions on other donor projects.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

No.

B. FUNDING CRITERIA FOR NONPROECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

The program will promote economic and political stability through (a) supporting investment activities with a productive sector orientation in Dominica's public sector investment program and (b) making available foreign exchange for critically needed productive sector imports.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. III; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

N/A. Source of funding is ESF.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph-- e.g. a, b, etc.--which corresponds to sources of funds used. If more than one fund source is used for assistance include relevant paragraph for each fund source.]

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is fully account taken of needs of small farmers.

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs, such as education in and out of school, maternal and child health services, agriculture production, rural development and assistance to urban poor?

(3) [105] for education, public administration, or human resources development if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; is so, extent activity is:

(a) to help alleviate energy problem;

(b) reconstruction after natural or manmade disaster;

(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

c. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the cuntry; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

d. FAA Sec. 281(b). Describe extent to which program recognized the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental and political processes essential to self-government.

e. FAA Sec. 201(b)(2)-(4) and -(8) Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives?

f. FAA Sec. 201(b)(6); Sec. 211(a)(5)(6) Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

3. Nonproject Criteria for Development Assistance (Loans only)

N/A. Source of funding is an ESF grant.

a. FAA Sec. 201(b)(1). Inforation and conclusion on availability of financing from other free-world sources, including private sources within the United States.

b. FAA Sec. 201(b)(2); 201(d). Information and conclsuion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) or lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from - private sources, or is otherwise being used to finance procurements from private sources?

4. Additional Criteria for Alliance for Progress — N/A, Dominica is a Caribbean state.

[Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.]

a. FAA Sec. 251(b)(1)-(8). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(8); 251(h). For loans has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

ANNEX D

LETTER NO. 1

Ref. No. F23/193

MINISTRY OF FINANCE,
GOVERNMENT HEADQUARTERS,
KENNEDY AVENUE,
ROSEAU,
COMMONWEALTH OF DOMINICA,
WEST INDIES.

1983-09-07

H. E. Milan Bish
Ambassador
U.S. Embassy
Bridgetown
BARBADOS

Your Excellency,

I have the honour on behalf of the Government of the Commonwealth of Dominica to make a formal request for balance of payments support grant from the United States of America.

During the past months, discussions have taken place between USAID and officers from our Ministry of Finance and Economic Development Unit on the form and level of assistance required.

We are satisfied with the conclusions arrived at during those discussions.

We are also satisfied that the assistance sought will help to strengthen the balance of payments and the production structure of the economy.

The relative emphasis given to sectors in this request for assistance reflects the strategy of government to generate further development in agriculture and industry and to provide the physical and social infrastructure in support of these productive sectors. This strategy, together with appropriate fiscal policy measures taken in consultation with the International Monetary Fund will contribute directly to reduction of the level of imports and to increase in the level of exports.

The strategy as outlined above is consistent with the overall programme developed by my government in consultation with the World Bank and the International Monetary Fund.

/2...

My government agrees to import from the United States, goods of approved categories in an amount at least equivalent to the amount requested, over a one year period.

We are satisfied that the conditions attaching to the aid requested, as indicated during discussions with representatives of your office, are acceptable.

An early response from you would be very much appreciated.

With assurances of my highest esteem.

Yours sincerely,

M. Eugenia Charles

M. EUGENIA CHARLES
PRIME MINISTER.

Ref. No. F28/198

MINISTRY OF FINANCE,
GOVERNMENT HEADQUARTERS,
KENNEDY AVENUE,
ROSEAU,
COMMONWEALTH OF DOMINICA,
WEST INDIES.

1983-09-16

His Excellency Milan Bish
Ambassador
U.S. Embassy
Bridgetown
BARBADOS

Your Excellency,

Further to my letter dated 7th September, 1983, I have the honour, on behalf of the Government of the Commonwealth of Dominica, to make formal request for a grant in the sum of two million United States dollars (US $2,000,000) to assist in eliminating the deficit on my government's capital account and for balance of payments support.

The above sum, if approved, should be paid to the account of the East Caribbean Currency Authority with the Federal Reserve Bank for credit in its equivalent in East Caribbean Dollars, to the Account of the Government of the Commonwealth of Dominica with the National Commercial Bank, Roseau, in an account designated "Government of Dominica: U.S. Balance of Payments Account".

Withdrawals will be made from the above account to finance local costs or United States import content of sub-projects in the public sector investment activities previously approved by USAID for financing under the grant.

I confirm that my government has been in compliance with the targets established under the International Monetary Fund Extended Fund Facility and that we have satisfied all conditions agreed to under that programme.

My government has already taken a number of self-help measures in addition to and in conformity with the EFF programme agreed between ourselves and the International Monetary Fund. We are confident that the assistance requested will support significantly the self-help measures which we have already undertaken.

I trust that you will be able to respond favourably to our request.

With assurances of my highest consideration.

Yours sincerely,

M. Eugenia Charles

M. EUGENIA CHARLES
PRIME MINISTER AND
MINISTER OF FINANCE
& EXTERNAL AFFAIRS.

To LEG 7/7/83

AGENCY FOR I[illegible]RNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

Date:

COUNTRY	:	Caribbean Regional
PROJECT TITLE	:	Program Support for Dominica
PROJECT NUMBER	:	538-0113
FY 83 CP REFERENCE	:	None
APPROPRIATION CATEGORY	:	Economic Support Funds (ESF)
LIFE OF PROJECT FUNDING	:	$2,000,000 (G)
INTENDED FY 83 OBLIGATION	:	$2,000,000 (G)

This is to advise that A.I.D. intends to obligate $2,000,000 in grant funds in FY 83 for program assistance to Dominica. This is a new project which was not included in the FY 83 Congressional Presentation.

The financial requirements for the program are $2 million to cover the immediate balance of payments needs of the Dominican economy. The Government of Dominica will covenant to provide a corresponding amount of local currency to help meet the credit requirements of its productive sector investment program and to meet the local requirements of donor assisted projects critical to the needs of the private sector.

ANNEX: Activity Data Sheet

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PROGRAM: Caribbean Regional

AGENCY FOR INTERNATIONAL DEVELOPMENT
ACTIVITY DATA SHEET

CP 81-05 (8 79)

TITLE	FUNDING SOURCE	PROPOSED OBLIGATION (In thousands of dollars)	
Program Support for Dominica	Economic Support Funds	FY 83 2,000	LIFE OF PROJECT (Auth.) 2,000
NUMBER 538-0113 GRANT [X] LOAN [ ] / NEW [X] CONTINUING [ ]	PRIOR REFERENCE None	INITIAL OBLIGATION FY 83 / ESTIMATED FINAL OBLIGATION FY 83	ESTIMATED COMPLETION DATE OF PROJECT FY 83

Purpose: To provide critical balance of payments support needed to sustain modest growth of the productive sectors and permit continued economic recovery.

Background: Since independence in 1977, Dominica has struggled with serious economic problems including multiple hurricanes, rising oil prices and worldwide recession which have led to a $5 million balance-of-payments deficit. Supported by an Extended Fund Facility with the International Monetary Fund (IMF/EFF), the Government of Dominica (GOD) has recently made real strides toward economic stabilization and growth. However the large fiscal debt of Dominica threatens to halt the advances which have recently been made in improving the country's productive sector investments. A shortage of resources for this sector would prevent further economic recovery. Consequently, the GOD with IMF support has approached the U.S. government for aid in support of its public sector productive investment programs.

Project Description: The proposed $2 million program will take the form of an immediate cash transfer to the Government of Dominica to address its immediate balance-of-payments needs. The GOD for its part, to facilitate recovery, will establish local currency funds of an equivalent total amount. These funds will be used to continue the country's agricultural diversification efforts and their public sector investment programs. The investment programs will focus on those activities with a productive sector orientation and/or an infrastructure building component. Examples of program activities include fish marketing and storage, coconut rehabilitation, feeder road construction and livestock disease control.

Additionally, local currency funding may be used by the government to provide its counterpart contribution for crucial externally-financed infrastructure projects.

The program proposes as policy conditionality the elimination of the projected recurrent fiscal account deficit of $1.6 million for this fiscal year, the finalization of an agreement with the IMF on the final EFF allotment, other donor assistance in meeting the GOD's deficit, and the prioritization of investment projects.

Relationship of Program to A.I.D. Strategy: The program would support A.I.D.'s strategy for the English-speaking Eastern Caribbean by stabilizing the finances of the public sector, strengthening the Dominican balance-of-payments situation, stimulating productive sectors through the provision of needed foreign exchange for U.S. productive imports and local cost financing. In summary, the program would promote the continued stabilization and expansion of the economy of a country which 1) is serving as a model of free enterprise development in the region, 2) will then be more able to take advantage of the trade concessions to be offered under the Caribbean Basin Initiative, and 3) is a strong ally of the United States.

Beneficiaries: The program is designed to have broad impact on the productive sectors of Dominica. In doing so, it would assure that employment and income-generating economic growth are not delayed.

Host Country and Other Donors: The host country will be utilizing its public resources to implement the program and the projected benefits derived therein are consistent with the host country's stated objectives. Other donors are being encouraged by the IMF to provide the local currency as well as foreign exchange portions of projects being funded by their countries in order to eliminate the balance-of-payments deficit and to contribute program assistance toward decreasing the balance-of-payments deficit. The IMF is fully supporting Dominica because of the austerity measures adopted during recent years.

Major Outputs:	All Years
Improved Economic Activity	X

A.I.D.-Financed Inputs:	Life- of Project ($000)
Program Assistance	2,000

Annex E

U.S. FINANCING (In thousands of dollars)	Obligations	Expenditures	Unliquidated
Through September 30, 1981	-	-	-
Estimated Fiscal Year 1982	-	-	
Estimated Through September 30, 1982	-	-	-
		Future Year Obligations	Estimated Total Cost
Proposed Fiscal Year 1983	2,000	-	2,000

PRINCIPAL CONTRACTORS OR AGENCIES

TO BE SELECTED

Program Agreement Number: 538-0113

GRANT AGREEMENT

BETWEEN

THE GOVERNMENT OF THE COMMONWEALTH OF DOMINICA

AND

THE GOVERNMENT OF THE UNITED STATES OF AMERICA

ACTING THROUGH

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

FOR

CASH TRANSFER

FOR THE

PUBLIC SECTOR INVESTMENT PROGRAM

DATE: September 30, 1983

APPROPRIATION:

BUDGET ALLOWANCE:

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GRANT AGREEMENT

BETWEEN THE

GOVERNMENT OF THE COMMONWEALTH OF DOMINICA

AND THE

GOVERNMENT OF THE

UNITED STATES OF AMERICA

FOR

CASH TRANSFER FOR THE PUBLIC SECTOR INVESTMENT PROGRAM

AGREEMENT, dated the thirtieth of September, 1983, between the Government of the Commonwealth of Dominica ("Grantee") and the United States of America acting through the Agency for International Development ("AID"), together referred to as the "Parties".

Whereas, the Government of the United States, acting through AID, desires to assist the Government of Dominica to eliminate its capital accounts deficit and to assist in its public sector investment program;

Now, therefore, the Parties hereto agree as follows:

ARTICLE I. THE ASSISTANCE

AID agrees to grant to the Grantee, under the terms of this Agreement, not to exceed Two Million United States Dollars (U.S. $2,000,000) (the "Grant") to assist in eliminating the Grantee's capital account deficit and for balance of payments support. The program will support development activities in the public sector investment program by encouraging the Grantee to furnish its own local currency to stimulate productive sector activities and provide essential economic and social infrastructure. The Grant shall be disbursed in three tranches, subject to the conditions precedent set forth below. The activities contemplated herein are amplified in the Program Description set forth at Annex I of this Agreement.

ARTICLE II. CONDITIONS PRECEDENT TO DISBURSEMENT

Section 2.1. Conditions Precedent to Initial Disbursement

Prior to the first disbursement under this Grant of $1,000,000, or to the issuance by A.I.D. of documentation pursuant to which such 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 from 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 representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee together with a specimen signature of each person certified as to its authenticity.

(c) Evidence that a special and separate local currency account has been established in Dominica into which the E.C. dollar equivalent of the Cash Transfer Grant will be deposited.

(d) A list of public sector development activities, contained in the FY 83/84 official budget of the Government of Dominica, to be supported by the Grant and the estimated amounts to be allocated to each activity.

(e) Evidence that the Grantee is in substantial compliance with targets established under the International Monetary Fund Extended Fund Facility.

(f) An official letter in which the Grantee agrees that (1) Dominica will import from the United States goods, from those import categories previously approved by A.I.D. and furnished to the Government of Dominica, in an amount at least equivalent to the Grant over a one year period from the date of first disbursement hereunder; (2) Grantee will monitor such imports and keep A.I.D. informed as to progress; and (3) Grantee will certify and document, in form and substance acceptable to A.I.D., the value of imports actually made from approved categories during a one year period from the disbursement of the Grant.

<u>Section 2.2.</u> <u>Condition Precedent to Disbursement of Second Tranche</u>

Prior to the disbursement of the second tranche of $500,000, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D., evidence that as of December 31, 1983, the Grantee is in substantial compliance with its Extended Fund Facility Agreement with the International Monetary Fund and that the local currency aspects of the Program are proceeding satisfactorily.

<u>Section 2.3.</u> <u>Condition Precent to Disbursement of Third Tranche</u>

Prior to the disbursement of the third tranche of $500,000, or to the issuance by A.I.D. of documentation pursuant to which such 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. evidence that as of March 31, 1984, the Grantee is in substantial compliance with its Extended Fund Facility Agreement with the International Monetary Fund and that the local currency aspects of the Program are proceeding satisfactorily.

<u>Section 2.4.</u> <u>Notification</u>

When A.I.D. has determined that the conditions precedent to disbursement specified in Section 2.1., 2.2. and 2.3. have been met, it will promptly notify the Grantee.

<u>Section 2.5.</u> <u>Terminal Date for Conditions Precedent</u>

If the conditions precedent set forth in Section 2.1. have not been met ninety (90) days from the date of this Agreement, or such later date as

A.I.D. may agree in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

ARTICLE III. DISBURSEMENT

Section 3.1. Deposit of Disbursed Funds

After satisfaction of the conditions precedent, at the written request of the Grantee, A.I.D. will deposit the proceeds of the Grant in the designated U.S. correspondent bank.

Section 3.2. Date of Disbursement

Disbursements 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 requesting disbursement of the Grant proceeds shall be nine months from the date of this Agreement.

ARTICLE IV. PURPOSES OF FUNDS

Section 4.1.

The Grantee agrees that the Grant funds will be used for purposes set forth in Article I and will not be used for (1) financing military requirements of any kind, including the procurement of commodities or services for military purposes, or (2) luxury items or pesticides which are not registered by the U.S. Environmental Protection Agency without restriction.

ARTICLE V. COVENANTS

Section 5.1. Records

The Grantee will maintain financial records, in accordance with generally accepted accounting principles, to assure compliance with this Agreement, such records to be maintained for at least three years after the date of 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. Local Currency Special Account

The Grantee, using the highest lawful rate of exchange existing on the date of the local currency deposit, will immediately upon disbursement of the Grant cause Eastern Caribbean Currency Authority or successor central bank to deposit the local currency into the previously established special and separate account in Dominica, in the equivalent amount of the Grant proceeds, which special account shall, except as A.I.D. may otherwise agree in writing, be established and used by the Government of Dominica to support their activities in public sector investment as mutually agreed to by A.I.D. and the Grantee.

Section 5.3. Reports

The Grantee, unless A.I.D. agrees otherwise in writing, will furnish to A.I.D. four quarterly reports on the funding status of the public sector investment activities in a format acceptable to A.I.D. The first report will be due three months after initial disbursement with subsequent ones submitted at ensuing three month intervals.

Section 5.4. Trade Promotion

The Grantee covenants to collaborate with the United States Government on ways of expanding trade opportunities.

Section 5.5. Publicity

The Grantee covenants that it will give appropriate publicity to the Grant and activities funded thereunder as a program to which the United States has contributed.

Section 5.6. Local Currency Costs of Activities

Grantee covenants to exert its best efforts to have the particular donor agency involved cover the required government local currency costs of its respective projects.

Section 5.7. Consultation

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

Section 5.8. Execution of Program

(a) The Grantee shall carry out the Program or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this agreement; and

(b) Provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Program, and, as applicable for continuing activities, cause the Program to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Program.

Section 5.9. Economic Policies

The Grantee covenants to make best efforts to restrain in fiscal years 1984/85 and beyond (a) recurrent expenditures and (b) borrowing from the domestic commercial banking system.

ARTICLE VI. REFUNDS

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that the Grant is not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement in U.S. Dollars to A.I.D. within sixty days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require a refund of a 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

The Grantee undertakes to provide to A.I.D. such information relating to the economic and financial situation of Dominica as may be necessary. 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 Grantee: Financial Secretary
Ministry of Finance
Government Headquarters
Roseau
Commonwealth of Dominica

To A.I.D.: Mission Director, USAID-Barbados
Regional Development Office/Caribbean
P.O. Box 302
Bridgetown, Barbados

Telex USEMB BGI 2259 - WB

All such communications will be in English, unless the Parties otherwise agree in writing. 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 individuals holding or acting in the positions of Prime Minister, Financial Secretary and Development Coordinator and A.I.D. will be represented by the individual holding or acting in the position of the Director of USAID-Barbados, Regional Development Office/Caribbean 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 Dominica and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the date and year first above written.

GOVERNMENT OF DOMINICA	UNITED STATES OF AMERICA
By: ______________________ Brian Alleyne	By: ______________________ William B. Wheeler
Title: ______________________ Acting Prime Minister	Title: Mission Director

PROGRAM DESCRIPTION

The US$2 million dollar program consists of a Cash Transfer to the Government of Commonwealth of Dominica (GOCD). The grant funds will be deposited in the U.S. correspondent bank for the East Caribbean Currency Authority (ECCA) or successor central bank. ECCA or its successor will transfer local currency in the equivalent of $2 million into a special GOCD account to be maintained at the National Commercial Bank, a Dominican government-owned financial intermediary. The local currency in the special account will support activities in the public sector program mutually agreed upon by A.I.D. and the GOCD. Funds will be provided in three tranches of $1 million, $500,000 and $500,000 respectively.

The goal of the program assistance is economic stabilization. The Cash Transfer will support the economic reforms that the GOCD has undertaken with the encouragement of an $11 million Extended Fund Facility (EFF) agreement with the International Monetary Fund (IMF). These reforms include limits on government spending, more efficient and effective tax measures, and reduced government borrowing from the domestic commercial banking system, among other measures. The major purpose of the program is to eliminate the government's FY 1983/84 capital account and balance of payments deficits, while at the same time sustaining its modest public sector investment program. While the country has made advances under the adjustment program, output has not rebounded as much as anticipated and additional time and support are needed for the adjustment program to work.

The GOCD and AID agree that this Cash Transfer will be a one time undertaking in response to a unique situation. Dominica is the only Eastern Caribbean country that has an EFF agreement with the IMF and has undertaken appropriate self-help measures. Expanded economic activity is projected for future years as a result of increased private investment and external donor assistance. The expanded economic activity, coupled with continued fiscal austerity and other donor support, is expected to enable the government to meet its recurrent budget requirements and maintain a satisfactory public sector investment program in the future.

The government's self-help measures and favorable investment climate are fully consistent with the Caribbean Basin Economic Recovery Act, more commonly referred to as the Caribbean Basin Initiative (CBI). The CBI was recently enacted by the United States Congress at the President's initiative. The Cash Transfer's stimulating effect on the productive sector will assist Dominica in taking advantage of the opportunities presented by the Act's provisions.

The A.I.D. program assistance will have a positive impact on economic development. The GOCD local currency special account will be used for purposes mutually agreed upon between GOCD and AID to support the government's FY 1983/84 public sector investment program. The primary emphasis of the activities is on the promotion of the productive sector. Agricultural diversification will be given priority as a means of reducing dependence on bananas and increasing food self-sufficiency. Essential economic infrastructure will be supported, and selected social infrastructural activities will contribute to rehabilitation efforts, promote expansion of the human resource base, and help curb migration from rural areas to urban concentrations.

The activities financed from the local currency special account must be consistent with the GOCD's economic recovery program. In all cases, the activities must be included in the government's approved FY 1983/84 budget. Furthermore, the activities must be short-term in nature, subject to likely completion during a one year period following initial disbursement, or financial arrangements must be identified to allow for the activity's continuation after the expenditure of the local currency associated with this grant.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

P. O. BOX 302
BRIDGETOWN
BARBADOS

September 30, 1983

The Honorable Brian Alleyne
Acting Prime Minister
Government of Commonwealth of Dominica
Government Headquarters
Roseau
DOMINICA, W.I.

Dear Acting Prime Minister

SUBJECT: AID Grant No. 538-0113
Program Assistance to Dominica
Implementation Letter No. 1
Conditions Precedent and Covenants

This letter sets forth the procedures for utilization of the proceds of the Grant, and provides information to assist in implementing the project in accordance with the Grant Agreement. Nothing in this letter, nor in any subsequent Implementation Letter, should be construed as modifying the Grant Agreement or any of its provisions. This letter may be supplemented or modified by subsequent letters of implementation, as necessary, to meet specific situations as they arise.

I. The Assistance - Article I

Article I and Annex I of the Grant Agreement contain descriptions of the Program. The Grant will be used exclusively to finance the Program as described in Article I and as amplified in Annex I of the Agreement.

II. Conditions Precedent to Initial Disbursement; Section 2.1

This section of the Grant Agreement outlines the conditions which must be satisfied, in form and substance satisfactory to AID, prior to the disbursement of Grant funds or the issuance of commitment documents under the Grant. When submitting documentation to satisfy the conditions precedent, one original and three xerox or carbon copies should be sent.

A. Legal Opinion; Section 2.1 (a)

Section 2.1 (a) requires that the Government of Dominica submit to AID evidence that the Agreement has been authorized and is a legally binding obligation of the Government of Dominica. To satisfy this condition AID will require a statement, in writing, to this effect from the Attorney General of Dominica or other acceptable counsel.

B. Designation of Representatives; Section 2.1 (b)

To fulfill this condition, the highest legal officer of the Government of Dominica should submit to AID over his signature the names of the persons who will represent the Government of Dominica and who are authorized to sign official correspondence. The following information about each of the designated representatives should be contained in this submission:

(a) the name and office or title of the person or persons designated;

(b) a specimen signature of each person designated; and

(c) a statement that the person or persons named will have the authority to act as his/her organization's representative.

C. Local Currency Account; Section 2.1 (c)

To satisfy the commitment to establish immediately upon disbursement of the Grant, the local currency account you should indicate the number of the account and the manner in which the account will be monitored. Your letter to Ambassador Bish of September 16 (Ref: F28/198) has already indicated the specific location and name of the account.

D. Development Activities; Section 2.1 (d)

Section 2.1 (d) requires that the Government of Dominica provide AID with a list of public sector development activities, contained in the FY 83/84 official budget, to be financed by the local currency account, and the estimated amounts to be allocated to each activity. An official letter listing the activities and amounts along with a statement that they are in the official budget is required. Another statement should be included indicating that all the activities are short-term in nature, subject likely to completion during a one year period following initial disbursement, or financial arrangements must be identified to allow for the activity's continuation after the expenditure of the local currency associated with this grant.

E. IMF Compliance; Section 2.1 (e).

Section 2.1 (e) requires that the Government of Dominica present to AID evidence that the Government is in substantial compliance with targets established under the International Monetary Fund Extended Fund Facility Agreement. Sufficient information should be provided to allow AID to make a determination of adherence to the Performance Criteria established under the Extended Fund Facility Agreement. This information should include, but not necessarily be limited to, (a) any Special Drawing Rights Allocations; (b) net use of foreign resources; (c) net borrowing from the Eastern Caribbean Currency Authority or successor central bank; (d) net use of foreign assets; (e) net borrowing from foreign commercial banks; and (f) net borrowing from domestic sources.

F. Imports from the United States, Section 2.1 (f)

Section 2.1 (f) requires that the Government of Dominica provide AID with an official letter agreeing to (1) import from the United States goods, from those import categories previously approved by AID and furnished to the Government of Dominica, in an amount at least equivalent to the Grant over a one year period from the date of first disbursement hereunder; (2) monitor such imports and keep Aid informed as to progress; and (3) certify and document, in form and substance acceptable to AID, the value of imports actually made from approved categories during a one year period from the disbursement of the Grant.

In order to document the value of the imports, certified information should be maintained in a special file regarding (1) the U.S. source and origin of the goods; and (2) that the goods actually entered Dominica. We request that on a quarterly basis you submit to A.I.D. a listing of imports from the U.S. and their value by categories established on the list previously approved by A.I.D. (see atttachment to this letter).

III. Conditions Precedent to Disbursement of the Second and Third Tranches

Before disbursement of the second and third tranches of funding, the Government of Dominica must furnish to AID evidence that as of December 31, 1983, in the case of the second tranche and March 31, 1984, in the case of the third tranche, that (a) the Government is in substantial compliance with the Extended Fund Facility Agreement; and (b) the local currency aspects of the Program are proceding satisfactorily. In meeting requirement (a), refer to guidance presented in Section II.E. of this letter. In meeting requirement (b), financial data sufficient to determine the draw-down rate for each activity should be presented. This information may be presented in the regular quarterly report which the Government of Dominica has covenanted to provide.

IV. Covenants

I draw your attention to the Covenant section of the Grant Agreement (Article V). This section presents nine covenants which have been agreed to by you. We will be working with you over the next several months to clarify what exactly is required to comply with the covenants and to develop a reporting format which meets the requirements of Section 5.3 of the Grant Agreement.

My staff and I look forward to commencing implementation of this program and to this end, we will be glad to answer any questions you may have regarding satisfaction of the Conditions Precedent to Initial Disbursement of the Grant.

Please sign one copy of this letter and return it as acknowledgement of its receipt and concurrence with its contents.

Yours sincerely,

William B. Wheeler
Director

Concurrence:

____

____
Date