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Dominica
OECS Fiscal Issues

Policies to Achieve Fiscal Sustainability and Improve Efficiency and Equity of Public Expenditures

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CURRENCY AND EXCHANGE RATES

Currency Unit – Eastern Caribbean Dollar (EC$)
US$1 = EC$2.70

FISCAL YEAR

July 1 – June 30

ACRONYMS AND ABBREVIATIONS

ACP	African, Caribbean and Pacific (States)
ALICO	American Life Insurance Company
ASYCUDA	Automated System for Customs Documentation and Administration
BNTF	Basic Needs Trust Fund
CAREC	Caribbean Epidemiology Center
CARTAC	Caribbean Technical Assistance Center
CDB	Caribbean Development Bank
CEE	Common Entry Exam
CF	Consolidated Fund
CFAA	Country Financial Accountability Assessment
CG	Central Government
CGCED	Caribbean Group for Cooperation in Economic Development
CIF	Cost, insurance, and freight
CLICO	Colonial Life Insurance Company
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CXC	Caribbean Examination Council
DBC	Dominica Broadcasting Corporation
DBMC	Dominica Banana Marketing Corporation
DEXIA	Dominica Export and Import Agency
DFID	Department for International Development
DOA	Director of Audit
DOWASCO	Dominica Water and Sewerage Company
DPA	Dominica Port Authority

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DSS	Dominica Social Security
EC	Eastern Caribbean
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECD	Early childhood development
ECEMP	Eastern Caribbean Economic Management Program
EDF	European Development Fund
EIB	European Investment Bank
ETF	Education Trust Fund
EU	European Union
FAA	Finance (Administration) Act
FCP	Fiscal Consolidation Program
FERP	Fiscal and Economic Recovery Project
GDP	Gross domestic product
GFS	Government Financial Statistics
HFLE	Health and Family Life Education
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
IMR	Infant mortality rate
IOCR	Institutional and Organizational Capacity Review
IPPF	International Planned Parenthood Federation
JPS	Junior Secondary Program
MDGs	Millennium Development Goals
MIS	Management information system
MoF	Ministry of Finance
MoH	Ministry of Health
MTESP	Medium-Term Economic Strategy Paper
NAO	National Authorizing Officer
NCB	National Commercial Bank
NDC	National Development Corporation
NFPS	Non-financial public sector
NGO	Nongovernmental organization
NSP	Needy Students Program
OECS	Organization of Eastern Caribbean States
OPEC	Organization of the Petroleum Exporting Countries
PAC	Public Accounts Committee
PAHO	Pan-American Health Organization
PFM	Public Financial Management
PMCU	Program Monitoring and Coordination Unit
PPP	Purchasing power parity
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSIP	Public Sector Investment Program
SBA	Stand-By Arrangement
SFP	School Feeding Program

SIF	Social Investment Fund
SIGFIS	Standardized Integrated Government Financial Information System
SIGTAS	Standardized Integrated Government Tax Administration System
SOEs	State-owned enterprises
STABEX	Stable Export Earnings Program
STEP	Short-Term Employment Program
STI	Sexually transmitted infection
UNESCO	United Nations Educational, Scientific, and Cultural Organization
VAT	Value-added tax
WAEMU	Western Africa Economic and Monetary Union
WFP	World Food Program

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EXECUTIVE SUMMARY

Overview

1. Dominica is a small (750 square kilometers) and mountainous island in the Eastern Caribbean with a population of about 73,000 inhabitants and a per capita gross national income of US$3,300 in 2003 (World Bank Atlas methodology). A former British colony, it became a member of the British Commonwealth in 1978. This small, open economy has traditionally depended on the production of a few commodities, in particular bananas and coconut-oil-based products. However, the decline in banana production because of increasing competition in the banana market, as the preferential access to the European Union (EU) eroded, has given way to an increasingly service-based economy (mainly tourism and financial services).

2. As a member of the Eastern Caribbean Currency Union (ECCU), Dominica shares a common central bank, the Eastern Caribbean Central Bank (ECCB), and a common currency, with the other five independent members of the Organization of Eastern Caribbean States (OECS) and three dependent territories (Anguilla, Montserrat, and the British Virgin Islands).[1] Their currency is the Eastern Caribbean (EC) dollar, which has been pegged to the U.S. dollar since 1976 at EC$2.70 per US$1. The commitment to a fixed exchange rate and a prudent monetary policy under the ECCU umbrella has been a key element in maintaining an inflation rate close to international levels.

3. Notwithstanding a common central bank and a common currency, Dominica, like the other ECCU member countries, conducts fiscal policy independently. While limited progress has been made on a common fiscal policy in the region, the deterioration of the ECCU fiscal position in recent years, notably in Antigua and Barbuda, Dominica, and St. Kitts and Nevis, has reinitiated discussion among its members of the need to coordinate fiscal policies.[2]

[1] The OECS consists of six independent members: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, in addition to three dependent territories of the United Kingdom, Montserrat (full member), Anguilla, and the British Virgin Islands (associate members).

[2] The communiqué of the Special Meeting of the OECS Authority, Castries, St. Lucia, September 28, 2001, alludes to the need to examine in the medium term public sector reform aimed at increasing efficiency, and fiscal reform including matters related to revenue, expenditure, financing, and debt management, as well as common approaches to taxation and incentives to be applied to encourage cruise shipping.

4. During 1994–2000, the Dominican economy grew at about 2.1 percent per year. However, during 2001-2003 the economy contracted as a result of exogenous shocks (declining trade preferences for bananas, increased scrutiny of the offshore financial services, the September 11, 2001 events, and the global economic slowdown in the early 2000s), and debt overhang. The economy declined by 4.2 percent in 2001, 4.7 percent in 2002, and did not grow in 2003. This economic contraction was accompanied by rising public debt and debt service obligations. The government, faced with lower revenues than expected due to the protracted recession, access to domestic and external financing only at high interest rates, and increasing accumulation of arrears, agreed in August 2002 to a 12-month International Monetary Fund Stand-By Arrangement (SBA). However, the SBA went off track soon after approval. In July 2003, the first review of the SBA was completed and the program was extended through December 2003 following the commitment of the government to a strengthened policy framework to be implemented in two phases. In the first phase, under the SBA, the fiscal crisis was started to be addressed through a mix of policy adjustment measures and donor financing. The second phase, currently under implementation, includes a more comprehensive reform program to foster growth and ensure debt sustainability in the context of the three-year Poverty Reduction and Growth Facility (PRGF) arrangement financed by the IMF, the Economic Recovery Support Operation financed by the World Bank and other donors' support.

5. Despite high levels of per capita income and good social service provision, poverty remains a persistent problem in Dominica. The national 2002 survey data indicate that approximately 4 in 10 individuals are poor (that is, living below a locally defined poverty line). Moreover, approximately 15 percent of Dominica's population is indigent; that is, they do not have sufficient resources to meet their basic dietary needs.[3] Although Dominica's indigenous Carib Indians account for only 7 percent of the poor, about 50 percent of them are indigent and 70 percent are poor. Income insecurity and volatility at country and household levels as a result of climatic and external economic shocks is particularly pronounced in Dominica, like in the rest of the Caribbean, due to the country's small size, limited economic diversification, high degree of openness, and its extreme vulnerability to hurricanes. The impact of this extremely high volatility is especially negative for the poor and near poor who may not be able to rely on savings or on the government's social protection programs to smooth consumption during times of hardship.

6. With respect to the Millennium Development Goals (MDGs), the primary education goal has been attained—primary education is universal for boys and girls. It is likely that the goal of eradicating extreme poverty and hunger will be achieved; the share of people living on less than US$1 a day is below 2 percent of the population. With respect to the health MDGs, the under-5 mortality and HIV/AIDS goals are the most relevant to Dominica. Malnutrition (defined as the prevalence of underweight children), maternal mortality, and tropical diseases (other than dengue, which is endemic) are not major issues. The under-5 mortality

[3] In 2002, the adult equivalent poverty and indigence lines were equal to EC$3,400 and EC$2,000, respectively.

rate in Dominica dropped from an estimated 23 per 1,000 in 1990 to 14 per 1,000 in 2000. This is a decline of about 5 percent per year. The MDG target—a reduction of two-thirds from 1990 to 2015—would require that the rate fall to about 8 per 1,000 by 2015. According to trend projections, Dominica is well on track for achieving this MDG target. It is difficult to assess the likelihood of reaching the HIV/AIDS targets, because baseline data on HIV prevalence and incidence are poor. However, given the size of the epidemic in the Caribbean, the target is very relevant for Dominica, and could be achievable if the country vigorously supports effective prevention measures.

7. To improve competitiveness, restore rapid economic growth, and ensure its medium-term sustainability in the context of the currency union, the main challenges to the Dominican government are to (a) maintain a prudent fiscal policy; (b) lessen the debt to GDP ratio by completing the debt restructuring exercise and limit new borrowing in line with a sustainable fiscal policy; (c) increase the efficiency of public investments and public service delivery; (d) strengthen regulation and efficiency of public utilities and sea/air transport; and (e) promote education and skills development to prepare the population, notably the poor, to take advantage of new opportunities in the global environment.

8. This report concludes that during FY1993/94 to FY002/03 the fiscal policy implemented by the government was unsustainable and posed a risk to the stability of the currency board arrangement. Moreover, this report recommends that most of the adjustment required to achieve a sustainable fiscal policy needed to come from expenditure cuts, in particular a reduction in the number of established and non-established positions, and focusing capital expenditures on projects geared to growth and poverty reduction and funded largely by grants and concessional loans.[4] A reduction in tax exemptions and discretionary concessions was also essential, as is a restructuring of the revenue base through the introduction of the value-added tax (VAT). While social indicators are good for a country at this level of gross domestic product (GDP), there is ample room for more efficient modalities of education and health service delivery that can generate significant savings and improve effectiveness. In addition, the government should strive to ensure that its social programs, in particular social protection, are delivered in a well-targeted and effective manner in order to provide more effective safety nets in the context of fiscal consolidation and continued vulnerability to external shocks. Specific recommendations on how to achieve fiscal sustainability, improve social service delivery, and reform social protection are provided in Table E.S.1.

9. The report is organized as follows: Chapter 1 discusses fiscal sustainability in Dominica and presents options for fiscal consolidation; Chapter 2 discusses the budget management system in place and its effect on budgetary outcomes. Chapter 3 examines the Public Sector Investment Program (PSIP); Chapter 4 discusses public sector employment and

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[4] There are two types of government positions in Dominica: established and non-established. The distinction between established and non-established positions has a legal basis. Established positions refers to those positions specified in the Public Service Act of 1991 and its subsequent amendments. Non-established positions are those not specified in the legislation.

compensation; Chapters 5 and 6 examine public expenditures and outcomes in the health and education sectors; and Chapter 7 discusses social protection programs.

Fiscal Sustainability

10. At the Central Government level, the fiscal position of Dominica weakened from FY1997/98 to FY2001/02, and it improved slightly in FY 2002/03. After primary fiscal deficits (after grants) of about 3 to 4 percent of GDP during FY1993/94–FY1994/95, the Dominica CG followed a cautious fiscal policy from FY1995/96 to FY1996/97. During that period, the CG ran a primary surplus between 0.3 and 0.6 percent of GDP. However, in FY1997/98 the CG ran a primary deficit of 1.1 percent of GDP that increased progressively until it reached 7.5 percent of GDP in FY1999/2000. In FY2000/01, the primary deficit was contained to about 6 percent of GDP, was reduced to 3.3 percent of GDP in FY2001/02, and was reduced even more, to 1.6 percent of GDP in FY2002/03. The main cause of this deterioration was increases in capital expenditures, the financing of which the government relied on both external and domestic borrowing, mostly at commercial terms. As a result, the non-financial public sector (NFPS) debt-to-GDP ratio increased from 61 percent of GDP in FY1997/98 to 111.5 percent of GDP in FY2002/03, and the interest expenditures increased from 2.6 percent of GDP to 5.5 percent of GDP in the same period.

11. The medium-term fiscal sustainability exercise shows that during FY1993/94 to FY2002/03 the fiscal policy implemented by Dominica was unsustainable. The projected size of the fiscal adjustment then required to achieve fiscal sustainability, in addition to the 5 percent of GDP cumulative fiscal effort programmed under the PRGF, was about 0.4 to 2.8 percent of GDP, depending on the assumptions of real interest and growth rates. Thus, a significant reduction in the net present value of the public debt through debt restructuring or further fiscal adjustment beyond the PRGF programmed effort was needed to regain fiscal sustainability. The CG guarantees the debt of public enterprises, but the government would not need an additional adjustment to ensure the fiscal sustainability of the public sector because the rest of the NFPS generates a small primary surplus.

12. The ECCB's Monetary Council meeting that took place in February 2003 reconfirmed the agreed regional fiscal framework that includes ceilings on debt and fiscal performance of the CG (see Chapter 1, paragraph 1.19). The aim of the ECCB in setting these fiscal convergence criteria is to ensure long-term fiscal sustainability and the stability of the currency union by limiting negative spillovers. Based on its fiscal ratios in FY2002/03, the deadline for fiscal convergence (a four-year horizon) required a fiscal adjustment higher than the one discussed above if the objective was to meet the ECCB-proposed 60 percent debt-to- GDP ceiling, and would require an even faster public sector reform and gearing up of the social protection programs.

Financial Management

13. Dominica initiated in 1997 a budget reform to introduce changes to the budget structure and processes. These changes, however, were not fully implemented and did not translate into improved resource allocation and effective expenditure controls, because of the lack of firm resource envelopes at the

aggregate and ministry level underpinned by a medium-term economic strategy. The result is that the budget has been driven by short-term considerations.

14. The Dominica PRSP is expected to fill this void by establishing a medium-term economic framework that addresses the following issues: (a) estimates of aggregate resources available for public expenditure consistent with macroeconomic stability, (b) bottom-up estimates of the cost of carrying out ongoing and new policies based on reliable assumptions, and (c) reconciliation of the aggregate resources with the cost estimates of the ongoing and new policies.

15. The budget provides an accountant's view of government transactions rather than a presentation of the government's fiscal policy. The budget adheres to the traditional administrative, program, and economic structure format. However, this presentation is insufficient to assess the fiscal position of the government and to follow up on key programs supposedly linked to policy priorities. The Ministry of Finance does, however, have the capacity to present the budget by standard functional classification, and it is recommended that it do so.

16. The cash management system in place until FY2001/02 was too weak to monitor Dominica's cash shortage. In October 2002, with Caribbean Technical Assistance Center (CARTAC) assistance, the government made an effort to improve its cash management capacity by introducing a system of spreadsheets to anticipate, control, and manage expenditure and revenue. Moreover, to tighten control over spending and regain fiscal sustainability, the authorities have been working with a consortium of donors, including the World Bank, to put in place an effective system of cash management and expenditure control, as a matter of priority, and to outline a medium-term program to further improve financial management along the recommendations of the recently completed Country Financial Accountability Assessment (CFAA). On July 21, 2003, the authorities issued an Administrative Order to ensure these problems do not reoccur. The Administrative Order established procedures to strengthen the cash management system and penalties for line ministries that do not follow these procedures. The system now in place has been successful in limiting expenditure commitments to collected revenues. However, it is critical that this discipline be continued in the medium term to avoid the build-up of arrears.

17. The debt management function is the weakest component of the financial management information systems. This is split between a small unit within the Budget, Debt, and Fiscal Management Department, which uses the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) to maintain data on foreign loans, and the Accountant General's Department, which uses Excel to maintain records on domestic debt (Treasury Bills, debentures, local loans). The CS-DRMS has a module for domestic debt, and the Treasury accessed this via modem to input domestic debt data until late 2000, when the modem connection was discontinued at the time the Standardized Integrated Government Financial Information System (SIGFIS) was installed. The government is in the process of reestablishing the CS-DRMS module for domestic debt and making domestic and external debt data computer accessible to both the Ministry of Finance

(MoF) and Treasury. Moreover, the Government has established a Debt Committee to oversee the signing of new debt contracts and the management of its debt. However, the government needs to consolidate in the near term the debt management function in one unit that maintains domestic and external debt records. The unit will need to be staffed with qualified personnel that can keep adequate debt records and advise the government on debt management issues.

18. The Audit Department does a commendable job. Audit Reports are current for the CG, and the Audit Department examines the account of Local Governments. However, while in principle independent because of authority specified in the Constitution, the Audit Department has no guaranteed operating budget or staffing complement, and must obtain approval from the Minister of Finance via the annual Estimates process. Additional factors that have affected its efficacy are the automation of critical financial management functions without adequate input from the Audit Department in the design and implementation stages, the nonfunctioning of the Public Accounts Committee, and limited training for staff.

19. The financial statements of Dominica present a partial view of government activities. Significant fiscal operations are excluded. The operations of statutory bodies, including state-owned enterprises (SOEs), are not covered, and several contingent liabilities are not presented in the financial statements. Most of the SOEs are significantly in arrears in the preparation of their financial statements and the submission of these for audit and for parliamentary review. Although the Director of Audit has the right to require submission of SOE audit reports and to supplement them by further investigations if he considers it necessary, he has not done so. Finally, following the 2000 election, the government appointed a Public Accounts Committee (PAC). It has met on occasion, most recently to consider the accounts for FY1999/2000, but it has not closed the accountability cycle by reporting its findings to Parliament. Moreover, the PAC has never reviewed the accounts of any statutory body.

20. The formulation of the budget receives inputs from the social partners, but this undoubtedly could be made more systematic. The government consulted with representatives from various sectors and interest groups in preparing its recent budgets, and these consultations were extensive for the FY2003/04 budget, with widespread and open debate of the proposed fiscal measures. The recent agreement by OECS countries to establish National Economic Councils with public and private sector members will strengthen this trend.

Public Sector Investment Program

21. On average, from FY1995/96 to FY2001/02 the CG spent about 9 percent of GDP on capital expenditures. Total public sector capital expenditures were on average about 11 percent of GDP in the same period. This level of capital expenditure is quite high compared to other OECS countries, and is similar to that of St. Kitts and Nevis, a country that was hit by three hurricanes between 1995 and 2001, with resulting high investment reconstruction needs. Preliminary figures for FY2002/03 show that capital expenditures were 5.1 percent of GDP, and for FY2003/04 the planned capital expenditures were about 7 percent of GDP. This level of expenditure was mostly financed through loans (commercial and concessional), and is one

of the main reasons behind the difficult fiscal position facing the government today.

22. It is difficult to assess the adequate level of public capital expenditure for the Dominican economy because capital expenditure figures reported by the Government, as in most OECS countries, include not only spending on fixed capital, but also some recurrent expenditures. If one subtracts from the historical average CG capital expenditures the unproductive capital expenditures (about 4 percent of GDP), and uses the evidence presented in this report for investment in education and health, the remaining level of capital expenditures intended to acquire fixed capital of 2 to 3 percent of GDP is in line with the historical averages in the Bahamas (2 percent of GDP) and Barbados (2.4 percent of GDP) during 1990–2001. This excludes capital expenditures that may be needed for exceptional reconstruction needs in response to natural disasters.

23. The government's capital budget until recently included investment projects that did not satisfy the stated government's objectives of growth and poverty reduction. During FY1999/2000–FY2000/01 about EC$8.9 million was spent on the Windsor Park project to build a 10,000-seat stadium suitable for international athletic and soccer competitions (only the foundation has been completed). During FY2000/01–FY2001/02, the government spent EC$33.2 million on the construction of a financial complex, which has been completed, but still has significant vacancies due to the retrenchment in the offshore sector. During FY1997/98–FY1999/2000, EC$36 million was spent on a feasibility study, detailed design, and land acquisition for the construction of a new international airport that was later deemed infeasible. Since FY2002/03, the government has halted several projects, whose impact on the economy was questionable, and also has made an effort to prioritize projects, taking into account their impact on growth and poverty. However, the government still has a difficult road ahead to systematize the selection process of investment projects.

24. The main focus of the Public Sector Investment Program (PSIP) unit until recently was the preparation of the annual capital budget. However, since FY2002/03 the PSIP; unit has also prepared a three-year rolling PSIP. While this is an important improvement, the three-year PSIP remains weak due to: (a) the lack of a well-thought-out medium-term country strategy that includes sectoral plans to guide the PSIP process, and (b) weak administrative procedures for the development of the PSIP. The PSIP unit has received technical assistance from the World Bank, and the Government of Barbados. With this assistance, the authorities formulated the FY2003/04 investment budget and the three-year rolling PSIP, which tried to maximize the use of available grant and concessional financing. The PSIP now reflects realistic estimates of project implementation and a prioritization of projects in line with the government's objectives of supporting private sector investment and growth. Another step in the right direction has been made with the circulation of the draft administrative procedures for the development of the medium-term PSIP prepared with technical assistance from the Barbados Government. In addition, a Projects Supervisory Committee, comprising public officials from various key ministries, the Budget Director, and

the Debt Unit, has been appointed and mandated to oversee project selection, financing, approval, and implementation. Quarterly budget execution reports are also being prepared. However, the country still lacks a medium-term country strategy and sectoral plans to anchor the medium-term investment strategy. The PRSP now in preparation hopefully will fill this void.

25. On average during FY1994/95–FY2001/02, only half of planned capital expenditures were actually spent. However, this statistic hides substantial year-to-year variation in the rate of spending, which ranged between 24.5 percent in FY1997/98 and 86.5 percent in FY2000/01. The realization rate, on average, was in line with that of St. Lucia, was substantially higher than the 25 percent rate of St. Kitts and Nevis, but lower than the 64 percent rate of Grenada. Low realization rates are attributed to resource constraints related to the available human and technical capacity and other inadequacies at various stages of the project administration cycle. Because of the importance of EU grant funding, low implementation rates often have been the result of slow EU disbursements. Preliminary figures for FY2002/03 presented a realization rate of 78 percent. Moreover, as a result of recent improved monitoring, the execution rate of the capital budget increased significantly in the first quarter of FY2003/04 (to 93 percent).

26. The challenge for the government is to follow up by implementing the procedures it has drafted and to keep its tight monitoring of the capital budget in the next fiscal years in the face of elections and the subsequent possible pressures for capital spending.

Public Sector Compensation

27. Given the small size of its economy and population, Dominica has limited resources to carry out the whole range of functions performed by any government. As several studies have shown, small countries tend to have bigger public administrations in response to the higher cost of supplying public goods and the need to provide a stabilization role to ameliorate the effect of external shocks. However, in the case of Dominica, the public administration is too large and expensive for sound fiscal management.

28. The main finding of this report is that the high wage bill in Dominica (16 to 18 percent of GDP during FY2000/01–FY2002/03 is employment driven (mainly workers in established positions) rather than wage driven or GDP driven. The number of established posts in FY1990/91 was 2,615, and increased by 79 posts from FY1990/91 to FY1997/98, or 0.4 percent per fiscal year. In addition, from FY1997/98 to FY2001/02, 323 posts were added, or 2.9 percent per fiscal year. This is a large increase, especially since in FY2000/01 the primary deficit (after grants) was 6.0 percent of GDP, and 7.5 percent of GDP in the previous fiscal year.

29. In FY2001/2002 and FY2002/03, the Government imposed a freeze on new hiring and cut the wage bill as part of a strategy of fiscal consolidation. However, while adjustment of the pay scale and a hiring freeze have yielded some budget savings, further expenditure reductions will have to come from reductions in employment numbers. Because there is little possibility for widespread job cuts while maintaining basic services, a radical change in the existing mode of services delivery will be needed as part of the public sector reform recently launched by

the Government. In particular, within the new macroeconomic environment of weak economic growth and a heavy debt burden, and slowing population growth, the Government needs to adopt more efficient and affordable modes of service delivery in health, education, and security.

30. In 2003, the Government launched a public sector reform program including four components: (a) modernizing public administration; (b) strengthening public expenditure management and controls; (c) enhancing growth-supporting public services; and (d) rationalizing the delivery of social services and improving their targeting. This reform program needs to be accompanied in the near term by the clarification of legal requirements for compensation that needs to be paid in case of layoffs, and by the introduction and/or upgrade of information systems in order to accurately cost its implications (pension and severance payments) and monitor public employment (established and non-established positions) on a regular basis. It also will need to address the issue of the existing fragmentation and duplication of work among ministries, departments, and agencies, leading to a diffusion of responsibilities, and the possibility of the government divesting some of its functions to the private sector. The reform would need to be informed by a human resource management strategy adapted to the needs and challenges of a small-size administration, and a performance appraisal system should be established with pay or bonuses to reward good performance.

31. There is some possibility for the government to divest some of its functions to the private sector. Some services where it is easy to specify output can be more efficiently performed by the private sector. These include: road maintenance, airport services, laundry and catering services in hospitals, and cleaning and maintenance services in public buildings. Outsourcing or privatization might realize efficiency gains, although significant savings in government expenditures are unlikely. Finally, some public sector activities in the areas of social services and education could be transferred to private organizations (profit and nonprofit), as is being done to a limited extent in St. Lucia.

Health

32. Dominica has a health system with a strong primary health care focus. It is dominated by publicly financed and publicly provided health care. There are no private clinics or hospitals, but there are physicians in private practice and a private health insurance system that appears to be growing. Recurrent public spending on health during FY1991/92–FY2002/03 was about 4.2 percent of GDP, on average. Public health spending in real terms grew for the same period at about 3.4 percent per year. Given the tight fiscal constraints, this growth is unlikely to be maintained over the short to medium term. Moreover, wages absorb about 74 percent of all health spending in Dominica. These figures are on the high side, and as a consequence of the cash constraint experienced by the country lately, the supply of pharmaceuticals and medical supplies, and the maintenance of equipment and buildings have been affected. Capital expenditures on health are highly donor dependent, with a very large share from the EU.

33. Public facilities appear to provide reasonably good coverage, with a good level of consumer satisfaction. Nevertheless, the health system faces many challenges in the future. Most

immediately, the public system is facing strong budgetary pressures as part of overall fiscal constraints. Dominica's small size also poses many challenges to the administration of public health programs, such as: (a) economies of scale, (b) health services mostly publicly provided, (c) health financing mostly through general revenue, and (d) a high ratio of nurses to physician. The health system also faces the challenge of adapting to a changing disease profile, including the need to vigorously address HIV/AIDS.

34. With the aging of the population, migration to urban areas, changes over time in the disease patterns, and with the goal of achieving greater economies of scale, it may be possible to rethink the configuration of health facilities, primarily by reorganizing and consolidating some of the primary health center services and restructuring the two district hospitals. The government should also be able to achieve greater economies of scale by better coordinating health services with its OECS neighbors and other countries in the region, including specialized laboratory tests and procurement of medical supplies. (An excellent example of exploiting economies of scale at the regional level that can be extended to other services is the Eastern Caribbean Drug Procurement Service.) In addition, substituting nurses with nurse assistants where possible would contribute to improving efficiency over the short to medium term. All these efforts should be pursued in the context of the public sector reform discussed earlier.

35. Public health financing is mainly through the consolidated fund. Revenue from user fees is minor. User fees are charged only for services at the Princess Margaret Hospital, and amounted to about 10 percent of the Hospital's recurrent expenditures in FY2000/01. Facilities do not retain fees, so have little incentive to put effort into collection. Fees revert to the consolidated account. Furthermore, although only those with public assistance cards are automatically exempted from payment of fees, in practice there are huge variations in collection rates from those not on public assistance. While fees may seem low on a per-service basis, user fees for a catastrophic health problem could put an unacceptably high burden on a poor household's financial situation, because the exemptions are not well targeted. The user fee policies would benefit from a review in terms of equity and efficiency. It is recommended that the government also consider how fees might be significantly increased to cover costs for physicians who treat their private patients in public facilities, and for overseas visitors.

36. Public recurrent spending on hospitals in Dominica has been fairly constant over time, at 56 percent. It is recommended that: (a) changes be introduced to improve hospital efficiency, and (b) chronic disease prevention and early diagnosis and treatment programs be strengthened to keep people healthy and out of hospitals. On the other hand, pharmaceutical expenditures have been severely underfunded in recent years due to budgetary pressures.

Education

37. During FY1995/96–FY2001/02, Dominica spent in recurrent and capital expenditures about 6.6 percent of GDP for education services. From a regional perspective, this is a very high share of public spending on education. Moreover, this level of public spending has not always been accompanied by an

improvement in education outcomes, equity, and efficiency.

38. The fiscal constraints that the country faces limit expenditure levels in all sectors, but this should not preclude the government from completing its educational agenda by making better use of the available resources and increasing the nongovernmental provision in education, for example, at the tertiary level. Except for pupils in preschool education, Dominicans receive education predominantly from public institutions.

39. During FY1995/96 to FY 2002/03, administrative costs and secondary and tertiary education took an increasing share of recurrent education expenditures. Given the large fixed costs involved in education administration—for instance development of exams, information systems, strategies, and curricula—it is expected that smaller states allocate a higher share to administration.[5] However, there are considerable savings to be gained from deeper OECS cross-country cooperation, which, moreover, would stimulate quality improvements through international sharing of best practices.

40. The share of tertiary education (including teacher training) in recurrent education expenditures increased from 7.0 percent in FY1995/96 to 10.2 in FY2002/03. In a Latin American context, this share is below average, but so is coverage of tertiary education in Dominica. The combination of limited access to tertiary education and a low cost-recovery ratio for tertiary education makes this budget line inequitable. Further, given that a non-negligible share of highly educated individuals migrates abroad, the public loses a corresponding share of the returns to this public investment. Dominica is the only OECS country that has introduced a tuition fee for nationals enrolled in tertiary education. The fee amounted to EC$250 per semester in 2002, and constitutes an important source of revenue for the Community College (13 percent of total expenditure). But to accommodate the expected expansion of tertiary education, it is recommended that fees be increased (coupled with scholarships for needy students) and regional cooperation among colleges be strengthened to ensure efficiency improvement through specialization.

41. From FY1995/96 to FY2002/03, the share of primary education expenditures in total recurrent education expenditures in Dominica decreased. In the mid-1990s, 6 out of 10 education EC dollars went to primary education. At the start of the new millennium, 4 out of 10 reached this subsector. In the same period, the share of recurrent expenditure to secondary education increased from 26 percent to 34 percent.

42. The most important educational barriers for low-income families are limited access to, and inconsistent quality of, the education system. The School Feeding Program is traditionally perceived as an expenditure line that benefits low-income students. However, in Dominica the School Feeding Program was downscaled to 7 primary schools in 2002 from 22 schools and 40 daycare centers in 1996. No formal impact analysis has been undertaken. The Education Trust Fund (ETF) provides assistance to needy students for transportation, uniforms, books, and examination fees. The Bank

[5] The average cost of administration in other education systems in the Caribbean reaches 10 percent, twice the Latin American average of 5 percent.

estimates that the ETF provides benefits to less than 1 in 10 needy students. The lack of targeting for the ETF is worrisome. The government could hence either limit the School Feeding Program and ETF to low-income families only, or introduce fees for higher-income families.

43. Salaries are, by far, the largest spending item, taking up about 92 percent of all recurrent education expenditures in FY2001/02. At the primary level, there is especially reason for concern because the wage share of total primary education spending was about 96 percent. This leaves exceptionally little money for other crucially important learning inputs, such as writing paper, textbooks for poor students, and school maintenance. This skewed allocation of expenditure toward salaries unnecessarily reduces the effectiveness of public resources and results in inefficiently low learning. The main reason for the large share of salaries in recurrent education expenditures is the low pupil–teacher ratio. Dominica spends the most per student per year in primary and secondary education among the Caribbean countries after St. Kitts and Nevis, US$547 and US$615, respectively. In primary and secondary education there are, on average, 20 and 18 pupils per teacher, respectively. The inefficiency involved in this poor teacher deployment is significant. It is recommended that these indicators be raised to 25 and 23 pupils per teacher in primary and secondary education, respectively.

44. Quality of instruction, and especially teacher qualification, is key for increasing effectiveness of learning. Teacher qualifications are inadequate in Dominica. Only 61 percent and 33 percent of the teacher corps in primary and secondary education, respectively, are adequately trained to perform their task. The lack of qualifications is a severe and long-term barrier for increased efficiency in the education sector. It is recommended that in the future only certified teachers be eligible for open positions in order to improve teacher qualifications.

Social Protection

45. Social protection programs in Dominica emphasize risk-coping strategies, that is, programs to help households cope with the effects of risk (especially poverty) rather than prevention and mitigation strategies. Moreover, the existing social protection programs are not well poised to respond to either significant economic downturns or natural disasters. Social protection expenditures in Dominica increased from 4.2 percent of GDP in FY1995/96 to about 5.6 percent of GDP in FY2000/01. Although slightly above the average for the Latin American region (4.7 percent of GDP), any effort to strengthen social protection cannot include costly new programs, given the difficult fiscal position that the Dominican government is facing.

46. Nevertheless, in moving forward, the challenge for Dominica is to: (a) strengthen the impact of existing social assistance programs through improvements in targeting, monitoring, and implementation capacity, and expand coverage of certain programs taking into account existing budget constraint; (b) increase the capacity of social assistance programs, such as the Road Maintenance and the Education Trust Fund, to be scaled up or down in the face of economic downturns or natural disasters; and (c) expand coverage and ensure the financial sustainability of the Dominica Social Security Fund. To achieve these challenges Dominica will have to reallocate resources among programs and

possibly rethink existing and/or pipeline projects, especially community-based programs.

47. The government of Dominica has adopted a social protection strategy designed to pursue economic growth complemented by pro-poor policies and policies that reduce inequalities and promote human capital development. Thus, social strategies focus on ensuring access to health care and primary education and on expanding access to secondary and tertiary education. The government also attempts to ensure that other programs and services (including income support, food, clothing, housing, and utilities) are available for the poor. This stated, the existing social protection strategy is characterized by a lack of strategic vision and coordination among programs. With the exception of the Social Security Program, programs are administered by different ministries. Although the government has expressed its intent to better coordinate its social protection programs, it has yet to establish a mechanism to oversee the development of an integrated social protection strategy to address critical vulnerabilities. Low and volatile incomes are a source of risk in Dominica. However, social protection programs are not well suited to address income volatility and transient poverty. The result is that social protection priorities are not clearly identified, and fiscal prioritization of programs is lacking. This is reflected in the budgetary process during which budgets are essentially determined by previous budget allocations and not in response to changing needs and priorities.

48. The large number of programs, each with separate administrative systems and procedures, strain an already overburdened public sector. The lack of coordinated efforts across ministries and departments has resulted in overlaps, duplication, inefficiencies, and administrative waste. The skills-training programs in the Youth Division, Adult Education Division, Women's Bureau and Cooperatives Division, and the Social Protection Program, to the extent that they serve the unemployed, target the same group. In addition, there is inadequate labor market information to guide program development, lack of standardized content, and uncertain labor market outcomes. All programs provide entry-level reemployment skills training—despite the fact that international experience suggests that the economic returns to this type of training are generally low. Moreover, all programs have different systems for identifying beneficiaries. This increases administrative costs and time costs for beneficiaries. There is a need to strengthen the planning and executing capacity for these programs and to put in place mechanisms for their fiscal prioritization.

49. Several programs on social protection are not well targeted. Reducing program leakage and introducing better targeting would considerably ease pressure on the budget. Divestment of programs to private providers (profit or nonprofit) could also result in cost savings. However, much-needed capacity building and institution strengthening, including development of targeting, management information systems (MIS), and survey capacity, would add development and administrative costs. Expanding program coverage with provision of benefits conditional on activities that promote human capital also come with their own investment costs. The net fiscal impact of

the above reforms would need to be carefully assessed.

50. The Road Maintenance Program that accounts for about 14 percent of total government expenditures on social protection is a good example of where better targeting (through the use of some minimum living standard below the market wage), increased rotation of workers, and implementation of systems to ensure that the program can be scaled up and down in the face of external shocks would strengthen the social protection function of the program.

51. Timely and reliable information on poor and vulnerable groups is essential for the design and implementation of social safety net programs. The Caribbean Development Bank (CDB)-financed Poverty Assessment that was conducted in 2002 provided useful information; however, data on poverty and labor markets need to be collected on a regular basis.

52. Budgeting and management information systems also need to be strengthened. Several programs, including cash transfer and labor market programs, are not identified in the government's budgets as separate programs. This limits effective planning and weakens fiscal accountability. Elevating social protection activities to program status would mean that expenditures, including expenditures by object code, could be easily tracked over time and evaluated with respect to program inputs and outcomes.

53. Inadequate management information systems (MISs) and capacity constraints with respect to data collection, monitoring, and evaluation are common across the OECS. Management information systems need to be computerized. In addition, regional initiatives to support MIS development and monitoring and evaluation capacity building would address the human resource constraints in individual countries and would be more cost-effective than developing systems on a country-by-country basis.

Table E.S.1. Summary of Policy Recommendations

Objectives	Recommended Policy Actions	Who Decides and Implements	Priority
ACHIEVE FISCAL SUSTAINABILITY			
Reduce Central Government fiscal deficit.	• Implement the fiscal measures programmed under the PRGF, in particular reduction in established and non-established positions. • Implement tax recommendations suggested by the IMF. • Broaden the new Finance (Administration) Act (FAA) to include fiscal responsibility provisions with explicit fiscal targets. • Undertake only investment projects financed with concessional financing. • Introduce and/or upgrade information systems in order to monitor public employment (established and non-established positions) on a regular basis. Numbers of non-established positions should be presented in the budget.	Cabinet Ministry of Finance Line Ministries	Short and medium term Short and medium term Medium term Short term Short term
Improve debt management.	• Staff the Debt Management Unit with qualified personnel that can keep adequate records of external and domestic debt, analyze the data, and advise the government on debt management issues. • Consolidate the debt management function in one unit.	Ministry of Finance Accountant General Treasury	Short term Short term
Strengthen Cash Management.	Implement Phase II of the Financial Management Plan presented in the Dominica CFAA.	Ministry of Finance	Medium term
Ensure soundness of the Dominica Social Security (DSS) scheme.	Diversify the investment portfolio into regional and international assets.	DSS	Medium term
IMPROVE BUDGET PREPARATION, EXECUTION, AND MONITORING			
Prepare a budget consistent with a fiscally sustainable policy.	Ensure that the PRSP is used as an effective tool to anchor the budget by including: • Estimates of aggregate resources available for public expenditure consistent with macroeconomic stability. • Bottom-up estimates of the cost of carrying out ongoing and new programs consistent with	Cabinet Ministry of Finance Line Ministries	Short term and medium term

Table E.S.1. Summary of Policy Recommendations

Objectives	Recommended Policy Actions	Who Decides and Implements	Priority
	aggregate available resources. • The Budget and Planning Unit should work closely to anchor the capital budget and the PSIP to the country strategy and the available aggregate envelope for capital expenditure.		
INCREASE FISCAL TRANSPARENCY AND ACCOUNTABILITY			
Present an accurate view of SOE investments and finances.	Include the operations of statutory bodies, including SOEs, and contingent liabilities, in the country's financial statements.	Ministry of Finance SOEs Audit Department	Short term
Link government policies to social outcomes.	Disaggregate expenditures at the program level to allow monitoring of outcomes.	Ministry of Finance Line Ministries	Medium term
Improve the quality of audits.	• Include Audit Department's recommendation in the design and implementation of automation of financial management. • Provide staff with required training in financial management.	Ministry of Finance Audit Department	Short term Medium term
IMPROVE EFFICIENCY IN THE PSIP			
Apply selection criteria for public investment projects.	• Include in the budget and the PSIP only investment projects with all required information (in particular projected recurrent costs). • Include in the budget and the PSIP only investment projects prioritized based on some type of cost–benefit analysis and in accordance with the overall resources available for capital expenditures. • Subject all projects with a cost above EC$2 million to a formal cost–benefit analysis before including it in the capital expenditure or the PSIP.	Ministry of Finance Line Ministries	Short term Short term Short term
Strengthen the preparation of the PSIP.	• Fill vacant positions in the PSIP Unit. • Train staff in the procedures and tools of project analysis.	Ministry of Finance Line Ministries	Short term Short term
Monitor capital spending and implementation of projects.	• Require that line ministries report capital spending monthly and stop disbursements to those projects that do not provide the information at the end of the month.	Ministry of Finance	Short term

Table E.S.1. Summary of Policy Recommendations

Objectives	Recommended Policy Actions	Who Decides and Implements	Priority
	• Eliminate the power of the Financial Secretary to transfer funds between agencies other than the MoF.		Short term
REFORM THE PUBLIC SECTOR			
Reduction and Monitoring of Public Sector.	• Reduce the number of established and non-established positions at least to the level of the mid-1990s. This includes the rationalization of service delivery. • Introduce and/or upgrade the information systems in order to accurately cost the implications (pension and severance payments) of the downsizing program and monitor its outcome. • Clarify the legal requirements for redundancy benefits.	Line Ministries Establishment Division	Short and medium term Short and medium term Short term
Enhance productivity of the civil service.	Adopt a human resources management strategy including: • Job description of established and non-established positions. • Performance appraisal system with pay or bonuses to reward good performance. • Training in essential skills.	Establishment Division	Medium term
Eliminate duplication of activities in the government.	Implement the recommendations of the OECS Institutional and Organizational Capacity Review (IOCR).	Ministry of Finance	Medium term
IMPROVE/SUSTAIN HEALTH OUTCOMES AND IMPROVE EFFICIENCY IN THE DELIVERY OF HEALTH SERVICES			
Reduce mortality in communicable and noncommunicable diseases.	• Strengthen public health and primary care in noncommunicable diseases and injuries, in order to continue to improve health indicators and contain costs over time. • Step up efforts to address HIV/AIDS.	Ministry of Health	Short and medium term Short and medium
Improve efficiency in health care.	• Rethink the configuration of health facilities by reorganizing and consolidating some of the primary health center services and the two district hospitals. • Authorize Princess Margaret Hospital to contract	Ministry of Health	Medium term Medium term

Table E.S.1. Summary of Policy Recommendations

Objectives	Recommended Policy Actions	Who Decides and Implements	Priority
	out some services such as laundry, plant maintenance, etc. • Permit Princess Margaret Hospital to retain the hospital fees.		Medium term
Exploit and extend economies of scale in health procurement.	Organize on a regional basis services such as specialized laboratory tests and medical supplies by using the example of the Eastern Caribbean Drug Procurement Service.	Ministry of Health	Medium term
Increase revenue, efficiency, and equity in the user fee policies.	• Review the user fee policy in terms of equity and efficiency. • Increase fees to cover costs for physicians who treat their private patients in public facilities and for overseas visitors.	Ministry of Finance Ministry of Health	Medium term Short term
Cost saving in the management of health personnel.	Generate cost savings without affecting the quality of services by substituting some nursing positions with lower-cost nursing (nurse assistants).	Ministry of Finance Ministry of Health	Short term
Reduce cost of patient stay in hospitals.	Reduce average length of stay at Princess Margaret Hospital by managing more pre- and postoperative tests on an outpatient basis, improving scheduling of the operating room, and other practices.	Ministry of Health	Medium term
IMPROVE/SUSTAIN EDUCATION OUTCOMES AND IMPROVE EFFICIENCY IN THE DELIVERY OF EDUCATION SERVICES			
Improve education outcomes	• Accelerate the phase-out of the Junior Secondary Program (JPS) in order to provide five years of secondary education to all students. • Award merit scholarships for primary students on a needs-based criterion rather than only on a merit-based criterion.	Ministry of Education	Medium term Short term
Improve teaching quality	• Hire only certified teachers for open positions in schools. • Introduce a mentoring program as an element of teacher training. • Establish a retraining program of existing teaching staff, in particular in secondary education.	Ministry of Education	Short term Short term Medium term
Exploit economies of scale at the primary and secondary level.	• Merge primary schools based on school mapping to exploit economies of scale in the education system	Ministry of Education	Medium term

Table E.S.1. Summary of Policy Recommendations

Objectives	Recommended Policy Actions	Who Decides and Implements	Priority
	and reduce cost, while increasing quality. • Mandate a minimum floor on class size at the primary and secondary level (for example, 25 and 23 pupils per teacher, respectively). • Institute a common core curriculum for the first three forms of secondary education to reduce the excessive offering of subjects of a specialized nature.		Short term Medium term
Incentives to improve efficiency in schools.	Provide incentives for each school to deliver education more efficiently by rewarding the ones that reach the revised pupil–teacher ratio (see above) while retaining part of the savings.	Ministry of Finance Ministry of Education	Long term
Exploit economies of scale at the regional level.	Reduce administrative costs through enhanced cooperation at the regional level with the development of exams, information systems, strategies, curricula, collective textbook purchases, and sharing of teachers.	Ministry of Education	Medium term
Increase Cost Recovery in Secondary and Tertiary Education.	• Establish a small fee of EC$50 in secondary education to replace the de facto fee policy in place. • Increase fees to about 25 percent of total costs in tertiary education. Dominica is the only OECS country in which nationals already pay a tuition fee of about 13 percent of total cost.	Ministry of Finance Ministry of Education	Short term Short term
IMPROVE EFFICIENCY IN THE DELIVERY OF SOCIAL PROTECTION PROGRAMS			
Develop a well-coordinated social protection strategy for the country.	Introduce sectorwide planning, so that all ministries and agencies responsible for implementing social protection programs come together to identify social protection priorities, and coordinate strategies to address these priorities.	Cabinet	Medium term
Improve targeting to the poor.	• Develop a more effective and efficient system to identify beneficiaries, including mechanisms to target households for income transfers and student education and learning funds and noncontributory pensions.	Cabinet Statistical Office Relevant Line Ministries	Medium and long term

Table E.S.1. Summary of Policy Recommendations

Objectives	Recommended Policy Actions	Who Decides and Implements	Priority
	• Conduct regular household surveys to assess poverty levels, incidence, and coverage of social safety net programs that could be used to assist in the development of targeting systems. • Improve labor market data to make labor market programs more responsive to the requirements of the labor market.		Medium and long term Long term
Develop human capital in conjunction with participation in social protection programs.	Identify strategies for using social protection programs to promote human capital development, including introduction of conditional cash transfers.	Cabinet Relevant Line Ministries	Medium term
Reduce administrative costs.	Merge duplicative programs such as noncontributory pensions and public assistance.	Cabinet	Medium term
Ensure a countercyclical social protection strategy.	Reorient the Road Maintenance Program to a program that can be quickly scaled up or down when external shocks occur by better targeting and more rotation of workers.	Cabinet	Short term

1. FISCAL DEFICIT, PUBLIC DEBT, AND FISCAL SUSTAINABILITY

1.1 Dominica is a small (750 square kilometers) and mountainous island in the Eastern Caribbean with a population of about 73,000 inhabitants and a per capita gross national income of US$3,300 in 2003 (World Bank Atlas methodology). A former British colony, it became a member of the British Commonwealth in 1978. The economy is predominantly agricultural and has traditionally depended on the production and export of a few commodities, in particular bananas and coconut-oil-based products. However, the decline in banana production because of increasing competition in the banana market, as the preferential access to the European Union (EU) eroded, has given way to an increasingly service-based economy (mainly tourism and financial services).

1.2 Dominica, as a member of the Eastern Caribbean Currency Union (ECCU), shares a common central bank, the Eastern Caribbean Central Bank (ECCB), and a common currency, with the other five independent members of the Organization of Eastern Caribbean States (OECS) and three dependent territories (Anguilla, Montserrat, and the British Virgin Islands).[6] Their currency is the Eastern Caribbean (EC) dollar, which has been pegged to the U.S. dollar since 1976 at EC$2.70 per US$1. The commitment to a fixed exchange rate and a prudent monetary policy under the ECCU umbrella has been a key element in maintaining an inflation rate close to international levels.

1.3 Notwithstanding a common central bank and a common currency, Dominica, like the other ECCU member countries, conducts fiscal policy independently. While limited progress has been made on a common fiscal policy in the region, the deterioration of the ECCU fiscal position in recent years, notably in Antigua and Barbuda, Dominica, and St. Kitts and Nevis, has reinitiated discussion among its members of the need to coordinate fiscal policies.[7]

1.4 Dominica's fiscal position deteriorated sharply from the mid-1990s to FY 2002/03. In FY1995/96 and FY1996/97 the Central Government (CG) ran on average a small primary fiscal surplus (after grants) of about 0.3 to 0.6 percent of GDP. However, from FY1997/98 to FY 2002/03 the CG ran a primary fiscal deficit that fluctuated from 1.1 percent of GDP in FY1997/98 to 7.5 percent of GDP in FY1999/2000. In FY2002/03, the CG ran a primary deficit of 1.6 percent of GDP.[8] As a result, total non-financial public sector (NFPS) debt increased from about 60 percent of GDP at the end of FY1997/98 to 111 percent of GDP in FY2002/03.

[6] The OECS consists of six independent members: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, in addition to three dependent territories of the United Kingdom, Montserrat (full member), Anguilla, and the British Virgin Islands (associate members).

[7] The communiqué of the Special Meeting of the OECS Authority, Castries, St. Lucia, September 28, 2001, alludes to the need to examine in the medium term public sector reform aimed at increasing efficiency, and fiscal reform including matters related to revenue, expenditure, financing, and debt management, as well as common approaches to taxation and incentives to be applied to encourage cruise shipping.

[8] Starting from FY 2002/03, the IMF is computing the primary balance using the overall deficit from below the line (financing)—that is, according to financing sources rather than government revenues and expenditures.

1.5 The main reasons for this fiscal deterioration were a combination of large unproductive investment projects and a shortfall in revenues since 2001 (due to a protracted recession). On average, the Dominican economy grew at 2.1 percent per year during 1994–2000. Real GDP contracted by 4.2 percent in 2001, and 4.7 percent in 2002 and did not grow in 2003. The government—faced with lower revenues than expected due to the protracted recession, access to domestic and external financing only at high interest rates, and increasing accumulation of arrears—agreed in August 2002 to a 12-month IMF Stand-By Arrangement (SBA). However, the SBA went off track soon after approval. In July 2003, the first review of the SBA was completed and the program was extended through December 2003, following the commitment of the government to a strengthened policy framework to be implemented in two phases. In the first phase, under the SBA, the fiscal crisis was dealt with through a mix of policy adjustment measures and donor financing. The second phase began in 2004 and includes a more comprehensive reform program to foster growth and ensure debt sustainability in the context of a three-year Poverty Reduction and Growth Facility (PRGF) arrangement currently under implementation.

1.6 In light of the preceding discussion, the main objective of this chapter is twofold: first, to evaluate the fiscal sustainability of the Dominica Central Government and public sector in the short and medium term, and second, to propose various options for the adjustment required to achieve fiscal sustainability.

1.7 The main findings and recommendations can be summarized as follows: [9]

- The fiscal policy implemented by the government during FY1993/94 to FY2002/2003 has been unsustainable. The projected size of the fiscal adjustment required to achieve fiscal sustainability, in addition to the 5 percent of GDP cumulative fiscal effort programmed under the ongoing PRGF, is about 0.4 to 2.8 percent of GDP, depending on the assumptions of real interest and growth rates. [10]

- Thus, a significant reduction in the net present value of the public debt through debt restructuring or further fiscal adjustment beyond the PRGF programmed effort will be needed to regain fiscal sustainability. The authorities have launched a debt restructuring effort in 2004 which is ongoing.

[9] Following the preparation of this report, the Dominican authorities successfully implemented a program of macroeconomic stabilization and structural reforms with the support of the IMF under the PRGF, the World Bank under the Economic Recovery Support Operation and other donors. Also, the authorities successfully undertook a debt restructuring exercise. Fiscal adjustment, debt restructuring and a recovery in economic activity in 2004-2005 have contributed to positioning Dominica on the path to restoring fiscal sustainability.

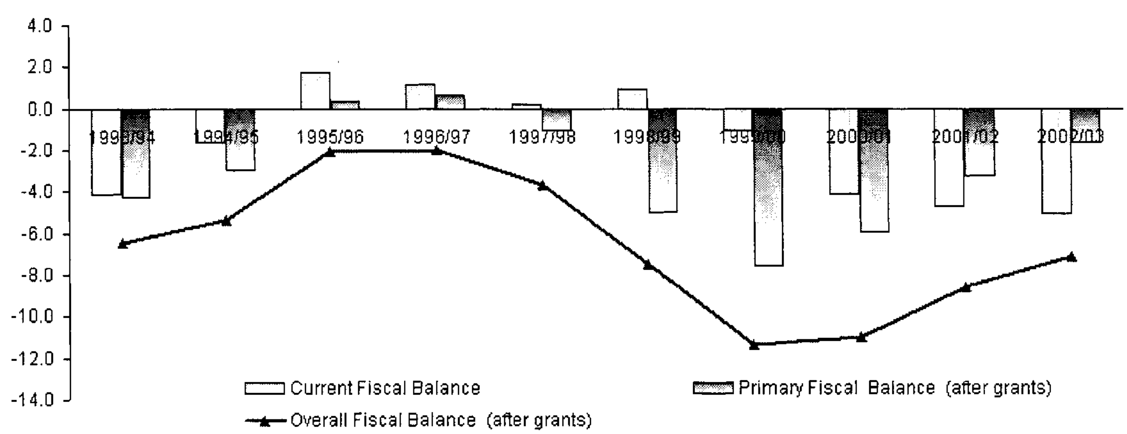
[10] The fiscal effort already programmed by the Government under the IMF-supported three-year PRGF amounts to a cumulative 5 percent of GDP during FY2004/05–FY2006/07, (from a projected primary surplus of 0.2 percent of GDP in FY2003/04 to 3 percent of GDP in FY2006/07, with intermediate targets of 0.5 percent of GDP in FY2004/05 and 2 percent of GDP in FY2005/06), and will consist of a further cut in the wage bill through a reduction in the size of public employment (yielding 1.2 percent of GDP in FY2004/05), and some tax measures.

- If the rest of the NFPS is included in the exercise, the required size of the adjustment will be similar to the one discussed above, because the CG is chiefly responsible for the difficult fiscal position of the NFPS.

A. DOMINICA FISCAL PERFORMANCE, FY1993/94–FY2002/03

1.8 **At the Central Government level, the fiscal position of Dominica weakened from FY1997/98 to FY2001/02, and it improved slightly in FY 2002/03.** As Figure 1.1 shows, after primary fiscal deficits (after grants) of about 3 to 4 percent of GDP during FY1993/94–FY1994/95, the Dominica CG followed a cautious fiscal policy from FY1995/96 to FY1996/97. During that period, the CG ran a primary surplus between 0.3 and 0.6 percent of GDP. However, from FY1997/98 to FY2001/02, the CG ran a primary deficit every fiscal year. In FY1997/98, the CG ran a primary deficit of 1.1 percent of GDP that increased progressively until it reached 7.5 percent of GDP in FY1999/2000. In FY2000/01, the primary deficit was contained to about 6 percent of GDP, was reduced to 3.3 percent of GDP in FY2001/02, and was reduced even more, to 1.6 percent of GDP in FY2002/03. This last figure should be used with caution because FY2002/03 was an unusual year: grants (budgetary) received by the Government were extraordinarily high and capital expenditures were below their long-term level.

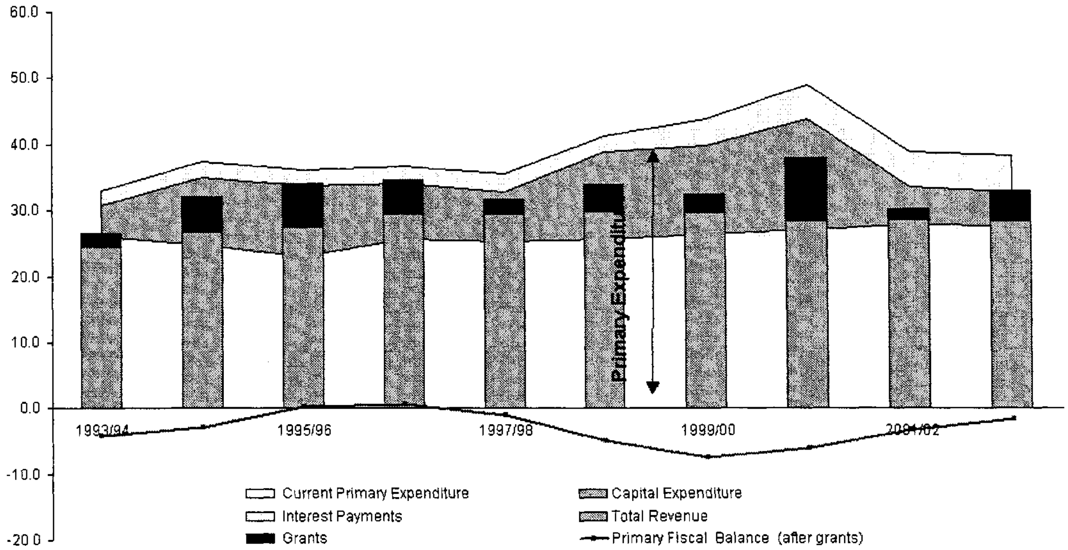
Figure 1.1. Dominica Central Government Fiscal Performance, FY1993/94–FY2002/03
(as percentage of GDP)



Source: IMF.

1.9 **The main cause of the deterioration of CG finances since FY1997/98 has been an increase in noninterest expenditures, predominantly capital expenditures.** As Figure 1.2 shows, noninterest expenditures increased from about 31 percent of GDP in FY1993/94 to an average of about 34 percent of GDP during FY1994/95–FY1997/98. In FY1998/99, noninterest expenditures reached 39 percent of GDP, and increased steadily until reaching its peak of 44 percent of GDP in FY2000/01. Since then, they have been contained to about 33 percent of GDP in FY2001/02 and FY2002/03. At the core of the observed increase in CG expenditures is a surge in capital expenditures, mainly in unproductive investment projects such as an infeasible new international airport, an unfinished stadium, and a financial complex that remains largely unoccupied because of the retrenchment in the offshore sector; whereas, total revenue increased from an average of about 26 percent of GDP for FY1993/94–FY1995/96 to an average of 29 percent of GDP for FY1996/97–FY2001/02. In FY2002/03, total revenue was 28 percent of GDP.

Figure 1.2. Dominica Central Government Primary Expenditure, Interest Payments, and Revenue FY1993/94–FY2002/03
(as percentage of GDP)



Source: IMF.

1.10 **The overall balance of the rest of the NFPS has been a small surplus.**[11] The financial operations of Dominica Social Security (DSS), local governments, the National Development Corporation (NDC), and the public enterprises, the Dominica Water and Sewerage Company (DOWASCO), the Dominica Export and Import Agency (DEXIA), the Dominica Port Authority (DPA), and the Dominica Broadcasting Corporation (DBC), presented on average an overall surplus of about 0.8 percent of GDP during FY1993/94–FY2001/02 (the last year for which data are available). DOWASCO has run an overall deficit during FY 1995/96 to FY2001/02 that at the NFPS level has been compensated for by the overall surplus of DSS[12] (see Table A5).

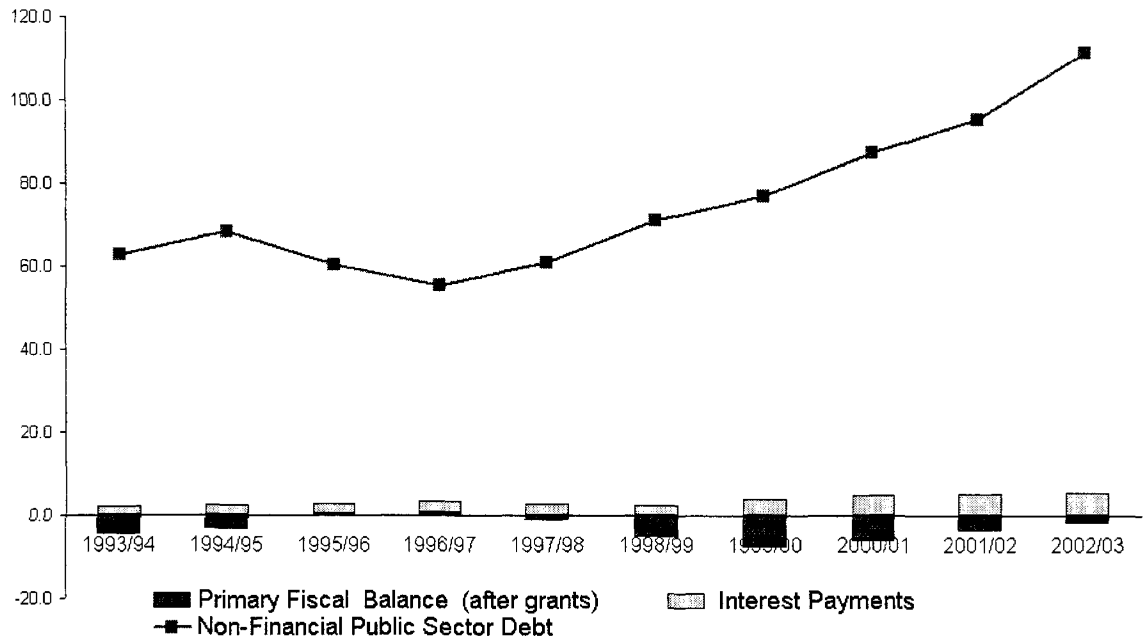
1.11 **Thus, due to the weakening of the CG fiscal position, the government turned to borrowing to finance its fiscal deficit.** The ratio of NFPS debt to GDP increased from 62.6 percent of GDP at the end of FY1993/94 to 111.5 percent in FY2002/03. As Figure 1.3

[11] The NFPS is defined as the CG plus Dominica Social Security (DSS), local governments, the National Development Corporation (NDC), and the public enterprises.

[12] DOWASCO is a public enterprise, but it has been privately managed since 1989.

shows, the ratio of NFPS debt to GDP showed a negative trend, reaching its lowest value in FY1996/97 (55.3 percent of GDP). A year later, in FY1997/98, the debt-to-GDP ratio increased to 60.4 percent and kept rising to peak at about 111 percent of GDP in FY2002/03. As a result, interest expenditures increased from 2.2 percent of GDP in FY1993/94 to 5.5 percent of GDP in FY2002/03. As will be illustrated in the next section, to maintain fiscal solvency, the CG will need to generate a sizeable primary surplus to pay the interest on the debt.

Figure 1.3. Dominica Non-Financial Public Sector Debt and CG Primary Surplus, FY1993/94–FY2002/03
(as percentage of GDP)



Source: IMF.

1.12 **Moreover, the additional borrowing of the CG has been contracted, mainly with external creditors, at commercial terms. This pattern is the opposite of St. Kitts and Nevis, in which the largest share of the NFPS debt is domestic.** As Table 1.1 shows, external debt represented around 75 percent of total NFPS debt as of June 30, 2003. The largest individual holder of Dominica external debt is the Caribbean Development Bank (CDB), with 23.0 percent of the total NFPS debt, followed by the Royal Merchant Bank, with almost 11 percent of the total NFPS debt. The largest individual holding of domestic debt is the National Commercial Bank (NCB), with 7.0 percent of the total NFPS debt. The CG is responsible for 78 percent of the total NFPS debt.

Table 1.1. Dominica Net Non-Financial Public Debt Structure as of June 30, 2003

	Stock in Millions EC$	Share of Total Debt (%)	Share of GDP (%)
Total	**760.14**	**100.0**	**111.5**
Domestic Debt	**186.6**	**24.5**	**27.4**
Commercial Banks	127.8	16.8	18.7
NCB	53.2	7.0	7.8
Others	74.6	9.8	10.9
ECCB	14.2	1.9	2.1
Private	44.6	5.9	6.5
External Debt	**573.6**	**75.5**	**84.1**
Multilateral	266.8	35.1	39.1
CDB	176.8	23.3	25.9
EIB	14.7	1.9	2.2
World Bank	58.5	7.7	8.6
IMF	7.8	1.0	1.1
Others[a]	23.6	7.7	8.6
Official	108.6	14.3	15.9
France	32.6	4.3	4.8
Venezuela	3.0	0.4	0.4
Taiwan	31.6	4.2	4.6
Kuwait	9.9	1.3	1.4
Grenada	2.7	0.4	0.4
St. Vincent and the Grenadines	2.7	0.4	0.4
Barbados	13.5	1.8	2.0
Trinidad & Tobago	10.0	1.3	1.5
Belize	2.7	0.4	0.4
Commercial	182.4	24.0	26.7
Citicorp	45.5	6.0	6.7
Royal Merchant Bank	82.6	10.9	12.1
Societe General[b]	30.2	4.0	4.4
Intercommercial Bank	6.8	0.9	1.0
Others	17.3	2.3	2.5
Debentures	16.1	2.1	2.4
Treasury Bills	1.2	0.2	0.2
Arrears	15.9	2.1	2.3

a. Includes EIB, IFAD, and OPEC.

b. Loan guaranteed by the U.K. government. The guarantee has been exercised.

Source: IMF.

B. DOES DOMINICA FACE A FISCAL SUSTAINABILITY PROBLEM?

1.13 **The figures on primary deficit and debt presented above raise serious concerns about the fiscal solvency of the government.** These concerns are addressed using an intertemporal approach to fiscal solvency. This approach, broadly speaking, defines a fiscal policy as sustainable if the present value of all future primary surpluses is enough to repay the current outstanding debt. It is important to stress that this type of debt sustainability analysis does not address the optimal level of indebtedness, its composition, and political economy considerations.[13]

1.14 **The fiscal policy implemented by the government from FY1993/94 to FY2002/03 has been unsustainable.** The projected size of the fiscal adjustment required to achieve fiscal sustainability, in addition to the 5 percent of GDP cumulative fiscal effort programmed under the ongoing PRGF, is about 0.4 to 2.8 percent of GDP depending on the assumptions of real interest and growth rates.

1.15 Thus, a significant reduction in the net present value of the public debt through debt restructuring or further fiscal adjustment beyond the PRGF programmed effort will be needed to regain fiscal sustainability. The authorities have launched in 2004 a debt restructuring effort, which is ongoing.

Central Government

1.16 **The fiscal policy implemented by the CG from FY1993/94 to FY2002/03 has been unsustainable.** As Table 1.2 shows, the medium-term fiscal effort required to achieve a stable debt-to-GDP ratio has been positive and sizeable in every fiscal year under reasonable assumptions for the discount rates (Scenarios A to B).[14] For instance, if the FY1998/99 CG fiscal sustainability were to be assessed by taking into account the government spending and revenue path in the next three years, the estimates would show that the CG should have cut expenditures or increased taxes between 7.4 to 8.6 percent of GDP in order to have maintained the debt-to-GDP ratio at the end of FY2000/01 at the same level as at the beginning of FY1998/99.[15]

1.17 **Using the projections for primary surplus targeted by the Government under the three-year PRGF (FY2004/05–FY2006/07), the CG fiscal policy (expenditure and revenue targets) alone will not suffice to converge to a stable debt-to-GDP ratio by the end of the PRGF.** As Table 1.2 shows, under scenarios A to C, the three-year fiscal adjustment required to achieve a sustainable fiscal policy in FY2004/05 using the projected primary expenditure and revenue and grants under the PRGF is positive. That is, the CG needs to cut expenditures or increase revenues more than it has been assumed in the PRGF. Indeed, for discount rates of 2, 3, and 4 percent, the additional fiscal effort required is about 0.4 to 2.8 percent of GDP. In other words, the CG will need to cut expenditures or increase revenues by an additional 0.4 to 2.8 percent of GDP to the fiscal effort assumed in the PRGF.

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[13] This methodology includes seignorage as a source of revenue; however, the apportioning of seignorage to national economies has not been discussed in the ECCU, and it is not taken into account in the fiscal sustainability exercise at the country level. However, any fiscal sustainability exercise at the ECCU level should incorporate seignorage as revenue.

[14] Scenario A (2 percent discount rate) assumes the nine-year average for GDP growth (0.5 percent), inflation (1 percent), and nominal interest rate (3.5 percent, the average interest rate paid by the CG). Scenario B (3 percent discount rate) assumes a positive shock of one standard deviation (1.4) to the nominal interest rate, and scenario C assumes a positive shock of two standard deviations to the nominal interest rate.

[15] The projected levels of expenditure, revenue, and grants during FY2003/04–FY2006/07 correspond to the ones agreed by the Government with the IMF under the SBA and the PRGF.

Table 1.2. Medium-Term Fiscal Effort Required to Achieve Fiscal Sustainability, FY1994/95–FY2006/07

(as percentage of GDP)

	Fiscal Year												
	Actual									Projected			
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
										Scenario A			
										113.5	115.3	115.6	114.9
										Scenario B			
Public Sector Debt	68.2	60.4	55.3	60.9	71.0	76.8	87.4	95.4	111.5	114.6	117.6	119.1	119.7
										Scenario C			
										115.8	119.9	122.7	124.6
Primary Surplus	-2.95	0.31	0.65	-1.07	-4.98	-7.53	-5.96	-3.26	-1.62	0.20	0.50	2.00	3.00
Total Revenue and Grants	32.10	34.03	34.65	31.75	33.86	32.33	37.90	30.23	32.87	34.20	32.60	32.60	32.60
Primary Expenditure	35.05	33.72	34.00	32.82	38.84	39.86	43.86	33.49	34.50	34.00	32.10	30.60	29.60
		Scenario A: Real Interest Rate = 2.5 Percent, GDP Growth = 0.5 Percent											
Three-year Fiscal Effort	1.92	1.40	3.01	5.63	7.38	7.00	5.15	3.31	2.22	1.33	0.44		
		Scenario B: Real Interest Rate = 3.5 Percent, GDP Growth = 0.5 Percent											
Three-year Fiscal Effort	2.54	2.09	3.62	6.19	7.98	7.71	5.92	4.18	3.17	2.44	1.61		
		Scenario C: Real Interest Rate = 4.5 Percent, GDP Growth = 0.5 Percent											
Three-year Fiscal Effort	3.17	2.77	4.22	6.74	8.59	8.42	6.69	5.06	4.13	3.56	2.80		

Source: World Bank calculations.

These projections assume capital spending of 7 percent of GDP, which accommodates a possible investment in fixed assets of 2 to 3 percent of GDP plus current expenditures normally included in Dominica's capital budget. It also assumes a gradual adjustment in the wage bill from 17 percent of GDP in FY2002/03 to about 13 percent of GDP in FY2006/07.

1.18 **In light of the previous discussion, and to ensure a stable debt situation and adequate financing, the Government publicly announced on December 10, 2003 its intention to undertake a debt restructuring exercise under the framework of the PRGF.**[16] The aim of the exercise is to allow the country to eliminate the debt overhang and foster a resumption of growth.

Fiscal Rules in the ECCU

1.19 **The ECCB's Monetary Council that took place in February 2003 reconfirmed the agreed fiscal framework that includes ceilings on debt and fiscal performance of the CG.** The aim of the ECCB in setting these fiscal rules is to ensure long-run fiscal sustainability and the credibility of the currency union by limiting negative spillovers. However, as discussed in paragraph 1.3, the ECCB has no mandate over fiscal policy in any member country, and the fiscal rules are not binding at this moment for the member states. Box 1.1 presents the convergence criteria in the ECCU and the Western Africa Economic and Monetary Union (WAEMU). Like the ECCU, the WAEMU comprises developing countries with a currency pegged to only one single currency, the Euro.

1.20 **In FY2002/03, Dominica did not meet any of the four debt and fiscal performance ceilings proposed by the ECCB's Monetary Council.** Every year during FY1993/94 to FY2000/03, the CG has run a current account below the target of 4 to 6 percent of GDP. The target for overall deficit (after grants) has been reached in only 2 years in this period. If grants are not taken into account, in this period the CG has not met the target of overall deficit since FY1993/94, the target debt service to current revenue has not been met during FY2000/01 to FY2002/03, and the target debt-to-GDP ratio has not been met during FY1997/98 to FY2002/03.

1.21 **At the time of the reconfirmation of the fiscal framework agreement, the ECCB's Monetary Council regarded 2007 as a critical date for fiscal consolidation.** This deadline for convergence seems unrealistic based on the fiscal performance of Dominica in FY2002/03, comprising: (a) a current deficit of about 5 percent of GDP, (b) an overall deficit (after grants) of 7.1 percent of GDP and 11.7 percent of GDP before grants, (c) a debt-to-GDP ratio of 111.5 percent, and (d) a debt service to current revenue of 20 percent. Indeed, reducing the debt to 60 percent of GDP by 2007 would require a fiscal adjustment higher than the one discussed in the previous section. Moreover, the WAEMU experience meeting the primary criteria in a three-year span was unsuccessful, and it was extended three additional years (to end-December 2005).

[16] IMF staff estimate that, in the absence of debt restructuring that would substantially reduce the net present value of debt, financing gaps of about US$20 million, or about 8 percent of GDP, would persist for the foreseeable future.

Box 1.1. The Convergence Criteria in the ECCU and WAEMU

Eastern Caribbean Currency Union (ECCU)

The ECCB has put forward a proposal that comprises the following four targets to be achieved in 2007:

- A Central Government current account surplus of 4 to 6 percent of GDP
- An overall government budget deficit of no more than 3 percent of GDP
- A total outstanding Central Government debt of no more than 60 percent of GDP
- Debt service payments by the Central Government of no more than 15 percent of current revenue.

Western African Economic and Monetary Union (WAEMU)*

The regional Convergence, Stability, Growth, and Solidarity Pact adopted in December 1999 by the WAEMU, has four primary convergence criteria and four secondary criteria. The norms established by these criteria have to be met by 2002. The primary criteria are:

- The ratio of the basic fiscal balance (defined as non-grant revenue minus expenditure excluding foreign-financed investment) to GDP must be zero or positive
- The ratio of outstanding domestic and foreign debt to nominal GDP must not exceed 70 percent
- The average annual inflation cannot be more than 3 percent a year
- Nonaccumulation of domestic and external payment arrears in the current financial period.

The secondary criteria are:

- The ratio of the wage bill to tax revenue cannot exceed 35 percent
- The ratio of domestically financed public investment to tax revenue must be at least 20 percent
- The ratio of current external deficit, excluding grants to nominal GDP, cannot exceed 5 percent
- The tax-to-GDP ratio must be 17 percent or more.

However, because of the limited progress achieved by the member countries in meeting the convergence criteria at end-December 2002, the WAEMU Commission proposed to the Heads of State to extend the timetable to end-December 2005.

* The eight members of the WAEMU are Benin, Burkina Faso, Côte d'Ivôire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

1.22 **The successful achievement of debt and fiscal ceilings needs the simultaneous introduction of a system of incentives to encourage compliance and penalties against noncompliance, and a mechanism for monitoring and surveillance of the fiscal performance.** The ECCB has not yet specified any system or mechanisms to ensure compliance with the proposed fiscal ceilings. Moreover, the WAEMU example suggests that surveillance of the fiscal ceilings and close monitoring against annual targets during the convergence phase are key to achieving fiscal convergence.

1.23 **The ECCB-proposed fiscal ceilings cover only the CG; public enterprises and government-guaranteed debt have been excluded.** However, the public sector position can be critical and should be included in any proposal of deficit and debt ceilings. Moreover, the inclusion of the public sector in the fiscal framework would ensure that the government would produce accurate and timely information on the financial position of public enterprises and their debts.

1.24 **The deficit and debt ceilings do not take into account the cyclical nature of the fiscal indicators in small countries subject to frequent external shocks.** In that regard, it is recommended that the ECCU move from debt and fiscal performance ceilings to a countercyclical fiscal policy based on a simple fiscal rule for the structural balance. This rule has been applied successfully in Chile, a country as vulnerable to external shocks as Dominica.

C. FISCAL CONSOLIDATION IN DOMINICA'S PUBLIC SECTOR

1.25 **In the previous section, we showed that the public sector primary surplus needs to be increased in future years to ensure fiscal sustainability. We propose that the fiscal adjustment rely primarily on expenditure cuts, in particular in the wage bill.** Tax increases are seen as only a small fraction of the adjustment. As discussed below, this type of adjustment is based on the observed pattern of government expenditures and on the assumption that a tax reform will yield an increase in tax collection of about 2.8 to 3.0 percent of GDP, and on several studies of how the composition of the fiscal adjustment influences its success.[17]

Tax Revenues

1.26 **The main characteristics of Dominica's tax structure can be summarized as follows** (see Figure 1.4):

- Current revenue (tax and non-tax revenue) has remained constant at about 29 percent of GDP during FY1997/98-FY2002/03 compared to 26 percent of GDP during FY1993/94–FY1996/97.

- About 80 percent of tax revenue is derived mainly from two types of taxes: taxes on international trade and taxes on income and profits.

- Taxes on international trade have constituted about 50 percent of CG total tax revenue in recent years. Import duties are levied at rates from 0 to 20 percent, with higher rates applicable to a limited set of goods. A 2 percent customs service charge and a 25 percent consumption tax are applied to imports. An environmental surcharge is also applied to a range of goods.

- Taxes on income and profits represented 28 percent of tax revenue during FY1993/94–FY2002/03. Corporate tax is levied at a rate of 30 percent, and personal income tax is levied ranging up to 40 percent, with a stabilization levy applicable at a rate of 4 percent in FY2002/03.

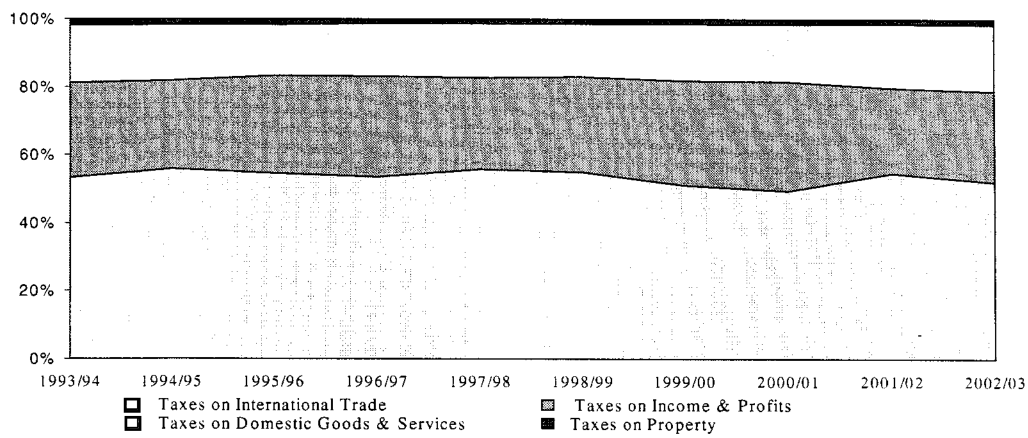
- Taxes on domestic goods and services increased as a percentage of tax revenue from 17 percent in FY1993/94 to 20 percent in FY2002/03. This category includes a number of excises and licenses on specific goods and services; the largest ones are the tax on hotels and services, the gasoline levy, and the stamp duty. The gasoline levy, contrary to other taxes on domestic goods and services,

[17] See, for example, the studies by Alesina and Perotti (1996), and Perotti (1996) for the Organisation for Economic Co-operation and Development countries.

is the residual of the retail price (fixed by the government) minus the cost, insurance, and freight (c.i.f.) price of the imported product and the fixed margins for importers and retailers. This net tax can be negative and fluctuates with the c.i.f. price if the retail price is not adjusted. Dominica introduced in 2003 an automatic pricing and taxation mechanism for adjusting petroleum prices in line with international price movements.

- Property taxes on rental income from houses and on land contribute a modest 1.5 percent of the total tax revenue intake.

Figure 1.4. Dominica Central Government Tax Revenue Composition, FY1993/94–FY2002/03
(as percentage of total tax revenue)



Source: IMF.

1.27 **During FY1999/2000–FY2002/03, the revenue forgone by the Dominica Central Government in customs duties and consumption taxes, due to tax concessions, was on average 5 percent of GDP on a fiscal- year basis.** A key feature of the present tax system in Dominica and other OECS countries is the pervasive use of tax concessions.[18] As Table 1.3 shows, hotels and industry received the highest proportion of tax credits (on average, 1.9 percent of GDP), alongside tax credits based on the Customs Control and Management Act (1.9 percent of GDP). In the extreme case, for example, where all exemptions based in the Customs Control and Management Act were repealed, a revenue gain of 1.9 percent of GDP would be expected, assuming zero elasticity of imports with respect to tariffs and consumption tax.

[18] An elaborate system of import duty exemptions provides for very generous concessions for taxes on imports for the development of industry, tourism, agriculture, social, educational, cultural, and other purposes. The main exemptions are provided under the Customs Act, the Fiscal Incentive Act, and the Hotel Aid Act. Also, some investors benefit from income tax holidays.

1.28 **The main purpose of tax concessions in Dominica, as in other OECS countries, is to attract foreign investment. However, the empirical evidence suggests that taxes are not among the main determinants of foreign investment.** Foreign investors place more value on a stable economic environment with transparent rules than on tax incentives.[19] The most suitable approach to address the concerns of tax competition among OECS countries is to support, more forcefully, a program of fiscal policy convergence that includes tax harmonization among member states.

Table 1.3. Annual Revenue Forgone from Tax Concessions
(as percentage of GDP)

	Fiscal Year			
	1999/2000	2000/01	2001/02	2002/03
Hotel (a)	0.13	0.27	0.15	0.17
Education and Culture (b)	0.07	0.05	0.04	0.01
Health (d)	0.02	0.00	0.00	0.00
Government and Government purposes (d)	0.26	0.26	0.48	0.36
Military forces (d)	0.02	0.02	0.03	0.09
Diplomatic mission (a)	0.07	0.04	0.12	0.04
Movement of persons (personal effects) (b)	0.16	0.13	0.17	0.11
Fisheries (b)	0.09	0.03	0.04	0.03
Agricultural and forestry (b)	0.78	0.20	0.09	0.05
Mining and Quarrying	0.00	0.00	0.00	0.00
Statutory Bodies (e)	0.05	0.03	0.05	0.02
Other approved purposes (vehicles) (d)	0.23	0.18	0.07	0.04
Movements of persons (vehicles) (b)	0.23	0.20	0.18	0.15
Industry (a)	1.32	1.17	1.42	1.18
Government-approved specified duty exemptions (c)	1.64	2.06	1.95	1.30
Government-approved specified consumption exemptions (c)	0.24	0.11	0.13	0.23
Charitable organizations (b)	0.00	0.00	0.00	0.01
Church (b)	0.02	0.03	0.07	0.04
Sports (b)	0.01	0.01	0.01	0.01
Shipping (b)	0.00	0.01	0.00	0.00
Aircraft (b)	0.00	0.00	0.00	1.15
Total	**5.35**	**4.79**	**4.99**	**4.99**
Classification				
Acts or Government[1] (a)	1.79	1.75	2.19	1.85
Discretionary[2]	3.50	3.01	2.76	3.13
Established procedure followed (b)	1.37	0.66	0.61	1.56
Granted at the Minister of Finance's discretion[3] (c)	1.88	2.18	2.08	1.52
Purely discretionary (d)	0.25	0.18	0.07	0.04
Partly granted under the Acts, partly purely discretionary (e)	0.05	0.03	0.05	0.02
Total	**5.35**	**4.79**	**4.99**	**4.99**

(a), (b), (c), and (d): Tax concessions granted under the Fiscal Incentive Act and the Hotel Aid Act.
1. Granted under the Fiscal Incentive Act and the Hotel Aid Act.
2. Based on Cabinet decision.
3. Based on Customs Control and Management Act.
Source: Dominica authorities.

1.29 **A complete discussion of a medium-term tax policy strategy is beyond the scope of this report. The IMF Fiscal Affairs Department has produced two reports on the subject and estimates that the revenue implications of its tax recommendations (short-term revenue stabilization and medium-term structural reform measures) will result in an increase in revenue collection of between 2.8 to 3.0 percent of GDP** (Dos Santos 2003; Stotsky, Dieterich, and Bristow 2003). The main recommendations of these reports can be summarized as follows:

- *Consumption and Sales Tax.* Apply the legislated rates of consumption tax to petroleum products. Extend the sales tax, at the current rate and threshold, to a range of services including construction, public transport, professional services, electricity and water, and others. In the medium term, implement a value-added tax (VAT) to replace the consumption tax, the sales tax, and the hotel occupancy tax, and a number of minor levies (the petroleum tax on a specific basis and the others on an ad valorem basis).

[19] See Zee, Stotsky, and Ley (2002) and the references therein.

- *Customs Duties.* In the medium term, continue to reduce import duty rates, consistent with the safeguarding of revenues and obligations under regional trade agreements and the World Trade Organization.

- *Income Taxes.* Leave the stabilization levy in place until measures to broaden the base can be identified. With appropriate base-broadening measures, reduce the top marginal personal income tax rate of 40 percent to 30 percent, in line with regional trends, and eliminate the stabilization levy. Revoke exemption from income tax for profits from real estate sales and rentals, and tax interest on bank deposits.

- *Property Tax.* Use site values developed by the valuation unit in the MoF to assess properties for the property tax. Levy a tax rate of 1.5 percent on property in urban municipalities.

- *Tax concessions.* Award tax concessions only in accordance with a strict interpretation of the Hotel Aid Act and Fiscal Incentive Act. Repeal other acts authorizing tax incentives and cease granting tax incentives on an ad hoc basis through cabinet or ministerial decisions. Do not renew income tax holidays and do not grant new ones. With the replacement of existing direct taxes with moderate taxes, such as the VAT and excises, do not extend concessions under the old direct tax system to the new tax system (VAT).

Central Government Expenditures

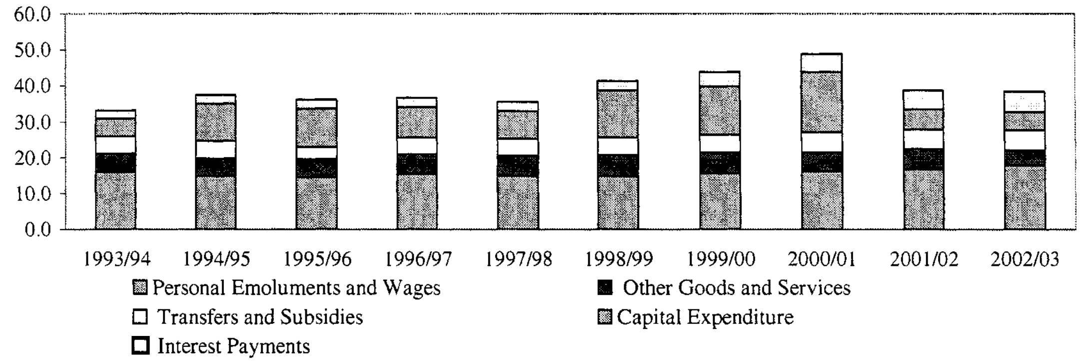
1.30 **CG noninterest expenditures increased from about 31 percent of GDP in FY1993/94 to an average of about 34 percent of GDP during FY1994/95–FY1997/98. In FY1998/99, noninterest expenditures reached 39 percent of GDP and increased steadily, reaching a peak of 44 percent of GDP in FY2000/01** (see Figures 1.5 and 1.6). Since then, they have been contained to about 33 percent of GDP in FY2001/02 and FY2002/03. As Figure 1.5 shows, the largest part of the increase was in capital expenditures and interest expenditures associated with the increase in borrowing. These increases have led to the need for a fiscal adjustment focused mainly on the wage bill in order to achieve fiscal solvency.

1.31 **During FY1993/94–FY 2000/02, personal emoluments and wage expenditures remained stable at between 14.4 and 16.0 percent of GDP, but in the last two fiscal years the ratio increased to about 18 percent of GDP. However, the wage bill in constant EC dollars has increased at about 3.8 percent per year during FY1996/97 to FY2002/03.** More notably, in FY1996/97 and FY2000/01, the wage bill in constant EC dollars increased by 11.0 percent. At the core of the increases observed in the wage bill in real terms (in constant 1995 EC dollars) is an increase in the number of established and non-established positions in the CG.[20] Because Government's real wages remained flat during

[20] There are two types of government employees in Dominica—established and non-established—between which there is a legal distinction. Established workers refer to those positions specified in the Public Service Act of 1991 and its subsequent amendments. Non-established workers are those in positions not specified in the legislation.

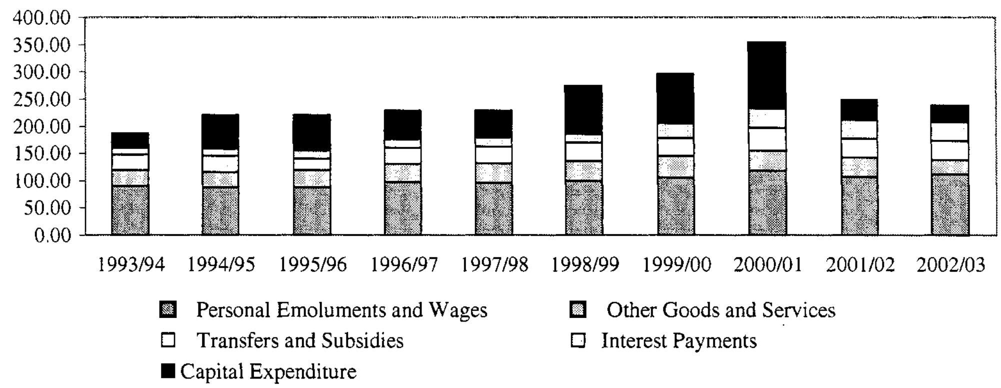
that period, and the Government had already cut the wages of workers in established positions by 5 percent in FY2002/03,

Figure 1.5. Dominica Central Government Expenditure Composition, FY1993/94–FY2002/03
(as percentage of GDP)



Source: IMF.

Figure 1.6. Dominica Central Government Expenditure Composition, FY1993/94–FY2002/03
(in millions EC$1995)



Source: IMF.

any effort to reduce the wage bill would have to focus on a rationalization of the number of public servants in the CG. The existing number of established and non-established positions is too large to be fiscally sustainable (see Chapter 4).

1.32 **Capital expenditures (as percentage of GDP), on average, doubled during FY1994/95–FY1999/2000 compared to the rest of the period. In constant EC dollars, capital expenditures tripled.** In FY1993/94, capital expenditures were about 4.8 percent of GDP (approximately EC$27 million in constant 1995 EC dollars). From FY1994/95 to FY2000/01 capital expenditures fluctuated around 8 to 17 percent of GDP (approximately EC$49.0 to EC$122.0 million in constant 1995 EC dollars). The main reasons for this increase were large unproductive investment projects such as an infeasible new international airport, an unfinished stadium, and a financial complex that remains largely unoccupied because of the retrenchment in the offshore sector. Therefore, tighter control of the PSIP is crucial to improving the efficiency of the public investment and to helping return the government to a fiscally sustainable path (see Chapter 3). Expenditures on goods and services during FY1993/94–FY2001/02 were stable at around 5.4 percent of GDP. However, in FY2002/03 expenditures on goods and services were compressed to only 4 percent of GDP. Transfers and subsidies have been stable at 5.0 percent of GDP.

1.33 **Finally, interest payments as a percentage of GDP increased 2.5 times during FY1993/94–FY2002/03, and almost tripled in constant EC dollars.** This increase reflects two factors: (a) the higher indebtedness of the Dominican government, and (b) the increased reliance of the government on borrowing at higher costs. Already, interest payments are crowding out the other components of government expenditures.

Social Security Scheme

1.34 **It is critical that the Government maintain regular contribution payments, to the Dominica Social Security, diversify its portfolio into regional and international assets, and reduce its current concentration in public sector assets.** The DSS is a pay-as-you-go system. The benefits are financed by current contributions—that is, 10 percent of wage income of which 7 percent is paid by the employer and 3 percent by the employee.[21] In terms of its role in resource allocation, there are concerns that DSS's investment strategy is not sufficiently insulated from Central Government and political pressure. In particular, the government has accumulated contribution arrears to DSS and relies heavily on borrowing from it to finance its budget deficits.[22] Currently, DSS holds one-third of government domestic financing and a significant percentage of its recent bond issues. The Government resumed employer and employee contributions to DSS starting in July 2003, and is working to clear accumulated arrears through a transfer of landholdings and other assets. Moreover, as with many social security funds worldwide, there is a need to ensure that the long-term investment strategy is sufficiently diversified into regional and international assets and away from heavy concentration on public sector assets. To that end, the DSS Board of Directors recently adopted a policy that 20 percent of the DSS portfolio should be invested outside of Dominica. The Government has also instructed DSS to prepare a medium- and long-term investment strategy to achieve this diversification.

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[21] For a more detailed analysis of DSS, see World Bank (2003) and a follow-up review of the status of Dominica's pension system conducted by a joint IMF-World Bank mission in June 2005.

[22] The accumulation of arrears began at least seven years ago when the previous administration started a policy of withholding employer and employee social security contributions to DSS, which was later continued by the current government. By end FY 2001/02, the contribution arrears to DSS had amounted to 5.1 percent of GDP.

2. BUDGET MANAGEMENT

2.1 Budget procedures, which lead to the formulation, approval, and implementation of the budget and its impact on fiscal outcomes, have received considerable attention in the recent literature. Several empirical studies have provided evidence that budget institutions have an impact on fiscal outcomes in developed and developing countries. Von Hagen (1992) and Von Hagen and Harden (1995) found that European countries with strong institutional rules governing the budget process have lower expenditure, deficit, and debt ratios. Eichengreen (1992), Alt and Lowry (1994), and Poterba (1994), among others, have studied the effect of fiscal restraints on fiscal outcomes for the United States, and found that more restrictive state fiscal institutions are correlated with more rapid fiscal adjustment. Alesina and others (1996), and Stein, Talvi, and Grisanti (1999) have extended this line of research to Latin American countries. They found evidence that countries with centralized, transparent budget processes and strict formal or informal constraints have lower deficits and debt levels. Jones, Sanguinetti, and Tomassi (1999) obtained similar results analyzing public expenditures in the Argentine provinces. Lao-Araya (1997) corroborates this finding for Thailand, Gleich (2003) for transition economies, and Campos and Pradhan (1996) for several developing countries in Asia and Africa.

2.2 Consequently, a good public expenditure management system provides a government with the incentive and means to promote fiscal discipline and efficiency. However, Dominica's high levels of public debt, fiscal deficit, and arrears indicate that the budgetary processes in place have not been successful in this regard. In late 1997, Dominica initiated a budget reform program that led to some improvements, including for the first time in many years the adoption of the FY1999/2000 budget before the beginning of the new fiscal year. However, Dominica did not implement the full package of budget management reforms, with the result that the financial management system in place was not adequate to monitor budget outcomes. Today's difficult fiscal situation is the combination of large debt incurred to finance unproductive investment projects, increasing interest payments, a shortfall in revenues during 2001-2003 (due to a protracted recession), and a weak financial management system, notably weak commitment controls, inadequate revenue forecasts, and poor cash management.

2.3 The government, faced with lower revenues than expected and access to domestic and external financing only at high interest rates, was unsuccessful in adjusting downward commitment limits in expenditures within the fiscal year, and expenditure allocations in the budget until some time in FY2002/03 (as part of the SBA agreement supported by the IMF) and then more significantly afterwards (as part of the PRGF program also supported by the IMF) as required in response to the revenue shortfall. The result was that Dominica built up sizeable arrears in the process. In October 2002, a simple cash management system was established with the help of the Caribbean Technical Assistance Center (CARTAC) to tighten controls over spending. Moreover, to tighten control over spending and regain fiscal sustainability, the authorities have been working with a consortium of donors, including the World Bank, to put in place an effective system of cash management and expenditure control, as a matter of priority, and to outline a medium-term program to further improve financial management along the recommendations of the recently completed CFAA. The system now in place has been successful in limiting expenditure commitments to collected revenues. However, the system is new and will require continuing improvement as experience is gained. Moreover, the authorities need to be committed to reducing expenditure commitment limits within the fiscal year if revenues fall short of expected projections, in order to avoid the buildup of new arrears.

2.4 This chapter focuses on the rules governing the decision-making process that leads to the formulation of the budget, its passage through the legislature, and its implementation, execution, and monitoring, and suggests changes in the budgetary processes and framework that can help to achieve fiscal discipline. The main findings and recommendations can be summarized as follows:

On Legislation

The Government intends to replace current legislation governing financial management with a unified framework under an updated Finance (Administration) Act. The new regulatory framework should be revised taking into account the recommendations of the 2003 Dominica Country Financial Accountability Assessment (CFAA). (See Box 2.1, recommendations 1 through 4.) In addition, the government should consider:

- Introducing more stringent provisions governing the use of advances and deposits.
- Eliminating the power of the Financial Secretary to transfer funds between programs in agencies other than the MoF. This is to safeguard program allocation at the sectoral level from arbitrary changes at the central level.
- Broadening the scope of the FAA to a Fiscal Responsibility Law, in particular by including ceilings on fiscal outcomes such as debt-to-GDP ratio and fiscal balances.
- Consolidating all Loans Acts.

On Budget Preparation, Execution, and Monitoring

- The Dominica PRSP now in preparation needs to be framed into a medium-term economic framework that addresses the following issues: (a) estimates of aggregate resources available for public expenditure consistent with macroeconomic stability, (b) bottom-up estimates of the cost of carrying out ongoing and new policies based on reliable assumptions, and (c) reconciliation of the aggregate resources with the cost estimates of the ongoing and new policies.
- In addition, corporate plans need to be revised in each sector to feed into the PRSP. It is recommended that budget committees within each agency be established to lead the corporate planning process, prepare the budget submission, and monitor implementation.

Box 2.1. Selected Recommendations from Dominica's Country Financial Accountability Assessment

LEGAL AND REGULATORY FRAMEWORK

Recommendation 1. *Update and modernize the Finance (Administration) Act (FAA).* It is recommended that the Government take the following actions:

- Identify areas that need revision
- Develop revised text
- Submit text for parliamentary approval.

Recommendation 2. *Update the provisions of the Loans Act.* Hire a specialist to review and recommend changes to the Act to increase its effectiveness in guiding and controlling Dominica's expenditure and debt strategy.

Recommendation 3. *Update the provisions for the purchase and disposal of government lands and the provisions of the Land Acquisition Act.* Prompt action should be taken to establish a formal land registry and to update the accounting practices and laws governing procedures to record, sell, and buy land, and how interest is accrued, recorded, and paid or collected.

Recommendation 4. *Consolidate regulations and laws affecting Public Financial Management (PFM) into one framework law.* This will simplify compliance by allowing one single reference to govern PFM and provide a comprehensive financial legislation framework.

CASH MANAGEMENT

Recommendation 5. *Prepare and establish payment priorities and commitment limits.* Institute an interim policy requiring the Government to forecast cash availability and establish payment priorities and commitment limits. This policy will control *when* expenditures should be paid, serve as an early-warning system when expenditures payments may exceed cash availability, and provide a guideline to the Accountant General for authorizing payments in the case of a cash shortage.

Recommendation 6. *Improve effectiveness of cash management.* Increase the government's capacity to prepare accurate monthly revenue and expenditure estimates by procuring technical assistance (consultant). The consultant will assist the management teams of the line ministry in preparing the monthly reports of their actual and expected revenues and expenditures, in accordance with the requirements detailed in the Circular issued by the Finance Secretary in November 2002.

Recommendation 7. *Simplify cash management in government bank accounts by closing all accounts except:*

- Where separate bank accounts are required by law or trust instruments
- For temporary payroll accounts that are cleared after each batch of payroll checks is cashed
- For imprest accounts operated by named officers, which have to be cleared at the end of each year.

This will simplify the bank account reconciliation process, contribute to a more efficient allocation of cash resources, and allow investment of surplus funds.

Recommendation 8. *Issue guidelines for the management of public funds in government bank accounts by issuing a circular that:*

- Explicitly establishes the criteria needed to open a government bank account
- Reminds ministries to submit monthly reconciliations of government accounts to the Accountant General
- Reminds ministries that public funds belonging to the government should be made payable, by way of checks or currency, to the Accountant General, and deposited in the consolidated fund.

Source: Dominica's Country Financial Accountability Assessment, August 2003.

- Extend the budget cycle from 18 to 24 months to allow additional time for strategic analysis and for agencies to revise their budget proposals following their negotiations with the MoF.

- Complete the budget manual to document policies and procedures.

- The capital budget prepared by the Planning Unit and the development of a medium-term Public Sector Investment Program (PSIP) with growth and poverty at its core need to be an integral part of the PRSP. The preparation of the FY2003/04 capital budget and a three-year rolling PSIP, with the technical assistance of the World Bank and the Barbados Government, is an improvement compared to previous capital budgets. However, the challenge for Dominica is to further strengthen the three-year PSIP and ensure the successful preparation and implementation of its capital budget in the coming years. A complete discussion of the PSIP and policy recommendations is the focus of Chapter 3.

- The current program presentation in the budget is insufficient to link expenditures to policy priorities such as growth and poverty reduction, a key element in a PRSP. Therefore, it is recommended that expenditures be disaggregated at the program level in a way that will be useful for monitoring outcomes, such as in health, education, and social protection. Moreover, it is recommended that the government adopt international best practices such as the ones contained in the IMF's Government Financial Statistics for its budget presentation.

- The debt management function is the weakest component of the financial management information systems. The government is in the process of establishing the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) module for domestic debt and making domestic and external debt data computer accessible to both the MoF and Treasury. Moreover, the Government has established a Debt Committee to oversee the signing and management of its debt. However, the government needs to consolidate the debt management function in one unit that maintains domestic and external debt records. Moreover, the unit needs to be staffed with qualified personnel that can keep adequate debt records and advise the government on debt management issues.

- The Standardized Integrated Government Financial Information System (SIGFIS) in Treasury has resulted in timely reporting. However, there are still shortcomings that curtail the effective operation of SIGFIS. Online access to the system needs to be extended to all line ministries with priority given to the commitments control system (funds control module).

- Dominica uses the cash basis of accounting, in which Treasury prints checks for all payments to bring expenditures to account. In recent years, the government has not been able to meet all of its payments; so many checks have not been issued to creditors and are held at Treasury. This has created a large divergence between expenditure records and bank account statements, and a security risk from holding large numbers of unissued checks. Reconciliation with the main bank account is manual and running two months behind. The government should adopt the recommendations in the 2003 Dominica CFAA in this respect (see Box 2.1). In addition, it is recommended that the Accountant General follow the St. Lucia system that avoids the need for printing checks for all outstanding bills.

- The cash management system in place until FY2001/02 was weak in monitoring Dominica's cash shortage. Since October 2002, the government, with the help of CARTAC and a consortium of donors (including the World Bank) has put in place an effective system of cash management and expenditure control. The system now in place has been successful in limiting expenditure commitments to collected revenues. However, it is critical that the Government continue this discipline to avoid the build-up of arrears

On Budget Accountability

- The financial statements of Dominica should cover all government activities. The operations of statutory bodies, including state-owned enterprises, should be included in the financial statements.

- Weak Public Accounts Committees (PACs) are a common feature in the OECS countries. The recent Country Financial Accountability Assessment (CFAA) report for the OECS recommended a number of measures, including the following, to begin addressing this common problem:

  (a) Given that opposition parties are often insufficiently represented to form a functioning PAC, each country should consider enacting the appropriate constitutional or other changes to allow the appointment of nonparliamentary members.

  (b) Members of Parliament and other interested parties should participate in the Commonwealth Parliamentary Association, which, in conjunction with the World Bank Institute, has organized a Study Group on Public Accounts Committees and plans follow-up seminars.

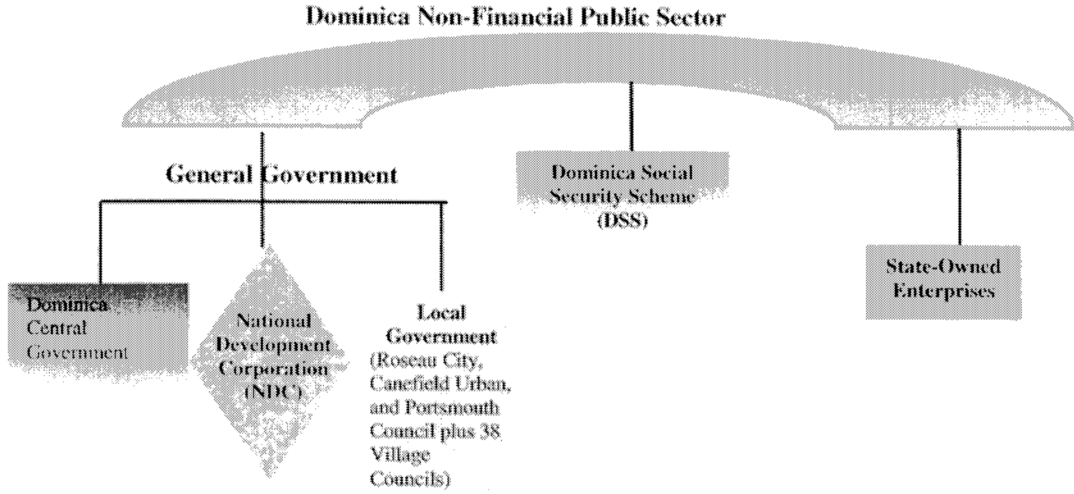
  (c) OECS countries should draw on the advice of neighboring countries such as Jamaica, where the PAC is a vibrant component of government oversight.

  (d) A media campaign should be developed to publicize PAC activities to the public and create demand from the public for strong public financial management.

A. CONSTITUTIONAL AND LEGAL FRAMEWORK

2.5 **The Commonwealth of Dominica attained independence in 1978 as a Westminster-style parliamentary democracy.** Dominica is a unitary state with a President elected by the Parliament. Executive authority lies with the Prime Minister and the Cabinet. Figure 2.1 presents the government structure.

Figure 2.1. Dominica Government Structure



2.6 **Financial Management in Dominica is regulated by the Constitution (Commonwealth of Dominica Constitution Order 1978) that includes general provisions on financial matters.** These are amplified in the Finance (Administration) Act of 1994 that provides guidelines on (a) control and management of public finance; (b) public officials responsible for managing government finances; (c) definitions of the Consolidated Fund (CF) and other public funds; (d) general procedures for accounting, authorization of expenditure payments, bank accounts, investment, and deposits; (e) management of public debt and state-owned enterprises; and (f) issuance of rules and regulations to provide more detailed guidance on financial management. The existing Finance and Financial (Stores) Regulations were promulgated in 1976 under the previous Finance Act of 1965, and have been made obsolete by the use of electronic media and recent budget reforms.[23] Therefore, there is an urgent need to update these regulations under the authority of the latest Act.

2.7 **According to the FAA, the Minister of Finance is responsible for supervising the government's finances and ensuring a full accounting to Parliament.** The Financial Secretary, by power given by the FAA, is the only one responsible and accountable for ensuring compliance with all financial directions, instructions, and regulations. However, in practice there is ambiguity as to who is ultimately responsible for decisions concerning supervision, enforcing financial management, and relations with the Cabinet. The Accountant General serves as Treasurer, Paymaster, and Chief Accountant. Permanent Secretaries and Heads of Departments are designated in the FAA as Accounting Officers answerable to the Public Accounts Committee of Parliament for the management and accounting of the public funds entrusted to them.

[23] The Constitutions of all OECS countries ensure that all inherited acts and regulations from the pre-independence period would remain in force after independence.

2.8 **The current FAA should be revised in line with the model financial legislation developed for the OECS countries under the Eastern Caribbean Economic Management Program (ECEMP).** The Government intends to replace the current legislation governing financial management with a unified framework under an updated Finance (Administration) Act. The new regulatory framework should be revised taking into account the recommendations of the 2003 Dominica Country Financial Accountability Assessment (CFAA). (See Box 2.1, recommendations 1 through 4.) In addition, the government should consider:

- Introducing more stringent provisions governing the use of advances and deposit accounts.

- Eliminating the power of the Financial Secretary to transfer funds among programs in agencies other than the MoF. A more detailed discussion is presented in paragraph 2.18.

- Broadening the scope of the FAA to a Fiscal Responsibility Law, in particular by including ceilings on fiscal outcomes such as debt-to-GDP ratio and fiscal balances. The Brazilian Fiscal Responsibility Law can be a good model to follow.

2.9 **Legal authority and the regulatory framework to contract external and domestic debt rely on at least five Acts. However, maximum ceilings on debt are set per year and only for domestic loans to finance certain development projects.**[24]

- The Loans Act authorizes the Government of Dominica to borrow money from approved sources (external) for the purpose of general development and other matters. The power of authority rests with the Minister of Finance.

- The General Local Loans Act declares the terms and conditions applicable to local loans authorized to be raised by the Government of Dominica. It gives the Minister of Finance the overall mandate to issue bonds and securities and obtain local loans.

- The Local Loans Act confers power via the Minister of Finance to raise up to a maximum of EC$3 million per year to finance certain development projects.

- The Bonds and Securities Act authorizes the Government of Dominica to issue bonds with respect to certain financial obligations of the State, to provide for the issue of National Savings Bonds, to make provision for the redemption or exchange of bonds and securities, and for purposes connected therewith. Bonds under this Act can be issued locally or overseas, and can be either general or National Savings Bonds. The power to borrow rests with the Minister of Finance, but can be delegated to the Financial Secretary.

[24] This paragraph is based on the report, "Strengthening Debt Management," Oxford Policy Management, May 2002.

- The Treasury Bills Act authorizes the Government of Dominica to borrow money for the purposes of Dominica. The power of authority rests solely with the Minister of Finance, but may be delegated to the Financial Secretary.

The authorities are in the process of revising the framework for government borrowing in order to strengthen controls and accountability. In this context, it is recommended that a consolidation of all Loans Acts with a ceiling on total accumulated stock of debt be established.

2.10 **Other legislation that affects financial management in Dominica includes:**

- Revenue legislation—which defines taxes and fees—establishes tax bases and rates; assigns responsibilities for assessments, collections, and accounting; and sets penalties and means of enforcement.

- Fiscal Incentives Legislation, mostly the Fiscal Incentives Act and the Tourism Incentives Act, which defines the conditions under which exemptions from taxes, customs duties, service charges, and fees are granted.

- Acts, which establish statutory bodies (including state-owned enterprises).

- The Audit Act of 1994. This requires the Director of Audit (DOA) to report to Parliament at least once a year on the work of the office and key findings related to the audit of the government's accounts and records. The DOA is also empowered to make special reports.

B. BUDGET PREPARATION, EXECUTION, AND MONITORING

Preparation

2.11 **Dominica has a dual budget system. The Budget unit in the MoF is responsible for recurrent expenditures and for monitoring overall expenditures and revenues, while the Planning Division takes the lead with respect to capital projects.** Dominica's fiscal year runs from July 1 to June 30. In the past, the budget has rarely been passed before July 1. In FY2003/04, the budget was passed on July 8, 2003. Table 2.1 presents the FY2001/02 budget. As is discussed in paragraph 2.16, the budget is presented by administrative classification only, rather than by functional classification. The budget cycle is an 18-month process, as presented in Figure 2.2.

Table 2.1. Dominica's Budget Overview, FY2000/01
(in mill. EC$)

Current Budget

Current Revenue	**200.6 (28.0)***	**Current Expenditure**	**230.1 (32.1)**	**Current Expenditure Administrative Classification**	**230.1 (32.1)**
Tax Revenue	169.6 (23.7)	Personal emoluments and wages	116.2 (16.2)	Ministry of Communications, Works and Housing	18.9 (2.6)
Taxes on income & profits	54.6 (7.6)	Transfers and subsidies	40.4 (5.6)	Ministry of Community and Development and Gender Affairs	9.3 (1.3)
Taxes on property	2.6 (0.4)	Other goods and services	37.5 (5.2)	Ministry of Education, Sports and Youth Affairs	41.6 (5.8)
Taxes on domestic goods and services	28.6 (4.0)	Interest payments	36.0 (5.0)	Ministry of Finance	92.4 (12.9)
Taxes on international trade	83.8 (11.7)			Ministry of Health and Social Security	32.2 (4.5)
Non-Tax Revenue	31.0 (4.3)			Others **	35.6 (5.0)

Capital Budget

Capital Revenue	**3.0 (0.4)**	**Capital Expenditure**	**120.2 (16.7)**	**Capital Expenditure Administrative Classification**	**120.2 (16.7)**
				Ministry of Communications, Works and Housing	15.7 (2.2)
				Ministry of Community and Development and Gender Affairs	2.8 (0.4)
				Ministry of Education, Sports and Youth Affairs	10.9 (1.5)
				Ministry of Finance	25.2 (3.5)
				Ministry of Health and Social Security	3.4 (0.5)
				Others *	62.3 (8.7)

*Figures in parentheses are percentage of GDP.
**Includes President, Ministry of Legal Affairs, Immigration and Labor, Legislature, Audit, Elections, Ministry of Foreign Affairs, Trade and Marketing, Prime Minister's Office, Ministry of Agriculture and the Environment, Ministry of Tourism, and Ministry of Industry, Enterprise Development and Physical Planning.
Source: IMF and Estimates of the Commonwealth of Dominica FY2002/03.

2.12 **A budget reform program initiated in late 1997, as part of the ECEMP-2 program, introduced the following changes:**

- Conversion of the budget from a line item format to a program format.
- The development of Corporate Plans by each ministry or nonministerial department (agency) outlining its mission and priorities, plus the objectives for each of its programs.
- The publication of all Corporate Plan summaries in the Annual Estimates.
- Preparation at the start of each budget cycle of a Strategic Outlook with recommendations to Cabinet for fiscal targets, sectoral limits for the public sector investment program (PSIP), and preliminary allocations for recurrent spending.

2.13 The reforms led to some improvements, including for the first time in many years the adoption of the FY1999/2000 budget before the beginning of the new fiscal year. However, Dominica did not implement the full package of budget management, such as:

- Extending the budget cycle from 18 to 24 months to allow additional time for strategic analysis and for agencies to revise their budget proposals following their negotiations with the Ministry of Finance.
- Establishing budget committees within each agency to lead the corporate planning process, prepare the budget submission, and monitor implementation.
- Establishing upgraded Finance Officer positions within each agency to strengthen budget planning and implementation and, more generally, financial management at the agency level.
- Ensuring adequate staffing in the Budget, Debt, and Fiscal Management Department.
- Strengthening coordination between the Budget Unit and the Planning Unit.
- Completing the budget manual to document policies and procedures.

The implications of these omissions and other shortcomings are discussed below.

2.14 **The budget, in line with the 1997 budget reform, is supposed to be prepared based on the Country Strategic Outlook, the current Medium-term Economic Strategy Paper (MTESP), the capital budget, and each ministry's Corporate Plan. However, in recent years most of these key documents have not been prepared, with the result that the budget has lacked a medium-term macroeconomic framework or, at best, it has been driven by short-term fiscal stabilization considerations.** The Strategic Country Outlook (a yearly document that presents the economic prospects of the country for the next fiscal year) has not been prepared since FY2001/02, and the MTESP (a four-year economic plan that provides the basic information for the next budgets) was last prepared for the

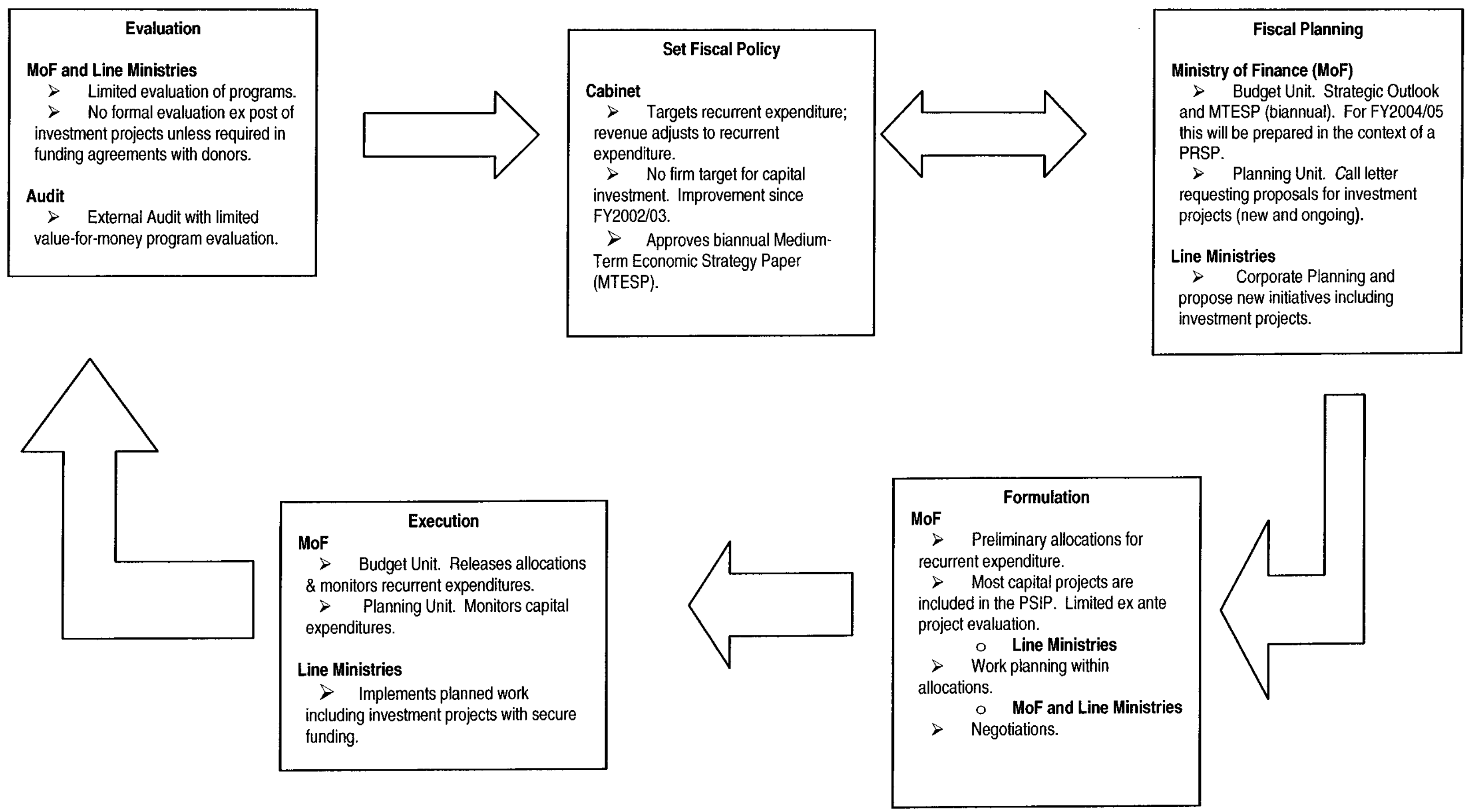
Caribbean Group for Cooperation in Economic Development (CGCED) Meeting in 2000. For the meeting of June 2002, Dominica did not prepare an MTESP because discussions were taking place with the IMF for the Stand-by Arrangement (SBA) approved on August 28, 2002 to support fiscal stabilization. In mid-2003, Dominica further revised its macroeconomic framework for the FY2003/04 budget to address the continuing shortfall in revenues in response to the continuing recession and the consequent need to introduce additional measures to mobilize revenues and cut expenditures. The absence of a medium-term strategic economic framework, and with most of the ministries' Corporate Plans being nonexistent, out of date, or not able to provide a link among objectives, expenditure required, and outcomes, have implied that the FY2002/03 budget and the FY2003/04 budget have been driven by short-term stabilization considerations. The preparation by Dominica of a PRSP and of a medium-term macroeconomic framework under an IMF-supported PRGF currently under preparation is expected to overcome this shortcoming in the budget formulation.

2.15 **Until recently, the capital budget prepared by the Planning Division was an afterthought to the country budget instead of an integrated element of the budget. However, since FY2002/03, improvements have been made in the capital budget.** Before FY2002/03 the capital budget, which presents the current investment plan, and the PSIP, which presents the investment plan for future years, were a wish list of investment projects rather than a well-thought-out investment plan with growth and poverty reduction as main objectives. Improvements were made in the capital budget for FY2002/03, and more substantially for the FY2003/04 and follow-up years capital budget, with the assistance of the World Bank and the Government of Barbados. Now, the challenge for Dominica is to strengthen its medium-term PSIP and at the same time ensure the successful implementation of its capital budget. A complete discussion of the PSIP and policy recommendations is the focus of Chapter 3.

2.16 **The budget provides an accountant's view of government transactions rather than a presentation of the government's fiscal policy.** The budget adheres to the traditional administrative, program, and economic structure format, but no breakdown by department is provided. Moreover, this presentation is insufficient to assess the fiscal position of the government and to follow up on key programs reportedly linked to policy priorities. For instance, it is almost impossible to obtain from the budget the amount allocated to crucial safety net programs and to follow them over time. The latter is one of several key indicators that the PRSP should track to evaluate the success of the program; thus, the government should start to rethink its budget presentation to link government expenditures with the PRSP targets.

2.17 **The Ministry of Finance does, however, have the capacity to present the budget by standard functional classification, and it is recommended that it start doing so.** It is recommended that the budget presentation follow international best practices, such as the ones contained in the IMF's Government Financial Statistics (GFS). This will also facilitate investors in the Regional Security Market to more accurately assess the fiscal position of the OECS countries.

Figure 2.2. The Budget Cycle in Dominica



2.18 **The Dominica budget scores well in comprehensiveness, but unlike other OECS countries, the Financial Secretary can transfer funds among programs in agencies other than the MoF.** Dominica's budget is comprehensive, generally covering all CG expenditures. However, the FAA empowers the Financial Secretary to *vire*, or transfer, funds between programs within the same supply vote (agency). This means that funds can be transferred to a completely new recurrent program within the same agency, or from one capital project to a completely new one without the obligation to obtain subsequent endorsement from the Parliament via a supplemental appropriation. For example, in FY2002/03 the government used funds budgeted for repairs in primary schools to pay capital expenditures for the Windsor Park stadium. In theory, any such *virements*, or transfers, and, ultimately expenditures, should at least be reported in the next year's Estimates Books. However, the Estimates Books do not always contain complete and accurate figures for revisions and prior year expenditures, particularly with respect to capital projects. This could mean that the government can legally spend funds on programs or projects without the Parliament ever becoming aware that such a program or project existed. The FAA should consider empowering only the Minister of the respective agency to transfer funds between programs up to a ceiling, and if the transfer exceeds the ceiling, the transfer will need the approval of the Parliament and the MoF. This is to safeguard program allocations at the sectoral level from arbitrary changes at the central level.

Execution

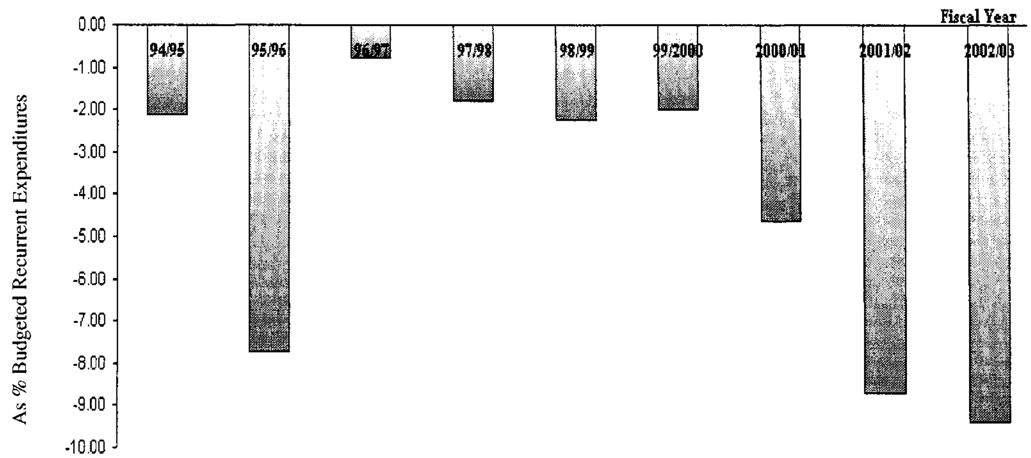
2.19 **In terms of budget execution and its procedures, the evidence presented below suggests a trend to budget expenditures beyond the program requirements (in the mid-1990s) and to the revenue collected (in the early 2000s).** As Figure 2.3 shows, in every fiscal year during FY1994/95 to FY2002/03, actual recurrent expenditures have been below budgeted expenditures. Until FY1998/99, this was accompanied by a current fiscal surplus. However, since FY1999/2000, actual expenditures have been below budgeted expenditures, at the same time that the country has run a current fiscal deficit of between 1 and 7 percent of GDP and built up sizeable arrears. This is evidence that until FY2002/03 the budget did not adequately reflect the resources available to the country and the program requirements.

2.20 **However, actual interest payments consistently exceeded the budgeted amount.** As Figure 2.4 shows, debt servicing was consistently underestimated every fiscal year during FY1994/95 to FY2001/02. This pattern is consistent with the increasing reliance of the government on domestic and external debt to finance its fiscal deficit, and the weak debt management function. Preliminary figures for FY2002/03 suggest that the SBA succeeded in a better budgeting of interest payments (see paragraph 2.28).

2.21 **All line ministries, with the exception of the MoF and Elections, spent below their budgeted allocation.** As Figure 2.5 shows, the persistent underexpenditure, at least until FY1999/2000, suggests that ministries budgeted spending requirements in excess of what they needed, and that the succesive Cabinets were not succesful in setting an overall expenditure allocation in line with actual expenditures. In recent fiscal years, the cash constraint drove actual expenditures, with the government being successful in cutting budgeted expenditures only in FY2003/04.

Figure 2.3. Variance between Actual and Budgeted Recurrent Expenditures in Dominica, FY1994/95–FY2002/03

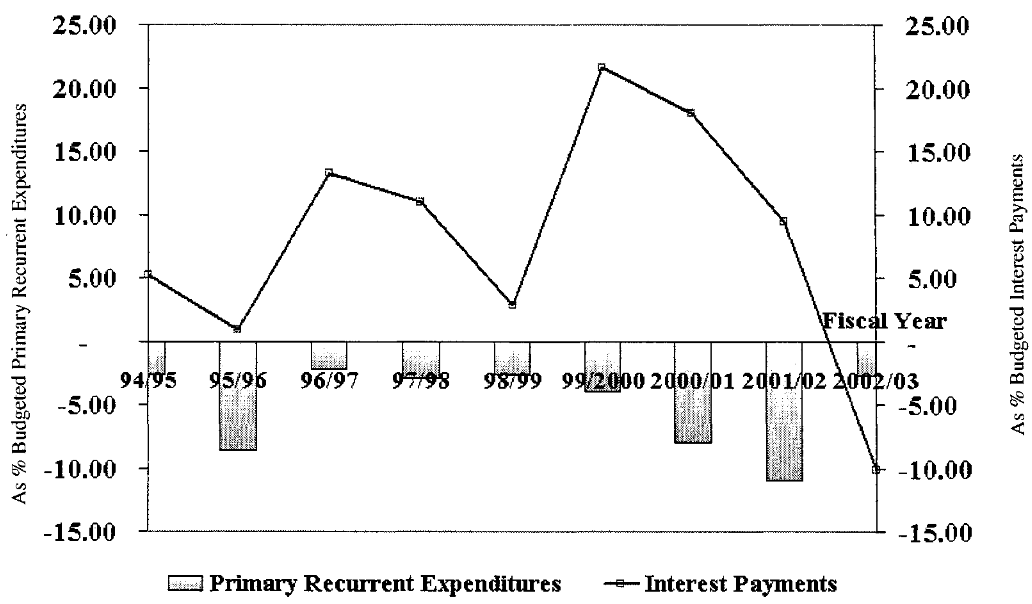
(in percentage)



Source: Author's calculations.

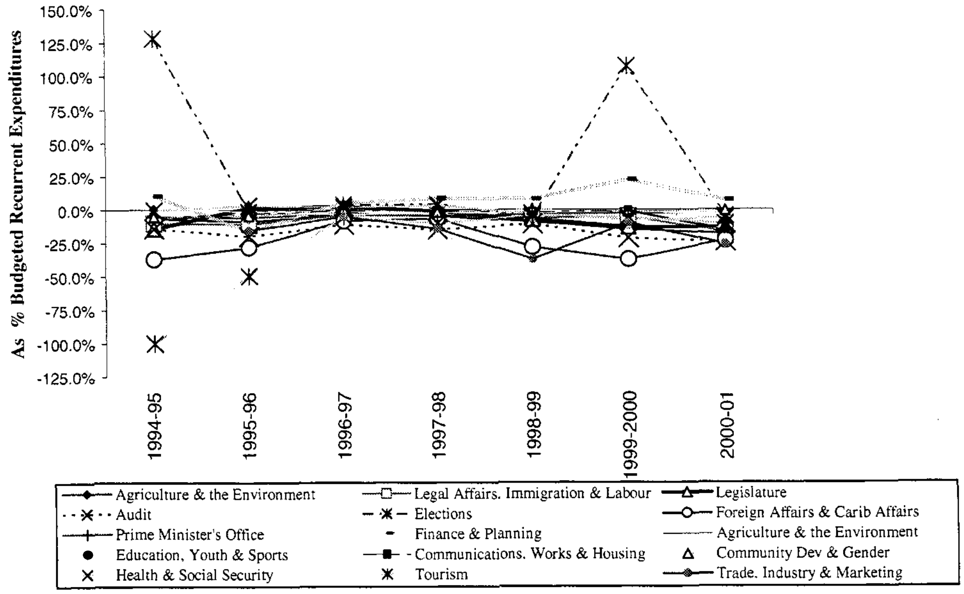
Figure 2.4. Variance between Actual and Budgeted Primary, Recurrent Expenditures, and Interest Payments in Dominica, FY1994/95–FY2002/03

(in percentage)



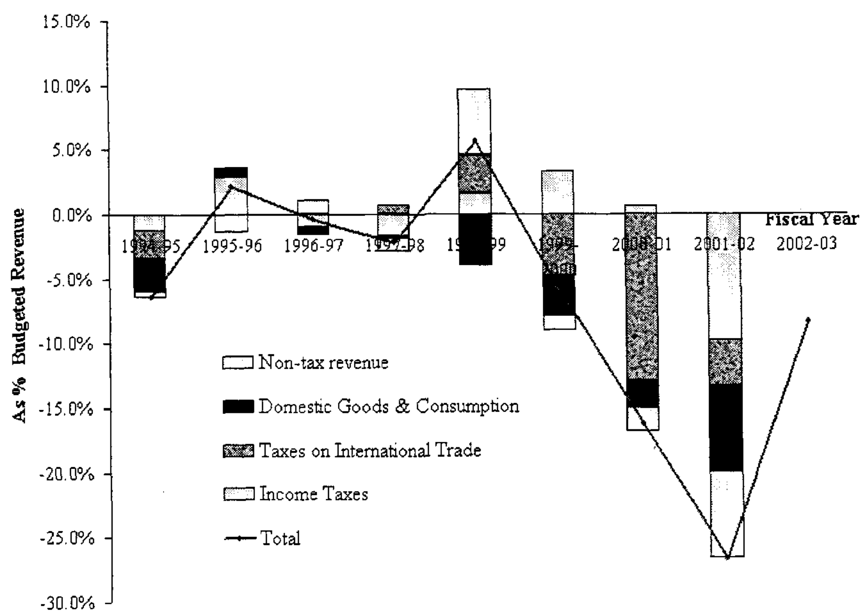
Source: Author's calculations.

Figure 2.5. Variance between Actual and Budgeted Recurrent Expenditures by Ministries in Dominica, FY1994/95–FY2000/01
(in percentage)



Source: Author's calculations.

Figure 2.6. Variance between Actual and Budgeted Revenues in Dominica, FY1994/95-FY2002/03
(in percentage)



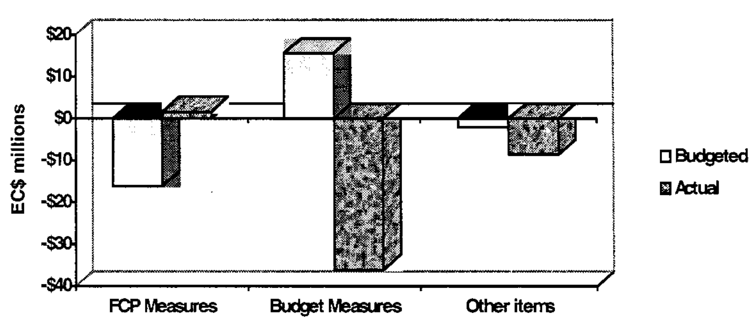
Source: Author's calculations.

2.22 **On the revenue side, every year during FY1999/2000 to FY2002/03 actual revenue collected has been below budgeted revenue.** As Figure 2.6 shows, the revenues collected during this period have been consistently below government forecasts. Moreover, in each subsequent fiscal year the variance increased until it reached about 27 percent in FY2001/02. That is, in FY2001/02 collected revenues were 27 percent below the forecasted revenue. The main reason was the downturn experienced by the Dominican economy during 2001-2003, and the inability of the MoF to adjust its forecasts to the new economic environment and therefore present a realistic budget. Preliminary figures for FY2002/03 suggest that the SBA succeeded in reducing the variance in revenue from about -27.0 percent in FY2001/02 to -10 percent in FY2002/03. (See Box 2.2 for a detailed discussion.)

Box 2.2. Revenue Forecasting in Dominica

In June 2000, Dominica presented a Fiscal Consolidation Program (FCP) as part of its Medium Term Economic Strategy Paper (MTESP) prepared for the Caribbean Group for Cooperation in Economic Development (CGCED). This acknowledged the unsustainable fiscal trend and proposed a variety of tax measures to raise an additional EC$26 million, which would stabilize government finances and support a modest, 6 to 8 percent of GDP, program of capital expenditures. However, the budget presented the following month was markedly different from the FCP. The tax categories identified in the FCP (FCP Measures) were increased by less than EC$5 million rather than EC$26 million, while an entirely different set of tax measures (Budget Measures), which had not been mentioned in the FCP, were introduced to raise an additional EC$15.5 million. Subsequently, actual collections on the Budget Measures tax categories were 29 percent lower than budgeted, far worse than the amount collected for the FCP Measures (2 percent above budget) or for all other current revenue heads (19 percent below budget).

Source of Variation in FY2000/01 Current Revenues Relative to the FCP



Source: Author's calculations

The FCP Measures had been worked out over the months leading to the CGCED in June 2000, but the government then adopted a substantially different set of measures, which proved to be far less effective, in its budget delivered in July 2000. This suggests a remarkable disconnection at that time between MoF personnel working on the MTESP (who also prepare economic and fiscal forecasts for the budget) and the political directorate (who made the budget decisions).

Source: Dominica MTESP (2000).

Monitoring

2.23 **Although budget execution is monitored through several reports, the past practice of the Budget Unit to compile quarterly monitoring reports for review by the Cabinet was discontinued in 2000 and was reestablished only in 2002.** Budgetary performance is monitored by monthly reports on revenue and expenditure to the responsible departments, and quarterly reports by the MoF to the Cabinet. The Standardized Integrated Government Financial Information System (SIGFIS) in Treasury is the key system for government accounting and budget monitoring. Until recently, the system resulted in timely reporting. However, between June and October 2002, the Accountant General could not generate reports because the latest version of Smart Stream installed was found to be incompatible with the version of Access software used.[25] The Annual Accounts are submitted for audit within the stipulated period (six months following the end of the financial year).

2.24 **There are shortcomings that curtail the effective operation of SIGFIS.** First, besides Treasury and the Personnel Department, only the Ministries of Finance, Agriculture, and Communications and Works can access the system online, thus curtailing their ability to access timely information from a large number of agencies. Second, only the following six modules: general ledger, payables, purchasing, payroll, funds control, and the budget have been implemented. The commitment control system (funds control) needs to be extended to all ministries. Third, skilled and experienced personnel remain in short supply. To address the first problem, computers have been purchased but the plans to go online in all ministries have been deferred for lack of funds to cover the network costs. The inadequate information up to FY2002/03 implied that expenditure allocations were not being adjusted during the budget year in line with either revenue inflows, available cash, and/or financing. As revenue contracted, this lack of control resulted in the build-up of arrears.

2.25 **Concerning revenues, the Standardized Integrated Government Tax Administration System (SIGTAS, Inland Revenue) and Automated System for Customs Documentation and Administration (ASYCUDA) systems computerize most revenue accounting tasks for the two major revenue departments.** Unfortunately, the two systems are not integrated, and making them so would facilitate the maintenance of a single account per taxpayer covering all taxes.

2.26 **Dominica uses the cash basis of accounting, in which Treasury prints checks for all payments to bring expenditures to account.** The Consolidated Fund is made up of five different bank accounts to pay expenditures, and two accounts to receive revenues. Expenditure is recorded from day to day on an accrual basis (invoices are entered as they are received), with checks printed out for all unpaid invoices. In recent years, the government has not been in a position to meet all its payments, so many checks have not been issued to creditors and are held at the Treasury.[26] This has created a large divergence between expenditure records and bank account statements and, as mentioned, a security risk from

[25] The SBA with the IMF was signed in August 2002.

[26] The Financial Secretary and the Accountant General meet weekly to decide which checks will not be issued.

holding large numbers of unissued checks. Reconciliation with the main bank account is manual and running two months behind. It is recommended that the Accountant General follow the St. Lucia system that avoids the need for printing checks for all outstanding bills by recognizing expenditures at the point invoices are received for payment, rather than when the payment is issued. As expenditures have already been brought to account, there is no need to issue payments by printing checks. Moreover, it is advised that the government follow the recommendations of the 2003 Dominica CFAA with respect to the consolidation of bank accounts. (See Box 2.1, recommendations 5 through 8.)

2.27 **The cash management system in place until FY2001/02 was too weak to monitor Dominica's cash shortage. The authorities, working with a consortium of donors, including the World Bank, have made successful improvements.** In October 2002, with CARTAC assistance, the government made an effort to improve its cash management capacity by introducing a system of spreadsheets to anticipate, control, and manage expenditure and revenue. Moreover, to tighten control over spending and regain fiscal sustainability, the authorities have been working with a consortium of donors, including the World Bank, to put in place an effective system of cash management and expenditure control, as a matter of priority, and to outline a medium-term program to further improve financial management along the recommendations of the recently completed CFAA. The system now in place has been successful in limiting expenditure commitments to collected revenues. However, it is critical that the authorities continue this discipline to avoid the build-up of arrears. On July 21, 2003, the authorities issued an Administrative Order to ensure these problems do not reoccur by establishing procedures to strengthen the cash management system and penalties for line ministries that do not follow the procedures.[27]

2.28 **The debt management function is the weakest component of the financial management information systems.** The debt management function is split between a small unit within the Budget, Debt, and Fiscal Management Department, which uses the CS-DRMS to maintain data on foreign loans, and the Accountant General's Department, which uses Excel to maintain records on domestic debt (Treasury Bills, debentures, local loans). The CS-DRMS has a module for domestic debt, and the Treasury accessed this via modem to input domestic debt data until late 2000, when the modem connection was discontinued at the time SIGFIS was installed. The government is in the process of establishing the CS-DRMS module for domestic debt, and making domestic and external debt data computer accessible to both the MoF and Treasury. Moreover, the Government has established a Debt Committee to oversee the signing and management of its debt. However, the government needs to consolidate the debt management function in one unit that maintains domestic and external debt records. Moreover, the unit needs to be staffed with qualified personnel that can keep adequate debt records and advise the government on debt management issues.

[27] The procedures entail issuing monthly, six months ahead and revised monthly, cash-flow projections based on inputs from the revenue collecting departments and line ministries. The MoF will communicate to line ministries spending limits consistent with the resources available and program targets. The MoF will reduce or delay monthly allocations to ministries that fail to provide complete information on time.

C. BUDGET ACCOUNTABILITY

Supreme Audit Institution

2.29 **While independent by authority derived directly from the Constitution, the Audit Department, has no guaranteed operating budget or staffing complement, and must obtain approval from the Minister of Finance via the annual Estimates process.** The President, acting on the advice of the Public Service Commission, appoints the Director of Audit. Before tendering advice, the Public Service Commission must consult with the Prime Minister, but there is no provision for input from the Parliament. These processes are inconsistent with the need for the Audit Department to be independent of the executive, and the status of the Director of Audit (DOA) as a servant of Parliament.

2.30 **In addition, a number of other factors have reduced potential benefits accruing from the work of the Audit Department, including:**

- The automation of critical financial management functions (for example, the Standardized Integrated Government Financial Information System [SIGFIS], the Standardized Integrated Government Tax Administration System [SIGTAS], and the Automated System for Customs Documentation and Administration [ASYCUDA]) without adequate input from the Audit Department in the design and implementation stages.

- Problems with SIGFIS in terms of generating reports and in keeping separate accounts for advances issued to public officers.

- The inadequate functioning of the Public Accounts Committee (see below).

- Lack of training for staff, particularly on computer-assisted auditing tools, auditing of computer systems, and value-for-money auditing.

- The DOA has no role in the recruitment of personnel, and its recommendations concerning promotions are not always followed by the Public Service Commission. This means that new staff may lack the requisite skills and aptitudes, and also means the loss of experienced and capable officers.

2.31 **In spite of these problems, the Audit Department does a commendable job.** The DOA examines the accounts of 38 Village Councils, in addition to Roseau City Council, Canefield Urban Council, and Portsmouth Council. Audit Reports are current and the Department has undertaken a number of special studies at the request of the Minister of Finance.

2.32 **The financial statements of Dominica present a partial view of government activities.** Significant fiscal operations are excluded. The operations of statutory bodies, including SOEs, are not covered. In addition, although contingent liabilities are included in the financial statements, statements of public debt show only domestic debt and not external debt. The DOA has pointed out this omission.

2.33 **Most of the SOEs are significantly in arrears in the preparation of their financial statements and their submission for audit and, eventually, before Parliament.** Audits of SOEs are contracted to private accounting firms in accordance with their enabling acts. The Director of Audit has the right to require submission of their audit reports and to supplement these by further investigations if he considers it necessary. He has not done so.

Parliament and the Public Accounts Committee

2.34 **Following the 2000 election, a Public Accounts Committee (PAC) was appointed by the government, but the Committee has met infrequently.** PAC duties, as prescribed in House Standing Order #72, are to examine the accounts and audit reports referred to them by the Parliament, and to report its findings. The Committee has four members and is appointed in each new Parliament from elected members and appointed senators. Unlike in other OECS countries, government ministers are not excluded from the Committee, which weakens its independence. It is an accepted convention (though not legally mandatory) that the chairman should be the Leader of the Opposition. The government appointed a PAC following the 2000 election. It has met on occasion, most recently to consider the accounts for the FY1999/2000 financial year, but it has not closed the accountability cycle by reporting its findings to Parliament.[28] Moreover, the PAC has never reviewed the accounts of any statutory body.

2.35 **Weak PACs are a common feature in OECS countries. The recent CFAA report for the OECS recommended a number of measures, including the following, to begin addressing this common problem:**

- Given that opposition parties are often insufficiently represented to form a functioning PAC, each country should consider enacting the appropriate legal changes to allow the appointment of nonparliamentary members.

- Members of Parliament and other interested parties should participate in the Commonwealth Parliamentary Association, which, in conjunction with the World Bank Institute, has organized a Study Group on Public Accounts Committees and plans follow-up seminars.

- OECS countries should draw on the advice of neighboring countries such as Jamaica, where the PAC is a vibrant component of government oversight.

- A media campaign should be developed to publicize PAC activities and create demand from the public for strong public financial management.

Information to and from the Public

2.36 **The formulation of the budget receives inputs from the social partners, but this undoubtedly could be made more systematic.** The current government consulted with representatives from various sectors and interest groups in preparing its recent budgets, and

[28] In the past 10 years, only one annual report was sent to the House, and it was not debated.

these consultations were extensive for the FY2003/04 budget. This undoubtedly could be made more systematic, and the agreement by OECS countries to establish National Economic Councils might lead in this direction. However, the capacity of the social partners—most of which are small organizations—to go beyond their immediate concerns and address complex national policy issues remains limited.

2.37 **The budget address is broadcast live each year and copies of the budget are available to all members of the public.** There are three weekly newspapers, and there is no evidence of any restrictions on press reporting on financial mismanagement. On the other hand, the media have rarely followed up on cases of alleged financial mismanagement.

3. THE PUBLIC SECTOR INVESTMENT PROGRAM

3.1 The conventional wisdom of the economics profession is that countries need capital to grow, and that a direct relationship exists between capital spending and growth. Consequently, when economists evaluate the allocation of public resources between current and capital spending in government budgets, they tend to be critical of countries that allocate a large share of government expenditure to current spending, and to applaud countries that spend on capital.

3.2 This bias is embedded in the "golden rule," which says that only current expenditure needs to be balanced by local revenue, but a country can (within limits) run a fiscal deficit equal to the capital spending of the government. This rule is implicit in many Organization of Eastern Caribbean States (OECS) budget presentations, where the focus is on the current fiscal balance, even though for fiscal sustainability the key concept is the primary fiscal balance (overall balance minus interest payments).

3.3 Because most current spending by a government reflects entitlements or previous commitments, such as salaries, payments on public debt, and so forth, governments have, in the short term, limited scope to influence it. In contrast, the capital budget and its composition are highly discretionary. In formulating the capital budget, governments make the decisions that at the end will determine the size, composition, and in some cases, the geographical location, of the capital budget.

3.4 Why does this matter? Because one of the main reasons behind the difficult fiscal position facing the Dominican government today is the significant proportion of public investment allocated to unproductive projects financed through loans (mainly commercial) at high interest rates. Recent examples of poorly conceived projects include an infeasible new international airport, an unfinished stadium, and a financial complex that remains largely unoccupied because of the retrenchment in the offshore sector.

3.5 Responding to a difficult macroeconomic situation, in August 2002 Dominican authorities signed a one-year Stand-by Arrangement (SBA) with the IMF that was extended until December 2003 and was then followed by a three-year PRGF. The authorities recognize that in the current macroeconomic environment it is critical that Dominica raise the productivity of its public investments to support a resumption of growth. They also recognize that the weak management of the public sector investment program has in the past contributed to the poor choice of projects, financing instruments, and low execution rates. Since FY2002/03, the Dominican Government has halted a number of projects the impact of which on the economy was questionable, and has taken measures to terminate the government's related contractual obligations. The capital budget since FY2002/03 reflects a better realignment of investment projects with the Government's objective to stimulate private investment and growth. Moreover, the Government is in the process of strengthening the medium-term Public Sector Investment Program (PSIP) that will help establish a better selection process for future investment projects and a platform for growth. Nevertheless, the challenge for the Government is to anchor this medium-term PSIP to the Poverty Reduction

Strategy Paper (PRSP) in preparation for, and to strengthen implementation and monitoring of, the capital budget.

3.6 On average, from FY1995/96 to FY2001/02 the Central Government (CG) spent about 9 percent of GDP on capital expenditures. This level of capital expenditures is quite high compared to other OECS countries, but is similar to St. Kitts and Nevis, a country that was hit by three hurricanes between 1995 and 2001, with resulting high investment reconstruction needs, and is almost triple the level for the Latin American and Caribbean Region. Total public sector capital expenditures were on average about 11 percent of GDP in the same period. Figures for FY2002/03 show that capital expenditures were 5.1 percent of GDP; for FY2003/04 the planned capital expenditures were about 7 percent of GDP. It is difficult to assess the adequate level of public capital expenditure for the Dominican economy because capital expenditure figures reported by the Government, as in most OECS countries, include not only spending on fixed capital, but also some recurrent expenditures. If one subtracts from the historical average CG capital expenditures the unproductive capital expenditures (about 4 percent of GDP), and uses the evidence presented in this report for investment in education and health, the remaining level of capital expenditures intended to acquire fixed capital of 2 to 3 percent of GDP is in line with the historical averages in the Bahamas (2 percent of GDP) and Barbados (2.4 percent of GDP) for the period 1990–2001. This excludes capital expenditures that may be needed for exceptional reconstruction needs in response to natural disasters.

3.7 The purpose of this chapter is first, to describe and draw attention to the limitations of the processes in place to prepare, implement, and monitor the PSIP in Dominica, and second, to assess the size and composition of the PSIP.

3.8 The main findings and recommendations can be summarized as follows:

On Capital Expenditures and PSIP Preparation, Monitoring, and Execution

- The capital budget and the three-year PSIP prepared by the PSIP Unit in the Ministry of Finance need to be made an integral part of the PRSP now being prepared by the Dominican Government. Moreover, the Budget unit should set the overall envelope for capital expenditures (consistent with macroeconomic stability) early in the year so that the PSIP unit can attempt to prioritize the projects from the start of the process instead of at the end.

- The government of Dominica needs to apply a selection criteria for investment projects (CG and the rest of the public sector). First, only investment projects, independently of their source of financing, with all the required information (in particular projected recurrent costs) should be included in the capital expenditure budget and the PSIP. Second, only investment projects prioritized based on some type of cost–benefit analysis and in accordance with the overall resources available for capital expenditures should be included in the capital expenditure budget and the PSIP. Third, all projects with a cost above EC$2 million should be subject to a formal cost–benefit analysis before being included in the capital expenditure budget or the PSIP. Fourth, given the high debt burden, only projects financed with concessional financing should be included.

- The PSIP unit needs to be strengthened, including through the filling of current vacant posts.

- At a technical level, staff needs to be trained in the procedures and tools of project analysis for preparing the PSIP.

- The PSIP unit should require the line ministries to report capital spending monthly and should stop disbursements to those projects that do not provide the required information at the end of the month.

- Dominica needs to establish a central clearinghouse to coordinate donor assistance.

On the Coverage and Transparency of Capital Expenditures and the PSIP

- Some investment projects currently included in the PSIP and as capital expenditures in the budget should be classified as recurrent expenditures. International practice should be followed in this respect.

- The government should ensure accurate representation of public sector investment by including the investment projects of all statutory agencies in the PSIP. Investment projects implemented by private corporations but guaranteed by the government should be disclosed in the government's financial statement as government liabilities.

- The power of the Financial Secretary to transfer funds between capital projects in agencies other than the MoF should be eliminated. This would safeguard program allocation at the sectoral level from arbitrary changes at the central level.

A. INSTITUTIONAL ORGANIZATION AND PREPARATION

Institutional Organization

3.9 **Dominica has a dual budget system. The PSIP Unit in the MoF prepares the capital budget and the medium-term PSIP.** The PSIP unit is headed by a senior economist and includes four economists responsible for broad sectors that encompass all the ministries. Their job is to interface with these ministries in the preparation of the capital budget and the medium-term PSIP. However, as of today the unit is underfilled, with three economist positions remaining vacant. There is also a Macro Economic Unit, staffed with a senior economist (head) and an economist. This unit carries out the overall economic analysis that is necessary to guide the process of preparing the capital budget and the medium-term PSIP, including projecting Government revenues. The PSIP and Macro Economic Unit form the Planning Unit. The Budget Unit is responsible for preparing recurrent expenditures in the budget.

3.10 **Four different ministries have had jurisdiction over the PSIP since 1994.** In the past, the PSIP was prepared in the Economic Development Unit, which was originally part of the Prime Minister's Office, but was moved to the Ministry of Finance, Industry and Planning in 1995. In 2000, the Economic Development Unit was transferred to the new Ministry of Agriculture, Planning and the Environment. Six months later, the unit was transferred to the renamed Ministry of Finance and Planning and restyled as the Planning Unit incorporating the current PSIP Unit and the Macro Economic Unit. A Permanent Secretary headed the Economic Planning Division, but in late spring of 2000 the position was abolished.

3.11 **The National Authorizing Officer (NAO) and a European Development Fund/Programme Monitoring and Coordination Unit (EDF/PMCU) coordinate assistance from the European Union. Regrettably, it is not clear that the creation of the new EDF/PMCU unit has resulted in a much faster disbursement of the financial resources set aside for Dominica by the EU.** The NAO and the EDF/PMCU Unit provide a central focus that should ensure a greater degree of coordination for EU assistance and flexibility in planning public investments. While the NAO had been around since the 1975 Lomé Convention,[29] the EDF/PMCU was established as a dedicated support unit only in October 2000. However, the slow pace of EU grant disbursements evidences that red tape curtails the process. It was only recently that the last tranche of the Stable Export Earnings Program (STABEX) 1995, which was signed in 1997, was disbursed. The NAO that heads the EDF/PMCU reports to the Director General, Finance and Planning. A senior project analyst, two project analysts, an accountant, an information officer, a secretary, and an office attendant/driver staff the EDF/PMCU. The funding instruments coordinated by the NAO include STABEX, the National Indicative Programmes, the Caribbean Regional Indicative Programme, the Structural Adjustment Facility, the Special Framework of Assistance to ACP Banana Producers, and the New Framework of Assistance resulting from the World Trade Organization banana decision.

3.12 **It is recommended that Dominica establish a central clearinghouse to coordinate donor assistance.** Currently, line ministries deal directly with donors and may bring in the MoF only at a later stage. Some donors, such as Japan, deal with the Ministry of Foreign Affairs. Others, such as the EU, deal with the NAO. A one-stop shop may help coordinate the assistance from all donors within the country's economic strategy and avoid future unexpected financial implications for the budget.

Preparation

3.13 **Until recently the main focus of the PSIP unit was the preparation of the annual capital budget.** During January and February, before the fiscal year begins, the MoF sends the call letter to line ministries asking them to submit their capital spending estimates. Recurrent expenditure implications of the projects are rarely submitted. After the capital submissions are received, discussions between the MoF and the line ministries take place. These discussions focus on their consistency with national and sectoral priorities. They also seek to confirm the availability of funding as evidenced by a financing agreement or letter of

[29] The Lomé Convention is an agreement through which the EU provides financial and technical assistance and some trade advantages to countries in Africa, the Caribbean, and the Pacific. It was established in Lomé, Togo in 1975 and has periodically been renegotiated.

intent. The Committee of Permanent Secretaries is supposed to play a decisionmaking role at the technical level, but it has not been functioning as such in recent years. The capital estimates are finalized and submitted to the Cabinet for approval by early June. The Cabinet is responsible for approving all public investment projects and the Estimates Committee of the Cabinet is responsible for approving the capital budget estimates and the medium-term PSIP, and for decisions about priorities with regard to public investment projects. However, the Cabinet considers public investment projects on an ad hoc basis whenever a particular minister brings the project forward.

3.14 **However, since FY2002/03 the PSIP unit has begun to prepare a three-year rolling PSIP.** In August–September before the fiscal year begins, the Planning Unit reviews the various ministry PSIP proposals for the following fiscal year. This review is based on the project information provided by the ministries in light of their sectoral plans. Unfortunately, the connection between this exercise and the medium-term macroeconomic framework is somewhat tenuous. Specifically, ministries do not always provide the requested information, and sectoral plans are often not prepared. Consequently, the net result of this exercise must be regarded as something less than a full-fledged medium-term PSIP since it is far from comprehensive and does not succeed in really systematically prioritizing the projects for the PSIP.

3.15 **For the most part, the weakness of the medium-term PSIP can be explained by the lack of a well-thought-out medium-term country strategy that includes sectoral plans to guide the PSIP process, and weak administrative procedures for the development of the PSIP.** The PSIP unit has received technical assistance from the World Bank and during 2003 from the Government of Barbados, with the appointment of a long-term consultant exclusively dedicated to help the MoF in the formulation of a medium-term PSIP and the monitoring of the capital budget. With this assistance, the authorities formulated the FY2003/04 capital budget and the three-year rolling PSIP, which tried to maximize the use of available grant and concessional financing. The PSIP now reflects realistic estimates of project implementation, and a prioritization of projects in line with the government's objectives of supporting private sector investment and growth. Another step in the right direction has been made with the circulation of the draft administrative procedures for the development of the medium-term PSIP prepared with technical assistance from the Barbados Government. This draft addresses the shortcomings discussed above. In addition, a Projects Supervisory Committee, comprising public officials from various key ministries, the Budget Director and the Debt Unit, has been appointed and mandated to oversee project selection, financing, approval, and implementation. Quarterly budget execution reports are also being prepared. However, the country still lacks a medium-term country strategy and sectoral plans to anchor the medium-term investment strategy. The PRSP now in preparation hopefully will fill this void.

3.16 **The challenge for the government is to follow up by implementing the procedures it has drafted, and to keep its tight monitoring of the capital budget in the next fiscal years in the face of elections and the subsequent possible pressures for capital spending. More specifically:**

- The capital budget and the three-year PSIP prepared by the PSIP Unit in the Ministry of Finance need to be made an integral part of the PRSP now being prepared by the Dominican Government. Moreover, the Budget unit should set the overall envelope for capital expenditures (consistent with macroeconomic stability) early in the year so that the PSIP unit can attempt to prioritize the projects from the start of the process instead of at the end.

- The government of Dominica needs to implement a selection criteria for investment projects. First, only investment projects, independent of their source of financing, with all the required information (in particular projected recurrent costs) should be included in the capital expenditure budget and the PSIP. Second, only investment projects prioritized based on some type of cost–benefit analysis and in accordance with the overall resources available for capital expenditures should be included in the capital expenditure budget and the PSIP. Third, all projects with a cost above EC$2 million should be subject to a formal cost–benefit analysis before being included in the capital expenditure budget or the PSIP. Fourth, given the high debt burden, only projects financed with concessional financing should be included.

- At a technical level, staff needs to be trained in the procedures and tools of project analysis for preparing the PSIP.

3.17 **The government is to be commended for the recent reclassification of several projects that in the past were in the capital budget as recurrent expenditures. Nonetheless, moving forward, the government needs to ensure that the distinction between recurrent and capital expenditures obeys international guidelines.** OECS countries by and large include in their PSIP all projects for which they will seek external financing (loans and/or grants). Thus, when the capital budget is prepared, all the projects in the fiscal year for which the budget is being prepared are classified as capital expenditures. Nevertheless, this does not obey international and IMF guidelines. For example, training programs, maintenance of buildings, social protection programs, Poverty Assessment, Population Census and other expenditures incurred on a yearly basis should be recorded as recurrent expenditures independent of their source of financing. The government may keep all these programs in the PSIP with the purpose of seeking external financing from donors, but the recording in the budget should obey international guidelines. In FY2003/04, the government reclassified the following programs: Training, Scholarship and Higher Education; Scholarship Programme (EC$186,000 in FY2001/02); School Feeding Program (EC$242,000 in FY2001/02); School Text Books (EC$400,000 in FY2001/02); and Youth Environment Service Corps and Youth Skills Training (EC$100,000 in FY2002/03) as recurrent expenditures.

3.18 **The government's capital budget until recently included investment projects that did not satisfy the aim of growth and poverty reduction stated by the Government.** Between FY1999/2000 and FY2000/01 about EC$8.9 million were spent on the Windsor Park project to build a 10,000-seat stadium suitable for international athletic and soccer competitions (only the foundation has been completed). During FY2000/01–FY2001/02, the government spent EC$33.2 million on the construction of a financial complex, which has been completed, but which still has significant vacancies due to the retrenchment in the offshore sector. During FY1997/98–FY1999/2000, a total of EC$36 million was spent on a feasibility study, detailed design, and land acquisition for the construction of a new international airport that was later deemed infeasible. (Box 3.1 presents some of these examples in more detail.) Since FY2002/03, the government has halted several projects whose impact on the economy was questionable, and also has made an effort to prioritize projects taking into account their impact on growth and poverty. However, the government still has a difficult road ahead to systematize the selection process of investment projects.

3.19 **The Dominican budget scores well in comprehensiveness, but unlike in other OECS countries the Financial Secretary can transfer funds among programs in agencies other than the MoF.** Dominica's budget is comprehensive, generally covering all CG expenditures. However, the FAA empowers the Financial Secretary to *vire*, or transfer, funds between programs within the same supply vote (agency). This means that funds can be transferred to a completely new recurrent program within the same agency, or from one capital project to a completely new one without the obligation to obtain subsequent endorsement from the Parliament via a supplemental appropriation. For example, in FY2002/03 the government used funds budgeted for repairs in primary schools to pay capital expenditures for the Windsor Park stadium. In theory, any such *virements*, or transfers, and, ultimately, expenditures should at least be reported in the next year's Estimates Books. However, the Estimates Books do not always contain complete and accurate figures for revisions and prior year expenditures, particularly with respect to capital projects. This could mean that the government can legally spend funds on programs or projects without the Parliament ever becoming aware that such a program or project existed. The FAA should consider empowering only the Minister of the respective agency to transfer funds between programs up to a ceiling, and require that if the transfer exceeds the ceiling, the transfer will need the approval of the Parliament and the MoF. This is to safeguard program allocations at the sectoral level from arbitrary changes by the MoF at the central level.

3.20 **Investment projects by statutory agencies, such as state-owned enterprises, do not follow the procedures of the PSIP and the capital budget.** This is a serious gap because these investment projects can represent a sizeable fraction of the PSIP (on average about 20 percent of total public sector capital expenditures), and can expose the government to serious fiscal liabilities. The government should ensure an accurate representation of the public sector investment program, by including in the PSIP the investment projects of all statutory agencies. Investment projects by private corporations but guaranteed by the government should be disclosed in the government's financial statement as government liabilities.

Box 3.1. The Windsor Park Project and the New International Airport

The Windsor Park Project

A 10,000-seat stadium was to be built in Windsor Park to provide a facility suitable for international athletic and soccer competitions. This was a location where local soccer and cricket matches were already being held. The estimated cost of the project was EC$20.9 million, or almost 3 percent of GDP. The Government elected in 1995 proposed this project as part of its election platform. Consequently, it was never subjected to the analytical requirements of the PSIP process. In particular, no cost–benefit analysis was carried out. If it had been, it would no doubt have shown that the likely revenues generated by the project would have fallen far short of the project's originally estimated cost.

The Government elected in 2000 began the project after the last election, even though no foreign donor was found to finance the project. A contract with a Venezuelan construction firm was signed in October 1999. The groundbreaking ceremony for the project was held in January 2000. Spending on the project was financed by external borrowing on commercial terms, and continued even as the financial crisis deepened. By the end of FY2001/02, EC$8.9 million had been spent on the project and only the foundation was completed. Work on the project was halted in July 2001 because of a shortage of funds, but the Government was still making payments to the contractor.

In FY2002/03, EC$240,000 was paid to the contractor as the result of an initial agreement to pay US$840,000 over 16 months. This reflects only part of the US$2.7 million total interim payment sought by the contractor as compensation for delays. Moreover, a final settlement could be much higher if the project is terminated. The initial payment was taken out of the allocation for the Dominica Grammar School Roof Repair project.

The Government has recently obtained grant financing from China to build the Stadium whose construction is planned to start in FY2005/06.

The New International Airport

The prospect of a new international airport was first discussed in 1994. The United States Army Corps of Engineers had offered to build a runway at Crompton Point on the east coast, north of Melville Hall and further away from the ocean. Before the project could be implemented, however, an election was called and the airport became a political issue due to concerns about having American soldiers in the country during an election.

After the election in 1995, the newly elected Government proposed to build a new international airport in Wesley-Marigot, which was also further inland from the Melville Hall Airport, and was also flatter. There were a number of problems with that area. First, there was a secondary school already built on the land that would have to be torn down. Second, the land was a major agricultural area, and it would have been necessary to compensate the farmers for their lost income. Even though the Wesley-Marigot site was considered less desirable as an airport site than Crompton Point, EC$26 million was eventually allocated for land purchases.

The project did not proceed far before an election was called in 2000, during which the airport became an issue. The Government was defeated in the election and was replaced by a new Government that was committed to reviewing the airport project. After a careful review, the Minister of Finance recommended that the Government not proceed with the project. By that time, EC$36 million already had been spent on it.

B. EXECUTION AND MONITORING

Execution

3.21 **From FY1995/96 to FY2001/02, capital expenditures of the CG were on average about 9 percent of GDP. Capital expenditures of the rest of the public sector were about 2 percent of GDP.** As Table 3.1 shows, capital expenditures by the CG fluctuated from a low of 4.8 percent of GDP in FY1997/98 to a peak of 15.3 percent of GDP in FY2000/01 when work on the Windsor Park project started. Capital expenditures for the rest of the public sector including the DSS and non-financial public enterprises accounted, on average, for about 20 percent of all public sector capital expenditures and fluctuated from a low of 0.7 percent of GDP in FY1998/99 to a peak of 6.1 percent of GDP in FY2000/01. This level of capital expenditures for the public sector is quite high compared to other OECS countries and is similar to that of St. Kitts and Nevis, a country that was hit by three hurricanes between 1995 and 2001, with resulting high investment reconstruction needs, and almost triple the level for the Latin America and the Caribbean Region.

Table 3.1. Sectoral Composition of Actual Capital Expenditures for the Dominica Public Sector
*(as percentage of GDP)**

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	Prel.** 2001/02	Average FY 95/96–00/01
Central Government	**11.7**	**6.1**	**4.8**	**8.3**	**10.6**	**15.3**	**5.7**	**8.9**
Economic Infrastructure	**3.1**	**2.7**	**1.5**	**1.7**	**3.4**	**3.9**	**1.1**	**2.5**
Airport development	0.1	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Roads and bridges	0.7	1.8	1.5	1.1	1.2	1.0	1.0	1.2
Sea defenses	0.0	0.0	0.0	0.2	2.2	2.9	0.0	0.8
Water and sewerage	2.0	0.1	0.0	0.1	0.0	0.0	0.0	0.3
Other infrastructure	0.4	0.7	0.0	0.1	0.0	0.0	0.0	0.2
Productive Sectors	**6.6**	**0.6**	**1.1**	**2.4**	**2.2**	**0.6**	**1.0**	**2.1**
Agriculture	4.4	0.4	0.2	0.6	0.7	0.2	0.3	1.0
Forestry	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.1
Microenterprise dev.	0.0	0.0	0.4	1.1	1.0	0.2	0.6	0.5
Tourism development	0.2	0.0	0.4	0.5	0.1	0.2	0.6	0.3
Other productive sectors	1.8	0.0	0.0	0.2	0.4	0.1	0.0	0.4
Public Administration	**0.3**	**0.3**	**0.5**	**0.7**	**1.1**	**4.5**	**2.3**	**1.4**
Adm. infrastructure	0.0	0.0	0.0	0.1	0.4	0.6	0.4	0.2
Env. management	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Information systems dev.	0.0	0.1	0.0	0.2	0.1	0.3	0.1	0.1
Offshore investment	0.0	0.0	0.0	0.0	0.0	3.1	1.5	0.6
Public safety	0.1	0.0	0.1	0.1	0.6	0.6	0.3	0.3
Public sector modernization	0.2	0.2	0.3	0.2	0.0	0.0	0.0	0.1
Social Infrastructure	**1.6**	**2.6**	**1.8**	**3.5**	**3.9**	**6.2**	**1.3**	**3.0**
Community development	0.2	0.4	0.6	0.5	0.8	0.7	0.2	0.5
Education	0.4	1.2	0.8	2.1	1.2	2.0	0.5	1.2
Health	0.5	0.6	0.1	0.4	0.7	0.3	0.0	0.4
Housing and settlement	0.5	0.4	0.3	0.3	0.9	0.3	0.2	0.4
Sports and recreation	0.0	0.0	0.0	0.2	0.3	2.9	0.4	0.5
Rest of the Public Sector	**2.3**	**1.2**	**1.2**	**0.7**	**1.3**	**6.1**	**2.8**	**2.2**
Total Public Sector	**14.0**	**7.3**	**6.0**	**9.0**	**11.9**	**21.4**	**8.5**	**11.2**

* Sectoral figures for FY2002/03 are not yet available.
**The FY2001/02 total figure spent by Dominican authorities for productive sectors does not add up to the sum of its components.
Source: Dominican authorities.

3.22 **During this period, on average, about one-third of CG capital expenditures were in social infrastructure and about 30 percent were in economic infrastructure**. As Table 3.2 shows, the largest share within the subcategory of social infrastructure was education (14.1 percent of CG capital expenditures), and then community development (5.9 percent of CG capital expenditures). In addition, the CG allocated almost the same share of capital expenditures to sports and recreation as health (4.4 percent and 4.2 percent, respectively, of CG expenditures). CG capital expenditures in economic infrastructure were mainly allocated to roads and bridges (16.6 percent of CG capital expenditures) and sea defenses (6.1 percent of CG capital expenditures). In Dominica, the share of economic infrastructure in CG capital expenditures is much smaller than in other OECS countries, which ran from around a third in St. Lucia to over a half in St. Kitts and Nevis.

3.23 **Capital expenditures in productive services accounted for about 22.8 percent of total CG capital expenditures.** Of this, agriculture accounted for almost 10 percent of CG capital expenditures. Public administration accounted for 15.1 percent of total CG capital expenditures, and within this, offshore investment 6.6 percent. The latter is due to the construction of the Financial Complex in FY2000/01 and FY2001/02.

Table 3.2. Sectoral Composition of Actual Capital Expenditures for Dominica Central Government*

(as percentage of total CG capital expenditures)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	Prel.** 2001/02	Average FY 95/96–00/01
	100.0	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Economic Infrastructure	**27.0**	**43.9**	**30.7**	**20.5**	**32.0**	**25.8**	**18.9**	**28.4**
Airport development	0.6	0.86	0.0	1.9	0.0	0.0	0.0	0.5
Road and bridges	5.9	30.1	30.4	13.7	11.1	6.9	18.2	16.6
Sea defenses	0.0	0.0	0.0	2.2	20.9	18.9	0.7	6.1
Water and sewerage	16.8	1.8	0.3	1.7	0.0	0.0	0.0	2.9
Other infrastructure	3.6	11.2	0.0	1.0	0.0	0.0	0.0	2.3
Productive Sectors	**56.7**	**10.2**	**22.6**	**29.3**	**20.4**	**4.1**	**16.6**	**22.8**
Agriculture	38.0	6.1	3.1	7.4	6.7	1.1	5.6	9.7
Forestry	1.4	2.3	2.8	0.3	0.1	0.0	0.0	1.0
Microenterprise dev.	0.0	0.3	8.2	13.2	9.3	1.2	11.0	6.1
Tourism development	1.6	0.8	7.5	6.2	0.9	1.2	11.0	2.6
Other productive sectors	15.7	0.8	0.9	2.2	3.4	0.7	0.0	3.4
Public Administration	**2.6**	**4.3**	**9.4**	**8.4**	**10.3**	**29.6**	**40.9**	**15.1**
Adm. infrastructure	0.1	0.3	0.6	1.7	3.4	3.7	7.0	2.4
Env. management	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.1
Information systems dev.	0.3	1.3	0.6	2.1	0.9	1.9	1.2	1.2
Offshore investment	0.0	0.0	0.0	0.0	0.0	19.9	25.9	6.6
Public safety	0.6	0.3	2.2	1.7	6.0	4.1	5.8	3.0
Public sector modernization	1.6	2.6	6.0	2.9	0.0	0.0	0.0	1.9
Social Infrastructure	**13.8**	**41.6**	**37.3**	**41.8**	**37.1**	**40.5**	**23.4**	**33.6**
Community development	1.7	6.1	11.6	6.2	7.8	4.6	3.3	5.9
Education	3.2	19.6	16.6	25.0	11.5	12.9	9.6	14.1
Health	4.6	9.4	2.5	4.5	6.4	2.1	0.2	4.2
Housing and settlement	4.2	6.4	6.6	3.3	8.8	2.0	4.2	5.1
Sports and recreation	0.0	0.0	0.0	2.9	2.5	18.9	6.5	4.4

* Sectoral figures for FY2002/03 are not yet available.
**The FY2001/02 total figure spent by Dominican authorities for productive sectors does not add up to the sum of its components.
Source: Dominican authorities.

3.24 **In FY2002/03, revised estimates of capital expenditures were about 5.1 percent of GDP, below the 6 percent of GDP agreed in the SBA of August 2002.** The Dominican Government was unable to use the capital budget as a key instrument to support growth in FY2002/03 due mainly to a lack of capacity in the MoF to implement and monitor the capital budget.

3.25 **The budgeted capital expenditure for FY2003/04 was about 7 percent of GDP.** The investment projects in the FY2003/04 budget are by and large growth-enhancing and poverty-reduction projects such as infrastructure, fisheries, banana restructuring, tourism development, and safety nets. These projects are financed by a combination of grants (about two-thirds of the total), loans (about one-quarter of the total), and domestic revenues.

3.26 **It is difficult to assess the adequate level of public capital expenditure for the Dominican economy because capital expenditure figures reported by the Government, as in most OECS countries, not only include spending on fixed capital, but also some recurrent expenditures.** If one subtracts from the historical average CG capital expenditures the unproductive capital expenditures (about 4 percent of GDP) and uses the evidence presented in this report for investment in education and health, the remaining level of capital expenditures intended to acquire fixed capital of 2 to 3 percent of GDP is in line with the historical averages in the Bahamas (2 percent of GDP) and Barbados (2.4 percent of GDP) for 1990–2001. This excludes capital expenditures that may be needed for exceptional reconstruction needs in response to natural disasters.

3.27 **During FY1999/2000 to FY2001/02, CG capital expenditures were mostly financed through loans instead of grants and/or local revenues.** As Table 3.3 shows, during this period, more than 50 percent of CG capital expenditures have been financed through loans (mostly commercial) compared to only less than 30 percent in most previous fiscal years. The increase in the use of loan financing is a common pattern in the OECS countries and is the result of the growing access to the Trinidad and Tobago capital market. Grant financing has declined from almost 60 percent in FY1995/96 to about 30 percent in FY2001/02, and was expected to increase in FY2002/03 and FY2003/4.

Table 3.3. Sources of Financing of Dominica Central Government Capital Expenditures, FY1995/96–FY2001/02*

(as percentage of total CG capital expenditures)

	Fiscal Year						Prel.	Average 1995/96–
	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2001/02
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Revenue	18.8	40.8	46.7	42.3	24.2	5.3	23.1	28.8
Grants	59.0	23.5	24.5	28.9	25.8	32.2	31.8	32.2
Loans	22.2	35.7	28.8	28.8	50.1	62.5	45.1	39.0

* Financing sources figures for FY2002/03 are not yet available.
Source: Dominican authorities.

3.28 **The estimated figures for capital expenditures presented in the budget have to be used with caution due to the low realization rate of planned capital expenditures and the high year-to-year variation in the rate of realization.** As Table 3.4 shows, on average during FY1994/95–FY2001/02, only half of planned capital expenditures were actually implemented. However, this statistic hides substantial year-to-year variation in the rate of realization, which ranged between 24.5 percent in FY1997/98 and 86.5 percent in FY2000/01. The realization rate, on average, was in line with that of St. Lucia, was substantially higher than the 25 percent rate in St. Kitts, but was lower than the 64 percent rate in Grenada. Low implementation rates are attributed to resource constraints related to the available human and technical capacity and other inadequacies at various stages of the project administration cycle. Because of the importance of EU funding, low implementation rates often have been the result of slow EU disbursements. Preliminary figures for FY2002/03 presented a realization rate of 78 percent. Moreover, as a result of recent improved monitoring, the execution rate of the capital budget increased significantly in the first quarter of FY2003/04 (to 93 percent).

Table 3.4. Realization Rate of Dominica Central Government Capital Expenditures, FY1994/95–FY2001/02

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*	Average 1994/95–2001/02
					(In mill EC$)					
Approved Estimates	128.1	104.0	165.8	183.6	245.1	321.9	121.3	131.4	44.6	
Actual	77.2	66.3	64.8	45.0	82.0	93.3	104.9	68.0	34.7	
					(as percentage)					
Realization Rate	60.3	63.7	39.1	24.5	33.5	29.0	86.5	51.8	77.8	48.5

* Preliminary.
Source: Commonwealth of Dominica Estimates for the Year.

Monitoring

3.29 **The capacity of the PSIP unit to monitor the implementation of capital projects, which are carried out by line ministries, is weak.** Line ministries are supposed to complete quarterly reports on project implementation to be sent to the PSIP unit, but compliance has been rather lax, which makes it rather difficult to monitor implementation by the PSIP unit. The Accountant General's Department of the Ministry of Finance is responsible for making the approved disbursements. Not all projects are included at budget time. Some can be introduced at midyear through supplementary estimates. This gives the government some flexibility to respond to urgent needs. But it also gives ministries an opportunity to short-circuit the whole PSIP process.

3.30 **Until recently the PSIP unit did not track monthly expenditures in investment projects.** Indeed, record of actual expenditures in some capital projects lagged behind in some cases by more than one year because line ministries did not submit the required information, and the PSIP unit did not enforce this requirement. However, new monitoring procedures were implemented this fiscal year and line ministries have being presenting monthly reports with expenditures.

3.31 **Postevaluation of projects is usually done only for externally funded projects where it is required by the financing institutions.** A good example is the Basic Education Reform Project, which was financed by the World Bank and implemented between 1996 and 2001. An indicator of its success is that the transition rate from primary to secondary school increased from 54 percent to 76 percent over the period. This was 12 percentage points better than the project target figure of 64 percent. The World Bank Project Completion Report for this project gave it a satisfactory to highly satisfactory rating.

4. PUBLIC SECTOR EMPLOYMENT AND COMPENSATION

4.1 With a total population of about 73,000 inhabitants, Dominica has limited resources to carry out the whole range of functions performed by any government. As several studies have shown, small countries tend to have bigger governments in response to the higher cost of supplying public goods and the need to provide a stabilization role to ameliorate the effect of external shocks (Alesina and Wacziarg 1997; Rodrik 1996). However, even in a small country a government can be "too large" in several ways (Nunberg and Lindauer 1994):

- The public service may be "too large" in the broad sense that the government sector is overextended, possessing too many agencies and departments charged with too broad a range of responsibilities.

- The public service may be "too large" in the narrower sense of employing workers in excess of the requirements of designated tasks.

- The public service may be "too large" because government workers do not fulfill the tasks assigned to them or do so only partially, with great delays and at high cost.

- The public service may be "too large" in the sense that the wage bill is too expensive for sound fiscal management.

4.2 The first notion, that Dominica's government sector is "too large," possessing too many agencies and departments, does not seem to be a generic problem. Duplication of functions across ministries does not seem widespread nor, as in some settings, is there an obvious presence of superfluous government units. Certainly specific activities could be eliminated.

4.3 The second notion is that the government is "too large" in the narrower sense of employing workers in excess of the requirements of designated tasks. Concern over this question prompted authorities in the Establishment Department to conduct audits of the central administrative offices of various ministries and departments. This program, under the title Rationalization of Human Resources, did find some excess capacity. But as often as workers were identified as underloaded, there were others who were overloaded, often in the same department. The reports contain many useful suggestions for improving management and better allocation of staff within individual departments, but these detailed accounts do not convey any sense of systemic excess in government employment.

4.4 The third notion is that a government might be considered "too large" because the workers are too unproductive, do not fulfill the tasks assigned to them, or do so only partially. This is easy to dismiss. Dominica scores high marks on education outcomes. Its health sector performs well. This does not imply that all civil servants perform admirably or even adequately. This is highlighted by some of the recent personnel audits. Similarly, not all branches of government are serving the national interest well. The ports, organized as a state enterprise, frequently are cited as too expensive and as an impediment to private investment and economic growth. Customs and investment promotion both need to become user-oriented.

4.5 The fourth notion, that the public service may be too large and expensive for sound fiscal management, is the key challenge that Dominica has faced in recent fiscal years, and will have to continue to face in the future. In this chapter, we mainly focus on why the government's wage bill in Dominica constitutes too high a percentage of GDP, about 16 to 18 percent during FY2000/01–FY2002/03, for cost-effectiveness and sound fiscal management. The main findings and recommendations can be summarized as follows:

- Although real wages were flat during FY1990/91–FY2002/03, 323 established posts were added in the presence of a primary deficit (after grants) of 6.0 percent of GDP in FY2000/01 and 7.5 percent of GDP in the previous fiscal year. Thus, the government will have to cut expenditures mainly by a downsizing of the civil service to at least the levels of the mid-1990s.

- However, to implement a well-thought-out downsizing program, the government will have to obtain clarification on the legal requirements for redundancy benefits and introduce and/or upgrade its information systems in order to accurately cost its implications (pension and severance payments) and monitor public employment (established and non-established positions) on a regular basis.

- Moreover, the adoption of a medium-term downsizing program will need to be accompanied by a human resource management strategy and development of new strategies to carry out essential tasks by leveraging scarce resources. Otherwise, rehiring staff in the medium term would overturn the fiscal gains obtained by reducing the size of the civil service. For example, a performance appraisal system should be established with pay or bonuses to reward good performance. In addition, the fragmentation and duplication of work among ministries, departments, and agencies, leading to a diffusion of responsibilities, should be addressed, as should the possibility of the government divesting some of its functions to the private sector.

- The use of allowances needs to be rationalized and reduced; although savings from such measures would be limited, a more transparent system would minimize the use of allowances as salary supplements, reserving them for compensation for those expenditures required to perform specific tasks.

A. TRENDS IN EMPLOYMENT DURING FY1991/92–FY2001/02

4.6 **There are two types of government positions in Dominica: established and non-established.** The distinction between established and non-established positions has a legal basis. Established positions refer to those positions specified in the Public Service Act of 1991 and its subsequent amendments. The majority of government employees fall under this act. Non-established positions are those positions not specified in the legislation, and include postal agents, senators, substitute teachers, unskilled laborers, and watchmen. Established positions are permanent positions listed in the budget, and their compensation is classified as Personal Emoluments. Employees in non-established positions are hired directly by line ministries, their numbers are not always presented accurately in the budget, and their compensation is classified as wages.

4.7 **Trends in government employment are more difficult to establish than trends in compensation. This is because there is no systematic recording of total government employment.** Good information is available on trends in the number of established positions, but the number of non-established positions, especially casual labor that occupies positions with hourly wage rates, is harder to determine. Further complicating assessment of employment trends is a lack of data on vacancies and on hours worked. What is well documented is the number of established positions. These are reported on a fiscal year basis in the budget reports.[30]

4.8 **The number of established posts increased during FY1990/91–FY2000/01 by 402 posts, or 15 percent, which averaged 0.95 percent per fiscal year.** This is the same percentage increase of real GDP over the same period, suggesting that established posts grew at the same rate as the economy. A closer examination of Table 4.1 reveals that between FY1990/91 and FY1997/98 the number of established positions grew modestly, by only 79 posts, or by a total of about 3 percent. Most of the increase in established posts occurred after FY1997/98: 323 posts were added during FY1997/98–FY2001/02. This is a large increase, especially in light of the fiscal problems that occurred toward the end of the period due to an unsustainable increase in unproductive capital expenditures.

Table 4.1. Established Posts in Dominica Central Government, FY1990/91–FY2001/02

	1990/ 1991	1991/ 1992	1992/ 1993	1993/ 1994	1994/ 1995	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002
Established Positions	2,615	2,612	2,655	2,713	2,612	2,694	2,694	2,694	2,749	2,755	3,007	3,017
Annual Growth Rate		-0.11	1.65	2.18	-3.72	3.14	0.00	0.00	2.04	0.22	9.15	0.33

NA = Not available due to missing document.
Source: Allocation of Staff and Pay Scales in the Public Service, Estimates 2001/02, Commonwealth of Dominica.

4.9 **Most of the increase in established posts occurred in FY1999/2000–FY2000/01, and it was concentrated in the ministries of Education, Sports and Youth Affairs, and Health and Social Security.** Table 4.2 decomposes the most recent increase in established posts and determines that 255 of the 323 new positions (80 percent) were either in the Ministry of Education, Sports and Youth Affairs, or the Ministry of Health and Social Security. The remaining 20 percent are distributed across a number of ministries and reflect both the movement of tasks across ministries and the taking on of new functions. In health, 116 of the 150 new posts were designated for community health aides, nurses, and orderlies. In education, 60 percent of the new posts were for instructors, librarians, teachers, and principals; and 40 percent roughly were divided between junior and senior administrative

[30] In August 2002, 487 established posts out of a total of about 3,000 were reported as vacant. However, many (if not most) of these vacancies are filled by personnel "acting" in the position, that is, not yet formally approved to hold the post in a permanent capacity. According to government officials, the widespread practice of staff "acting" in established posts suggests that the number of truly vacant positions is low, and that the number of established posts can be used as a good indicator of actual employment.

positions. Some of these administrative positions were in apparently new functions, including divisions for Learning Support and for Planning and Development in the Ministry of Education.

Table 4.2. Growth in Central Government Established Posts by Ministry or Department, FY1997/98–FY2001/02

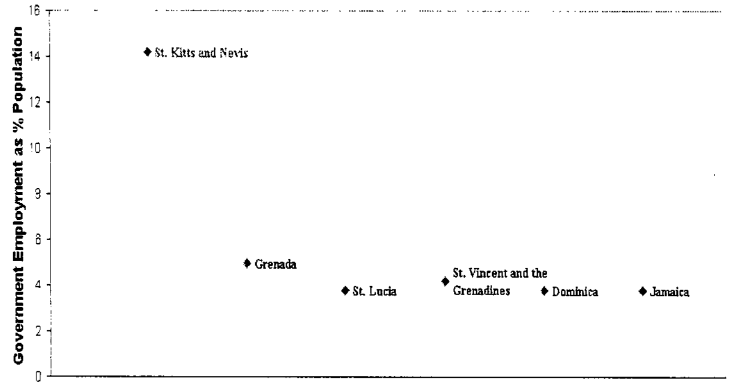
Ministry or Department	FY 1997/98	FY 2001/02	Change	Ministry or Department
President's Office	4	5	+1	President's Office
Legal Affairs	58	75	+17	Legal Affairs
House of Assembly	3	4	+1	Legislative
Audit Department	21	21	--	Audit Department
Election's Office	4	4	--	Election's Office
Cabinet Secretariat & Security Department	636	639	+3	Prime Minister's Office
External Affairs	14	15	+1	Foreign Affairs
Personnel Office	33	49	+16	Establishment, Personnel & Training
Tourism, Ports & Employment	28	10	-18	Tourism
Finance, Industry & Planning	241	229	-12	Finance, Industry & Planning
Agriculture	139	132	-7	Agriculture
Trade & Marketing	12	14	+2	Trade, Industry & Marketing
Education	850	955	+105	Education
Communications & Works	109	149	+40	Communications & Works
Community Affairs & Women's Affairs	62	88	+26	Community Development & Gender Affairs
Health	471	621	+150	Health
Labor & Immigration	9	7	-2	Labor & Immigration
Total	2694	3017	+323	

Source: Allocation of Staff and Pay Scales in the Public Service, Estimates 2001/02, Commonwealth of Dominica; and Allocation of Established Posts in the Civil Service, Estimates 1997/98, Commonwealth of Dominica.

4.10 **It is harder to document trends in the number of government employees who are not filling established positions. For FY2000/01, officials of the Ministry of Finance report total Central Government (CG) employment of 5,352 individuals. This includes 3,007 established posts.** Budget documents account for approximately another 730 workers in non-established positions whose pay is based on a monthly wage rate. The major job titles of these non-established positions include Registering Officers in the Election's Office (129), Domestic Staff in hospitals and other health centers (120), Special Constables (72), Postal Agents (62), and Substitute Teachers (48). Beyond the 3,007 established posts and the 730 non-established positions remain another approximately 1,600 employees, enumerated by the Ministry of Finance, but whose jobs and hours are not detailed in budget documents. The Ministries of Agriculture and of Communications and Works engage most of these workers.

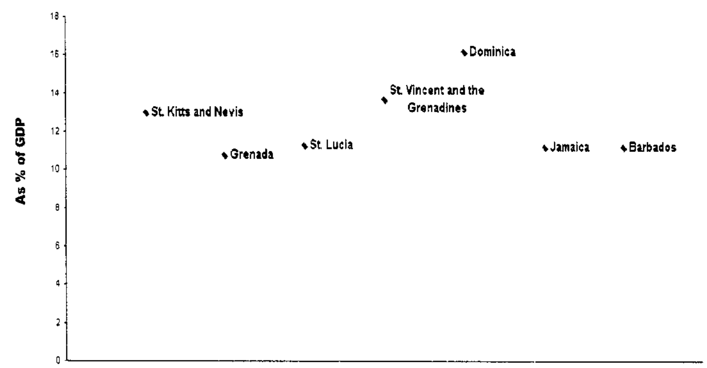
4.11 **Because there appears to be no time series on these different categories of government employment, it is hard to determine how their ranks have grown over time. Data from two labor force surveys, one conducted in 1989 and the other in 1997, however, suggest limited growth in the number of government workers in non-established positions.** The labor force surveys identify the number of workers who report the public sector as the source of their employment. In 1989 there were 5,300 such workers and in 1997, there were 5,460. These totals include employment in general government and in public enterprises, where employment refers to at least "one hour of activity in the reference week." Since 1989, the CG has accounted for 95 percent of the wage bill of the consolidated sector. Applying this same ratio to the employment data from the labor force surveys suggests that CG employment was approximately 5,035 in 1989 and 5,190 in 1997. If added to this total are the roughly 300 established posts created since FY1997/98, one would predict total CG employment in FY2000/01 of just less than 5,500—an amount higher than but still close to the 5,352 reported by the Ministry of Finance. What this rough calculation suggests is that the number of government workers in non-established positions probably has not expanded appreciably over time.

Figure 4.1.a. Government Employment as Percentage of Population, 2001, Selected Caribbean Countries



Source: Mukherjee, de Tommaso, and Schiavo-Campo (1997).

Figure 4.1.b. Public Sector Wage Bill as Percentage of GDP, 2001, Selected Caribbean Countries



Source: Author's calculations.

4.12 **In conclusion, in FY2000/01, approximately 7 in 100 individuals worked for the Dominican Government in an established or non-established post. Although this figure is similar to the one observed in other Caribbean countries, the wage bill as a percentage of GDP is one of the highest in the Caribbean region.** As Figure 4.1.a shows, Dominica's ratio of government employment to population (3.8 percent) is similar to the one observed in other Caribbean countries, with the exception of St. Kitts and Nevis. However, as Figure 4.1.b shows, the wage bill as a percentage of GDP (16 percent) cannot be afforded by the Dominican government in the short and medium term, when its debt-to-GDP ratio is 111 percent at the end of FY2002/03.

4.13 **In FY2002/03 and FY2003/04, as part of the SBA, the government agreed to limit the wage bill mainly through wage cuts. But as discussed earlier, the fiscal adjustment required to achieve fiscal sustainability will require a significant downsizing of the public sector.** In FY2002/03 the government limited the wage bill, with mixed results, by eliminating overtime payments, reducing the number of temporary workers, imposing a freeze on hiring (except for teachers and health workers), and granting no across-the board wage increases. However, limited progress was made in reducing the wage bill due to weak control over the use of workers in non-established positions. In FY2003/04, the government reduced the salaries of workers in established positions at the CG level by 5 percent, and agreed to reduce work time of casual workers, close some temporary worker positions, and extend the freeze on hiring for all permanent and temporary employees (except when absolutely unavoidable because of the importance of the position).

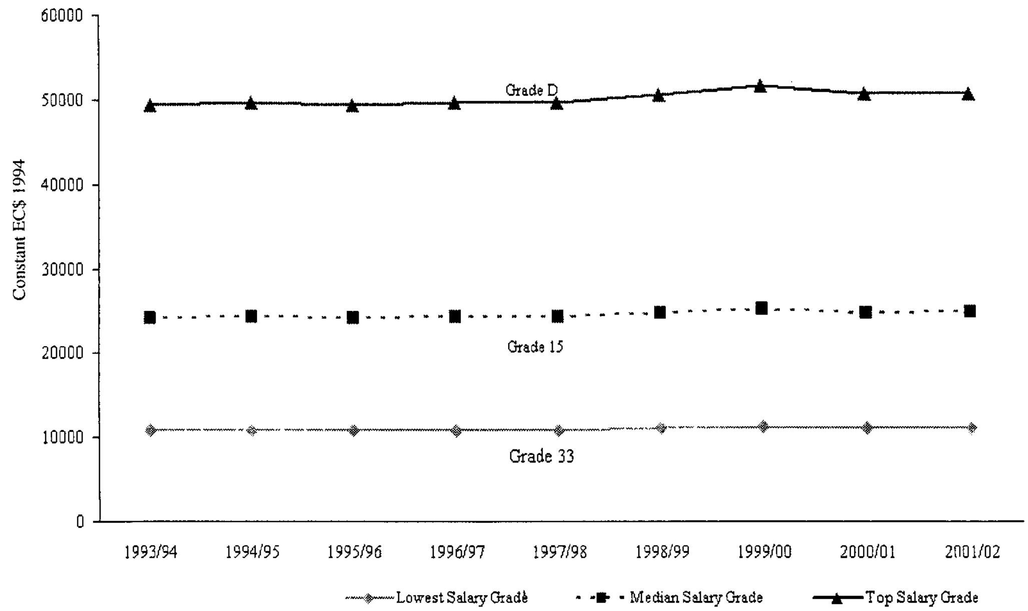
B. TRENDS IN COMPENSATION DURING FY1991/92–FY2001/02

4.14 **The salary structure of the Central Government includes 40 salary grades covering all established positions in the CG. A separate pay scale, employing both hourly and monthly pay rates, covers employees in non-established positions.** Another small group of government employees includes contract officers, most of whom occupy senior, and usually technical, positions. Contract officers are covered by another set of compensation schedules and, at present, number 37.

4.15 **The salary structure governing workers in established positions, measured in real terms, remained remarkably constant during FY1993/94–FY2001/02.**[31] Figure 4.2 identifies three grades in the salary structure that roughly conform to the top (Grade D), middle (Grade 15), and bottom (Grade 33) of the salary scale. Grade D, for example, includes the Director of Trade and Specialist Medical Officers, Grade 15 includes Qualified Teachers and Senior Clerks, and Grade 33 refers to entry-level Messengers. Between FY1993/94 and FY2001/02, and after adjusting for price inflation, each salary grade increased by a total of only 2.8 percent. Over the same period, real GDP grew by almost 10 percent, indicating that government pay scales have declined relative to the rest of the economy. The uniformity of salary increases across grades also implies no significant change in the compression/decompression of compensation in the overall pay structure. In addition, in FY2002/03 the Government imposed a 4 percent stabilization levy for public and private sector wages as part of the SBA. In FY2003/04, the Government cut civil servants' wages (established positions) by 5 percent, while reducing the stabilization levy to 3 percent, thus further reducing government pay scales relative to the rest of the economy and leading to expected savings in the wage bill of 0.7 percent of GDP.

[31] In 1993 the CG "regraded" the salary scales, complicating comparisons of salaries before and after 1993. This regrading exercise, coupled with a 2 percent across-the-board increase in salaries, caused a large increase in the wage bill during FY1992/93–FY1993/94, from EC$77 million to EC$89.3 million.

Figure 4.2. Dominica's Real Salaries for Established Positions in the Central Government, FY1993/94–FY2001/02
(in constant EC$ 1994)



Source: Author's calculations.

4.16 **Including allowances does not appear to change the analysis. According to budget documents, there are 18 different allowances awarded to workers in established positions.** These allowances cover everything from monthly transportation costs, to entertainment budgets, to compensation in lieu of private practices. Changes in FY2000/01 in the recording of allowances in the annual budget make it difficult to compare the growth in allowances over time. In FY2001/02, the sum of all allowances totaled EC$9.3 million, and in FY2002/03, EC$9.8 million. It is recommended that these be rationalized and reduced, although savings from such measures would be limited.[32]

4.17 **Only workers in established positions receive allowances, and within this group only a limited number are eligible, depending on the allowance. The current system lacks transparency and could be improved upon.** For example, transport allowances, which are not a direct payment for mileage, might eventually be incorporated into base pay. Improved job descriptions should be able to minimize the need for responsibility allowances, which are costly and add a layer of unnecessary bureaucratic reporting. A more transparent system would minimize the use of allowances as salary supplements, reserving them for compensation for those expenditures required to perform specific tasks.

[32] The increased use of contract officers has raised payments on allowances for travel, to compensate for the fact that doctors are paid less in the government than they would earn in private practice, and for "special duty." However, growth in the Acting Allowance is a result of a decrease in promotions, which has reduced salary commitments, but which increased, to a lesser extent, the amounts paid to those "acting" in posts to which they have not been permanently appointed.

4.18 **The salary structure, measured in real terms, governing workers in non-established positions by either hourly or monthly wage rates, remained remarkably constant during FY1991/92–FY2001/02.** Since FY1991/92 these rates, generally, have been held constant in nominal terms in a three-year cycle. For example, the maximum hourly rate for an unskilled laborer was EC$3.29 per hour from FY1991/92 to FY1993/94, EC$4.40 per hour for the next three years, EC$4.87 per hour for three years after that, and EC$5.02 per hour since FY2000/01.[33] Because these wage rates often are fixed for three years, price inflation erodes their real values until the next adjustment. Starting from the beginning of one pay cycle to the next, in this instance FY1994/95 to FY2000/01, real wages of such non-established positions as hospital cook, laborer, plumber, and security guard, experienced total real pay increases of 4 to 6 percent. This is marginally higher than the experience of workers in established positions, but still below the rate of increase in GDP.

4.19 **Unfortunately, determining whether government workers in Dominica are over- or underpaid compared to the private sector is not an easy task. Data on prevailing compensation in the private sector are needed, and in a small island economy like Dominica, where a sizable fraction of the working-age population migrates, it is that much more difficult to define an individual's alternatives.** Some salary data are presented in the Digest of Labor Earnings in Dominica (4th edition)

Box 4.1. Non-Wage Compensation in Dominica's Public Service: The Vacation and Study Leave Programs

Comparisons of public and private pay differentials should include all elements of compensation, including allowances, pension benefits, and non-wage benefits. Just as with salary data, the available information is insufficient for such comparisons. However, in the area of non-wage benefits, there is little question that the government sector offers especially generous leave benefits, both for Study Leave and Vacation Leave.

The Study Leave program entitles permanent officers, after three years of service, to a year of Study Leave at full pay. This benefit can be applied for more than once. Applications are subject to approval, and during 1998 to 2002, between 39 (2002) and 61 (1999) Study Leaves have been granted annually. In 2002, the estimated cost in salaries was about EC$750,000. Prior to the current fiscal crisis, officers might receive financial assistance to cover tuition payments as well. Although recipients are bonded, if they fail to return to their posts the government has not pursued collection of bond amounts. Given that most of the benefits of education and, hence, of Study Leaves, accrue to the individual, this program seems overly generous and should be scaled back. Proposals to trim the Study Leave program include awarding lower amounts (for example, half of salary or less), and granting fewer leaves with strict identification of priority areas of training for government officers.

The Vacation Leave program is equally generous. As stated in the General Orders, workers in established positions earn between 21 and 36 days of vacation leave per year. The amount depends on salary level and years in service, with higher levels receiving more leave. Employees are permitted to accumulate large amounts of vacation leave, and have done so. According to the findings of the Dominica Employers' Federation, vacation leave in the private sector is significantly less generous than in the public sector. By international standards, the government's leave policy appears exceedingly generous and costly. Excessive amounts of vacation leave resulted in a variety of expenditure liabilities, including an increase in payments for Responsibility Allowances, when another officer temporarily replaces one on leave. A revision in the General Orders concerning Vacation Leave should be implemented.

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[33] During the three-year period, FY1997/98–FY1999/2000, the hourly wage rate of laborers actually was EC$4.67 in the first year, and EC$4.87 in the latter two years. Similarly, some daily rated workers had a pay raise in the first and second fiscal years of this period, while others only got an increase above their FY1996/97 rates in FY1998/99.

produced by the Dominica Employers' Federation. Pay differentials based on median entry-level salaries between the CG and other (presumably large) employers range from +/-10 percent, depending on which of a small number of comparable occupations are considered. Given the limited coverage of the labor force represented in the Digest, it is hard to draw any firm conclusions from these data. (See Box 4.1 on Non-Wage Compensation). In the absence of reliable pay comparisons, turning to other market signals of the appropriateness of government pay can be considered. Persistent vacancies and high turnover often are signals of government pay that is too low relative to market alternatives. Long queues for government positions or corruption in the allocation of such posts can be associated with pay levels in excess of the reservation wage of workers. Again, systematic evidence is lacking, but the impression given by the Establishment Department is that none of these problems is a feature of the current situation in Dominica. This leads to the conclusion that pay-setting in government has been adequate and appropriate from a labor market perspective.

C. PUBLIC SECTOR REFORM

4.20 **Following a consultative workshop in January 2003, the authorities adopted and are in the early stages of implementing a Medium Term Public Sector Reform Strategy, aimed at achieving greater cost efficiency and effectiveness in the delivery of public services.** The preparation of this strategy was supported with technical assistance from Department for International Development (DFID), the EU, and the World Bank. The strategy has four components: (a) modernizing public administration, (b) strengthening public expenditure management and controls, (c) enhancing growth-supporting public services, and (d) rationalizing the delivery of social services and improving their targeting. The Strategy builds on the broad public consultations undertaken for earlier work on the Integrated Development Plan and the Carib People's Development Plan, a recent Poverty Assessment and Growth Conference, and on other studies and reviews on public sector management issues in Dominica undertaken over the last few years. The Strategy also incorporates and will help to harmonize earlier reform efforts that were ongoing in different parts of the public sector. Strategy implementation is being overseen by a Public Sector Reform Task Force chaired by the Minister of Health and Social Security, and consisting of key public officials and representatives from the Public Service Union, the Dominica Teachers' Union, the Dominica Association for Industry and Commerce, and the National Association of Non-Governmental Organizations.

4.21 Under the first component, modernizing public administration, the authorities are taking measures to strengthen policy formulation, strategic and manpower planning, and Cabinet decisionmaking processes, and to introduce performance management arrangements for senior public officials. Supported by DFID's Fiscal and Economic Recovery Project (FERP), the authorities have held a series of retreats and workshops for senior public officials aimed at clarifying roles and responsibilities. In addition, the Establishment Department is rolling out a manpower-planning model to assist line ministries in reviewing their staffing requirements, with the objective of reducing the wage bill in an orderly fashion. It is also completing a process to update the Public Service Acts and Regulations, which govern public service employment that was begun earlier. The second component of the strategy, strengthening public expenditure management and controls, includes implementation of the Financial Management Action Plan discussed in Chapter 2, reform of the budget process being supported by DFID's FERP, and improvements in the management of the Public Sector Investment Program described in Chapter 3. Under the third component, enhancing growth-supporting public services, the authorities have established a Task Force on Public–Private Cooperation and appointed a senator with responsibility for private sector relations in the office of the Prime Minister to strengthen dialogue. The Task Force has produced its first report, the recommendations of which the Government is studying, including the introduction of Customer Service Improvement Plans in key public agencies, such as Customs, and the development of a case management system to clear the backlog and expedite hearings in the court system. The final component, rationalizing the delivery of social services and improving their targeting, has been informed by the results of the Poverty Assessment recently completed by the Government and Caribbean Development Bank, the Carib People's Development Plan, the Social Protection Review completed by the Bank in July 2003, and early inputs from this Public Expenditure Review. The Social Protection Review contains recommendations for streamlining and improving the targeting of social protection programs and for expanding coverage of social security. The Ministry of Education is working on a proposal to consolidate primary schools, which would simultaneously improve the deployment of teachers, raise the quality of instruction, and achieve some cost efficiency. Finally, the Ministry of Health will review a proposal to expand cost recovery mechanisms in the health service, to consolidate a number of health clinics and district hospitals, and to outsource certain nonessential functions. These measures are consistent with the preliminary findings of this Public Expenditure Review.

4.22 **The public sector reform would need to be informed by the following recommended inputs. The legislation that governs public sector employment has a void with respect to the potential redundancy benefits to be paid when a worker in an established or non-established position is terminated on account of redundancy.** Dominica's legislation does not address the issue of the redundancy benefits plan. However, there is a Protection of Employment Act that governs employees in the private sector and that can be used as a proxy to estimate the costs for the government of any downsizing of the public sector. Moreover, public employees that have worked more than 10 years receive a gratuity in case of retirement. Discussions with Treasury indicate that in case of redundancy the gratuity will have to be paid, but the employee will receive only the amount that is higher between the redundancy benefit and the gratuity. The government needs to get clear legal advice on these issues before starting the reform of its public sector.

4.23 **The personnel information systems are fairly basic for the needs of Dominica.** The information system that usually contains such staff particulars as date of hiring, date of increments and movements between salary scales, training received, performance evaluation reports, and the date of retirement is inadequate for a modern public sector. It does not contain the information required for manpower planning, professional development, and the design and implementation of a public service reform.

4.24 **Moreover, the Dominican government lacks a human resource strategy.** Job descriptions for established positions are inadequate. No performance appraisal system is in place, which makes it impossible to assess whether public servants are actually doing their job efficiently and effectively, and to establish performance pay or bonuses to reward good performance.[34] Training in essential skills such as writing, office procedures, financial and personnel management, and basic management is deficient. There is no training plan for individual employees to enable them to advance along their career paths. Training is often offered in an unsystematic way, and depending on the availability of donor financing.

4.25 **Dominica presents some fragmentation and duplication of work among ministries, departments, and agencies, leading to a diffusion of responsibilities.** The survey of public officials, carried out for the OECS Institutional and Organizational Capacity Review (IOCR) in 2001, noted a duplication of functions and that such overlap adversely affected the public service. This suggests that missions, objectives, and functions of the different ministries need to be reviewed to determine the most effective and efficient organizational structure. Opportunities to pool resources and realize lower unit costs through greater collaboration extend to almost all areas of public sector activity, including international relations, economic and social policy, and policing. The benefits of common organizational arrangements for tax administration, customs, audit services, police services, magistracy, and environmental protection were discussed in the OECS IOCR.

4.26 **There is some possibility for the government to divest some of its functions to the private sector.** Some services where it is easy to specify output can be more efficiently performed by the private sector. These include road maintenance, airport services, laundry and catering services in hospitals, and cleaning and maintenance services in public buildings. Outsourcing or privatization might realize efficiency gains, but significant savings in government expenditures are unlikely. Finally, some public sector activities in the areas of social services and education could be transferred to private (profit and nonprofit) organizations, as is being done to a limited extent in St. Lucia.

[34] Based on the experience in Grenada, even with a good performance appraisal system it may be difficult to get managers to document any deficiencies of their staff, given the close nature of personal relationships on the island.

5. HEALTH SECTOR

5.1 Dominica has invested in a health system with a strong primary health care focus. It has achieved impressive gains in health status, particularly in terms of maternal and child health. The Dominican health system is dominated by public finance and public provision of care, although there are private physicians, and the private health insurance system appears to be growing.

5.2 Public spending on health in Dominica as a share of GDP is the highest of all OECS countries. On average, during FY1991/92–FY2002/03 the share of recurrent health spending of GDP was about 4.2 percent. The health system that led to this level of expenditure is now challenged on many fronts. Most immediately, the public health system is facing strong budgetary pressures as part of the overall fiscal crisis—pressures, particularly on pharmaceuticals and building and equipment maintenance—that could threaten the country's recent health gains. In addition, the health system is challenged to adapt to a changing disease profile. With the exception of the HIV/AIDS epidemic, Dominica's disease profile is increasingly dominated by noncommunicable diseases, such as diabetes and hypertension, and injuries. The health system continues to be challenged by emigration of trained staff, and to grapple with the added complication of how to provide specialized services given the country's small size.

5.3 There are several steps that the government could take over the short to long term to ensure that public spending on health has the highest impact, given it will likely be highly constrained over the medium term. These actions involve changes in how the system is financed, organized, and delivered. This chapter reviews the status of health in Dominica, and discusses how public health programs and health services are organized, financed, and delivered.

5.4 The main findings and recommendations can be summarized as follows:

Improving and Sustaining Health Outcomes

- The most important change that Dominica needs to consider in order to continue to improve health indicators and contain costs over time, is to revitalize public health and primary care to meet the new challenges of the 21st century—particularly from chronic diseases and injuries. This means focusing health promotion and disease control activities as effectively as possible on tobacco control, injury prevention, control of obesity through diet and physical activity, and screening and early treatment of diabetes and hypertension. This will avert much of the disabilities associated with and costly treatment of preventable heart disease, stroke, late-stage diabetes, and injuries. The other major priority for public health is, of course HIV/AIDS, given the stage of the epidemic in the Caribbean.

Improving Efficiency in the Delivery of Service

- As the population migrates to the urban areas and the disease patterns change over time, and with the goal of achieving greater economies of scale, it may be possible to rethink the configuration of health facilities in Dominica. In particular: (a) reorganize and consolidate the 45 Type I clinics and assess the role these clinics should play in noncommunicable disease prevention and control, (b) close or restructure the two district hospitals given that both hospitals have very low occupancy rates (between an estimated 20 and 30 percent), do not have laboratory, X-ray, or surgical capabilities, and it is not clear how different their role is from Type III clinics, and (c) assess the ambulance service throughout Dominica.

- The OECS Pharmacy Procurement Service has been a model of how the subregion can achieve efficiencies by pooling efforts—although as mentioned below, this model is threatened by the arrears situation of Dominica, as well as other OECS countries. Over the medium term, there are other areas where shared services might introduce economies of scale and efficiencies, including medical equipment, biomedical equipment maintenance (having a pool of experts serve a group of islands), laboratory services, in-service training, and specialist services.

- The government only charges user fees at Princess Margaret Hospital. These fees are not retained at the hospital level; instead, they revert to the consolidated account. The amount collected is equivalent to about 10 percent of the Hospital's spending. The user fee policy needs to be thoroughly reconsidered, with changes desirable along the following lines:

    (a) Permit the Princess Margaret Hospital to retain fees (this may require a change in legal status), which could yield other long-term benefits, such as providing better incentives for collection and giving the hospital budgetary flexibility to improve services.

    (b) Increase collections from private insurance.

    (c) Increase fees for nonnationals (beyond the double charge) at the Princess Margaret Hospital.

    (d) Consider reducing or eliminating fees in some areas or for some groups of people, in particular, for disease prevention purposes, HIV/AIDS and sexually transmitted infection (STI) tests because these communicable diseases threaten the population at large, and for equity reasons, nonselective procedures that are catastrophic in cost for poor households. Dominicans with a public assistance card are exempt from fees at the Princess Margaret Hospital, but not all poor households have public assistance cards.

    (e) Consider introducing fees at Type III clinics. The fees should be modest (except for nonnationals) and there should be exemptions both by type of service (immunizations, for example) and by individual (those with public assistance cards). The fees should be retained by the health center to improve quality of care.

Uses of Health Spending

- Wages absorb most of the spending in the health sector and raise questions as to whether there is sufficient allocation for pharmaceuticals, medical supplies, and maintenance of equipment and buildings for the efficient delivery of services. There may be significant opportunities to generate cost savings without affecting the quality of services by substituting some nursing positions with lower-cost nursing (nurse assistants).

- Princess Margaret Hospital absorbs about 55 percent of all public spending on health. There are many possible ways that its operation could be made more efficient. Many of these ideas have been discussed for years in Dominica, so strong political leadership will be required to implement them. In addition, some innovations will require up-front investments.

- Permit the hospital to contract out services, such as laundry, plant maintenance, security, cleaning, and catering. Experience in other countries shows that contracting out, if done well, can lower costs and improve quality. The Hospital might start with one area, gain experience, evaluate it, and if successful, expand the approach. In addition:

    (a) Permit the hospital to retain user fees (mentioned above).

    (b) Introduce more hospital autonomy, giving the hospital more budgetary flexibility.

    (c) Invest in greater use of outpatient surgery as a substitute for more costly inpatient surgery.

A. HEALTH OUTCOMES IN DOMINICA

5.5 ***Maternal and Child Health.*** **The government's expenditures in primary health care, and overall improvements in living conditions and educational levels, have generated impressive gains in maternal and child health.** As Table 5.1 shows, the infant mortality rate is low, at about 17 per 1,000 in 2000, with about 60 percent of all infant deaths occurring in the first week of life. A trained health care professional attends almost all—over 99 percent—of deliveries in a health facility. While Type III health facilities and the country's two district hospitals are equipped to handle deliveries, this capacity is underused because most women now prefer to be admitted to the country's one general hospital, Princess Margaret Hospital, to deliver. There, about 9 percent of deliveries are by cesarean section, a favorable rate by international standards. At the Princess Margaret Hospital, women are strongly encouraged to breastfeed their babies, although data are lacking on the proportion of women that initiates breastfeeding and the duration of exclusive breastfeeding. Problems from diarrheal disease and respiratory infection are declining in young children in Dominica, but accidents are increasing. Immunization rates are very high, although there has been some slippage in recent years, and very recently, the budgetary crisis led to a shortage of vaccines. Obesity is considered an increasing problem in children under age 5. A micronutrient study in 1997 found that iron deficiency is the only major micronutrient problem, with problems concentrated in young children, adolescents, and pregnant women.

Table 5.1. Health Indicators in Dominica Compared with other OECS Countries, Barbados, and Jamaica

	Total Population 2001	GDP per Capita, 2001 (current EC$)	Infant Mortality Rate (IMR) 2000	Total Fertility Rate 2000	Life Expectancy at Birth 2000
Dominica	73,200	3,563	17	1.9	73
St. Kitts and Nevis	41,100	8,345	19	2.2	71
Antigua and Barbuda	68,500	9,729	15	1.7	75
Barbados	268,200	--	17	1.8	75
Grenada	99,000	4,022	13	3.2	73
Jamaica	2,668,200	2,917	20	2.5	75
St. Lucia	158,100	4,356	13	2.0	71
St. Vincent and the Grenadines	115,900	2,914	20	2.1	73

Source: World Development Indicators, World Bank. IMR and life expectancy for Dominica refer to 2001 and are from the Ministry of Health reports.

5.6 *Teen Pregnancy.* **While the share of births to teenagers has been declining, it was still fairly high at 15 percent in 1998, in spite of free contraceptives at clinics and the efforts of the Dominica Planned Parenthood Federation.** This high share is in part due to the very low age of sexual initiation in Dominica. Adolescent health surveys indicate that this is as low as 10, but more frequently it is age 14 to 15 for girls. A recent Adolescent Health Survey of 2,809 students from 40 primary and secondary schools indicated that almost half (47 percent) of the students who had sex indicated they never used contraceptives. About 14 percent of respondents reported they had been physically abused or mistreated. Sexual abuse was reported by about 10 percent of the respondents. Of these 10 percent, 20 percent was by an adult living in the household, 44 percent by an adult in another household, 12 percent by a sibling, and 31 percent by other friends not in the same household.

5.7 *HIV/AIDS.* **Although the prevalence rate is relatively low, the epidemic could increase rapidly, as it has in other countries.** HIV/AIDS was first diagnosed in Dominica in 1987. Cumulative HIV-positive cases totaled 257 through mid-2002. The Caribbean Epidemiology Center (CAREC) estimates that the adult overall HIV prevalence rate was about 0.2 percent at the end of 2001. While the majority of the cases are still male, the female proportion is increasing. These numbers must be interpreted with caution because there is under- and incomplete reporting of HIV/AIDS cases. The government supports condom distribution, voluntary counseling and HIV testing, prevention of mother-to-child-transmission, prevention and treatment of STIs, and education programs, but the programs need to be scaled up, with multisectoral leadership. A draft of the National HIV/AIDS Strategic Plan (2003–07) has been prepared and distributed for discussion.

5.8 *Noncommunicable Diseases and Injuries.* **Given the aging of the population and the epidemiological transition, noncommunicable diseases have become the main cause of death in Dominica.** The five principal causes of death are malignant neoplasms, hypertension, heart disease, diabetes mellitus, and other diseases of the respiratory system.

Transport accidents are now one of the top 10 causes of death. The level of diabetes and hypertension appears to be particularly high. Diabetes is the second-most-frequent cause of visits to a health center and the fourth principal cause of death. The Princess Margaret Hospital offers dialysis services. Factors behind the growing problems from diabetes and hypertension are complex. In addition to the genetic component, changes in lifestyle from reductions in physical activity (less of the labor force in agriculture) and changes in diet (the popularity of soft drinks, candy, and processed foods substituting for fresh vegetables and fruits) are major contributing factors.

5.9 ***Water and Sanitation.*** **Access to water and sanitation have improved, but an estimated 20 percent of households still lack access to proper sewage disposal.** The sewerage system in Roseau was recently improved, but it remains a problem for a significant proportion of especially poor households not currently possessing flush toilets. However, more than 95 percent of the population has access to potable water, either in homes or from standpipes.

5.10 ***Endemic Diseases and Substance Abuse.*** **Dengue fever is still endemic in Dominica, with large outbreaks every few years.** Malaria has been eradicated—the cases that occur are all imported. Substance abuse is a problem in Dominica. This includes marijuana, alcohol, and cocaine, with marijuana and alcohol the most common problems. Currently, an adolescent Drug Education program has been established to address concerns about youth becoming involved in drugs.

5.11 ***Problems in the Carib Population.*** The Carib population, concentrated in a reserve in two districts, Castle Bruce and Marigot, is one of the poorest communities in Dominica. This group has less access to potable water and solid waste disposal than the population at large. It has higher rates of tuberculosis than the rest of the country, and alcoholism, STIs, and heminthic (worms) infections are considered to be problems in this group. The Carib population totals about 4,500 inhabitants.

5.12 **The under-5 mortality and HIV/AIDS targets of the Millennium Development Goals (MDGs) are the most applicable to Dominica of all the health-related MDGs.** Malnutrition (defined as the prevalence of underweight children), maternal mortality, and tropical diseases (other than dengue, which is endemic) are not major health issues in the country. The under-5 mortality rate in Dominica dropped from an estimated 23 per 1,000 habitants in 1990 to 14 per 1,000 habitants in 2000. This is a decline of about 5 percent per year. The MDG target—a reduction of two-thirds from 1990 to 2015—would require that the rate fall to about 8 per 1,000 habitants by 2015, or about 4.4 percent per year. This MDG for Dominica in 2015 is similar to the under-5 mortality rates observed in the United Kingdom and in the United States today. On trend projections, Dominica is well on track for achieving this MDG target. It is difficult to assess the likelihood of reaching the HIV/AIDS targets because baseline data on HIV prevalence and incidence are poor. However, given the size of the epidemic in the Caribbean, the target is very relevant for Dominica and should be achievable if the country supports vigorous and effective HIV prevention measures.

B. THE HEALTH SYSTEM: FINANCING, COVERAGE, AND DELIVERY

5.13 **Dominica's small size poses many challenges to the administration of public health programs and clinical services,** such as (a) mostly publicly provided health services, (b) unexploited potential economies of scale, (c) health financing mostly through general revenue, and (d) a high ratio of nurses to physicians.

5.14 **Health care in Dominica, as in the other OECS countries, is predominantly publicly provided. All hospitals and clinics are public.** At the central level, the Ministry of Health carries out policy formulation, operation of the Central Medical Stores, and training, and it has small units focused on environmental health services, drug prevention, health information, and health promotion. The government, with donor assistance, invested in a strong primary health care model that consist of 45 Type I health clinics (within 5 kilometers of every village) and strong links to the 7 Type III health clinics. Health clinic staff make home visits and conduct outreach activities in the community. Each of the seven health districts has a Type III health clinic with more specialized staff, including a resident doctor, who assists and supervises the outreach activities of the Type I clinics. In addition, there are two small district hospitals that also provide inpatient services, although in practice these district hospitals are largely bypassed in favor of Princess Margaret Hospital, which offers much more comprehensive services (see Table 5.2).

Table 5.2. Ministry of Health Facilities and Functions

Level of Care	Function
	PRIMARY CARE
Type I Health Clinics (45 clinics)	Provide health education, maternal–child health services, management of diabetes and hypertension, treatment of common diseases. Serve a population of 500 to 2,000 people. Staffed by primary care nurse.
Type III Health Clinics (7 clinics)	Provision of more complicated primary health care. Resident doctor, family nurse practitioner, environmental health officer, pharmacist, community health nurses, registered nurse midwives, dental therapist, and support staff.
District Hospitals at Portsmouth and Marigot Districts	56 total beds. Little resolutive capacity (no surgery, X-ray, or laboratory facilities).
	SECONDARY CARE
Princess Margaret Hospital (General Hospital)	A 224-bed secondary hospital that provides inpatient services, ambulatory, emergency, specialist, and diagnostic services, and dialysis, neonatology, and intensive care services.
	TERTIARY CARE
	No services in Dominica. Government refers some patients to overseas care and provides very modest assistance to those in need. Out-of-pocket and private insurance purchases overseas care, largely from neighboring islands.

Source: Ministry of Health.

5.15 **While the island has 45 Type I health clinics, many are now nonfunctioning or only partly operational and in need of repair.** Traditionally the government has depended on external assistance for such repairs; however, because external assistance has declined over the years, the Type I clinics have deteriorated. Type III clinics are in better shape, but do suffer from drug shortages and problems with repairs and equipment maintenance.

5.16 **However, before new investments are made to repair Type I and III health clinics, the government should rethink its primary health care model.** The health care model that Dominica developed has contributed greatly toward improved health indicators, but it is a costly model to maintain. With the aging of the population, migration to urban areas, and changes in disease profile, it might be possible for the government to: (a) reorganize and consolidate the 45 Type I clinics and assess the role these clinics should play in noncommunicable disease prevention and control; (b) close or restructure the two district hospitals, given that both hospitals have very low occupancy rates (between an estimated 20 and 30 percent), do not have laboratory, X-ray, or surgical capabilities, and it is not clear how different their role is from Type III clinics; and (c) assess the ambulance service throughout Dominica. Some rethinking of the primary care model might permit exploiting economies of scale and reducing the very large wage bill of the Ministry of Health (MoH), which is currently at 78 percent, and increase efficiency, thereby freeing up resources for pharmaceuticals, building repairs and maintenance, and equipment maintenance.

5.17 **Princess Margaret Hospital had an occupancy rate of 74 percent in 2000—favorable by international standards—with an average length of stay of 6.6 days.** The emergency room in the Princess Margaret Hospital is very crowded, especially since a nearby Type III Clinic in Roseau was closed because it was in disrepair and there were no funds to fix it. The hospital also suffers from drug shortages, problems with equipment maintenance (lack of trained staff and budget), difficulties in attracting doctors (many are from overseas), and lack of key services such as mammography screening. The hospital management is also limited in its ability to innovate and seek efficiency improvements, such as contracting out, because of its legal status as a public hospital. St. Lucia, a neighboring island, is making its two largest hospitals statutory entities, to give the hospitals more autonomy so that they can, among other things, contract out services, such as laundry, plant maintenance, security, and cleaning and catering, and retain user fees to reinvest in the services. Experience from other countries shows that contracting out, if done well, can lower costs and improve quality. The Princess Margaret Hospital might start with one area, gain experience, and evaluate and, if successful, expand, the approach.

5.18 **The Princess Margaret Hospital is attempting to introduce an innovation in the management of its new CT scan.** Before it is put into full use, it has requested the Ministry of Finance to give the Hospital permission to retain the user fees for the CT scan, in a special account for that purpose. Although the user fees are not the full cost of the service, the Hospital hopes that the fees could ensure the long-term maintenance of the unit. This could be a useful pilot in a transition to giving the Princess Margaret Hospital more autonomy in order to improve performance.

5.19 **Princess Margaret Hospital could also capture efficiency gains in other areas, for example, by substituting more inpatient surgery with outpatient surgery.** Some efficiency gains will require up-front investments that the Hospital does not at present have. The Princess Margaret Hospital is trying to set up a nongovernmental organization (NGO) called Friends of Princess Margaret Hospital to fundraise for the hospital. There may be creative ways to attract donations from Dominicans living abroad, and from local residents and businesses. In response to the budget crisis, some Dominicans living overseas are sending contributions to their communities, often in-kind. The problem with these contributions is that they may not be the items that the health system most urgently needs. In that case, monetary contributions that could be channeled to purchases through the OECS Procurement System would have more impact.

5.20 **An excellent example of exploiting economies of scale at the regional level, and that can be extended to other services, is the Eastern Caribbean Drug Procurement Service.** The St. Kitts and Nevis government uses a National Formulary to guide purchasing. The government may be able to achieve greater economies of scale by better coordinating other services with its OECS neighbors and other countries in the region, such as specialized laboratory tests and procurement of medical supplies.

5.21 **The health system is predominantly publicly financed through the consolidated fund. All services are free in the primary care system (Type I clinics), Type III health clinics, and the district hospitals. Revenue from user fees is minor.** The only fees charged are for services at the secondary hospital, Princess Margaret Hospital. People with public assistance cards are exempt from user fees. The main objective of the user fees is to generate revenue. As Table 5.3 shows, in FY2000/01, 10.3 percent of the hospital's expenditures were collected from user fees. The user fee schedule was last amended in June 2000. The fees collected are passed on to the government's consolidated account. Only those with public assistance cards are automatically exempted from payment of fees, but in practice, there is huge variation in collection rates from those not on public assistance, mainly by type of service. Laboratory tests, radiology, and the pharmacy have very high collection rates compared to other areas of the hospital. Collection rates for elective surgery are fairly good. Collections from obstetrical patients and for emergency surgery are very low.

Table 5.3. User-Fee Revenue and Revenue as a Share of Princess Margaret Hospital Expenditure, FY2000/01 (US$)

Revenue Collection by Type of Fee	
Hospital Fees	485,624
X-Rays at Hospital	112,219
Laboratory Fees	73,472
Dental Fees	24,740
Total	696,054
Total Expenditure, Princess Margaret Hospital	6,763,384
Total User Fee Revenue as Share of Hospital Expenditure	10.3%

Source: 2002/03 Estimates of the Commonwealth of Dominica.

5.22 **While there has been an effort to increase the billing and collection procedures, there are a host of problems in collection.** The Hospital's billing department reports that it can be difficult to collect the posted fees, because people think the services at the hospital should be free. When patients cannot pay up front, the billing department gets people to sign promissory notes for user fees, but it is then difficult to collect. It also signs people up for a salary deduction from their wages, but some companies will not participate in that effort, and it is administratively costly to collect. The billing department is only open certain hours, so many patients never have contact with it. Privately insured patients might appear to be one straightforward source of revenue, but in practice collecting from the privately insured can be difficult. The administrative costs of collecting from privately insured patients are high—the hospital does not require privately insured patients to pay their portion of the user fees up front. It first pursues collection of the user fees from the private insurance company, and then tries to collect the balance from the patient.

5.23 **There is considerable possibility for increasing collection of user fees, but at the same time the user fee policy would benefit from a review in terms of equity and efficiency.** Table 5.4 illustrates user fees for selected procedures, tests, and hospital stays. Some of the charges appear to be too high—both for public health reasons and for financial protection. In terms of public health, one could argue that there should be no financial obstacle to HIV testing because of the seriousness of the epidemic and its threat to the community at large. In terms of financial protection, an appendectomy or cesarean section carries a considerable fee for the procedure (about US$300), which could be a catastrophic cost to a poor household. Not all poor households are exempt from fees because not all poor households have public assistance cards. Thought should be given to reducing or eliminating fees in some areas or for some groups of people—for disease prevention purposes (the HIV test, for example) and for equity reasons (nonelective procedures that are catastrophic in cost to poor households). If the hospital could be permitted to retain fees to improve the quality of services, that would probably be incentive enough for the billing department to figure out ways to increase collections, especially from the privately insured. Fees could also be increased (beyond the double charge) for nonnationals. Very modest user fees might also be considered at Type III health clinics, with exemptions by type of service (well-baby care, immunizations), and by individual (with a public assistance card), if those fees could be retained by the clinic and reinvested in the services.

Table 5.4. User Fees at Princess Margaret Hospital

Procedure	Charge (US$)
Blood dialysis; repeat blood dialysis	$149; $56
Drugs	$2 per prescription
Pediatric consultation—newborn, day 1	$30
Pediatric consultation, day 2–7	$19
Normal vaginal delivery	$37
Forceps delivery	$75
Cesarean procedure	$299
Appendectomy (acute with complications)	$299
HIV 1 & 2 test	$15
Chest X-Ray	$ 15
Accommodation, including routine nursing services	2-person room, $56 per day; 4–6 person ward, $19 per day; more than 6-person ward, $7 per day

Source: Commonwealth of Dominica Ministry of Health Payment Schedule, 2000. Fees are double for nonnationals.

5.24 **The mandatory social security taxes for public sector and formal private sector workers could play a greater role in the long term in health financing, although it was not set up to contribute much toward health.** But the system has many issues to address in the short to medium term before this could be considered. In terms of health spending, Social Security has of late used a small portion of its collections, US$1 million to US$1.5 million, to offset loans it made to the government to build sections of Princess Margaret Hospital. It also provides some modest assistance in some years in helping members with overseas medical care.

5.25 **The private health sector in Dominica can be classified into five categories: (a) NGOs, (b) private physician (many of whom are publicly employed as well) offering outpatient services, (c) one medical laboratory, (d) private pharmacies, and (e) private health insurance.** There is little formal public–private collaboration in health in Dominica at present, although there is scope for developing greater collaboration to improve the quality and efficiency of care. NGOs are a small segment of the health sector, and are most prominent in family planning services and HIV education and prevention. Major NGOs active in health include the Dominica Red Cross and the Dominica Planned Parenthood Federation. There is also a tiny educational association for diabetes—the Dominica Diabetes Association. The Dominica Red Cross does first aid and CPR training, disaster preparedness and response, and HIV peer education for youths and young adults. The association is small, with three staff, and a total annual budget of about US$48,000. It has 14 branches throughout the island, with volunteer staff. The main sources of contraceptives in Dominica are from the Dominica Planned Parenthood Federation and private pharmacies. The Dominica Planned Parenthood Federation has only one clinic to serve the entire island, and it is located in Roseau. Its annual budget is about US$112,000, with 40 percent from user fees and 60 percent from the International Planned Parenthood Federation (IPPF) and other agencies. The clinic offers pregnancy tests, pap smears, and contraceptives. Because of the cheap prices it obtains, the Dominica Planned Parenthood Federation procures about 60,000 condoms annually (through IPPF) for the government. In addition to supplying the government with condoms and providing them to its own clinic patients, it supplies a network of shops and bars with the same very inexpensive condoms in plain wrappers. It has plans to expand sales by also offering a Caribbean-brand condom with fancier packaging and a higher price. The Dominica Diabetics Association operates from a small office in a closed health center and is staffed by part-time volunteers. The Association holds talks on diabetes and has activities to observe World Diabetes Day.

5.26 **The main for-profit actors in the health sector are pharmacies, private physicians offering outpatient services, and the La Falaise House Medical Laboratory in Roseau.** Pharmacies are not uniformly distributed across the country, and several health districts have no pharmacy. This means when the public health clinics are out of drugs, people living in districts without a pharmacy may have to travel far to get drugs. Many publicly employed physicians also offer private services. The private medical laboratory has been in business 10 years. It gets clients with private insurance and clients who pay out-of-pocket for its services. While it gets patients referred by the government for tests that the Princess Margaret Hospital cannot perform, the government does not reimburse it for these tests—the patient pays directly.

5.27 **In 2000, there were an estimated 0.8 doctors per 1,000 population, and about 4.8 nurses per 1,000 population, which results in a high nurse–physician ratio of about 6 to 1.** Overall, there were 22 specialists and 38 general practitioners at that time.[35] Most were in the public sector (17 specialists, 32 general practitioners), although many also had a private practice. Firms from the United States and United Kingdom travel to Dominica to recruit skilled nurses—usually after the nurses have gained a few years of experience. Conversely, the government recruits physicians and other skilled personnel from overseas. Most Dominica-born physicians attend medical school at the University of the West Indies or in Cuba. Dominica has a very large proportion of nurses relative to nursing assistants, and it could consider making efficiency improvements by substituting nurses with nursing assistants where possible. There is an offshore medical school in Dominica, Ross University School of Medicine, mainly for U.S. students, but there is little collaboration between the School of Medicine and the health system of Dominica. It provides one scholarship a year for its 18-month academic training program.

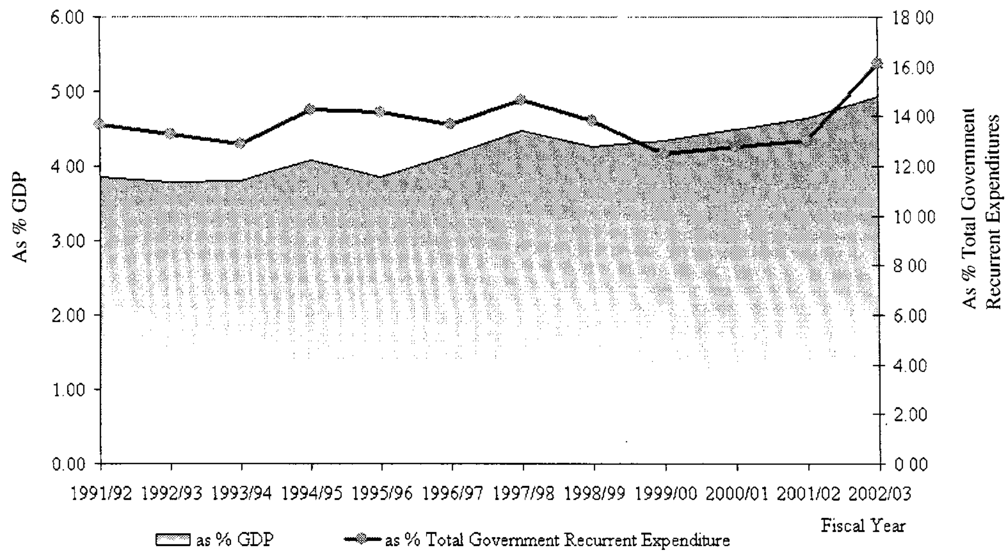
5.28 **Many of the human resource problems in Dominica stem from its small size and its difficulty in retaining skilled staff.** It may have a need for only one biomedical engineer, and if that person leaves, there is no backup. One way to lessen this problem would be to consider if more specialized services might be shared among the OECS countries. This could include specialist physician services, but also biomedical engineering, and even possibly health promotion. The emigration of skilled nurses is something that the government has little control over given the pull forces in the large markets trying to recruit these well-trained nurses. It can best respond, as it has done, by training larger numbers of nurses. The country overall does benefit from the remittances these nurses send back to Dominica.

C. USES OF HEALTH SPENDING IN DOMINICA, FY1991/92–FY2002/03

5.29 **On average, from FY1991/92 to FY2002/03, the public recurrent spending on health as a share of GDP was 4.2 percent per fiscal year, with an upward trend. The share in total recurrent expenditures was 13.7 percent.** As Figure 5.1 shows, in FY2000/01, public spending on health was 4.5 percent of GDP, or 12.8 percent of total recurrent expenditures (or US$167 per capita). The numbers budgeted for FY2002/03 are roughly similar (4.9 percent of GDP, 16.1 percent of total recurrent expenditure, or $170 per capita). However, since FY1998/99 the share of recurrent health spending showed an upward trend. As a share of total government recurrent expenditure, the MoH share has fluctuated between 12.5 percent and 16.2 percent.

[35] Pan-American Health Organization report.

Figure 5.1. Share of Recurrent Health Expenditures in GDP and Total Recurrent Expenditures, FY1991/92–FY2002/03
(percentage)



Source: Dominica estimates for the year. All figures are actual except for FY2001/02, which are revised, and for FY2002/03, which are estimates.

5.30 **Public spending on health in Dominica as a share of GDP is the highest of all OECS countries.** Table 5.5 presents comparative estimates prepared by the World Health Organization for public and private spending on health in the OECS countries and Jamaica. It also indicates that public spending on health is estimated to be about 71 percent of total spending on health in Dominica.

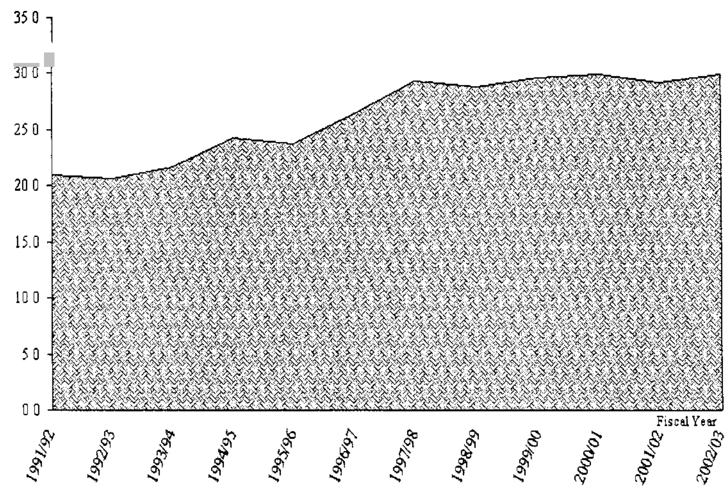
Table 5.5. Comparative Estimates of Health Spending in Dominica Compared to Other OECS Countries and Jamaica, 2001

	Public Spending on Health, as % of GDP	Public Spending on Health, Per Capita	Total Spending (Public and Private) on Health, as % of GDP
Antigua and Barbuda	3.4	$323	5.6
Dominica	4.3	$145	6.0
Grenada	3.8	$188	5.3
Jamaica	2.9	$80	6.8
St. Kitts and Nevis	3.2	$261	4.8
St. Lucia	2.9	$129	4.5
St. Vincent and the Grenadines	3.9	$113	6.1

Note: The figures for Dominica differ slightly from those reported in the text of this chapter. The figures in the text of this report are from the most recent government budget and expenditure books. Also, because no good estimates of private spending on health exist for most of these countries, these numbers should be interpreted with care.
Source: Preliminary estimates, World Health Organization.

5.31 **In constant EC dollars, recurrent expenditures in health increased in the early 1990s, but have remained fairly flat during FY1998/99 to FY2002/03.** As Figure 5.2 shows, from FY1991/92 to FY1997/98, recurrent expenditures in health increased by 5.9 percent per year, mainly due to increases in the wage bill, compared to 0.5 percent from FY1998/99 to FY2002/03.

Figure 5.2. Recurrent Health Spending in Dominica, FY1991/92–FY2002/03 (in EC$ 95)

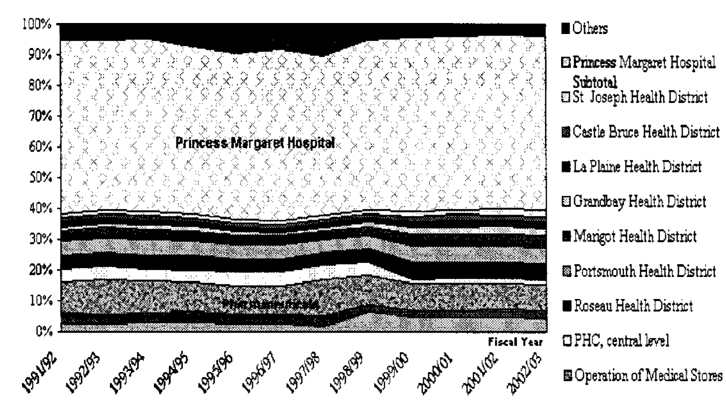


Note: All figures are actual, except for FY2001/02, which are revised, and FY2002/03, which are estimates.
Source: Dominica estimates for the year.

5.32 **Wages represent the largest share of recurrent health spending (74 percent).** On average, from FY1991/92 to FY2002/03, the share of wages in recurrent health spending was about 74 percent, with an upward trend since FY1997/98. As suggested in paragraph 5.14, one of the reasons for this large share is the health care model that Dominica developed based on a large number of Type I clinics and two district hospitals that have very low occupancy and are sidestepped by the population in favor of the Princess Margaret Hospital. In contrast, the share of supplies and materials in health expenditures declined from about 13 percent in the early 1990s to 11 percent in the 2000s.

5.33 **By program, Princess Margaret Hospital's share in recurrent health expenditures has been fairly constant over time, at 56 percent. But in contrast, pharmaceutical expenditures have been severely underfunded in recent years.** As Figure 5.3 shows, the share of pharmaceuticals in recurrent health expenditures decreased from about 10 percent in total health expenditures in the early 1990s to 8 percent in FY2002/03. About 95 percent of drugs and 5 percent of medical supplies purchased by the government are done through the OECS Pharmaceutical Procurement Service, which has been in operation for about 13 years. The OECS

Figure 5.3. Share of Health Programs in Recurrent Health Expenditures, FY1991/92–FY2002/03
(in percentage)



Note: All figures are actual except for FY2001/02, which are revised, and FY2002/03, which are estimates.
Source: Dominica estimates for the year.

Pharmaceutical Procurement Service consolidates purchases of the OECS countries and achieves excellent prices as a result. The government tries to maintain its purchasing of vital and essential drugs even under budgetary pressures. Contraceptives used to be purchased by the public sector but, because of budgetary pressures, were moved several years ago to the nonessential category. Now the only contraceptives purchased with public funds are condoms. The Princess Margaret Hospital and health clinics have experienced drug shortages in recent years due to budgetary pressures, but the situation has particularly worsened in the past year.

5.34 **Moreover, the government has a serious problem of arrears to pharmaceutical suppliers; as of July 2002 it was about US$540,000 in arrears to them.** This was brought down in September 2002 to about US$400,000. Suppliers through the OECS Pharmaceutical Procurement Service require payment within 60 days of the shipment of goods. Dominica averaged 99 days to pay suppliers during FY2002/03—the worst record of the nine countries participating in the scheme (Table 5.6). This problem is not the only one that Dominica faces, because late payments threaten the low prices achieved by the pooled procurement scheme. The OECS Pharmaceutical Procurement Service reported that the number of vendors coming forward to bid fell sharply in 2002, which it attributes, in large part, to the increasingly late payments by the countries in the scheme.

Table 5.6. Average Payment Time, OECS Pharmaceutical Service, by Country, July 1, 2002–June 30, 2003

Country	Average Number of Days To Pay Supplier
Dominica	99
British V.I.	57
St. Lucia	44
St. Vincent and the Grenadines	57
Antigua and Barbuda	82
Grenada	53
Montserrat	72
St. Kitts and Nevis	78
Anguilla	46

Source: OECS Pharmaceutical Procurement Service.

5.35 **The drug shortages in the government's health clinics and the Princess Margaret Hospital can have an impact on both health status and costs, especially for the poor.** Health center staff report that they often cannot give full prescriptions to diabetics and hypertensives—the patients must either locate and purchase the balance on their own, or do without. This can result in serious medical complications that can worsen the condition and result in even costlier treatment. Health staff predict an increase in amputations and strokes from the shortages of diabetic and hypertensive drugs. Health staff from one Type III clinic described in October 2002 the impact of shortages in *fluphenozine* on the schizophrenics in the community. *Fluphenozine* is an injection used to calm schizophrenics for a period of three to four weeks, enabling them to function, hopefully, in the community. With the recent unavailability of this drug, the community's several schizophrenics became so agitated that they had to be committed by the local police to the Princess Margaret Hospital psychiatric ward for inpatient care.

5.36 **The arrears situation has also recently affected the country's vaccination programs, although not so dramatically.** There were temporary disruptions in the country's vaccination program, which has had a sterling record of reaching over 99 percent of children with bacille Calmette-Guérin (BCG, for tuberculosis), diphtheria-pertussistetanus vaccine (DPT), and polio, because of payment problems. Vaccines are purchased through the Pan-American Health Organization's (PAHO's) revolving fund for vaccines.

5.37 **Private spending is made up of (a) out-of-pocket payments for user fees in public facilities; (b) out-of-pocket payments to private doctors, pharmacies, and labs in Dominica; (c) out-of-pocket payments for overseas care; and (4) private health insurance premiums.** User fees collected in the Princess Margaret Hospital amounted to about US$9.50 per capita in FY2000/01. No good estimates exist for the other sources of private spending. Private physicians are mainly in urban areas in the north and south of the island. With the exception of two districts that have a pharmacy, all other pharmacies are in the capital, Roseau. Five firms are registered to sell health and life insurance in Dominica, including the American Life Insurance Company (ALICO), British American Insurance, the Colonial Life Insurance Company (CLICO), Guyana and Trinidad Mutual Life Insurance, and Life of Barbados/Barbados Mutual. Health insurance tends to cover, after deductibles, Princess Margaret Hospital inpatient charges (the user fees), private physician outpatient care, and overseas care. Since private insurance only pays for the user fees at the Princess Margaret Hospital, it should be considered "supplemental" insurance, because the hospital gets most of its funding from general tax revenue. One of the largest insurance companies, Life of Barbados/Barbados Mutual, reported that close to half of the claims paid are for overseas care. Airfare is also reimbursed by some companies. It is difficult to estimate the total population insured, but it is probably between 15,000 and 25,000. There is little oversight as of yet of the health insurance sector by the Insurance Regulation area of the Ministry of Finance. The current laws that regulate insurance are weak. A draft of a more comprehensive Insurance Act has been prepared.

5.38 **Capital expenditures on health have been almost entirely donor dependent in Dominica, with a very large share from the EU.** Until FY2002/03, the government did not prioritize projects within its Public Sector Investment Program. Since then, the authorities have made efforts to increase the focus of the PSIP, and are developing guidelines for enhancing project selection and implementation. Essential repairs are not being made to health centers, despite the consequences (such as the extreme overcrowding of the Princess Margaret Hospital), because of lack of external assistance. The government ultimately needs to start assuming this responsibility with its own revenue base, a task that is not easy in this budget environment, and it also needs to develop ways to further prioritize these investments.

6. THE EDUCATION SECTOR

6.1 Education is fundamental for economic and social development. The human knowledge and skills taught in the education system are a highly valued commodity in the labor market. In Dominica, all indications suggest that education is key to higher income and better jobs. According to the 2002 Poverty Assessment, a household head with primary or less education headed 90 percent of the poor households.

6.2 The Dominican education system has responded in a positive manner to society's pressures by noticeably improving access to secondary school. Large challenges lie ahead, however. As of 2000, less than 20 percent of the labor force in Dominica had completed secondary education, and less than 5 percent graduated from tertiary education. Indeed, the distribution of educational attainment in Dominica resembles Barbados 40 years ago.

6.3 On average during FY1995/96–FY2001/02, Dominica spent 6.6 percent of GDP on recurrent and capital education expenditures.[36] From a regional perspective, this is an exceptionally high share of public spending on education. Latin American and Caribbean countries invest on average below 5 percent of GDP on education. In a Caribbean context, Dominica is equally above average. If this allocation were used efficiently, it would imply a sizable investment in the country's future growth potential.

6.4 However, as this chapter will show, the relatively high level of expenditures did not result in commensurate educational outcomes. While there have been significant gains in coverage, education expenditures suffer from serious efficiency and equity issues. The challenge for Dominica is to improve outcomes and access in the context of a fiscal crisis in which fiscal savings are crucial.

6.5 This chapter reviews education outcomes in Dominica, discusses how education services are financed, organized, and delivered, and suggests interventions to improve outcomes, equity, and efficiency. The main findings and recommendations can be summarized as follows:

Expensive Delivery of Education at the Primary and Secondary Level

- Dominica has one of the most expensive education delivery systems of the OECS countries after St. Kitts and Nevis, mostly due to its high pupil–teacher ratio. The largest fiscal savings will come from increasing the pupil–teacher ratio in primary school to the Caribbean average of 25 pupils per teacher by eliminating at least 170 teacher positions. This will generate savings of about EC$5,000,000 (12.9 percent of recurrent education expenditures). Increasing the pupil–teacher ratio in secondary education to 23 pupils per teacher would generate fiscal savings of approximately EC$2,600,000 (6.7 percent of recurrent education expenditures), or provide additional secondary education to 1,000 students, or 70 percent of what is needed to achieve universal secondary education in 2002. Among the initiatives that the government can consider to increase the pupil–teacher ratio are:

[36] This figure refers to capital and recurrent expenditures in the Ministry of Education, Sports and Youth.

(a) Merging of primary schools. Inefficient use of teachers predominantly takes place at smaller primary schools mainly located in rural areas and experiencing a falling intake because of declining birth rates, urbanization, and migration. A merging of schools based on school mapping would exploit economies of scale in the education system and reduce cost, while increasing quality.

(b) Mandating a minimum floor on class size. Many schools at the secondary level offer subjects with low demand, leading to small class sizes and high costs. Mandating a minimum class size of, for instance, 15—a rule that is in use in many developed countries—would increase efficiency.

(c) Instituting a curriculum reform of secondary education. A common core curriculum for the first three forms of secondary education would reduce the excessive offering of subjects of a specialized nature, such as typewriting, auto mechanics, and metalworking, and lead to larger classes.

(d) Accelerating the phasing out of the Junior Secondary Program (JSP), in order to provide five years of secondary education to all students. This would free up resources and enable a more efficient use of the expensive facilities for vocational training.

(e) Changing funding of publicly assisted schools to one where the school receives a fixed amount per student (possibly an amount sufficient to cover teacher salaries for a pupil–teacher ratio similar to the one in public schools). This would liberate enough teachers to instruct 460 new pupils, a third of what is needed to achieve universal secondary education in 2002, or savings of approximately EC$700,000 (1.7 percent of recurrent education expenditures).

(f) Rewarding well-performing schools. The Ministry of Education could provide incentives for each school to deliver education more efficiently by rewarding schools that commit to increasing the pupil–teacher ratio while retaining part of the savings.

Low Quality of Education Due to a Low Level of Teacher Training. The government could consider:

- Limiting only certified teachers for open teacher positions. This would prevent the lack of teacher qualifications from further deteriorating.

- Establishing a major retraining program of the existing teaching staff, in particular in secondary education. However, this presupposes investments in teacher training courses, either through public or private investments.

Public Unit Costs in Secondary and Tertiary Education are too high. They can be reduced by:

- Raising fees in secondary education. Currently, there exists a de facto policy of small fees. The government could formalize the de facto procedure by instituting a small fee, for instance EC$50 per year (US$18). The fiscal revenue associated with this small fee is minor, EC$150,000 to EC$250,000, but the revenue could be a very important source for quality improvements if the fee was paid directly to the management of each school.

- Raising fees in tertiary education. Nationals paid a fee of EC$250 per semester (US$93) in 2002, which is payable directly to the community college. It constitutes an important source of revenue for the community college—13 percent of total expenditure on tertiary education. Increasing this ratio to 25 percent would generate EC$1.2 million (2.8 percent of the recurrent education budget).

- Increasing regional cooperation between colleges, which in the medium term could pave the way for quality and efficiency improvements through specialization.

Reducing Administrative Costs

- Through deeper cooperation within the country and at the regional level with the development of exams, information systems, strategies, and curricula. This would reduce duplication of work and lead to quality improvements. A 25 percent reduction in administrative costs would imply economies of EC$1,000,000 (2.6 percent of the recurrent education budget).

Better Targeting of Merit Scholarships

- In FY2001/02, the Ministry budgeted EC$522,600 for scholarships awarded to the best-performing graduates from primary education. However, it is doubtful whether the program increases enrollment and completion of secondary education. The government could consider either immediately reducing the merit-based scholarships, or phasing out current commitments without granting new scholarships; alternatively, the government could change the awarding criteria to be need based, as is the stated purpose in the government budget.

A. THE EDUCATIONAL SYSTEM IN DOMINICA

6.6 **Except for preschool education, public and publicly assisted institutions are the main providers of education services.** As Table 6.1 shows, preschool education is mostly provided by private institutions (66 schools). In the 19 publicly assisted institutions, the government only supervises and assists in training activities. Public and publicly assisted schools enroll more than 90 percent of the students in primary school and above. In primary and secondary education, publicly assisted schools are mainly religiously affiliated schools. The government assistance consists of teacher salaries and the transfer of a small per-pupil subsidy.

Table 6.1. Educational Institutions in Dominica by Ownership, 2001–2002

	Number of Institutions				Share of Enrollment (as %)			
	Public	Publicly Assisted	Private	Total	Public	Publicly Assisted	Private	Sum
Preschool	0	19	66*	85	NA	NA	NA	NA
Primary (including JSP)	55	5**	6	66	74.3	18.0	7.7	100
Secondary	7	7	1	15	62.7	34.2	3.1	100
Tertiary	1	0	0***	2	100.0	0	0***	100

NA = Not available.
* Twenty-six preschools are owned and administrated by religiously affiliated organizations.
** Administrated by religiously affiliated organizations.
*** It does not include Ross University School of Medicine, an offshore medical university serving U.S. students with few ties to the Dominican educational system.
Source: Dominica Educational Indicators 2001/02.

6.7 **Although common in a Caribbean context, the existence of a Junior Secondary Program (JSP) parallel to general secondary education is an expensive duplication.** A pupil's results on the Common Entry Exam (CEE) determine whether he or she will enter the five-year general secondary education cycle or the three-year JSP. This system was designed to give pupils that failed to gain access to general secondary education an option to continue their education. However, as this chapter will show, this parallel system implies an expensive duplication of structures and a partial success in outcomes.

6.8 **Provision of preschool education is an example where, if correctly managed, private provision can result in substantial savings for the public treasury.** The virtues and vices of private provision of education continue to be intensely debated in many countries. However, Dominica's current fiscal situation implies that there is no room for the expansion of the education system without tapping into private resources and achieving large efficiency savings. Clearly, increases in access to preschool and tertiary education cannot judiciously take place without further means of cost-recovery and/or private provision of education.

B. EDUCATION OUTCOMES IN DOMINICA

6.9 **In 2002 preschools enrolled about 7 out of 10 children aged 3 and 4.** Preschool enrollment expanded from 2,100 students in 1994 to 2,600 in 1998, and then contracted to 2,144 in 2002. This pattern corresponds to the evolution of the cohort of 3-and-4-year-old children. Net enrollment in preschool education remained constant at about 70 percent from 1994 to 2000 (see Table 6.2).

Table 6.2. The Basics of the Educational System in Dominica, 2000*

Cycle	Preschool	Primary							Exam	Secondary					Exam	Tertiary
Expected age	3–4	5	6	7	8	9	10	11	CEE	12	13	14	15	16	CXC	17–24
Grade	--	K	G1	G2	G3	G4	G5	G6		F1	F2	F3	F4	F5		850
Enrollment	2,144	1,772	1,769	1,707	1,617	1,572	1,595	1,738		1,517	1,514	1,286	1,152	818		
										Junior Secondary Program (JSP)			Exam			
										JSP1	JSP2	JSP3	JSP exam			
										304	425	540				
Net enrollment rate	68%	99%								92%**						10%

*All data are from 2000, except for preschool, which are from 2002.
**Net enrollment rate for the age cohort 12 to 16 attending both general secondary and the JSP. Net enrollment rate for general secondary is 72 percent.
Note: K = Kindergarten; G = Grade; F = Form; CEE = Common Entrance Examinations; JSP = Junior Secondary Program; CXC = Caribbean Examination Council.
Source: Dominica Educational Indicators 2001/2002 and World Bank (2003), "Monitoring Educational Performance in the Caribbean."

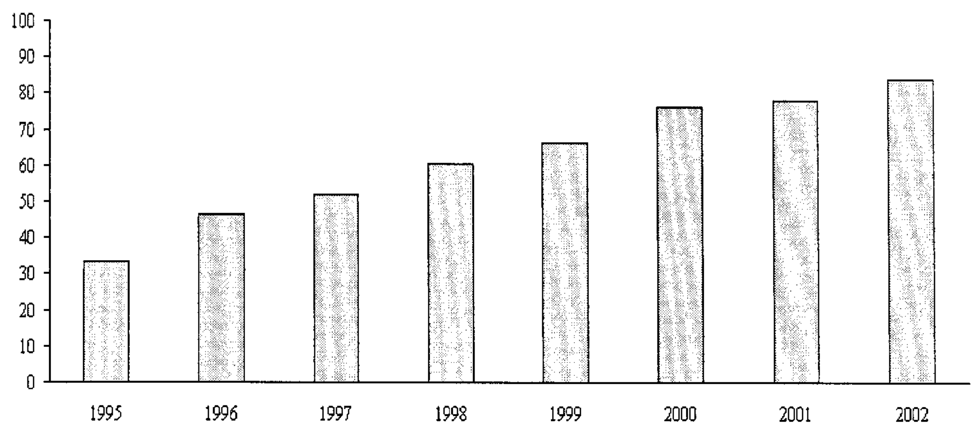
6.10 **Dominica, like most of the OECS countries with the exception of St. Vincent and the Grenadines, has achieved the Millennium Development Goal (MDG) of universal primary education.** Dominica reached universal enrollment in primary education a decade ago. As Figure 6.1 shows, in FY1999/2000 the gross completion rate was 103 percent, with a completion rate of 107 percent for girls and 99 percent for boys.

Figure 6.1. Gross Enrollment and Completion Rates in Primary Education in Caribbean Countries, Selected Years
(in percentage)

Note: The gross and completion rates for primary education correspond to the following years: Belize 2000/01, Dominica 1999/2000, Dominican Republic 1999/2000, Grenada 2000/01, Guyana 1999/2000, Jamaica 1999/2000, St. Kitts and Nevis 2000/01, St. Lucia 2000/01, St. Vincent and the Grenadines 2000/01, and Trinidad and Tobago 1999/2000.
Source: Monitoring Education Performance in the Caribbean (forthcoming).

6.11 **Secondary education underwent a remarkable expansion over the last decade, reaching a gross enrollment rate of 92 percent in 2000, and a completion rate of 56 percent (46 percent for boys and 65 percent for girls).** As Figure 6.2 shows, in 1995, only three out of 10 graduates from primary school were admitted to general secondary education. In 2002, the transition rate increased to 8 out of 10. This impressive development is due to two factors: (a) falling absolute numbers of graduates from primary education, which accounts for 55 percent of the increase in the transition rate; and (b) concerted efforts by the government and donors, the Department of International Development (DFID) and the World Bank, to increase capacity in secondary education. This expansion explains 45 percent of the increase. The progress in enrollment in secondary education in Dominica places the country among the top-performing Caribbean countries in enrollment from primary into secondary education. For comparison, in St. Vincent and the Grenadines only one in two graduates from primary education continues on to general secondary education. This expansion benefited especially the underperforming segments of the student population. In 1995, boys comprised only 40 percent of the intake into secondary education compared to 49 percent in 2002.[37] As Figure 6.3 shows, although the gross enrollment rate reached 91 percent in 1999, only 56 percent of the students completed secondary education. This low completion rate is expected to increase in the next five years to 70 to 80 percent, when the new cohorts that have entered secondary education in 2000 and afterward will complete the educational cycle.

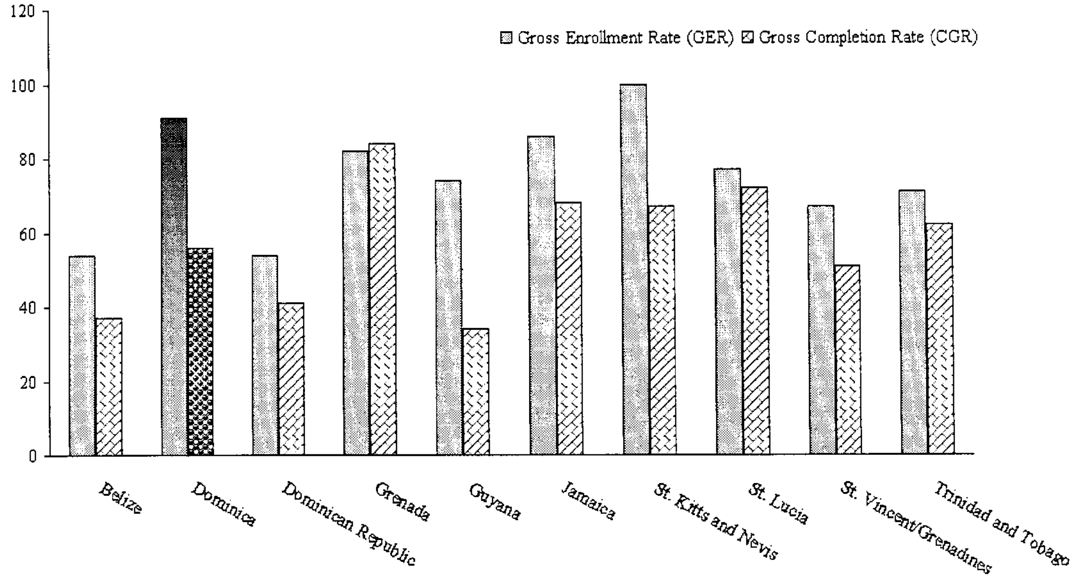
Figure 6.2. Dominica Transition Rates from Primary to Secondary Education
(as percentage)



Source: Author's calculations.

[37] A common problem in the Caribbean educational system is the large difference in learning between boys and girls. In most Caribbean countries girls consistently outperform boys. A case study of the reasons, implications, and policy solutions for this phenomenon is planned for St. Vincent and the Grenadines as part of a pilot to mainstream gender issues in Public Expenditure Reviews.

Figure 6.3. Gross Enrollment and Completion Rates in Secondary Education in Caribbean Countries, Selected Years
(in percentage)



Note: The gross and completion rates for primary education correspond to the following years: Belize 2000/01, Dominica 1999/2000, Dominican Republic 1999/2000, Grenada 2000/01, Guyana 1999/2000, Jamaica 1999/2000, St. Kitts and Nevis 2000/01, St. Lucia 2000/01, St. Vincent and the Grenadines 2000/01, and Trinidad and Tobago 1999/2000.
Source: Monitoring Education Performance in the Caribbean (forthcoming).

6.12 **As secondary education expanded, a declining share of graduates from primary education continued into the vocationally oriented JSP, with a net enrollment rate of about only 20 percent in 2000.** Given that the general secondary schools also have vocational subjects, the parallel existence of JSP and a general secondary program results in lower educational attainment for the pupils attending JSP, an expensive duplication of structures and an inefficient allocation of teacher staff. Moreover, only less than 60 percent of the students enrolled in JSP pass with grades I and II. Therefore, the government could consider accelerating the phasing out of the JSP, in order to provide five years of secondary education to all students.[38] This would free up resources and make a more efficient use of the expensive facilities for vocational training.

6.13 **The Dominican education system displays an exceptionally low drop-out rate in primary and secondary education, but a high repetition rate in secondary education.** In 2002, the drops-out rates were 0.5 percent and 1.9 percent in primary education and secondary education, respectively. Repetition occurs at a moderate rate in primary education, 1 in 20 students repeats, but in secondary education, repetition has doubled from 6 percent in 1996 to 12 percent in 2002, simultaneously with the almost tripling in access to general secondary. The repetition rate is the highest in the Caribbean. The doubling of the repetition rate implies an increase (a) of 33 percent in the average number of school years

[38] There were 21 schools with JSP in 2001, and only 5 planned for school year 2002/03.

before graduation, (b) in the cost to the government of providing secondary education, and (c) in the internal inefficiency of the education system. The inability to instruct the students sufficiently stems from several factors, notably an insufficient learning foundation from primary education, and inadequate training among teachers. The latter is addressed in paragraph 6.43.

6.14 **In the Caribbean Examination Council exam (CXC-exam), a Caribbean-wide exit exam for secondary education, Dominica compares very favorably against other countries in the subregion.** The CXC-exam measures learning outcomes for graduates of secondary education, and hence provides an indication of quality of instruction. On average, 72 percent of students passed English and math in 2000, while the regional average was 51 percent. Although, the results are encouraging, they should be interpreted with caution because of a self-selection problem and comparability of the sample across countries. Not all graduates participate in the CXC-exam, dropouts do not take the exam, and in the case of Dominica, the exam is open to individuals that did not participate in formal classroom teaching.

6.15 **In tertiary education, the community college currently enrolls 850 students, an estimated 7.5 percent of the population of 18-to-24-year-olds.** The government initiated a reform in 2002 that consolidated the existing tertiary education institutions (nursing school, teacher training institution, and the Clifton-Dupigny College) into one administration. Taking into account enrollment at foreign tertiary institutions (UNESCO 2001), total enrollment increases to 1,180 students, and coverage to 10 percent. This is half the average for the Latin America and the Caribbean region. This is an inadequate investment in the country's advanced human capital base. Further, the

Box 6.1. The Tourism Business in the Caribbean

The tourism business drives a significant part of the Dominican economy; it accounts for about 18 percent of GDP, and has the potential for future growth. In the tourism sector, client service is essential for competitiveness. For instance, the French hotel chain Accor recently announced the closing of five hotels, a complete pullout from the French Caribbean Islands, Martinique, and Guadeloupe (Dominica's northern and southern neighbor islands), as reported in the *Financial Times* (November 13, 2002). According to the investors, the reasons were "poor social climate" in general and "high operation costs and poor attitudes to clients" in particular.

Given the potential gains from improvements in client service, can the government catalyze the needed change in service culture and skills? Sector-specific service skills are important, but do not belong to the set of fundamental skills that should be taught in basic education. Service skills should hence be invested in by companies and employees. From a national perspective, firms could underinvest in training due to the risk of job separation. The same is true for employees, because of lack of learning opportunities and no formal recognition of the acquired skills from the employer's side.

Chile sought to overcome these problems by the creation of a certification system called *Competencia Laboral.* The system provides learning guides, self-evaluation tests, verification of learning outcomes, and certification of workers that meet the requirements. A successful completion yields a diploma, which enables the worker to document and market his or her skills. For the tourism sector, a worker can be certified in various professions, such as waitering. For participation, the program focuses on low- and medium-income groups with prior experience in the sector.

Although the program is still in a pilot phase, an impact is already observable. The litmus test for a certification process is whether third parties attach a value to the obtained diploma. In Chile, the experience shows that employers use the diploma in the hiring process. The public (low-cost) policy of certification has hence led to an increased skill formation and higher value added in productive sectors. Dominica could consider instituting a similar process. (For more information, go to www.competencialaboral.cl.)

pressure for entry into tertiary education is likely to grow substantially in the next five years, as completion of secondary school rises from 50 percent to 70 to 80 percent. The challenge for policymakers will be to increase enrollment into tertiary education without further draining the public treasury.

6.16 **Increasing learning opportunities for the adult population and recognizing skills learned outside of the formal schooling system can result in important human capital improvements, and raise labor productivity significantly.** In Dominica, contrary to other OECS countries, the secondary education exam (CXC-exam) is open to both pupils in secondary school and to other individuals. More than 4 out of 10 examinees are individuals that did not participate in formal classroom teaching. Similar exams, or other types of certification mechanisms, could be introduced for skills needed in economic sectors that are critical for the Dominican economy. Box 6.1 explores the case of skills for the tourism sector. The certification mechanisms should follow the example of the CXC-exam and be sustained only by fees paid by the students.

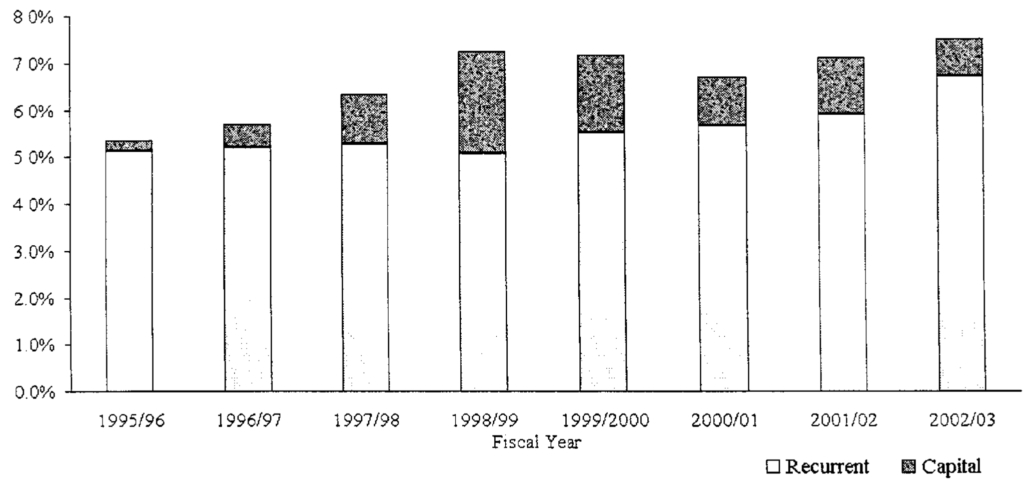
6.17 **In summary, the education system responded in a positive manner to society's pressures, but large challenges lie ahead.** The efforts in secondary school resulted in noticeable improvements in access. Nevertheless, reform initiatives are necessary to address remaining unsatisfactory outcomes, such as: (a) the failure of preschool education to enroll a quarter of the 3-and-4-year-olds, (b) enrollment of 20 percent of graduates from primary to JSP, and (c) only 10 percent of a cohort attends tertiary education. Further, as the analysis will show, the system delivers education in a very expensive manner.

C. USES OF EDUCATION EXPENDITURES IN DOMINICA

6.18 **On average during FY1995/96–FY2001/02, Dominica spent about 6.6 percent of GDP per fiscal year on recurrent and capital education expenditures.** From a regional perspective, this is an exceptionally high share of public spending on education. Latin American and Caribbean countries invest on average under 5 percent of GDP. In a Caribbean context, Dominica is equally above average. If this allocation were used efficiently, it would imply a sizable investment in the country's future growth potential. As this chapter will show, considerable efficiency gains and moderate fiscal savings can be made.

6.19 **Education expenditures increased from about 5.3 percent of GDP in FY1995/96 to about 7 percent of GDP in FY2002/03. However, most of the increase was in capital expenditures.** As Figure 6.4 shows, education capital expenditures increased from 0.2 percent of GDP in FY1995/96 to an average of 1.9 percent of GDP in FY1998/99 and FY1999/2000. Thereafter, education capital spending declined to 0.8 percent of GDP in FY2002/03. The increase occurred as a consequence of the construction of three secondary schools funded by grants and loans and the construction of the Windsor Park project. The three secondary schools were: (a) Northern Secondary Education School funded by the EU, (b) Grand Bay Secondary School financed by DFID, and (c) Castlebruce Secondary School financed by the World Bank. The Windsor Park project accounted for approximately 1.5 percent of GDP and, due to fiscal constraints, as mentioned, the government imposed a moratorium on construction, and only the foundation of the stadium was built. The educational and economic merits of the Windsor Park project are questionable, and are discussed in detail in Chapter 3.

Figure 6.4. Share of Education Expenditures in GDP, Dominica, FY1995/99–FY2002/03
(as percentage)



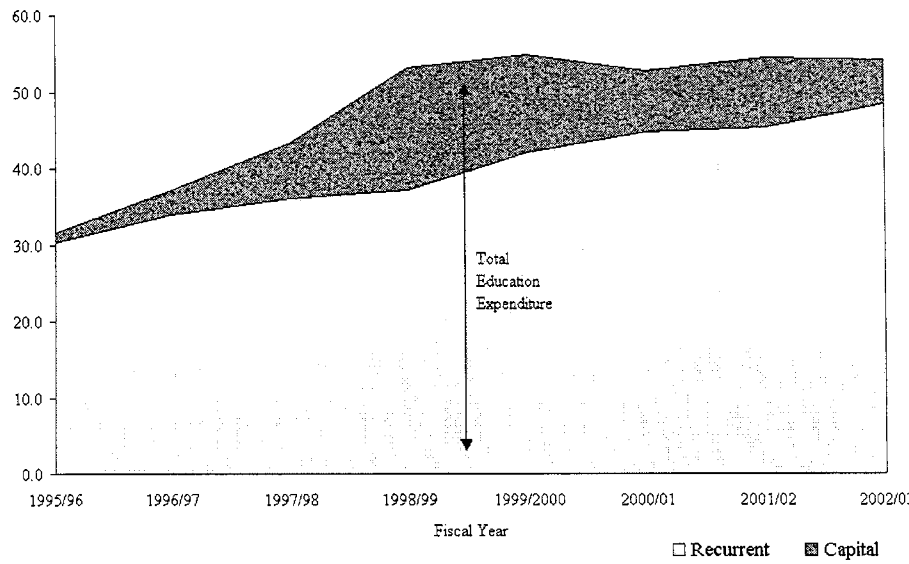
Note: Figures for all years except FY2001/02 and FY2002/03 are actual. In FY2001/02 the figures are revised and for FY2002/03 they are estimates.
Source: Author's calculations.

6.20 **In real terms, recurrent education expenditures increased on average by 7 percent per fiscal year during FY1995/96–FY2002/03, and capital education expenditures increased by 39 percent per fiscal year.** As Figure 6.5 shows, halting the rising trend of recurrent expenditures without deteriorating educational outcomes is one of the major policy challenges facing the government, and is the topic of the next sections. Capital expenditures are expected to decline markedly, with the moratorium on the construction of the Windsor Park project and the completion of all the secondary schools needed for universal enrollment.

Expenditure by Subsector

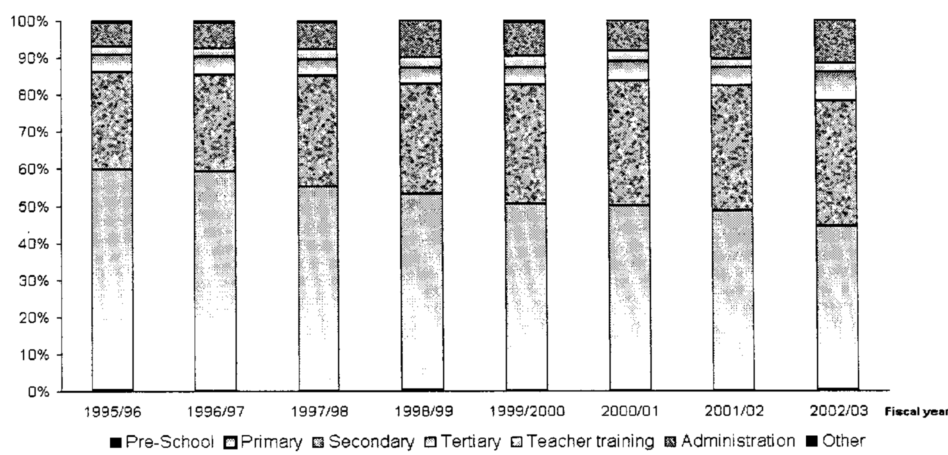
6.21 **During FY1995/96 to FY2002/03, secondary and tertiary education, in conjunction with administrative costs, has taken an increasing share of recurrent education expenditures.** As Figure 6.6 shows, the recurrent education budget for FY2002/03 is allocated in the following manner: preschool education, 0.2 percent; primary education—including JSP—44 percent; general secondary education, 34 percent; tertiary education—including teacher training—11 percent. This allocation is the result of four trends in budget allocations: (a) a reduction in the share of recurrent expenditures to primary education, (b) an increase in secondary education, (c) an increase in tertiary education and teacher training, and (d) a rise in administrative costs. As will be argued below, the increase in administrative costs could be questioned, whereas (a) through (c) reflect the changing needs in the education system.

Figure 6.5. Education Expenditures in Dominica, FY1995/99–FY 2002/03
(in millions 1995 EC$)



Note: Figures for all years except FY2001/02 and FY2002/03 are actual.
For FY2001/02 the figures are revised, and for FY2002/03 the figures are estimates.
Source: Author's calculations.

Figure 6.6. Dominica Recurrent Education Expenditures by Subsector, FY1995/96-FY2002/03
(as percentage)



Note: Figures for all years except FY2001/02 and FY2002/03 are actual.
For FY2001/02 the figures are revised, and for FY2002/03 they are estimates.
Source: Author's calculations.

6.22 **The almost doubling in administrative costs—from 6.5 percent of recurrent education expenditures in FY1995/96 to 11.6 percent in FY2002/03—seems to be only partially warranted.** The increase stems from greater emphasis on policy analysis, data collection, and implementation. Nevertheless, given (a) high fixed costs for policy development, (b) the small population, (c) similarity with other Caribbean countries, and (d) the existence of a subregional education policy center, there exists a strong motive for subregional cooperation within policy development and technical administration. The administrative costs in Dominica exceed those of the average education systems in the Caribbean, which is 10 percent, which in turn is twice the Latin America average of 5 percent. Dominica could therefore emphasize subregional policy development and technical cooperation as a way to reduce the high administrative costs and stimulate quality improvements through international sharing of best practices. A 25 percent reduction in administrative costs would imply fiscal savings of about EC$1,000,000 (2.6 percent of recurrent education expenditures).

6.23 **In accordance with Dominica's demographic and educational transition, resources were shifted from primary education to secondary education.** From FY1995/96 to FY2002/03, the share of the education budget devoted to primary education decreased from 60 percent to 44 percent, while the share allocated to secondary education increased from 26 percent to 34 percent. This shift occurred as the demographic transition of the population reduced enrollment into primary education from 14,400 pupils in 1995 to 11,750 pupils in 2002.

6.24 **In addition, an increase in cost recovery could take place in secondary education through the introduction of minor fees that can be used for learning material and maintenance.** Currently, there exists a de facto policy in public secondary schools of small fees, EC$5–EC$30 per semester. The government could formalize the de facto procedure by instituting a small fee, for instance EC$50 per year (US$18). The fiscal revenue associated with this small fee is minor, EC$150,000 to EC$250,000 (0.5 percent of recurrent education expenditures). Nevertheless, the revenue could be a very important source for quality improvements if the fee was paid directly to the management of each school. Each school principal has a small fund for learning materials and maintenance, and this fee could partially remedy the situation. Preconditions for introducing such a fee are: (a) transparency in the spending decision of each school management; and (b) the operation of a transparent and effective targeted public assistance system, whereby all poor households are exempted from payment.

6.25 **The share of tertiary education in recurrent education expenditures increased from 4.7 percent in FY1995/96 to 7.6 percent in FY2002/03.** In a Latin American context, this share is significantly below average, but so is coverage of tertiary education in Dominica. However, Dominica, like many middle- and low-income countries, will experience a surge in demand for tertiary education following expansion of secondary education. To accommodate a similar expansion, the government of Dominica could consider shifting, as it has already been doing since 2002, a larger part of the costs of tertiary education to its beneficiaries.

6.26 **Dominica is the only OECS country that has introduced a tuition fee for nationals enrolled in tertiary education.** The fee amounted to EC$250 per semester (US$93) in 2002, and is payable directly to the community college. It constitutes an important source of revenue for the community college—13 percent of total expenditure on tertiary education. The additional resources have allowed the institution to increase enrollment and quality of teaching. From a regional perspective, users in Dominica pay around the level of the average Latin American student, which, however, is low compared with fee levels in other regions of the world, notably North America. To accommodate the expected expansion of tertiary education, the government of Dominica could consider delegating the decision on the amount of tuition fee to the Community College. This could potentially allow for an increase in revenue to the institution. This would be in line with international best practice, and would improve the equity of public expenditure on education. A rise of fees should be accompanied by a suitable financing mechanism, such as an unsubsidized student loan scheme that would allow needy students to finance tuition, so qualified students from poor families would not be excluded from tertiary education.

Equity of Spending

6.27 **Dominica's public spending on primary and secondary school is progressive; that is, it is pro-poor. Spending on tertiary education is regressive.** As Table 6.3 shows, based on the 2002 Poverty Assessment, the poorest quintile of Dominica's population received 26.9 percent and 20.1 percent of public expenditure on primary and secondary education, respectively, but only 7.3 percent of tertiary education expenditures. In contrast, the richest quintile received 11.5 and 14.5 percent of primary and secondary education expenditures, respectively, but 32.5 percent of tertiary education expenditures. The progressive spending on primary and secondary education is driven by demographics and high enrollment rates. Moreover, these results support the recommended policy of an increasing transfer of tertiary education costs to the students.

Table 6.3. Enrollment and Education Expenditure, by Quintiles
(in percentage)

Quintile	Primary		Secondary		Tertiary	
	Enrollment	Expenditure	Enrollment	Expenditure	Enrollment	Expenditure
Poorest	126	26.9	61	20.1	9	7.3
2	110	23.5	77	25.3	24	19.5
3	98	20.9	64	21.1	21	17.1
4	81	17.3	58	19.1	29	23.6
Richest	54	11.5	44	14.5	40	32.5

Note: Calculations assume a constant unit cost per individual within each education level.
Source: World Bank calculations.

6.28 **The most important educational barrier for low-income families is limited access to secondary and tertiary education.**[39] International evidence overwhelmingly demonstrates that such barriers to entry into education disproportionately hurt the educational

[39] Unfortunately, the Poverty Assessment conducted recently by the Dominican government does not have an education module that allows evaluation of who are the main beneficiaries of the school feeding program, textbooks, and other education subsidies.

chances of children from poor and uneducated families. Consequently, equitable policies would: (a) complete the provision of universal secondary education and improve the quality of primary and secondary schools to assure all school leavers learn adequately enough to find meaningful employment in the labor market; and (b) overcome barriers in access to early childhood development and tertiary education.

6.29 **The school feeding program could be an important incentive for school attendance of children from low-income families. Recently, however, it was downscaled.** The school feeding program covered 22 schools and 40 daycare centers in 1996, but was downscaled and covered only 7 primary schools in 2002. Fiscal costs were reduced through an EC$1 per day fee, which can be waived by school authorities, and reliance on parents to volunteer. It is estimated that student contributions to the program cover less than 15 percent of total costs. No formal impact analysis has been undertaken. However, qualitative evidence suggests that the school feeding program promotes attendance and learning outcomes. Participating schools were selected based on the Ministry's assessment of which schools serve the poorest populations, and estimated distances that children walk to school. Policymakers could consider increasing funding, or at least safeguarding expenditures to this important low-cost program to cover additional schools in low-income areas, or exempt poor household from paying the daily fee.

6.30 **The Education Trust Fund (ETF) provides assistance to needy students for transportation, uniforms, books, and external examination fees.** Total expenditures on the trust fund were EC$28,869 in FY2000/01.[40] Approximately 350 students received assistance from the ETF in FY2001/02. Over 95 percent of beneficiaries attended secondary school. Based on school enrollments, the incidence of poverty among children, and the number of ETF beneficiaries, we estimate that the ETF provides benefits to less than 1 in 10 needy students. Clearly, a scaling up of this program could improve educational attainment among poor households. However, there are no clearly established criteria for eligibility. Each board member of ETF decides eligibility in his or her district. Hence, a scaling up of the fund would require a more systematic selection of beneficiaries to benefit the target group.

6.31 **The merit-based scholarship program seems to be an expenditure line that benefits the relatively well off without an apparent impact on school attainment.** In FY2001/02, the Ministry of Education budgeted EC$522,600 for scholarships awarded to the best-performing graduates from primary education. Anecdotal evidence, which is backed by international evidence, suggests that students from high-income families in general win merit-based scholarships. It is doubtful whether the program increases enrollment and completion of secondary education. The recipient student group would in most cases have attended and performed well in the absence of a scholarship. Thus, the public rationale for funding a large merit-based scholarship program is weak. Policymakers could consider either immediately reducing the merit-based scholarships, or phasing out current commitments without granting new scholarships. Alternatively, the government could change the awarding criteria to need based, as is its stated purpose in the government budget.

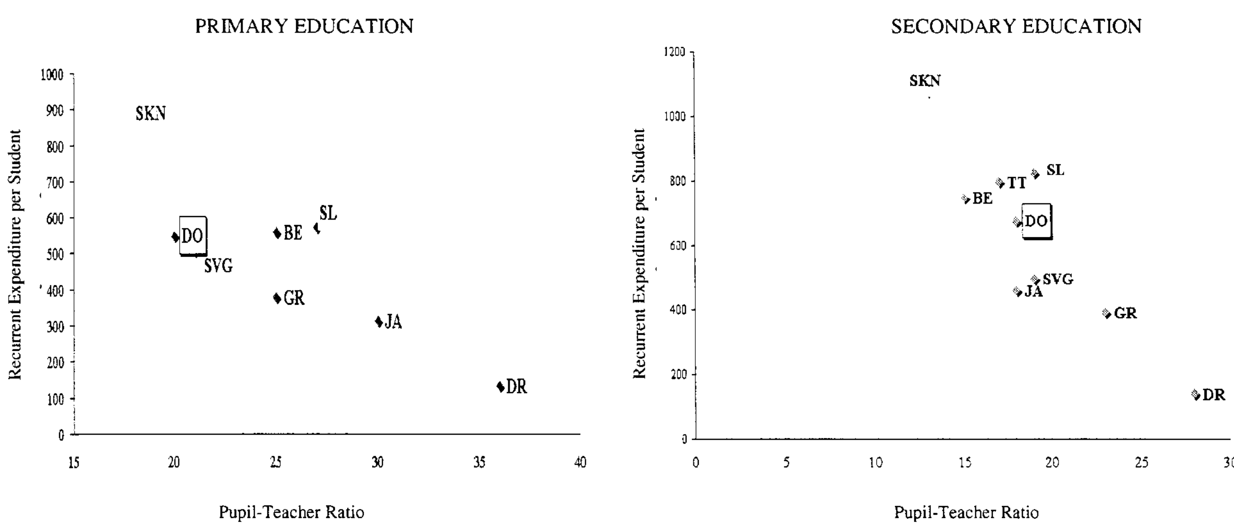
[40] In addition, the fund receives contributions and raises money through community-based fundraising.

Efficiency of Spending

6.32 **Across the subsectors, there is an urgent need to rethink the allocation of recurrent expenditures.** Currently, salaries amount to almost all recurrent expenditures, 92 percent in FY2001/02. This is particularly pronounced for primary education, where 96 percent of all expenditures are remuneration of personnel. This leaves inadequate resources to other crucially important learning inputs, such as writing paper, textbooks for poor students, and school maintenance. This skewed allocation of expenditure toward salaries unnecessarily reduces the effectiveness of public resources, and results in inefficiently low learning.

6.33 **The pupil–teacher ratio is the key concept for enhancing efficiency of the education system.** The low pupil–teacher ratios in Dominica make its education system among the most expensive in the Caribbean, after St. Kitts and Nevis, and strongly indicate room for savings. The costs of provision by the education system depend on two factors: (a) the average salary of the teacher staff, and (b) the number of pupils taught by each teacher. The latter is measured by the pupil–teacher ratio. A low pupil–teacher ratio implies a greater number of teachers are employed, and the more expensive is provision of education. Figure 6.7 shows just how closely this indicator is linked to unit costs of education in the Caribbean. In Dominica each teacher in primary education instructs on average 20 pupils. For secondary education, the ratio is 18. This compares to 25 and 18, respectively, for the average Caribbean country. Hence, primary schools, in particular, have smaller classes and more expensive delivery than the average Caribbean country, which suggests that teacher deployment and class sizes can be managed in a more efficient manner. As developed below, the potential savings from an increase in the pupil–teacher ratios are non-negligible.

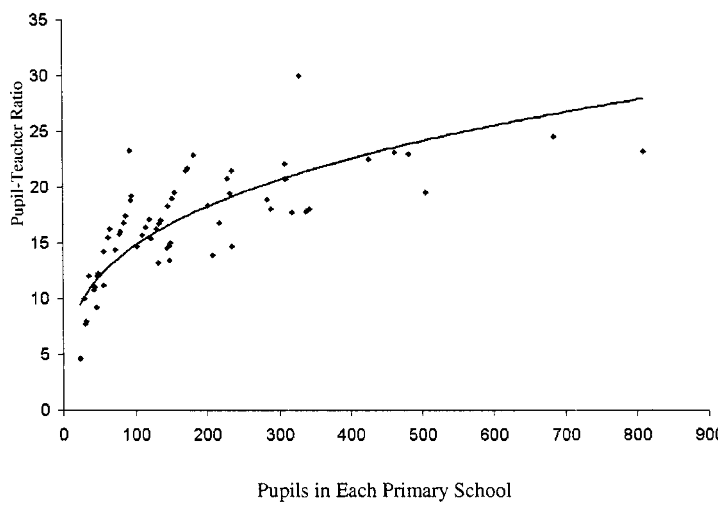
Figure 6.7. Pupil–Teacher Ratio and Costs of Education in the Caribbean Region, 2000 (in US$)



Source: "Monitoring Educational Performance in the Caribbean," World Bank (forthcoming)

6.34 **During 1998-2002, the pupil–teacher ratio in primary education declined due to falling cohorts and additional hiring. Raising the pupil–teacher ratio to an average of 25 pupils would imply moderate fiscal savings.** In 1998, each primary teacher instructed on average 25 pupils. Enrollment into primary education declined from 13,700 in 1998 to 11,750 students in 2002. To have kept the same level of cost-efficiency as in 1995, the primary teacher staff would have had to contract by 141 teachers. However, between 1998 and 2002, the primary teacher corps expanded by 31 teachers. Since the demographic evolution of the country dictates that the absolute enrollment into primary education will continue to decline in the near future, it is important for cost-efficiency that no new hiring takes place. Moreover, if the pupil–teacher ratio for primary education were raised to the average Caribbean level, 25 pupils per teacher in primary education, the required teacher staff in primary education would decline from 642 teachers in 2002 to 470. Shedding of the 172 redundant teacher positions, either through attrition or layoffs, would generate savings of about EC$5,000,000 (12.9 percent of recurrent education expenditures).[41]

Figure 6.8. Exploiting Economies of Scale in Primary Education



6.35 **Inefficient use of teachers predominantly takes place at smaller primary schools.** A merging of schools based on school-mapping exercises, and examining busing options for children from small villages and future demand for schooling, would allow the system to exploit the economies of scale in the education system, and reduce cost, while increasing quality. Figure 6.8 shows that larger schools manage teacher staff more effectively, especially the very small primary schools—defined as schools with less than 50 pupils—which have a very low pupil–teacher ratio of below 15. These pupils cost the public coffers twice as much in teacher resources per student compared to larger schools. These small schools are located in rural areas and experience a falling intake because of declining birth rates, urbanization, and migration. These demographic factors are expected to continue at least in the next decade; thus, the costs per student will continue to rise in the absence of policy action.

6.36 **Based on exam results in primary education, lower pupil–teacher ratios do not necessarily increase learning outcomes in Dominica.**[42] It is often argued that additional

[41] The savings do not include the cost of separation, including compensation packages.

[42] Regression analysis using the size of the school, the pupil–teacher ratio, the share of teacher staff with teacher training, and ownership of the school (private, publicly assisted, and government school) explains 38 percent, of the variation in the primary schools' average passing rate at the common entrance exam. Only the pupil–

teachers in the classroom increase student learning. However, in Dominica a higher pupil–teacher ratio is statistically related to increased performance of pupils in primary education. The positive effect of a higher pupil–teacher ratio arises from a symbiosis of several related factors. The successful primary schools are larger urban schools with a higher pupil–teacher ratio, better-educated staff and, importantly, pupils from better-educated families. Unobservable factors such as motivation of teachers, involvement of parents in school management, and school leadership are likely to be important underlying factors for the finding as well. The result suggests that an increase in the pupil–teacher ratio could take place without decreasing quality of education.

6.37 **Furthermore, efforts to raise the pupil–teacher ratio in public secondary education from the current 18.7 to 23 would increase the teacher capacity enough to provide teaching for 1,000 additional pupils.** This corresponds to 40 percent of what was needed to provide universal secondary education in 2002.[43] Alternatively, the increased efficiency would reduce the required teacher force by 90 teachers. A reduction of the teacher staff by this number could provide fiscal savings of EC$2,600,000 (6.7 percent of the recurrent education expenditure).

6.38 **In addition, a different design for subsidies to publicly assisted secondary schools could increase the pupil–teacher ratio in secondary education and reduce the cost for the government.**[44] Currently, the government pays for all teacher salaries plus a supplement (EC$45) per pupil to seven nongovernmental secondary schools (religiously affiliated). Given the funding method, the assisted schools have little incentive to be cost-efficient with teacher management. The government-assisted schools have the lowest pupil–teacher ratio, 15.6, which compares to 18.7 and 20.8 for government schools and the only private secondary school, respectively. The government could consider either:

(a) *Changing funding of publicly assisted schools to per-pupil funding*, where the school receives a fixed amount per student (possibly an amount sufficient to cover teacher salaries for a pupil–teacher ratio similar to the one in public schools), or

(b) *Signing contracts with assisted schools* to increase the pupil–teacher ratio to the level in public schools over a certain period of time.

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teacher ratio is statistically significant, and with a positive impact. Hence, the analysis would suggest that a higher pupil–teacher ratio leads to a better outcome. However, this could be an impact of omitted factors, such as the socioeconomic status of the children attending the school. With regard to the other variables, a higher share of certified teachers is related to a higher passing rate, but not statistically significantly so. The size of the school is insignificantly related to a higher passing rate, and private and publicly assisted schools are insignificantly related to a higher passing rate.

[43] An increase in enrolment into general secondary education would imply a decrease in enrolment into the JSP, and would thereby liberate teacher capacity at the JSP level.

[44] The same subsidies policy applies to publicly assisted primary schools. However, the pupil–teacher ratio for public primary schools was 19.3 to 1 in 2001 compared to 24.0 to 1 for the five publicly assisted primary schools.

Raising the pupil–teacher ratio to the level in public schools would liberate enough teachers to instruct 460 new pupils, 30 percent of what was needed in 2002 to reach universal secondary education. Alternatively, it could reduce the needed number of teachers by 25, which would amount to a saving of approximately EC$700,000 (1.7 percent of recurrent education expenditures).

6.39 **The government could consider several other policy initiatives to increase the pupil–teacher ratio in primary and secondary education.** The following policies would, if rightly managed, lead to higher efficiency and quality improvements:

- *Instituting a curriculum reform of secondary education.* A common core curriculum for the first three forms in secondary education would reduce the excessive offering of subjects of a specialized nature, such as typewriting, auto mechanics, and metalworking, and would lead to larger classes. Further, such a reform could be combined with a modernization of offered courses that equip the pupil with more skills that are relevant for today's labor market. Besides improving efficiency through larger classes, a common curriculum within OECS could lead to further efficiency gains through common regional exams during the course of secondary education, collective textbook purchases, and sharing of teachers. Such a reform is under way in an OECS context, but implementation has been lacking.

- *Mandating of a minimum floor on class size at the primary and secondary level.* Many schools, in particular at the secondary level, offer subjects with low demand, leading to small class sizes and high costs. Mandating a minimum class size of, for example, 15—a rule that is in place in many developed countries—would increase efficiency.

- *Rewarding well-performing public schools.* The Ministry of Education could provide incentives for each school to deliver education more efficiently, possibly through establishing a contract with each school management, in which the school commits itself to increasing the pupil–teacher ratio, and as a reward retains a part of the savings. For such decentralization to function effectively, international experience shows that local and national school management often needs strengthening.

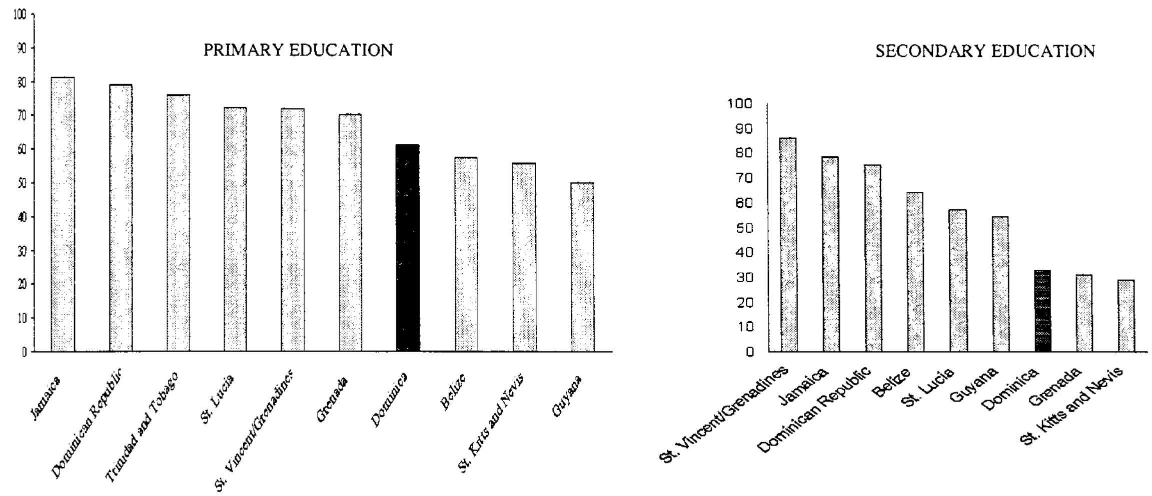
6.40 **Besides the quality of instruction and number of pupils taught, the salary level of the teacher staff is the most important factor for efficient provision of education.** The typical primary school teacher in Dominica receives EC$29,400 per year, which is slightly above the OECS average of EC$27,800. When compared to the income level of each country, primary teachers in Dominica are paid relatively more than their colleagues from other OECS countries. Dominican teachers receive a salary corresponding to 303 percent of GDP per capita, while the average OECS teacher earns 252 percent of GDP per capita.[45]

[45] The same pattern arises when the salary of the average employee of the Ministry of Education in Dominica is compared to the salary of colleagues in other OECS countries. The absolute wage level in Dominica is slightly above the OECS average (EC$33,700 compared to EC$30,600), while the wage relative to GDP per capita is noticeably higher for Dominicans than elsewhere in the OECS, (348 percent of GDP per capita compared to 274 percent).

Importantly, this analysis does not necessarily indicate that teachers per se are more highly paid than other public employees with similar skill level. The higher salary is a result of higher salaries to all public employees in Dominica compared to other OECS countries.

6.41 **Quality of instruction, and especially teacher qualification, is key for increasing effectiveness of learning and efficiency of investment.** A major determinant of quality of instruction is the education and training of the teacher corps. The Dominican teacher corps belongs to the least certified in the subregion. As Figure 6.9 shows, in 1999, 6 out of 10 teachers in primary education were certified. In secondary education, only 3 out of 10 teachers were certified.[46] Moreover, teacher quality in secondary education has deteriorated in the last five years as the secondary education system expanded without available trained teachers. The implication in terms of quality of instruction is expected to be significant; international evidence shows that low teacher qualification leads to deteriorating learning outcomes. Furthermore, the lack of adequate training leads to lower efficiency since repetition increases and teachers become less flexible.

Figure 6.9. Share of Trained Teachers in Primary and Secondary School, Dominica, 1999
(in percentage)



Source: "Monitoring Educational Performance in the Caribbean," World Bank (forthcoming).

6.42 **The government could consider stipulating that in the future only certified teachers will qualify for open positions in order to improve and strengthen teacher qualifications.** This would prevent teaching qualifications from further deteriorating. Further, to seriously address the shortfall of training, a major retraining program of the existing teaching staff could take place. Provided efficiency gains take place in the system, time would be generated for teachers to attend retraining courses. This, however, presupposes public or private investments in teacher training courses.

[46] More recent domestic statistics (from 2000/01) indicate that the ratios are even lower; only 5 out of 10 teachers in primary education and 2.3 out of 10 teachers in secondary education are certified. This is the lowest percentage among Caribbean countries.

7. SOCIAL PROTECTION PROGRAMS IN DOMINICA

7.1 Social protection programs are public interventions to assist the most vulnerable groups of society, with the objective of ensuring a minimum level of welfare for individuals, households, and communities.[47] The most common social protection tools to address the social risks of vulnerable groups are social insurance and social assistance.

- Social insurance consists of mechanisms that pool social risks across population groups, such as pension, unemployment, and health insurance programs.

- Social assistance programs are designed to help the poor, vulnerable individuals and households cope with temporary or chronic poverty by providing income support and access to basic services. Social assistance programs aim to address the specific needs of groups at risk, and include a variety of programs such as cash and in-kind transfers, subsidies, workfare, public works, housing programs, and social funds.

7.2 Dominica implements a range of social insurance and social assistance programs that, in combination, address (or attempt to address) the critical risks and vulnerabilities faced by the population. Most of the social assistance programs in Dominica emphasize risk-coping strategies; that is, programs to help households cope with the effects of risk (especially poverty), rather than prevention and mitigation strategies. In particular, the existing social assistance programs are not well poised to respond to income volatility originated either from significant economic downturns or natural disasters.

7.3 Social protection expenditures in Dominica increased from 4.2 percent of GDP in FY1995/96 to about 5.6 percent of GDP in FY2000/01, or slightly above the average for the Latin America and the Caribbean region.[48] Nevertheless, in moving forward, the challenge for Dominica is to: (a) strengthen the impact of existing social assistance programs through improvements in targeting, monitoring, and implementation capacity, and expand coverage of certain programs while taking into account existing budget constraint; (b) increase the capacity of social assistance programs, such as the Road Maintenance and the Education Trust Fund, to be scaled up or down in the face of economic downturns or natural disasters; and (c) expand coverage and ensure the financial sustainability of the Dominica Social Security Fund. To address these challenges Dominica will have to reallocate resources among programs and possibly rethink existing and/or pipeline projects, especially community-based programs.

[47] It is important to note at the outset that very little social protection economic sector work had been undertaken in Dominica prior to this report. Five different ministries and over 10 different departments within these ministries administer social protection programs. Program-level budget information is not available for all programs. This made programs difficult to identify, and collection of complete time series data on expenditures and beneficiaries impossible. Despite these constraints, considerable progress was made in identifying social protection programs, expenditures, and key issues.

[48] These figures include recurrent and capital expenditures. In terms of only recurrent expenditures, social protection expenditures increased from 4.2 percent of GDP in FY1995/96 to 5.1 percent of GDP in FY2000/01.

7.4 This chapter identifies vulnerable groups, describes social protection strategy and programs in Dominica, reviews social assistance and social insurance spending, and suggests policy recommendations for strengthening social protection in Dominica. The main recommendations to strengthen social protection programs can be summarized as follows:

On Social Protection Reforms

- Reallocate resources from programs with low returns (mainly training programs) to social protection programs that protect investments in children's education, and make these benefits conditional on school attendance. This reallocation should be in the context of a fiscally sustainable economic framework and may need to come from a rethinking of existing donor-funded projects.

- Reorient the Road Maintenance Program, a public works initiative, to a program that can be quickly scaled up and down when external shocks occur by better targeting and more rotation of workers.

- Improve management information systems and program monitoring and evaluation to promote greater fiscal accountability, and to allow programs to be scaled up when external shocks occurred.

- Ensure the long-term solvency of the Dominica Social Security Fund—to include reforms recommended by the International Labour Organization (ILO) Actuarial Report, agreements identified in the 2002 Memorandum of Understanding between the Dominican government and the Dominican Social Security (DSS) scheme, and other reform strategies to be identified as part of analytic work being financed by the World Bank.

On Institutional Reforms

- Develop a social protection strategy. This would require sector wide planning; that is, all ministries and agencies responsible for implementing social protection programs would come together to identify social protection priorities and coordinated strategies to address these priorities.

- Develop a more effective and efficient system of identifying beneficiaries, including mechanisms to target households and communities (poverty maps), particularly for Public Assistance, the Education Trust Fund, and the Road Maintenance Program.[49] The system should be easy to administer and should apply uniform and objective criteria, screening instruments, and procedures for approval.

[49] The wage rate for the Road Maintenance Program should not be based on the market wage, but on estimates of some minimum living standard below the market wage. This will ensure that only the most needy participate. Poverty maps may be useful in targeting geographic areas for implementation of the public works program.

- Implement regular household surveys to assess poverty levels and the incidence and coverage of social safety net programs that could be used to assist in the development of targeting systems.

- Enhance fiscal accountability through introduction of program budgeting for social protection programs not currently identified as programs in the budget; for example, social public assistance and the road maintenance program.

A. DOMINICA SOCIAL PROTECTION STRATEGY AND PROGRAMS

Social Protection Strategy in Dominica

7.5 **The Government of Dominica's stated social protection strategy is to pursue economic growth, complemented by pro-poor policies and programs that reduce inequalities and promote human capital development.** The government is committed to provide safety nets that will enable people to meet their consumption needs and that promote income security, employment, and income generation. Resources have been mobilized to enable poorer communities to access basic social services, create short-term employment and training opportunities, and to empower women for community leadership and employment. A related goal is to ensure better targeting of limited resources so that they reach the poorest and most vulnerable. Parallel social sector strategies focus on expanding access to and equity of secondary education and improving education outcomes, expanding access to tertiary education, and ensuring access to and strengthening health services.

7.6 **Social protection programs are primarily targeted to indigent households, to needy children in the formal school system, and to the unemployed.** As part of its overall social protection strategy, the government provides free primary health care for all citizens at health clinics and district hospitals and fee waivers for public assistance beneficiaries at the Princess Margaret Hospital. The Social Security system targets employed and self-employed people, although coverage of the self-employed is generally low.

7.7 **To the extent that they are poor, banana workers and former banana workers are covered by the existing social protection programs, including the European Union (EU) Social Protection Program—specifically targeted to banana workers who were affected by changes in the industry.**[50] It is important to note here that, as indicated in the Social Protection Review prepared by the World Bank, the main consequences in poverty and employment of the loss of banana trade may have already occurred. This is evidenced by the fact that the incidence of poverty in the banana industry is relatively low compared to other economic sectors. This may be an indication that most of the inefficient banana producers have already exited the sector, and those that remain are in a relatively stronger position.

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[50] The loss of banana trade preferences has had a dramatic effect on the Dominican economy. Production of bananas for export declined from 60,000 metric tons to 70,000 metric tons in the late 1980s–early 1990s to under 30,000 tons in 2000, with the consequent decline in employment (the number of banana producers dropped from over 6,600 in 1990 to less than 1,200 in early 2002).

7.8 **This stated, the existing social protection strategy does not address critical vulnerabilities. Low and volatile incomes are a source of risk in Dominica. However, social protection programs are not well poised to address income volatility and transient spells of poverty.** Dominica would benefit from a social protection strategy (and programs) that address income volatility and loss of income due to short-term unemployment, while also focusing on providing income support to the poorest and most vulnerable; building and protecting human capital and human capital investments; and insuring against the loss of income in old age due to retirement, illness, or disability.

7.9 **Further, coordination among programs is weak. There is a significant degree of overlap in existing programs and beneficiary groups.** The most dramatic examples are in the area of skills training, where different ministries and agencies undertake similar types of skills training for overlapping constituencies. The same is true with respect to community-based infrastructure development programs, such as the Caribbean Development Bank (CDB)-funded Basic Needs Trust Fund (BNTF), the Eastern Caribbean-funded Social Protection Program, and the pipeline EC Social Investment Fund (SIF)—all of which have similar approaches and project menus. A clear strategy to guide the design and development of social protection interventions is needed. This will require enhanced data collection, analysis, and planning capacity.

7.10 **The absence of a coordinated social protection strategy makes fiscal prioritization impossible.** This is reflected in the budgeting process during which budgets are largely determined by previous budget allocations rather than in response to changing needs and priorities.

Social Protection Programs and Expenditures in Dominica: FY2000/01

7.11 **Dominica has implemented the following social protection programs:**

- Social insurance programs: Dominica Social Security (DSS) scheme.

- Social assistance programs: a means-tested income transfer program[51]; a labor-intensive road maintenance program; education-based programs (a School Feeding Program and Education Trust Fund for needy students); skills training and adult education programs; donor-funded, labor-intensive, community-based infrastructure development activities, including the Basic Needs Trust Fund (BNTF) and the Social Protection Program; and others.[52]

The key social protection programs are summarized in Table 7.1.

[51] A means test is an appraisal of household income and assets to determine whether a household qualifies for program benefits.

[52] Housing initiatives were not included because they are not targeted to the poorest or most vulnerable. Rental units, originally targeted to low-income households, are no longer rented to low-income households. The Dominica government is considering divesting these properties. The government's other housing program provides subsidized mortgages. However, the poor are excluded by virtue of mortgage, income, and collateral requirements.

Social Insurance Programs[53]

7.12 **The Dominica Social Security (DSS) scheme accounts for the largest share of total social protection expenditures (61.3 percent).** The scheme is funded by contributions and returns to investments; covers private, public, and self-employed workers; and provides pension, disability, survivors, health, sickness, maternity, employment injury, and redundancy benefits (the latter available only to private sector workers). However, many self-employed workers do not contribute to the scheme, and those that participate declare low earnings. In addition, agricultural workers are generally not covered. The number of active insured increased from 14,400 in 1991 to over 21,000 in 1999, but declined to 18,200 in 2000—probably as the result of increasing unemployment. During the same period, the number of pensioners more than doubled—from approximately 1,000 to 2,350.

7.13 **During 1995-2002, the Dominican government was in arrears to the DSS.** Between 1995 and 2002, the government made few payments to the Social Security Fund. A Memorandum of Understanding, which seeks to arrest the accumulation of arrears and minimize future ones, was signed between the Dominican government and DSS in September 2002. EC$16 million of the arrears was cleared in December 2002, by issuing a zero coupon bond with an interest rate of 7 percent and a 10-year maturity period. The remaining stock of arrears outstanding as of end-March 2003 was EC$36 million. However, the government did not stay current in its payments, and additional payment arrears of EC$2.7 million accumulated in the first quarter of 2003. The Government resumed regular payments to DSS in July 2003. The outstanding stock of arrears will be cleared by a barter arrangement for land and shares in the National Commercial Bank and other statutory agencies.

7.14 **While DSS is financially stable in the short and medium term, its long-term sustainability is at risk due to several factors.** First, regular contributions by the Government need to be ensured. Second, DSS needs to strengthen its asset management strategy to enhance returns on investments, notably by diversifying its investments regionally and internationally. Third, the population of Dominica is aging. In 1999, there were about 5 people supporting each old age pensioner, whereas by 2050, there will be only 2.5 people of working age for every old-age person. Under status quo conditions, total revenue (contributions plus investment earnings) will exceed expenditure until 2011. After 2011, a growing part of the accumulated reserve will have to be used, and the reserve will be exhausted by 2023. The 2001 ILO actuarial report recommended that contributions for the long-term benefit branch increase from the current rate of 6 percent to 18 percent by 2040. The report also recommended a gradual increase in the retirement age from 60 to 65 over a 20-year period (see Box 7.1). Finally, a possible restructuring of government's obligations to DSS, currently under discussion, could substantially reduce the value of DSS's reserves. Thus affecting its medium to long-term financial sustainability.

[53] A follow-up review of the status of Dominica's pension system was conducted by a joint IMF-World Bank mission in June 20205. The review updated information on the status of the pension system in light of a possible restructuring of DSS's holdings of Government debt under discussion and proposed options for pension reforms aimed at improving the accountability and efficiency of the pension system.

Social Assistance Programs

7.15 **Labor market interventions, including employment and training programs, absorb the second-largest share of total social protection expenditures (21 percent).** The Road Maintenance Program, a public works program, accounts for the lion's share of that—approximately EC$5.8 million, or 14 percent of total government expenditures on social protection for the wage portion of the program. The program employs approximately 900 workers annually to clean roadways and do light road maintenance work for periods of four to six weeks. Workers are paid the government minimum wage, which is below the prevailing wage rate for unskilled labor. The Ministry of Communications, Works and Housing estimates that less than 10 percent of workers are female. Workers can be reemployed so that, in many ways, the program functions as a seasonal employment program rather than a revolving employment program. Parliamentary Representatives can nominate workers, and there is a general perception—among the poor and among ministry personnel—that political party affiliation often affects whether a worker gets hired. Better targeting (through the use of some minimum living standard below the market wage), increased rotation of workers, and implementation of systems to ensure that the program can be scaled up and down in the face of external shocks, would strengthen the social protection function of the program.

7.16 **Entry-level skills training programs targeted to different vulnerable groups are implemented by two ministries (and several divisions within one of those ministries) with considerable overlap in target groups and subjects taught.** This diversity of training programs, including programs implemented by the Youth Division, Adult Education Division, Women's Bureau, and Cooperatives Division, with funding from the government and from the BNTF and the Social Protection Program, means that limited training resources—both human and financial—are spread among multiple programs. In addition, there is inadequate labor market information to guide program development, a lack of standardized content, and uncertain labor market outcomes. All programs provide entry-level reemployment skills training—despite the fact that international experience suggests that the economic returns to this type of training are generally low (Dar and Tzannotos 1999). Resources ought to be reallocated from training programs to social protection programs that protect investments in children's education, and these benefits should be made conditional on school attendance.

7.17 **Income Support Programs represent the third-largest share in total social protection expenditures (10.2 percent).** Public Assistance and financial support to NGOs are the primary income support programs for people who are poor, and account for approximately 8.2 percent of social protection expenditures (EC$33.3 million). Eligibility is subject to a means test, home visit, and an annual review. However, criteria for eligibility are not documented, and eligibility reviews are not conducted annually. In addition, fiscal constraints have resulted in irregular payment of benefits. There is a waiting list for eligible beneficiaries. Information systems are inadequate and, as a result, the Ministry of Community Development and Gender Affairs could not produce basic operational information on how many people are served each year, or a breakdown of beneficiaries by age, gender, or other characteristics. The Ministry estimates that there were 1,750 people on the beneficiary list as of September 2002. Based on data from the Survey of Living

Conditions, we estimate that only 10 percent of indigent households, and 8 percent of households that are poor but not indigent, receive support from Public Assistance.

Box 7.1. Ensuring the Sustainability and Expanding Coverage of the Dominica Social Security Scheme

The Dominica Social Security (DSS) scheme is administered by the Dominica Social Security Corporation and funded through contributions and returns on investments. It provides pension, disability, survivors, health, sickness, maternity, employment injury, and redundancy benefits. The latter are available only to private sector workers. Over half of all DSS beneficiaries receive benefits under the short-term sickness component, while one-quarter of beneficiaries claim under the long-term Age and Retirement component.

The DSS absorbs approximately 60 percent of social protection spending. With almost 10,000 beneficiaries in FY2000/01, Social Security reaches the largest number of beneficiaries of any of Dominica's social protection programs. Approximately 80 percent of the working-age population under 60 contributes to the DSS.

DSS is financially stable in the short and medium term. It is expected to generate surpluses for at least the next 10 years, and has enough reserves to finance benefits for another 10 years after that. However, challenges exist on several fronts, including increasing the sustainability and expanding coverage of DSS.

To ensure the long-term sustainability of the DSS, regular contributions by the Government will need to remain current. This will require a clear and sustained commitment to addressing the issue of Government arrears and to avoiding future arrears. Reform of basic parameters, such as contributions rates, the statutory retirement age, and/or income replacement rates may also be needed to ensure the financial sustainability of the system. The DSS also needs to strengthen asset management strategies to enhance returns on investments and financial stability in the face of high exposure to exogenous economic shocks and natural disasters.

Coverage of the employed and self-employed is compulsory; however, an estimated 20 percent of the working-age population does not contribute. There are several groups that are affected by coverage problems: low-income employees (working in the formal or informal urban sectors), rural workers (employed or self-employed), and the urban self-employed who typically have low incomes. Employees that are not covered by the system are usually victims of inefficient collection and enforcement schemes. Policy recommendations vary for each of these groups, and their efficacy is variable. Expanding coverage to reach near-universal coverage will not be easy, and will require careful analysis to detect who are the uncovered workers and why they are currently excluded. Expanding coverage must be weighted against the costs of increasing coverage.

Source: World Bank, "Dominica Social Protection Review," July 2003.

7.18 **Community-based programs, including the Basic Needs Trust Fund (BNTF)—a CDB-funded community-based intervention—accounted for 4.5 percent of social protection expenditures in FY2000/01.** BNTF provides funding for community infrastructure, larger infrastructure, skills training, and maintenance projects. The European Union is providing support for a Social Protection Program with EC$3.4 million in funding from STABEX 96/97.[54] The two-year project commenced in 2002 and is not reflected in Table 7.1. Program components include skills training, a short-term employment program, and a credit facility for rural enterprise development. These programs are geographically targeted; however, targeting in the absence of reliable poverty maps is difficult. A social investment fund project is in the EU pipeline.

[54] The Stable Export Earnings Program (STABEX) is the EU's compensatory finance scheme set up under Lomé I to stabilize the export earnings of the African, Caribbean and Pacific (ACP) states, and to remedy the effects of the instability of export earnings.

Table 7.1. Social Protection Programs and Expenditures in Dominica, FY2000/01
(in EC$)

	Recurrent	Capital	Total	% in Total Social Protection Spending	% of GDP
SOCIAL INSURANCE			**24,835,000**	**61.31**	**3.41**
Social Security			24,835,000	61.31	3.41
SOCIAL ASSISTANCE	**12,211,161**	**3,458,831**	**15,669,992**	**38.69**	**2.15**
Income Support Programs	**4,122,914**		**4,122,914**	**10.18**	**0.57**
Welfare—Administration and Supervision	448,257		448,257	1.11	0.06
Welfare—Public Assistance and Subventions to NGOs	3,336,946		3,336,946	8.24	0.46
Foster Care (Child Welfare)	337,711		337,711	0.83	0.05
Education-Based Programs	**28,869**	**1,289,885**	**1,318,754**	**3.26**	**0.18**
Education Trust Fund	28,869		28,869	0.07	0.00
Needy Students Program (funded by Taiwan, China)		1,289,885	1,289,885	3.18	0.18
School Feeding					
Health-Based Programs	**42,796**		**42,796**	**0.11**	**0.01**
Overseas Medical Care	42,796		42,796	0.11	0.01
Labor Market Programs	**8,016,582**	**365,887**	**8,382,469**	**20.69**	**1.15**
Youth Development	928,918		928,918	2.29	0.13
Youth Skills Training		277,331	277,331	0.68	0.04
Youth Environmental Service Corp		56,804	56,804	0.14	0.01
Youth Technology Resource Centers		31,752	31,752	0.08	0.00
Adult Education	535,063		535,063	1.32	0.07
Road Maintenance (short-term wages only)	5,809,534		5,809,534	14.34	0.80
Workshop for the Blind (Blind Welfare)	86,014		86,014	0.21	0.01
Gender Affairs	268,345		268,345	0.66	0.04
Cooperatives	388,708		388,708	0.96	0.05
Community-Based Programs		**1,803,059**	**1,803,059**	**4.45**	**0.25**
BNTF IV (CDB)		1,803,059	1,803,059	4.45	0.25
TOTAL SOCIAL PROTECTION			**40,504,992**	**100.00**	**5.56**

Source: Author's calculations.

7.19 **Despite the need to protect and promote human capital development, education-based social protection programs account for the smallest share of social protection expenditures (3.3 percent).** The Education Trust Fund (ETF) and the Needy Students Program (NSP) funded in FY2000/01 by Taiwan, China are means-tested programs that help to defray out-of-pocket educational expenditures. The ETF is targeted to secondary and tertiary students, while the NSP provides assistance to needy students at all academic levels. The ETF provided benefits to approximately 350 students in FY2001/02 at a cost of EC$28,869. An earlier report estimates that the Fund covers an estimated 50 percent or less of the school costs. The NSP assisted 100 students that year. A seven-member Board of Trustees (appointed by the Minister of Education) administers the ETF and NSP. Each

Board member conducts an initial review and determines eligibility of applicants from his or her district. The Board reviews and gives final approval of these recommendations. The ETF and NSP have separate application forms. Students cannot benefit from both programs, although households, which must apply separately for each school child, may receive ETF benefits for one child and NSP benefits for another child. Recipients reapply each year. Administrative systems are weak and there is a perception that the programs stigmatize poor students and that this limits applications from needy students (World Bank 2001). Also, decisions on who receives benefits and who does not are not sufficiently transparent.

7.20 **The School Feeding Program operates in 7 primary schools—down from 40 pre-primary and 22 primary schools during the period of World Food Program Support (1991–96).**[55] Schools were selected based on poverty estimates and distance that children walk to school. Between 900 and 1,100 students are served annually. Students are charged EC$1 per meal and are provided with a snack or hot meal. The fee may be waived, however; targeting criteria differ among schools, and there is concern that children may be stigmatized if they are unable to pay. Qualitative evidence from the Ministry of Education assessment of the program and from discussions with parents and educators suggests that the School Feeding Program promotes attendance (particularly afternoon attendance). Further research is needed to confirm these perceptions and to provide guidance on whether or not to expand the School Feeding Program (Ministry of Education 2002).

Planning and Executing Capacity for Social Protection Programs

7.21 **The lack of coordinated efforts across ministries and departments has resulted in overlaps and duplication.** Moreover, despite the fact that different programs target the same general population, they employ different systems for identifying beneficiaries and suffer from a lack of clearly established criteria for eligibility. There is a need to strengthen the planning and executing capacity of these programs and to put in place mechanisms for their fiscal prioritization. Finally, existing systems would not support the rapid scaling up of programs in the face of shocks—either economic shocks or those resulting from natural disasters.

7.22 **Management information systems for the Public Assistance and Education Trust Fund are inadequate.** The Welfare Division cannot produce simple operating statistics. In the case of the Education Trust Fund and the Needy Students Program, data collection systems and procedures are dependent upon individuals and, when personnel change, both institutional memory and records may be lost. In general, there is a lack of clearly documented policies and procedures for social assistance programs. In their absence,

[55] It is difficult to determine the actual cost of the School Feeding Program (SFP). The Dominica government's Estimates Book for FY2000/01 reports that nothing was allocated to the SFP. However, the program was operational in that year. In FY2001/02, EC$26,040 was allocated—although the SFP Status Report for FY2001/02 lists expenditures of EC$59,400—with 94 percent going toward the purchase of food. This does not include the coordinators' salary or related administrative, storage, and delivery costs. In addition, World Food Program (WFP) project funds were used to advance purchase of a three-year supply of foodstuffs, and some of these supplies still remained in FY2001/02. Government estimates of expenditures and special account disbursements do not reflect the value of remaining supplies purchased with WFP funds, or contributions from the Christian Children's Fund for the feeding program at one school.

program implementation is left to the discretion of managers and to political influences that reduce transparency.

7.23 **Information on poor and vulnerable groups is not available on a regular basis.** Household surveys are conducted intermittently and the capacity to implement and analyze survey data is weak. The 2002 Country Poverty Assessment, funded by the CDB, is the first quantitative assessment of poverty and provides very useful information. However, regularly updated poverty data will be required for effective planning, monitoring, and evaluation of social protection programs.

7.24 **Regional initiatives to build information systems, data collection, and analysis capacity could address the human resource constraints and reduce the overall costs of development and implementation of monitoring and information systems.** Inadequate MIS systems and capacity constraints with respect to data collection, monitoring, and evaluation are common across the OECS. Regional approaches to MIS development and monitoring and evaluation capacity building would address the human resources constraints in individual countries and would be more cost-effective than developing systems on a country-by-country basis.

B. Composition and Evolution of Social Protection Spending in Dominica, FY1995/96–FY2000/01

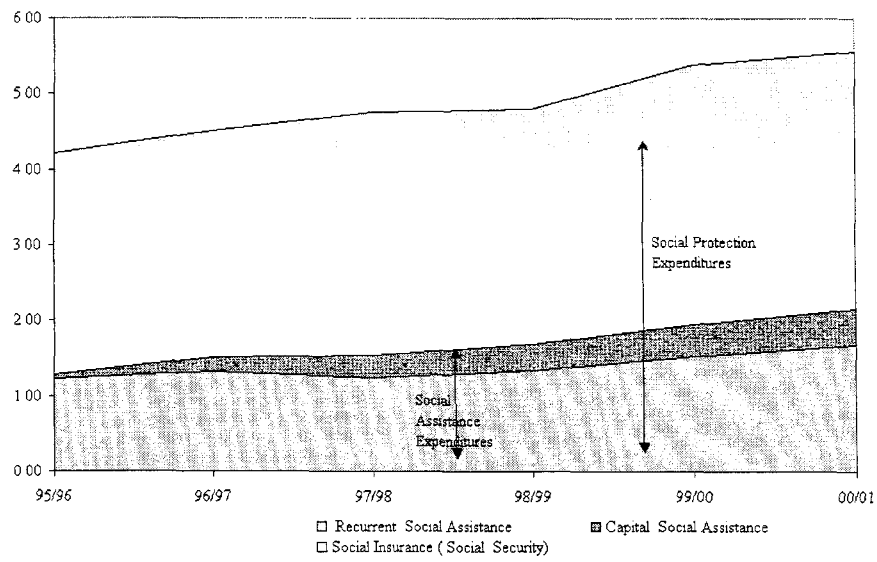
7.25 **It is difficult to disaggregate the amount of the national budget that is allocated to social protection.**[56] Social protection programs cut across ministries and are integrated into a wide variety of types of programs and projects. Several of the programs traditionally defined as social protection programs (for example, school feeding programs and scholarship programs for needy students) are also represented in the budgets of the education sector. Despite these difficulties, this report has attempted to estimate public expenditures on social protection. In FY2000/01, public expenditures on social protection (including social security) were estimated to be EC$40.5 million.

7.26 **During FY1995/96–FY2000/01, social protection expenditures increased from 4.2 percent of GDP to approximately 5.6 percent of GDP.** As Figure 7.1 shows, this increase was distributed in equal parts by recurrent capital expenditures and social security. On average, in this period social protection expenditures were about 5 percent of GDP. This compares favorably with expenditures on social protection of 4.5 percent of GDP in Latin

[56] It should be pointed out that the expenditures for the individual programs for FY2000/01 and the expenditures for the time series analysis are slightly different. That is because, when looking at programs for a single year, we were able to get more program-specific data, while for the time series analysis we had to rely on spending data for ministerial departments that traditionally house social protection programs. Various ministries had portfolio responsibility for these departments in different years. Efforts have been made to track expenditures for departments no matter what ministry the department was housed in. Expenditure data do not include central ministry administration, because it was impossible to reliably apportion central ministry administrative costs to the different departments. Program-level expenditure data on programs housed in the Ministry of Health (feeding programs, fee waivers, and so forth) and the Ministry of Education (school feeding and student welfare programs) are also reported. Spending on microenterprise development, low-income housing, and contributory and non-contributory social security are reported. Given the number of agencies and programs involved, time series data could be provided for only FY1995/96–FY2000/01.

America and the Caribbean, and 1 to 2 percent in sub-Saharan Africa and South Asia. But it is below the 11 to 12 percent of GDP spent on social protection in Western Europe, North America, and East and Central Europe.[57]

Figure 7.1. Social Protection Expenditures in Dominica
(as percent of GDP)



Source: Author's calculations.

7.27 **In addition, social protection expenditures fluctuated between a minimum of 3.4 percent of total Central Government (CG) expenditures in FY1995/96 and a maximum of 4.5 percent in FY1999/2000.** During this period, the share of social insurance of total social protection expenditures remained above 60 percent. Although a moderate increase in the share of social assistance occurred during this period, those increases were largely the result of increases in capital expenditures, particularly externally financed capital projects, and not in response to income volatility. Indeed, contrary to expectations, the highest share of social protection expenditures in CG expenditures was achieved in FY1999/2000 when GDP increased by 1.5 percent, and not in FY2000/01, during which GDP decreased by 1.4 percent.

7.28 **During FY1995/96–FY2000/01, expenditures on social protection increased in real terms by 8.6 percent per fiscal year.** As Figure 7.2 shows, real expenditures on Social

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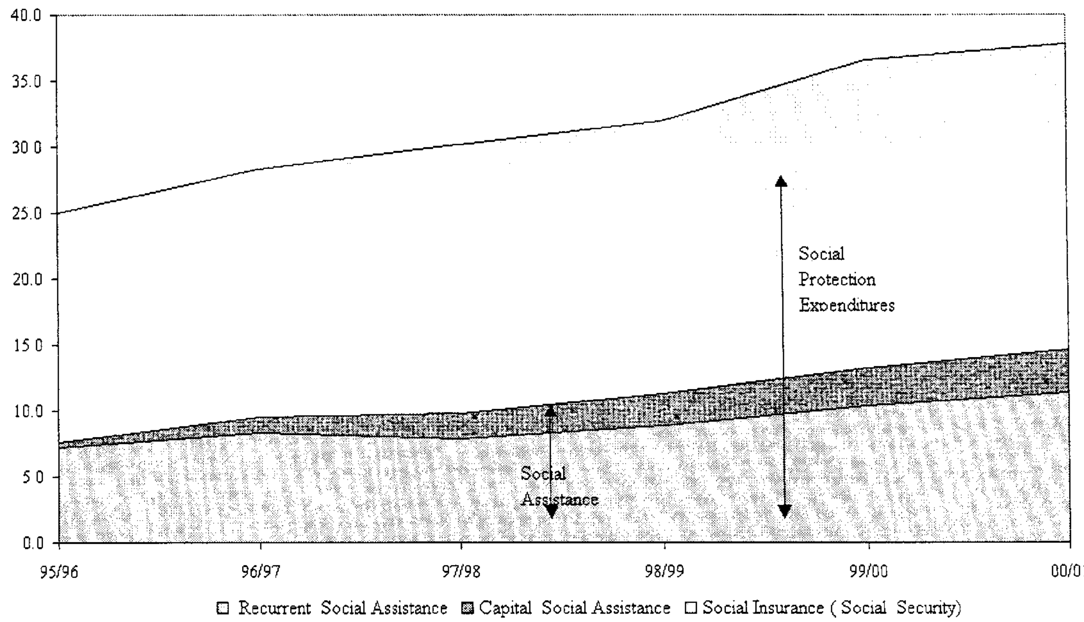
[57] It is important to note that included are expenditures on administration of the Dominica Social Security (DSS) scheme and on benefit payments. However, the DSS is funded from contributions to the scheme and not from the consolidated fund. As a result, although it is treated as public expenditure, it is very different from social assistance expenditures that are funded from general revenues. The picture is further complicated by the fact that the Government did not make any payments to Social Security for public sector employees between 1995 and 2002.

Security increased by 5.9 percent compared to a 9.4 percent per fiscal year in social assistance expenditures, the latter driven largely as a result of the increases in capital expenditures. The real increases in social insurance expenditures reflect the maturation of the system, with increasing numbers of workers becoming eligible for benefits.

Figure 7.2. Social Protection Expenditures in Dominica
(in millions EC$ 1995)



Source: Author's calculations.

C. SOCIAL PROTECTION AND RISK MANAGEMENT IN DOMINICA

7.29 **According to the Country Poverty Assessment, approximately 39 percent of the population is poor.**[58] Further, approximately 15 percent of the population is indigent; that is, they do not have sufficient resources to meet their basic dietary needs.[59] Although, the Carib Community accounts for only 7 percent of the poor, about 50 percent of the Carib Community is indigent and 70 percent is poor. Poverty and indigence rates and other related indicators are shown in Table 7.2. As indicated, 55 percent of the poor is under age 25. Forty-percent of women and 38 percent of men are poor. People who were not educated beyond the primary level typically head poor households. Housing conditions among the poor are of concern. The poor often do not have indoor kitchen or bathing facilities or access to toilets or pit latrines. However, only less than 2 percent of the population lives below the

[58] The purchasing power parity conversion factor used for the 2002 calculation was 1.65.

[59] In 2002, the adult equivalent poverty and indigence lines were equal to EC$3,400 and EC$2,000, respectively.

poverty line of one-dollar purchasing power parity (PPP) a day, and less than 3 percent lives below the poverty line of two-dollars PPP a day.

7.30 **Poverty and income volatility are not the only sources of vulnerability in Dominica.** We examine other sources of vulnerability by identifying risks indicators throughout the life cycle (Table 7.3). Information for this table was gathered through interviews with central ministry and project staff and a review of secondary documents. The matrix also identifies indicators not related to age and existing social protection programs and requirements. This exercise should be treated as preliminary. Statistical analysis of these risk indicators to determine prevalence, incidence, correlations with income, and household vulnerability could provide useful insights to help identify and prioritize appropriate social protection interventions, but will require updated and improved survey data.

Table 7.2. Incidence of Poverty, Indigence, and other Related Indicators, Dominica, 2002
(percentage)

Poor Individuals	39.0
Indigent Individuals	15.0
Poor Households	29.0
Indigent Households	11.0
Poor Under 25	55.0
Poor 65+	8.0
Females as a Percent of All Poor	50.0
Incidence of Poverty Among Females	40.0
Incidence of Poverty Among Males	38.0
Household Heads in Elementary Occupations	25.0
Household Head Not Educated Beyond Primary School	90.0
Households with Long-Term Sick	10.0
Poor with Outdoor Kitchens	41.0
No Toilet or Pit Latrine	29.0
Poor with Outdoor Baths	35.0

Source: Dominica Country Poverty Assessment and calculations by World Bank Staff.

7.31 **Programs could do better at promoting human capital development initiatives.** International experience suggests that a conditional cash transfer with benefits linked to health clinic or school attendance would be ideal, but given current capacity, it is not at all clear that this should be the short-term priority. Alternative strategies, particularly the Education Trust Fund, could be redesigned to better promote human capital development initiatives—particularly making benefits conditioned on school attendance. Although it is in its incipiency, the St. Lucia model in which a grant from Taiwan, China was used to capitalize a fund with the interest earned used to finance student welfare programs, may serve as a model to be replicated.

Table 7.3. Dominica Risk Indicators by Age Cohort, Existing Programs, and Suggested Interventions

Age Group	Risk Indicator	Existing Program	Suggested Interventions: Risk Prevention/Mitigation	Suggested Interventions: Risk Coping
Birth to 4	Low birth weight and nutrition-related disorders	Ministry of Health programs	Increase pre- and postnatal attendance; maternal and child health programs	ECD programs to ensure cognitive and physical development
	Not attending early childhood and/or preschool	Private pre-primary programs and public kindergarten programs	Increase access to early childhood development (ECD) programs	Financial support (ETF) conditional on school attendance
5–9	Irregular school attendance among poor	School Feeding		Expand School Feeding
		Needy Students Program		Better-targeted education subsidies with benefits conditional on school attendance
	Nutrition-related disorders	Ministry of Health programs		
10–14	Not enrolled in secondary school	Initiatives to expand access to secondary school	Initiatives to expand access to secondary school	Better-targeted education subsidies with benefits conditional on school attendance
	Irregular school attendance among poor	Education Trust Fund Needy Students Program		
15–24	Low level of human capital development	Training: Youth Skills Gender Division Adult Education Cooperatives Division Basic Needs Trust Fund	Labor-intensive growth Lifelong learning opportunities that are responsive to market demands	Remedial education programs
	Unemployment	Road Maintenance Program STEP Program		Labor-intensive public works
	Teenage pregnancy, substance abuse among young men	Programs in various ministries	Healthy lifestyle promotion programs; HFLE	Teen mother and substance abuse treatment programs
25–59	Low level of human capital development	Training: Youth Skills Gender Division Adult Education Cooperatives Division Basic Needs Trust Fund	Labor-intensive growth Lifelong learning opportunities that are responsive to market demands	Remedial education programs
	Unemployment	Road Maintenance Program Short-Term Employment Program (STEP Program)		Labor-intensive public works
	No pension or disability insurance	Dominica Social Security	Expand coverage of social security system	
	Chronic diseases	Ministry of Health programs	Healthy Lifestyles Promotion Programs	Targeted fee waivers
60 and over	No pension coverage	Dominica Social Security Public Assistance	Expand coverage of social security system	Public Assistance Community-based programs
	Chronic diseases, disability, social isolation	Ministry of Health programs Government assistance to NGO Homes for the Elderly		
Risks Not Related to Age	Hurricanes	Disaster Preparedness Strategies	Housing repair programs Disaster Preparedness Strategies	Post-hurricane: Expanded public works, public assistance, temporary food, water, shelter, reconstruction programs
	Substandard housing			
	HIV/AIDS	Prevention/Treatment Programs	HIV/AIDS Education Programs	
	Disability	Education/Development/ Training Programs	Expand coverage of Education/Development/ Training Programs	

Source: Based on author's discussions with central ministry and program staff and a review of secondary documents.

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Annex Table A1. Central Government Fiscal Accounts, Dominica, FY1993/94–FY2002/03

(in millions EC$)

	Fiscal Year									
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03
Current Revenue	134.72	149.12	166.13	189.11	189.14	204.69	211.40	200.60	197.00	191.86
Tax Revenue	118.40	133.48	146.94	153.87	160.04	173.65	178.40	169.60	160.20	167.95
Non-Tax Revenue	16.32	15.64	19.19	35.24	29.09	31.03	33.00	31.00	36.80	23.91
Current Expenditure	157.84	158.46	155.59	181.70	187.57	198.04	218.80	230.10	229.60	226.58
Current Primary Expenditures	145.31	144.43	140.90	164.78	169.74	180.47	190.80	194.10	192.70	188.94
Personal Emoluments and Wages	89.21	86.60	88.35	100.02	99.91	105.33	112.60	116.20	116.50	122.39
Other Goods and Services	28.89	28.52	31.58	34.35	38.60	40.32	42.50	37.50	38.70	27.43
Transfers and Subsidies	27.22	29.30	20.97	30.42	31.24	34.82	35.70	40.40	37.50	39.12
Interest Payments	12.53	14.04	14.69	16.92	17.83	17.56	28.00	36.00	36.90	37.64
Capital Revenue	1.80	7.09	1.63	1.45	9.91	5.42	2.60	3.00	0.90	1.33
Grants	11.70	31.30	40.70	32.82	15.10	28.90	19.70	68.00	11.80	30.93
Capital Expenditure	26.66	60.32	65.66	54.43	51.63	93.72	97.30	120.20	39.60	34.70
Current Fiscal Balance	-23.12	-9.35	10.54	7.41	1.56	6.65	-7.40	-29.50	-32.60	-34.72
Statistical Discrepancy										-11.50
Primary Fiscal Balance (after grants)	-23.74	-17.24	1.89	4.16	-7.23	-35.19	-54.40	-42.70	-22.60	-11.02
Overall Fiscal Balance (after grants)	-36.27	-31.27	-12.79	-12.76	-25.06	-52.75	-82.40	-78.70	-59.50	-48.66
Primary Balance (before grants)	-35.44	-48.54	-38.81	-28.65	-22.33	-64.08	-74.10	-110.70	-34.40	-41.95
Overall Balance (before grants)	-47.97	-62.57	-53.49	-45.57	-40.16	-81.65	-102.10	-146.70	-71.30	-79.95
Total Expenditure	184.50	218.78	221.25	236.13	239.21	291.75	316.10	350.30	269.20	261.28
Total Primary Expenditure	171.97	204.74	206.57	219.21	221.38	274.19	288.10	314.30	232.30	223.64

Source: IMF.

Annex Table A2. Central Government Fiscal Accounts, Dominica, FY1993/94–FY2002/03
(in millions of 1995 EC$)

	Fiscal Year									
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03
Current Revenue	136.37	149.87	164.97	183.74	180.66	192.67	198.20	203.05	181.77	175.78
Tax Revenue	119.85	134.15	145.92	149.50	152.87	163.46	167.26	171.67	147.82	153.87
Non-Tax Revenue	16.52	15.72	19.05	34.24	27.79	29.21	30.94	31.38	33.96	21.91
Current Expenditure	159.77	159.26	154.50	176.54	179.17	186.41	205.14	232.91	211.85	207.59
Current Primary Expenditures	147.09	145.16	139.92	160.10	162.14	169.88	178.89	196.47	177.81	173.10
Personal Emoluments and Wages	90.30	87.04	87.74	97.18	95.43	99.15	105.57	117.62	107.50	112.13
Other Goods and Services	29.24	28.67	31.36	33.37	36.87	37.95	39.85	37.96	35.71	25.13
Transfers and Subsidies	27.55	29.45	20.82	29.55	29.84	32.77	33.47	40.89	34.60	35.84
Interest Payments	12.68	14.11	14.59	16.44	17.03	16.53	26.25	36.44	34.05	34.48
Capital Revenue	1.83	7.12	1.62	1.41	9.47	5.10	2.44	3.04	0.83	1.22
Grants	11.84	31.46	40.42	31.88	14.42	27.20	18.47	68.83	10.89	28.34
Capital Expenditure	26.99	60.62	65.21	52.88	49.32	88.22	91.23	121.67	36.54	31.79
Current Fiscal Balance	-23.40	-9.39	10.47	7.20	1.49	6.26	-6.94	-29.86	-30.08	-31.81
Statistical Discrepancy										-10.54
Primary Fiscal Balance (after grants)	-24.03	-17.32	1.88	4.04	-6.91	-33.12	-51.01	-43.22	-20.85	-10.10
Overall Fiscal Balance (after grants)	-36.71	-31.43	-12.71	-12.39	-23.94	-49.65	-77.26	-79.66	-54.90	-44.58
Primary Balance (before grants)	-35.88	-48.78	-38.54	-27.84	-21.33	-60.32	-69.48	-112.05	-31.74	-38.43
Overall Balance (before grants)	-48.56	-62.89	-53.12	-44.28	-38.36	-76.86	-95.73	-148.49	-65.79	-72.92
Total Expenditure	186.75	219.88	219.71	229.42	228.49	274.63	296.37	354.58	248.39	239.38
Total Primary Expenditure	174.07	205.78	205.12	212.98	211.46	258.09	270.12	318.14	214.34	204.89

Source: IMF.

Annex Table A3. Central Government Fiscal Accounts, Dominica, FY1993/94–FY2002/03

(as percentage of GDP)

	Fiscal Year									
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03
Current Revenue	24.11	25.53	27.12	29.33	28.04	28.99	29.25	27.99	28.40	28.14
Tax Revenue	21.19	22.85	23.99	23.87	23.73	24.60	24.68	23.67	23.09	24.63
Non-Tax Revenue	2.92	2.68	3.13	5.47	4.31	4.40	4.57	4.33	5.31	3.51
Current Expenditure	28.25	27.12	25.40	28.18	27.81	28.05	30.27	32.11	33.10	33.23
Current Primary Expenditures	26.00	24.72	23.00	25.56	25.17	25.56	26.40	27.09	27.78	27.71
Personal Emoluments and Wages	15.96	14.82	14.42	15.51	14.81	14.92	15.58	16.22	16.79	17.95
Other Goods and Services	5.17	4.88	5.16	5.33	5.72	5.71	5.88	5.23	5.58	4.02
Transfers and Subsidies	4.87	5.02	3.42	4.72	4.63	4.93	4.94	5.64	5.41	5.74
Interest Payments	2.24	2.40	2.40	2.62	2.64	2.49	3.87	5.02	5.32	5.52
Capital Revenue	0.32	1.21	0.27	0.22	1.47	0.77	0.36	0.42	0.13	0.20
Grants	2.09	5.36	6.64	5.09	2.24	4.09	2.73	9.49	1.70	4.54
Capital Expenditure	4.77	10.32	10.72	8.44	7.66	13.28	13.46	16.77	5.71	5.09
Current Fiscal Balance	-4.14	-1.60	1.72	1.15	0.23	0.94	-1.02	-4.12	-4.70	-5.09
Statistical Discrepancy										-1.70
Primary Fiscal Balance (after grants)	-4.25	-2.95	0.31	0.65	-1.07	-4.98	-7.53	-5.96	-3.26	-1.62
Overall Fiscal Balance (after grants)	-6.49	-5.35	-2.09	-1.98	-3.72	-7.47	-11.40	-10.98	-8.58	-7.14
Primary Balance (before grants)	-6.34	-8.31	-6.33	-4.44	-3.31	-9.08	-10.25	-15.45	-4.96	-6.15
Overall Balance (before grants)	-8.58	-10.71	-8.73	-7.07	-5.95	-11.57	-14.13	-20.47	-10.28	-11.67
Total Expenditure	33.02	37.45	36.12	36.62	35.47	41.33	43.73	48.88	38.81	38.32
Total Primary Expenditure	30.78	30.78	30.78	30.78	30.78	30.78	30.78	30.78	30.78	30.78

Source: IMF.

Annex Table A4. Main Economic Indicators, Dominica, FY1993/94–FY2002/03

	Fiscal Year									
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
	(In Millions EC$)									
GDP at Market Prices	558.79	584.21	612.59	644.73	674.46	705.95	722.79	716.60	693.67	681.76
	(In millions EC$ 1990)									
GDP at Factor Prices	399.60	407.08	416.63	427.10	437.30	446.86	453.56	447.08	427.29	414.99
	(Real Growth Rate, Factor Prices)									
GDP		1.87	2.35	2.52	2.38	2.19	1.50	-1.43	-4.43	-2.88
	(1995 = 100)									
CPI	98.79	99.50	100.70	102.92	104.69	106.24	106.66	108.38	109.15	109.34
	(As percentage of GDP)									
Total Non-Financial Public Sector Debt	62.6	68.2	60.4	55.3	60.0	71.0	76.8	87.4	95.4	111.5

Source: IMF.

Annex Table A5. Rest of the Non-Financial Public Sector, Dominica, FY1993/94–FY2002/03

	Fiscal Year								
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
	(In Millions EC$)								
Dominica Social Security (DSS)									
Overall Balance (after grants)	11.10	9.70	11.20	8.10	7.90	8.50	9.00	10.40	9.70
Local Governments									
Overall Balance (after grants)	-0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
National Development Corporation (NDC)									
Overall Balance (after grants)	0.40	0.30	-1.20	0.70	0.00	0.50	0.10	0.10	0.10
Dominica Banana Marketing Corporation (DBMC)									
Overall Balance (after grants)	-5.40	-3.80	14.50	0.00	-6.20	-10.00	-14.20	-3.60	4.00
Interest Payments	1.10	1.20	1.00	0.70	0.60	0.70	0.90	1.10	1.20
Dominica Water and Sewerage Company (DOWASCO)									
Overall Balance (after grants)	0.40	0.20	-7.00	-0.70	-1.00	3.10	-1.90	-19.20	-10.60
Interest Payments	0.10	0.10	0.20	0.40	0.40	0.40	0.50	0.50	0.50
Dominica Export and Import Agency (DEXIA)									
Overall Balance (after grants)	0.70	-0.20	-1.10	0.60	1.60	0.30	0.20	0.60	0.60
Interest Payments									
Dominica Port Authority (DPA)									
Overall Balance (after grants)	2.30	1.90	0.60	0.10	2.00	2.90	3.00	0.30	0.30
Interest Payments	1.90	1.70	1.70	1.70	1.70	1.50	1.40	1.20	1.20
Dominica Broadcasting Corporation (DBC)									
Overall Balance (after grants)	0.00	0.10	-0.20	0.10	-0.10	0.30	-0.20	-0.50	-0.50

Annex Table A5. Rest of the Non-Financial Public Sector, Dominica, FY1993/94–FY2002/03

	Fiscal Year								
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
Rest of NFPS									
Primary Balance (after grants)	12.50	11.20	19.70	11.70	6.90	8.20	-1.20	-9.10	6.50
Interest Payments	3.10	3.00	2.90	2.80	2.70	2.60	2.80	2.80	2.90
					(as % GDP)				
Rest of NFPS									
Overall Balance (after grants)	1.68	1.40	2.74	1.38	0.62	0.79	-0.55	-1.66	0.52
Primary Balance (after grants)	2.24	1.92	3.22	1.81	1.02	1.16	-0.17	-1.27	0.94
Interest Payments	0.55	0.51	0.47	0.43	0.40	0.37	0.39	0.39	0.42

Source: IMF.