



**The World Bank**

Dominica Disaster Risk Management Development Policy Credit with a Catastrophe Deferred Drawdown Option  
(P177807)

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Report No: PGD325

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF US\$20 MILLION

TO THE

COMMONWEALTH OF DOMINICA  
FOR THE

Dominica Disaster Risk Management Development Policy Credit with a Catastrophe  
Deferred Drawdown Option

May 5 2022

Urban, Resilience and Land Global Practice  
Latin America and Caribbean Region

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Commonwealth of Dominica

**GOVERNMENT FISCAL YEAR***July 1 – June 30***CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of April 21, 2022)

Currency Unit= Eastern Caribbean Dollar (EC\$)

EC\$2.70 = US\$1.00

US\$1.37= SDR 1

**ABBREVIATIONS AND ACRONYMS**

AGD	Accountant General Department
CAD	Current Account Deficit
Cat DDO	Catastrophe Deferred Drawdown Option
CAR	Capital Adequacy Ratio
CBI	Citizenship by Investment
CCA	Climate Change Adaptation
CCRIF-SPC	Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company
CERC	Contingent Emergency Response
CPF	Country Partnership Framework
CREAD	Climate Resilience Execution Agency for Dominica
CRRP	Climate Resilience and Recovery Plan
DPC	Development Policy Credit
DRF	Disaster Risk Financing
DRM	Disaster Risk Management
DSA	Debt Sustainability Analysis
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECLAC	Economic Commission for Latin America and the Caribbean
FCDO	Foreign, Commonwealth, and Development Office
FDI	Foreign Direct Investment
FHP	Flexible Hurricane Protection
GDP	Gross Domestic Product
GoCD	Government of the Commonwealth of Dominica
HFPS	High Frequency Phone Survey
HRP	Housing Recovery Project
ICT	Information and Communication Technology
IMF	International Monetary Fund
IPF	Investment Project Financing

IPSAS	International Public Sector Accounting Standards
MERMKU	Ministry of Environment, Rural Modernization, and Kalinago Upliftment
MoBGEANFS	Ministry of Blue and Green Economy, Agriculture, and National Food Security
MOF	Ministry of Finance
MRF	Multi Hazard Response Framework
MSMEs	Micro, Small, and Medium Enterprises
MTEF	Medium-Term Expenditure Framework
NAGriP	National Agriculture Policy
NDC	Nationally Determined Contribution
NETP	National Emergency Telecommunications Plan
NPL	Nonperforming Loan
NRDS	National Resilience Development Strategy
OECS	Organisation of Eastern Caribbean States
PA	Prior Action
PAHO	Pan American Health Organization
PAP	Public Assistance Program
PDNA	Post-Disaster Needs Assessment
PFM	Public Financial Management
PLR	Performance and Learning Review
REDD	Reducing Emissions from Deforestation and Forest Degradation
RPF	Regional Partnership Framework
RPS	Regional Partnership Strategy
SOE	State-Owned Enterprise
TA	Technical Assistance
UNDP	United Nations Development Programme
VRRF	Vulnerability, Risk, and Resilience Fund
WBG	World Bank Group
WFP	World Food Programme

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**COMMONWEALTH OF DOMINICA**

**DOMINICA DISASTER RISK MANAGEMENT DEVELOPMENT POLICY CREDIT WITH A CATASTROPHE DEFERRED DRAWDOWN OPTION**

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## SUMMARY OF PROPOSED FINANCING AND PROGRAM

### BASIC INFORMATION

Project ID	Programmatic
P177807	No

### Proposed Development Objective(s)

The development objective of the proposed operation is to support the Government of the Commonwealth of Dominica in: (a) strengthening the legal and institutional framework to increase climate and disaster resilience in priority sectors; and (b) improving national fiscal capacity to respond to disaster and climate-related risks.

### Organizations

Borrower:	COMMONWEALTH OF DOMINICA
Implementing Agency:	Ministry of Finance

## PROJECT FINANCING DATA (US\$, Millions)

### SUMMARY

<b>Total Financing</b>	<b>20.00</b>
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### DETAILS

International Development Association (IDA)	20.00
IDA Credit	20.00

## INSTITUTIONAL DATA

### Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

### Overall Risk Rating

Moderate

## Results

Indicator Name	Baseline	Target
Percent of GDP (current) available in immediate liquidity for catastrophic hydrometeorological disaster response from at least 3 instruments	10.7% (2022)	15.5% (2025)
Number of new FHP policy holders	18 (2022)	100 (2025)
Percentage of new FHP policy holders who are women	36% (2022)	45% (2025)
Percentage of emergency responses (including simulations/drills) that apply National Disaster Management Multi-Hazards for Health Plan and National Emergency Telecommunications Plan	0 (2022)	100% (2025)
Percentage of professionals participating in agriculture sector programs who are women	18% (2022)	40% (2025)
Institutional frameworks for forest sector management established	0 (2022)	3 (2025)
Number of building professionals trained on code compliance	0 (2022)	400 (2025)



## IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO THE COMMONWEALTH OF DOMINICA

### 1. INTRODUCTION AND COUNTRY CONTEXT

1. **The Disaster Risk Management (DRM) Development Policy Credit (DPC) with a Catastrophe Deferred Drawdown Option (Cat DDO) is proposed in the amount of US\$20 million to strengthen Dominica’s disaster and climate resilience.** It supports the efforts of the Government of the Commonwealth of Dominica (the Government) in: (a) strengthening the legal and institutional framework to increase climate and disaster resilience in priority sectors; and (b) improving national fiscal capacity to respond to disaster and climate-related risks. Access to contingent financing mechanisms, like the Cat DDO, plays a critical role in strengthening financial protection from disaster and climate change impacts. The flexibility of a Cat DDO provides an added layer of protection against health emergencies like the COVID-19 pandemic and vector-borne disease outbreaks, for which limited financing options exist but are nonetheless a critical aspect of emergency response considerations in the Caribbean. Policy actions under this operation contribute to improving related DRM and climate change adaptation (CCA) and are accompanied by technical assistance (TA) to strengthen the legal and institutional framework for increased climate and disaster resilience. This operation is complemented by a second operation in a DPC series (P175847), the Government’s COVID-19 crisis and economic recovery response by: (i) saving lives, protecting livelihoods and preserving jobs; and (ii) strengthening fiscal policies, public financial management and debt transparency for a climate resilient recovery.

2. **The Caribbean region is highly vulnerable to disasters, with a higher than proportional cost of disaster damages.**<sup>1</sup> The average estimated cost of disaster damage as a ratio to gross domestic product (GDP) was four and a half times greater for small states than for larger ones worldwide but was six times higher for small states in the Caribbean. On average, in the long term, the Government would need to cover losses of approximately US\$30 million (EC\$81 million) annually—6.0 percent of Dominica’s 2020 GDP—to address its contingent liabilities related to floods and hurricanes.<sup>2</sup> The region has also experienced climatic changes over the past few decades, and these changes are projected to continue in the future. Averaging 3.6 mm per year between 1993 and 2020, the sea level in the Caribbean has been rising at a slightly higher rate than the global average (3.3mm per year).<sup>3</sup> Increased heat extremes and heat stress have been observed in parallel, and there has been an increase in marine heatwaves and ocean acidification.<sup>4</sup> In recent years, the Caribbean region has also experienced an unprecedented crisis of co-occurring epidemics of febrile illness due to dengue, chikungunya, and Zika viruses.<sup>5</sup>

<sup>1</sup> Otker-Robe, Inci. 2018. “Bracing for the Storm: For the Caribbean, Building Resilience is a Matter of Survival.” *Finance and Development* 55

<sup>2</sup> World Bank. 2021. *Advancing Disaster Risk Financing in Dominica*.

<sup>3</sup> Marengo, Jose, Teddy Allen, et al. 2021. *State of the Climate in Latin America and the Caribbean 2020*. World Meteorological Organization No. 1272

<sup>4</sup> Arias, Paola, Nicolas Bellouin, et al. 2021. *Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change*. Technical Summary.

<sup>5</sup> Lowe, R., S.J. Ryan, R. Mahon, C.J. Van Meerbeeck, A.R. Trotman, L-LG. Boodram, et al. 2020. “Building Resilience to Mosquito-Borne Diseases in the Caribbean.” *PLoS Biology* 18 (11): e3000791. <https://doi.org/10.1371/journal.pbio.3000791>.



3. **Economic and social impacts resulting from natural hazards, pandemics, and extreme climatic events can hamper poverty reduction targets and inclusive growth in Dominica.** In 2017, Hurricane Maria decimated the country's natural resources and lifeline infrastructure, which severely affected productivity in agriculture and tourism, the main activities in the productive sector. Damages and losses incurred by the catastrophic Hurricane Maria have been compounded by the more frequent low-intensity climate events such as heavy rainfall events, which often trigger flash floods and landslides. Dominica also suffered the impacts of the global COVID-19 pandemic, which prompted global travel restrictions that curbed the influx of tourists to the island and required in-country curfews and restrictions on movement that once again severely affected the productive sectors. Due to its heavy reliance on tourism to support the economy, the pandemic caused major economic and social duress in Dominica. Furthermore, the goal of inclusive growth remains elusive as growth in some sectors has stagnated.

4. **Dominica has taken definitive steps toward resilience and strengthening its systems to manage the impacts of shocks.** The Government created the Climate Resilience Execution Agency for Dominica (CREAD), whose mandate is to lead and coordinate strategic initiatives across sectors in Dominica to make the country the world's first climate-resilient nation. CREAD has spearheaded steps to enhance public knowledge and participation in resilience and is positioned to strengthen efforts by the business community, public services, and social sector partners in establishing community resilience, developing adaptive infrastructure, expediting economic growth, and fortifying institutional systems to respond to local impacts of global climate change. These include the Flexible Hurricane Protection (FHP) parametric insurance product, which protects individuals against tropical storms and hurricanes,<sup>6</sup> and the extension of a sovereign parametric insurance product to scale up social protection programs after a climate shock. Investment in the country's healthcare infrastructure has led to the construction of 12 new health centers and the commencement of the final phases of a public hospital construction. Despite the blow to tourism due to the pandemic, Dominica quickly implemented measures to protect the island's tourism product. Most significantly, this included the Safe in Nature program that curates safe travel experiences for visitors and tourism stakeholders. Long-running development initiatives such as the World Bank-financed Disaster Vulnerability Reconstruction Project and the Housing Recovery Project (HRP) have contributed to the Government's development goals for 2030 outlined in the National Resilience Development Strategy (NRDS) and the Climate Resilience and Recovery Plan (CRRP), including strengthening critical infrastructure and data coordination and management.

5. **However, many gaps remain in Dominica's path to continue building resilience, some of which the policy reforms supported under the Cat DDO can address if implemented.** For example, Dominica is still at an early stage of mainstreaming disaster risk financing (DRF) into the national budget and development plans, and Dominica can benefit from adjusting its approach to disaster financing and implementing a strategy that is more timely, flexible, equitable, cost-effective and that addresses the needs of the private sector and vulnerable communities. At a sector level, while high-level commitments to incorporating resilient practices and sustainability have been made, policies and legislation supported under this operation will drill down into the specifics of implementing those commitments. Implementation will occur through, for example, building code enforcement, climate-smart agricultural practices, and protocols for environmental preservation and maintenance.

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<sup>6</sup> CREAD - Climate Resilience Execution Agency For Dominica, 2021. <https://www.creadominica.org/initiatives-1>.

6. **This Cat DDO operation further supports critical measures to bolster fiscal and debt resilience and facilitate a climate-resilient recovery.** The Dominica Second COVID-19 Response and Recovery DPC, prepared in parallel, complements this Cat DDO by supporting the capacity of the Government to mobilize resources efficiently and transparently from the Cat DDO if needed, to respond to a disaster or health emergency. These complementary reforms include approved guidelines for the Vulnerability, Risk and Resilience Fund (VRRF), a key component of the National DRF Strategy, PA1<sup>7</sup> of this operation. To reduce Dominica's risk to natural hazards and strengthen the DRM framework, the Government has incorporated objectives for increasing environmental resilience and reducing environmental and climatic vulnerability into capital investment planning.

## 2. MACROECONOMIC POLICY FRAMEWORK

### 2.1. RECENT ECONOMIC DEVELOPMENTS

7. **Dominica is a small, middle-income island economy that depends primarily on services and whose macroeconomic and fiscal framework has been severely disrupted by the pandemic and the devastating Category 5 Hurricane Maria in 2017.** Following Hurricane Maria in September 2017, growth was -6.6 percent in 2017, recovering to 3.5 percent in 2018, and picking up further to 7.5 percent in 2019 (see Table 1). The tourism sector accounts for approximately 25 percent of GDP and nearly 50 percent of total exports.<sup>8</sup> Agriculture and fishing are also important sources of jobs and incomes. Growth in 2021 is estimated at 3.7 percent after an 11.0 percent contraction in 2020.

8. **Dominica's economy continues to be affected by the COVID-19 pandemic, though the situation is improving.** In addition to the slowdown in global growth and the sudden stop in tourism, domestic COVID-19 containment measures implemented as early as March 2020, such as lockdowns, closing of national borders, quarantines, and closing of shops and factories had a severe impact on the tourism industry, as well as those indirectly related to tourism such as transport, hotels, commerce, and services. As firms began to lay-off workers and wage payments ceased, or were reduced, this created an income squeeze for many households which is still reflected in weak demand. Tourist traffic is returning, but remains far below pre-COVID levels, and some cruise ships have resumed visits to Dominica, though not to 2019 levels.<sup>9</sup> Table 1 provides a summary of key economic indicators.

9. **Dominica is a member of the Eastern Caribbean Currency Union (ECCU), and monetary policy and bank supervision are managed by the Eastern Caribbean Central Bank (ECCB).** The ECCB focuses on price stability as a precondition for achieving sustainable growth and high employment. This policy has been successful in maintaining a low inflation rate and stable currency to support growth and investment.

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<sup>7</sup> PA=Prior Action. PA1 is linked to fiscal sustainability Policy Performance Action (PPA) under the Sustainable Development Finance Policy FY22.

<sup>8</sup> The World Travel and Tourism Council data (2019) estimates tourism accounts for 36.9 percent of GDP and 38.7 percent of employment. This estimate is considered high as it includes direct, indirect, and marginally related service sector contributions.

<sup>9</sup> Total tourism arrivals fell from 334,870 in 2019, to 144,000 in 2020, and 66,324 in 2021. This is broken down as follows: stay over arrivals in 2020 21,733 compared to 14,888 in 2021; cruise ship arrivals in 2020 117,979 compared to 50,829 in 2021; and yacht arrivals 2020 4,124 compared to 540 in 2021.

The ECCB has maintained a fixed exchange rate peg of EC\$2.70 to US\$1.00 since July 1976. Inflation has been maintained under 3.0 percent over the past decade, including in 2021.

10. **Financial sector indicators deteriorated during the COVID-19 pandemic; however, the banking sector remains adequately capitalized.** The ECCB took prompt action to mitigate the impact of the pandemic on borrowers by implementing moratoria on loan servicing and fee waivers, and to enhance surveillance of the financial sector, through targeted supervisory flexibility. A 2021 IMF ECCU report reports the capital adequacy ratio (CAR) for Dominica as 18.9 at end-2020, which is an increase from 13.9 at end-2019 and is substantially above the regulatory minimum of 9 percent. Dominica has a high CAR compared to other ECCU countries, indicating an adequately capitalized banking system. The non-performing loan (NPL) at 14.7 percent in Q2 2021 is higher than 12.2 percent in Q4 2019 and the ECCB benchmark of 5 percent. In September 2020, the ECCB moratoria covered a peak of almost 25,000 ECCU loans worth EC\$ 5.2 billion (about 40 percent of outstanding ECCU loans). By August 2021, a total of 3,153 loans amounting to EC\$1.8 billion were covered by the moratoria. The take-up of bank loan moratoria in Dominica was about 30 percent of loans and lower than the ECCU average. Once the moratoria expire, NPLs in Dominica may rise, but not as sharply as in other ECCU countries. Provisioning reached 45.8 percent at end-2020 which is lower than the ECCU overall provisioning of 50.9 at end-2020, down from 54.6 percent in 2019 and 94.6 percent in 2018. No 2021 numbers are available as this ratio is not part of standard FSIs. Current capital buffers should be sufficient to contain any near-term financial stability impact, but CAR margins may thin out significantly. Banks in Dominica have maintained their liquid positions throughout the pandemic. The liquid assets to short-term liabilities ratio was 53.6 percent in Q2 2021, compared to 56.8 percent in Q4 2020 and 53.2 percent in Q4 2019. Meanwhile the ratio of liquid assets to total assets was 45.8 percent, compared to 48.9 percent in Q4 2020 and 46.2 percent in Q4 2019. Credit unions account for over 60 percent of financial sector assets and include systemically important institutions. The insurance sector remains critical to ensuring that the country is resilient to disasters, but the domestic insurer is insolvent and remains unable to pay outstanding Hurricane Maria claims.

**Table 1: Key Economic Indicators, 2017–25**

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Proj.								
<b>Real sector</b>	<i>(annual percentage growth)</i>								
Real GDP (market prices)	-6.6	3.5	7.5	-11.0	3.7	6.8	5.0	4.6	4.1
Consumer price index (avg.)	0.3	1.0	1.5	-0.7	3.0	5.0	4.2	2.0	2.0
<b>Monetary</b>	<i>(percent of GDP)</i>								
Broad money (M2)	18.0	1.4	-6.3	-9.9	1.6	5.6	2.8	5.7	5.2
Credit to private sector	-0.2	-5.3	-6.1	0.4	-1.3	1.0	1.5	1.8	3.1
<b>Fiscal<sup>1</sup></b>									
Revenue	58.7	49.4	44.2	38.1	55.5	49.9	46.5	45.1	43.7
Expenditure	30.4	51.6	62.1	46.2	62.7	59.3	48.4	47.2	47.0
Overall balance <sup>2</sup>	28.3	-2.2	-17.9	-8.2	-7.2	-9.4	-1.9	-2.1	-3.3
Primary balance	29.9	-0.2	-16.0	-5.8	-5.2	-7.4	0.3	0.2	-0.8
<b>Public debt</b>	81.9	84.6	94.2	106.0	100.9	100.3	97.5	94.3	92.0
External debt	55.5	52.4	54.7	66.7	64.2	66.5	66.7	66.0	66.0
<b>External</b>									
Current account balance	-8.6	-42.4	-37.9	-30.0	-31.4	-28.7	-24.0	-18.3	-17.1
Exports (goods and services)	40.3	27.7	35.0	20.2	20.0	27.4	30.7	36.0	36.8
Imports (goods, services)	59.3	74.4	78.0	57.6	52.8	56.2	57.5	57.3	56.3
Foreign direct investment	4.2	13.6	6.1	4.5	6.7	6.6	6.5	4.8	4.6

Exchange rate (EC\$/US\$)	2.7	2.7	2.7	2.7	2.7	2.7			
<b>Memorandum items</b>									
Nominal GDP (EC\$ million)	1457	1524	1663	1469	1569	1730	1859	1983	2104

Sources: World Bank, IMF and Ministry of Finance (MOF) estimates.

<sup>1</sup> Fiscal data refers to fiscal years, July to June, i.e., 2020 refers to fiscal year July 2019 through June 2020.

<sup>2</sup> For years 2022 onward, the overall balance includes 1.5 percent of GDP as a buffer for the estimated fiscal costs of disasters.

11. **Dominica's fiscal position was exacerbated by the COVID-19 pandemic.** The budget deficit decreased slightly to 7.2 percent of GDP in FY2021 (July 2020-June 2021) with a primary deficit of 5.2 percent, after recording an overall deficit of 8.2 percent of GDP in FY2020. Accumulated Citizen-by-Investment (CBI) reserves were essentially depleted after being used to fund Hurricane Maria reconstruction and recovery activities. Nonetheless, CBI revenues remain buoyant, with receipts in 2021 totaling 29.5 percent of GDP. Future CBI revenues are largely dedicated to housing and airport construction. While the Government has taken measures to consolidate spending, as recovery efforts began to wind down, challenges remain given the pandemic and ambitions to build a fully climate resilient economy. Tax revenue remains muted given the slow recovery of the tourism sector, though budget expenditures are expected to fall modestly as post-hurricane reconstruction and COVID-19 support programs unwind. The Government is also implementing additional measures in support of fiscal consolidation and to better manage fiscal risks from climate change, such as limiting discretionary expenditures and establishing a contingencies fund. Table 2 presents the fiscal position in greater detail.

**Table 2: Key Fiscal Indicators, 2017–25<sup>1</sup>**

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(Share of GDP)					Proj.			
<b>Revenue and grants</b>	<b>58.7</b>	<b>49.4</b>	<b>44.2</b>	<b>38.1</b>	<b>55.5</b>	<b>49.9</b>	<b>46.5</b>	<b>45.1</b>	<b>43.7</b>
Tax revenue	24.0	22.7	27.4	23.2	21.9	21.3	23.0	23.6	24.2
Tax on income and profits	4.5	3.5	4.3	4.1	3.8	3.8	4.6	5.2	5.5
Taxes on property	0.6	0.4	0.5	0.6	0.6	0.6	0.6	0.7	0.8
Tax on international trade	5.2	5.1	7.0	5.2	4.8	4.7	4.6	4.6	4.5
Tax on domestic transact.	13.7	13.7	15.6	13.3	12.8	12.2	13.2	13.1	13.3
Non-tax revenue	33.7	22.4	16.0	13.0	31.3	26.3	21.2	19.2	17.2
Property income	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Sales, fees and fines	0.8	0.6	1.3	0.7	0.8	1.2	1.2	1.2	1.2
Other non-Tax revenue	32.8	21.7	14.6	12.1	30.4	25.3	19.9	17.9	15.9
Of which CBI	32.6	21.2	13.1	11.6	29.5	24.5	19.0	17.0	15.0
Grants	1.0	4.4	0.9	1.9	2.3	2.3	2.3	2.3	2.3
<b>Expenditures</b>	<b>30.4</b>	<b>51.6</b>	<b>62.1</b>	<b>46.2</b>	<b>62.7</b>	<b>59.3</b>	<b>48.4</b>	<b>47.2</b>	<b>47.0</b>
Current expenditures	27.9	29.6	37.8	36.9	36.4	34.5	33.0	32.3	32.2
Wages and salaries	10.2	12.2	9.9	10.3	10.8	10.2	9.4	9.3	9.3
Interest	1.6	2.0	1.9	2.4	2.0	2.0	2.2	2.3	2.3
Transfers and subsidies	7.1	6.7	9.7	7.7	7.3	7.0	6.8	6.7	6.7
Goods and services	9.0	9.7	16.9	16.8	16.3	15.3	14.6	14.0	14.0
Capital expenditure	2.4	22.0	24.4	9.3	26.3	24.9	15.4	14.9	14.9
Natural disaster annual cost						1.5	1.5	1.5	1.5
<b>Overall Balance (incl. ND)</b>	<b>28.3</b>	<b>-2.2</b>	<b>-17.9</b>	<b>-8.2</b>	<b>-7.2</b>	<b>-9.4</b>	<b>-1.9</b>	<b>-2.1</b>	<b>-3.3</b>
Primary Balance	29.9	-0.2	-16.0	-5.8	-5.2	-7.4	0.3	0.2	-1.1
<b>Gross public sector debt</b>	<b>81.9</b>	<b>84.6</b>	<b>94.2</b>	<b>106.0</b>	<b>100.9</b>	<b>100.0</b>	<b>100.3</b>	<b>97.5</b>	<b>94.3</b>

Sources: MOF, IMF, and World Bank staff estimates.

1/ Data refers to fiscal years, July to June, i.e., FY2020 is the fiscal year from July 2019 through June 2020.

12. **Dominica has registered large but moderated current account deficits (CADs), balanced largely by the capital account (mainly CBI) and foreign direct investment (FDI).** The CAD is expected to total 31.4 percent in 2021 due to imports related to public investment and continued weakness in tourism receipts. The CAD had been narrowing as imports of capital goods slowed from their peak in 2018 as reconstruction efforts wound down. Nonetheless, Dominica remains highly import-dependent. Most of the food, fuel, consumer, and capital goods are imported and, as a small island state, it is difficult to meaningfully reduce these imports. Tourism receipts approximate 20 percent of GDP in a typical year and make a substantial contribution to financing the trade deficit, as do net remittances at approximately 4 percent of GDP. FDI also helps finance the CAD, though given the small size of the economy it can fluctuate significantly.

**Table 3: Balance of Payments, 2017-25**

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(percent of GDP)					proj.			
<b>Current Account Balance</b>	<b>-8.6</b>	<b>-42.4</b>	<b>-37.9</b>	<b>-30.0</b>	<b>-31.4</b>	<b>-28.7</b>	<b>-24.0</b>	<b>-18.3</b>	<b>-17.1</b>
Exports of goods and services	40.3	27.7	35.0	20.2	20.0	27.4	30.7	36.0	36.8
Exports of goods	2.4	2.1	1.4	2.2	2.4	2.4	2.4	2.4	2.4
Tourism	29.8	15.7	23.5	8.0	7.5	15.0	18.3	23.6	24.4
Imports of goods and services	59.3	74.4	78.0	57.6	52.8	56.2	57.5	57.3	56.3
o/w fuels	5.4	6.7	5.5	4.3	6.7	7.3	7.6	6.8	6.2
o/w food	6.5	7.1	6.3	6.5	7.1	6.1	6.4	5.7	6.0
Net income	0.3	-0.1	1.1	1.4	-2.5	-3.9	-1.2	-1.0	-1.6
Net current transfers	10.1	4.4	4.1	6.0	4.0	4.0	4.0	4.0	4.00
<b>Capital account balance</b>	<b>67.9</b>	<b>26.1</b>	<b>12.3</b>	<b>26.6</b>	<b>16.1</b>	<b>21.0</b>	<b>13.9</b>	<b>11.3</b>	<b>12.1</b>
<b>Financial (net)</b>	<b>-60.1</b>	<b>11.4</b>	<b>21.8</b>	<b>5.3</b>	<b>13.5</b>	<b>10.5</b>	<b>12.8</b>	<b>9.6</b>	<b>7.3</b>
Direct investment	4.2	13.6	6.1	4.5	6.7	6.6	6.5	4.8	4.6
Public sector flows	-1.4	-0.1	1.2	5.9	6.4	5.4	6.2	4.1	3.4
Commercial banks	-64.1	-14.6	14.5	-5.8	0.1	-1.0	0.5	0.8	0.5
Other private flows	0.5	14.2	0.3	0.6	0.7	0.0	0.1	0.3	-0.6
Errors and omissions	43.5	-1.2	0	0	0	0	0	0	0
<b>Overall Balance</b>	<b>-1.8</b>	<b>-3.7</b>	<b>-3.7</b>	<b>1.9</b>	<b>-1.8</b>	<b>2.8</b>	<b>2.7</b>	<b>2.6</b>	<b>2.5</b>
External financing gap	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserves (months of imports)	7.9	5.4	4.2	6.8	6.5	6.1	5.7	5.6	5.5

Sources: ECCB, IMF, and World Bank staff estimates.

**Table 4: Central Government Financing Needs (US\$ millions, fiscal years June-July)**

	2022	2023	2024	2025	2026	2027
<b>Gross Financing needs</b>	<b>36</b>	<b>79<sup>1</sup></b>	<b>69</b>	<b>47</b>	<b>44</b>	<b>46</b>
Overall deficit	59	23	26	38	36	25
Primary deficit	45	13	8	20	18	7
Interest	13	14	14	16	16	16
External debt	4	6	7	8	8	8
Domestic debt	9	9	10	9	9	9
Principal repayments	13	33	46	31	29	29
External	13	21	21	20	17	16
Domestic	0	12	25	11	12	13
Other (use of deposits)	-35	19	1	-20	-19	-8
<b>Gross financing sources</b>	<b>36</b>	<b>79</b>	<b>69</b>	<b>47</b>	<b>44</b>	<b>46</b>
External financing	36	67	50	43	40	43
Multilateral	36	67	50	43	40	43
WB	30	48	35	30	28	30
CDB	6	20	15	13	13	13



IMF	0	0	0	0	0	0
Bilateral	0	0	0	0	0	0
Commercial and other	0	0	0	0	0	0
Domestic financing	0	11	19	4	4	4

Source: IMF and World Bank staff estimates

1/ Gross financing needs are 12.5 percent of GDP in 2023 at their peak.

## 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

13. **Economic growth is forecast to increase to 6.8 percent in 2022.** Growth remains driven by a rebound in tourist arrivals, assuming a recovery of approximately 40 percent of 2019 levels in 2022, and to 80 percent in 2023, with a return to pre-COVID levels by 2024. Growth will also be driven by large public investment spending over the medium term, financed by large CBI revenues and private investments in new hotel developments. Domestic demand is expected to recover as COVID restrictions are eased and household incomes in the tourism and tourism-related sectors rebound, though this will be dampened by inflationary pressures. Price pressures are expected to increase over the short term, with inflation approaching 5.0 percent in 2022. Forecasts are complicated by the uncertainty surrounding Russia’s latest invasion of Ukraine and its potential impact. Broader global inflation, potential negative impacts on logistics and commodity trading, and the impact on general global economic activity could potentially impact economic, fiscal, and other macroeconomic outcomes in Dominica. Rising food and fuel prices could lead to pressure to implement fuel subsidies, or other forms of household transfers, with implications on the fiscal position. Rising social pressures could also recalibrate reform ambition as household conditions tighten, though the authorities remain committed to their fiscal consolidation plan.

14. **The fiscal deficit is projected to widen further in 2022 before returning to a position of primary surplus in 2023.** An overall fiscal deficit of 9.4 percent of GDP is projected in 2022, with a primary deficit of 7.4 percent, as pandemic-related expenses continue, and tourism receipts remain relatively weak. CBI revenues are projected to fall from 29.5 to 24.5 percent of GDP. Public investment mirrors CBI revenues closely, and a fall in CBI revenues is typically offset by an immediate reduction in public investment. The 9.4 percent fiscal deficit projection for 2022 is viewed as the worst-case scenario, and the actual deficit is likely to be smaller. In addition, for 2022 onward, the overall fiscal balance includes an additional 1.5 percent of GDP as a buffer to account for the average annual fiscal costs of disasters. These projections maintain a conservative approach to ensure that fiscal deficits are not underestimated given uncertainties inherent in budget projections.

15. **Dominica’s CBI program has resulted in substantial fiscal revenue over the past decade, in some years reaching over 30 percent of GDP.** These flows can fluctuate given global economic conditions, changes in visa and entry rules in other countries, and the attractiveness of competing citizenship programs. While CBI revenues can be large, only about 50 percent is available for discretionary budgetary use. Except post-hurricane Maria, when reconstruction spending from accumulated CBI revenues was large, annual public investment is scaled to available CBI revenues and fluctuations in CBI revenues do not necessarily translate directly into fiscal deficits, though uncertainty in CBI flows can make budget planning more difficult. CBI revenues are used to build fiscal buffers: they finance the VRRF contingencies fund (EC\$500,000 monthly with an EC\$9.5 million balance); and a planned debt repayment fund (EC\$500,000 monthly), with the intention to increase these monthly capitalization amounts based on CBI inflows.

16. **Fiscal consolidation measures on the spending and revenue side, continued buoyant CBI revenues, and a rebound in tourism are projected to lead to a primary fiscal surplus of 2.0 percent in 2023.** Consolidation measures include: the establishment of an Fiscal Responsibility Framework (FRF), with a specific primary fiscal surplus target of a 2.0 percent of GDP by 2026; expenditure reductions, including tertiary education transfers; public procurement reform to improve value for money; increased tax compliance measures, including auditing efforts to increase revenue; a reduction in discretionary tax expenditures and exemptions; and a rationalization of social programming expenditures, through improved targeting and avoiding duplication. Other revenue reforms include rationalization of tax incentives; property tax reform; solid waste charges; removing exemptions on water and sewage services; recovery of health care fees; reduction of diesel fuel import duty exemptions; and broadening of the base for personal income taxes, including by introducing a presumptive tax. Expenditure measures include civil service reform; further reduction in transfers; review of pension benefits; and increased property tax compliance. Furthermore, the wage bill is expected to decline over the medium term as development partners assist the authorities in implementing civil service reform measures and rationalizing contractual terms. These additional reforms are being implemented by the Government with own resources and assistance from development partners.

17. **The CAD is expected to decrease over the medium term as post-hurricane reconstruction efforts diminish and tourism recovers.** Agriculture may also benefit from efforts to increase linkages between tourism and domestic farmers, thus reducing imports. Furthermore, growth in agriculture, as the sector recovers from Hurricane Maria and current development activities reach maturation, could stimulate increased export growth in specialized agricultural products. Current food and fuel prices are clear and present risks to the CAD. Global oil and commodity prices will have to be watched closely, though the ECCB currently maintains a backing ratio of over 94 percent in its currency board arrangement. The large CAD is financed primarily through CBI revenues, official transfers, and foreign direct investment, with the result being that external financing needs are fully covered. Reserves held by the ECCB are expected to be maintained at adequate levels.

18. **Under the baseline scenario in the February 2022 DSA, public debt is assessed to be sustainable, though the country remains at a high risk of debt distress.** Disasters in 2015 and 2017 and the COVID-19 pandemic significantly altered the debt trajectory, leading to an increase in public debt from 72.1 percent in 2014 to 100.9 percent by end of 2021,<sup>10</sup> inclusive of all public and publicly guaranteed debt, including State-Owned Enterprise (SOE) debt.<sup>11</sup> Dominica has made significant improvements in debt reporting and debt transparency through the regularization of annual debt portfolio reviews, including the incorporation of SOE debt and all publicly guaranteed debt. Dominica participated in the Debt Service Suspension Initiative and benefited from bilateral debt payment deferrals of approximately 0.5 percent of GDP, or US\$2.5 million.

19. **The fiscal consolidation plan, combined with continued robust CBI inflows, resulted in a declining trajectory of overall public debt.** Under the baseline scenario assumptions, public debt remains

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<sup>10</sup> Outstanding debt to Petrocaribe (Venezuela) is estimated at 8.5 percent of the total debt stock. Debt service payments have been cancelled or rescheduled in recent years, a pattern that may continue in the coming years.

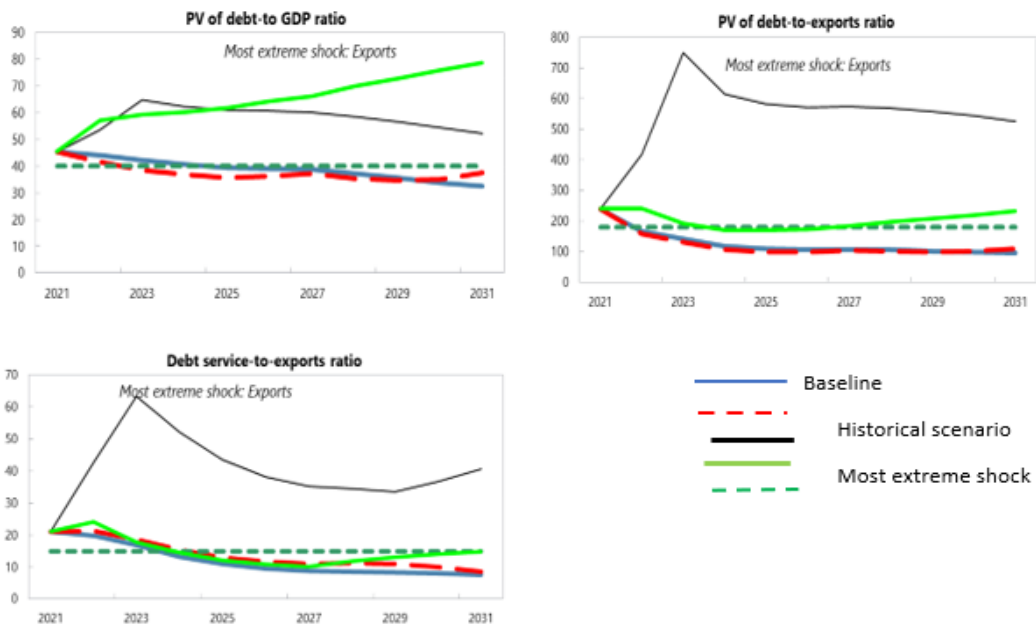
<sup>11</sup> Of Dominica's 106 percent of GDP in total PPG debt in 2020, 11.6 percent of GDP (US\$59.3 million) is guaranteed debt in respect of SOE's. Of this, US\$25.6 million is domestic debt, while US\$33.6 million is owed to multilateral and bilateral agencies.



on a declining trajectory. However, the present value of total public-sector debt-to-GDP ratio remains above the threshold until well into the projection period, only declining below the benchmark by 2029. Key debt sustainability metrics remain elevated over most of the horizon owing mainly to the higher initial stock and are sensitive to stress scenarios. In a scenario without progress on fiscal consolidation, public debt would exceed 140 percent of GDP by 2035. In the baseline, with the implementation of the fiscal consolidation plan, the primary surplus reaches 3.6 percent of GDP by 2029, and public debt trends downward to 60 percent of GDP by 2035. The scenario without fiscal measures assumes that public investment remains at the high baseline level and the fiscal deficit is financed with external public debt. All shocks result in significant breaches of the benchmark. The debt service-to-revenue ratios increase in the near term due to projected revenue losses during the pandemic and then decline.

20. **The present value of external public debt-to-GDP is declining and falls below the threshold by 2025.** However, the threshold is breached by a large margin in the event of a catastrophic climate event or the most extreme shock scenario of a reduction in exports to one standard deviation below its historical average. The present value of external public debt to exports falls below the threshold more rapidly and is relatively more immune to a catastrophic climate event. However, the most extreme shock scenario of a reduction in exports causes significant deterioration of this metric in the near and longer term. Both external public debt-to-GDP and debt-to-exports ratios remain close to the threshold in the medium term, implying a high risk of breaching in the event of downside shocks. The historical scenario has a more rapid decline in the debt to GDP ratio in the initial years, but a similar trajectory. Dominica has no access to international financial markets and borrows mainly from official creditors, resulting in hard constraints on external debt accumulation.

Figure 1: Indicators of Public and Publicly Guaranteed External Debt Sustainability



Source: Joint World Bank and IMF DSA (February 2022).



21. **The macroeconomic outlook, as noted, is subject to significant risk, including financial sector risk.** In addition to the ongoing impact of the pandemic on tourism and the remaining uncertainty associated with its evolution, Dominica is subject to several additional sources of risk. These include vulnerability to climate shocks, oil price and commodity price uncertainty, other external economic shocks and global recessions, and ongoing risks from climate change such as floods and sea-level rise. As a small island economy, these risk sources can significantly impact economic outcomes over time, if not necessarily with immediate impact. The Government has parametric insurance policies with the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC), has established a contingencies fund, has expanded its indemnity insurance coverage, and can access immediate liquidity through this proposed operation. These measures, among others, will mitigate some of these risks.

22. **Dominica’s macroeconomic policy framework is adequate for this operation, despite substantial risks.** This framework is supported by recently approved fiscal consolidation measures (including those supported by this operation) and a strong commitment to further economic and fiscal structural reforms. This assessment is reflected in improving growth prospects; consistently low and stable inflation supported by sound monetary policy implemented by the ECCB; the achievement of primary budget surpluses over the medium term and the enshrinement of such targets in a Parliamentary-approved FRF; and prudent fiscal risk mitigation measures through the creation of fiscal buffers. Continued buoyant CBI revenues and their direct link to public investment, reduce the risk of large fiscal deficits emanating from an over-ambitious public investment pipeline. Furthermore, recent investments in rebuilding infrastructure post recent natural disasters, may have lowered the impact of future natural disasters and the potential fiscal and economic implication if such future climate-related disasters arise.

### 3. GOVERNMENT PROGRAM

23. **The passage of Hurricane Maria provided Dominica with a unique opportunity to review its regulatory and infrastructure systems, with the integrated goal of advancing CCA and DRM in a wider strategy to ensure sustainable socio-economic development.** The country has made significant choices designed to have a long-term impact on its governance model, including the adoption of laws, strategies, and plans. The Government’s development vision and strategy are outlined in the NRDS and the CRRP 2020 – 2030 and implemented by CREAD. The NRDS stipulates that, at the highest level, the CRRP should elaborate climate-resilient systems, prudent DRM, and effective disaster risk response and recovery.

24. **Climate-resilient systems have been a driver of development planning for nearly every sector in Dominica.** The Government has been implementing the post-Maria Emergency Agriculture Livelihoods and Climate Resilience Project in the agriculture sector, focusing on recovering and restoring cropping systems and climate-resilient agriculture and agribusiness systems. The HRP was designed to replace destroyed homes and ensure that new homes are built with safe and resilient construction practices to withstand future hazard impacts. While this work has contributed greatly to economic recovery and

resilience, sustainability would be increased with a greater focus on ex-ante planning and investment in structural resilience and reforming building code and zoning laws.<sup>12</sup>

25. **The Government is practicing prudent DRM through efforts such as committing to align half of the national budget to the CRRP by 2025 and all infrastructure meeting resilient standards by 2030.** Hurricane Maria highlighted structural vulnerabilities, particularly within the housing sector. The revised building code regulations are important in improving resilience to climate impacts in the construction sector. The COVID-19 pandemic also highlighted weaknesses in the health sector, and the Government has since taken steps to build its emergency response capabilities and climate resilience. These actions include activating the Health Emergency Operations Centre to coordinate response activities with the Pan American Health Organization (PAHO) and other partners and implementing health and safety protocols for multiple sectors, including tourism. Similarly, Dominica is setting a regional standard for readiness and self-sufficiency in emergency telecommunications. Outdated DRM laws and policies do not systematically address these issues of understanding and addressing hazard risks. The Government currently lacks legislation to govern overall DRM and has not updated the National Disaster Plan since 2001. Nonetheless, Dominica’s operational DRM and health systems frameworks are adequate to support this operation.

26. **The Government is acutely aware of the importance of Dominica’s natural resources as the driver of long-term sustainable and resilient economic growth.** The Government’s strategic vision—to become the world’s first climate-resilient country—relies on the integrity of its terrestrial and marine environment. This vision emphasizes the importance of resilience-building through multi- and cross-sectoral approaches supported in this operation, for example, through the conservation and restoration of forests and landscapes and consideration of the protection and management of ecosystems, including forests, watersheds, and marine spaces as important economic levers and enablers of climate-resilient systems.

## 4. PROPOSED OPERATION

### 4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

27. **The development objective of the proposed operation is to support the Government in (a) strengthening the legal and institutional framework to increase climate and disaster resilience in priority sectors; and (b) improving national fiscal capacity to respond to disaster and climate-related risks.** This objective will be achieved through reforms under two policy areas: (a) Strengthening the climate and disaster risk financing and recovery framework, and (b) Strengthening the national institutional framework for disaster and climate resilience across key economic sectors. These reforms support the Government’s program by establishing frameworks for recovery in the short-term while also setting out key sectoral transformations necessary to advance CCA and DRM as foundations for a broader strategy to ensure sustainable socio-economic development.

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<sup>12</sup> Natoli, Tommaso. 2021. *Integrating CCA and DRR Laws and Policies Towards a Climate-Resilient Development: Lessons from The Commonwealth of Dominica*. International Federation of Red Cross and Red Crescent Societies, Geneva.



28. **The Government has identified contingent financing as a critical component of its fiscal strategy to address contingent liabilities associated with disasters.** This proposed operation provides a contingent line of credit that facilitates rapid disbursement of funds for medium-to-high-impact disasters, complementing the existing DRF instruments in Dominica. In this case, the DPC with Cat DDO can be more appropriate than risk transfer instruments to cover intermediate layers of risk, such as tropical storms and low-intensity hurricanes. It complements the VRRF by supplementing gaps in financing where losses exceed the money available in the VRRF. It complements the sovereign parametric insurance coverage by allowing the Government to optimize the CCRIF SPC policy parameters. By adding a contingent line of credit through the Cat DDO, the Government could get better value for money because an IDA Cat DDO can cover losses below the attachment point.

29. **The design of the proposed operation builds on lessons learned from over a decade of World Bank-financed operations in the realm of DRM and DPC with Cat DDO programs<sup>13</sup> and key findings from extensive technical and policy analysis on climate and disaster risk resilience.<sup>14</sup>** Key lessons learned from prior DPC with Cat DDO operations<sup>15</sup> highlight that the implementation of a DPC with Cat DDO operation should be set within a broader DRM strategy of physical risk reduction and combining fiscal risk retention and risk transfer instruments to efficiently manage contingent liabilities associated with natural hazards. Dominica maintains a satisfactory DRM program that addresses natural hazards, including health-related events. The DRM and health sector frameworks are deemed adequate for this operation, supporting closing gaps in critical weaknesses identified after Hurricane Maria and during the COVID-19 pandemic. At the same time, the operation supports a series of policies and plans that form the bedrock of institutional reforms and legislative change required to mainstream climate and disaster resilience in long-term planning in line with Dominica's national strategy and its Nationally Determined Contribution (NDC) under the UNFCCC Paris Agreement.

30. **The Government may draw on the Cat DDO funds upon the occurrence of a disaster resulting in an official proclamation of emergency.** 'Proclamation of Emergency' means a declaration made by the President and published in the Recipient's Gazette that Dominica or any portion thereof is affected or is imminently likely to be affected by any disaster under the provisions of the Recipient's Emergency Powers (Disaster) Act 20 of 1987, Chapter 15:03.<sup>16</sup> According to standard practice, the drawdown period for this operation will be three years and is renewable one time for an additional three-year period during which the funds can be disbursed. Renewal would require (a) that the Government is implementing its policy reform program described in the Letter of Development Policy (annex 3), (b) confirmation of the adequacy of the macroeconomic framework, (c) approval of the Regional Vice-President of the World Bank, and (d)

<sup>13</sup> Independent Evaluation Group: 'Hazards of Nature, Risks to Development' and 'World Bank Engagement in Small States'.

<sup>14</sup> Independent Evaluation Group: 'Adapting to Climate Change – assessing World Bank Group experience'; 360° Resilience: A Guide to Prepare the Caribbean for a New Generation of Shocks

<sup>15</sup> Cat DDOs: Philippines (2011; 2015), Sri Lanka (2014), Seychelles (2014), Serbia (2017), Perú (2019), Guatemala (2011, 2019), as well as the DPC with Cat DDO in Malawi and Grenada (2019)

<sup>16</sup> 'Disaster', for the purposes of this operation, means an imminent or occurring situation due to a natural or health event in accordance with the Recipient's Emergency Powers Disaster Act, including but not limited to any grave abnormality such a hurricane, tornado, storm, earthquake, volcanic eruption, landslide, epidemic, or any other catastrophe that warrants mobilization and use of extraordinary human and economic resources to repair damages. For clarity, any emergency that is predominantly political, technological, security, military, or fiscal in nature, is excluded.

that it takes place no earlier than one year, and no later than six months, before the closing date of the proposed Cat DDO. The ensuing drawdown will take place under the terms and conditions specified in the Financing Agreement.

#### 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

##### *Policy Area A: Strengthening climate and disaster risk financing and recovery framework*

**PA #1: The Recipient, through its Cabinet, has approved a National DRF Strategy, providing a comprehensive framework for using multiple instruments and programs to strengthen financial resilience for improved disaster risk management.**

31. **Rationale.** The DRF Strategy further supports the Government's efforts to reduce the fiscal risk of disasters while also complementing its efforts to reduce the physical risk to hazard impacts. Until recently, the MoF had neither a comprehensive strategy for reducing contingent liabilities of disasters nor a framework for managing the fiscal risk resulting from these events. This situation has resulted in a fragmented approach to handling natural hazards, including those induced by climate change, and in weak ex-ante measures, both in public financial management (PFM) and DRF. The Cat DDO will complement Dominica's current financial instruments for disaster response, outlined in the DRF Strategy, as part of a risk-layering approach, cost-effectively combining different financial instruments.

32. **Substance.** The DRF Strategy sets out specific principles of supporting data coordination, sound PFM, and improved coordination with the domestic insurance sector, to complement the Government's menu of financial instruments. This reform enables the Government to (a) maintain a sound fiscal position at the national government level, which is necessary to support long-term rehabilitation and reconstruction needs and minimize interruptions in ongoing development plans; (b) develop cost-effective and accessible financing mechanisms for immediate liquidity that can be channeled rapidly to prioritized institutions and sectors; and (c) reduce the impact of disasters on Dominica's people and businesses, specifically focusing on developing innovative DRF instruments necessary for protecting development gains and livelihoods for the most vulnerable people and businesses at the individual, community, and national levels.

33. **Expected results.** The Cabinet's approval of the DRF Strategy provides the policy basis for implementing the strategy, improving the Government's ability over time to (a) mobilize and optimize a pool of complementary financial instruments that address disaster and climate risk; (b) respond to and mitigate the potential economic impact of disasters and climate change; and (c) access risk information for more informed decision making on budgeting for disaster risk and response. With TA support from the WB as needed, the Government will ensure that at least 15 percent of GDP is available in immediate liquidity from a mix of financial instruments for catastrophic hydrometeorological event response. This critical outcome will enable decision-makers to better manage the potential economic impact of disasters.

**PA #2: The Recipient, through its Ministry of Finance, has approved the domestic sale of a parametric insurance product for hurricane risk to strengthen financial protection for vulnerable communities from**



**climate-related shocks.**

34. **Rationale.** Through the DRF strategy, the Government and the domestic insurance industry have agreed to work together on a policy to increase property insurance penetration, make insurance more affordable and accessible, and promote innovative risk transfer products for social protection. Uninsured losses from Hurricane Maria totaled US\$1.1 billion, representing 86 percent of total damages. Micro, small and medium enterprises (MSMEs) suffered US\$73 million in losses, of which only an estimated US\$10 million was insured. Assessments following Tropical Storm Erika and Hurricane Maria indicate that women tend to have less access to insurance than men in Dominica, thereby being particularly vulnerable in case of disaster. About 40 percent of informal economic activities were disrupted by the TS Erika and women were engaged in 55 percent of such activities, with many MSMEs having limited or no access to insurance;<sup>17</sup> Moreover, many women, especially elderly women heads of households, did not have homeowners insurance because they were living in family homes which were built by their parents.<sup>18</sup> Findings from a regional report suggest that barriers for women to access insurance include a triple role in society pushing them to prioritize households needs, limited insurance options, general lack of awareness on available options, and issues of approachability for women.<sup>19</sup>

35. While the Government consistently provides social support after disasters, the weak link between DRF and social protection systems hinders the Government's capacity to provide scalable, timely, and effective responses.<sup>20</sup> After Tropical Storm Erika, the Government mobilized EC\$6 million to support the affected population. However, no specific account was envisaged before or budgeted for this purpose.<sup>21</sup> A reliance on donor support or budget reallocations for ad-hoc social protection structures to provide rapid responses increases the risk of duplication and cost-efficiency losses and places pressure on post-disaster fiscal management.<sup>22</sup> By moving to extend coverage to those excluded from traditional indemnity insurance, parametric insurance products can help close the protection gap. Cost-effective risk transfer products that cover climate events will become more critical to Dominica, as such events could increase in frequency and severity in the Caribbean.

36. **Substance.** The Financial Services Unit (FSU) of the MoF has approved the sale of an innovative insurance product, FHP, a parametric that pays out based on a predetermined triggering event rather than from assessed damage to property. This new product is the first individual parametric product in Dominica, thereby setting a precedent for further innovation. CREAD has partnered with the Dominica Co-operative Societies League Ltd. to raise awareness and offer the insurance product to individuals. Premiums are determined by the characteristics of the event that one would like to purchase protection

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<sup>17</sup> Government of the Commonwealth of Dominica, 2015. The Commonwealth of Dominica: Social and Livelihood Assessment Following Tropical Storm Erika, Government of the Commonwealth of Dominica with the Technical Assistance of the UNDP, Barbados and the OECS.

<sup>18</sup> Government of the Commonwealth of Dominica, 2017. Post-Disaster Needs Assessment Hurricane Maria - September 18, 2017. A Report by the Government of the Commonwealth of Dominica.

<sup>19</sup> Caribbean Development Policy Centre (CPDC), 2021. Gender and Climate and Disaster Risk Finance and Insurance. A focus on Small-Scale Farmers in Antigua and Barbuda, Barbados and Grenada.

<sup>20</sup> World Bank, 2020. Adaptive Social Protection, Building Resilience to Shocks.

<sup>21</sup> World Bank, May 2017. Mapping Social Protection and Risk Management in Dominica.

<sup>22</sup> Dominica Resilience Strategy, IMF Country Reports 21/182, August 2021.



against, and triggering parameters are the category of the hurricane and its distance to the island. This product will respond exclusively to climate-related events, and substantial information sessions will accompany the product's sale. In 2021, FHP's pilot year, 36 percent of the policies were purchased by women, all for covering agricultural interests accompanying an additional business interest they sought to protect. Therefore, the adoption of the pilot FHP has likely increased the coverage of women and the coverage for difficult-to-model losses. The project will directly contribute to narrowing the protection gap between women and men by tackling some of the identified access barriers: i) ensuring participation of women and men and local organizations (e.g. women farmers groups) in product design to identify and meet the differential needs and risks for women and men; ii) targeting sectors and value chains with high-levels of women's participation and linking with existing initiatives for women's financial inclusion; iii) supporting awareness campaigns on parametric instruments and their benefits and to ensure content and channels are adequate to meet information needs of women.

37. **Expected results.** The risk of hurricanes in the region has increased due to climate change and storms of ever greater strength. Therefore, it is vital that individuals, especially women, MSMEs, and small-hold farmers, undertake rigorous planning and climate risk management to protect themselves against severe damages from future storms. This new product will help raise awareness of innovative risk insurance products and close the gaps between DRF and vulnerable populations.<sup>23</sup> Governments and donor agencies face increasing demands for ever scarcer resources to provide relief from climate risks. FHP will encourage individuals and businesses to take control of their own risk exposure, and by targeting sectors and value chains with high levels of women's participation it will also narrow existing gender disparities in coverage. This operation will report on the share FHP policy holders who are women, with a goal of narrowing the gap of 36 percent to 45 percent by 2025.

**PA #3: The Recipient, through its Cabinet, has approved the updated National Disaster Management Multi-Hazards Plan for Health and the National Emergency Telecommunications Plan to enhance climate and disaster response framework to respond more effectively to emergencies.**

38. **Rationale.** Disasters, including climate, geophysical, and health-related shocks, can devastate country systems, as Dominica experienced in the wake of Hurricane Maria and following the COVID-19 pandemic. Prompt and coordinated response capacity in critical sectors minimizes immediate loss to lives, livelihoods, and assets and enables a timely recovery in the medium- to long-term. As fast and slow-onset climate impacts are projected to intensify in Dominica, the health-related hazards of climate change are expected to increase, including heat stress, infections and vector-borne diseases, non-communicable diseases, and food security. Continued focus on the health sector will be increasingly important.<sup>24</sup> Likewise, during emergencies, the ability of the Government to continue operations and communicate effectively with the public and across public agencies is critical. This need has been evident during the COVID-19 related restrictions, which led to congestion in available communications technologies. The issue was also apparent in the aftermath of extreme weather events and natural disasters impacting telecommunications infrastructure, limiting the ability of the Government across relevant public sector agencies and geographies, and rendering digital services unusable by citizens and Government alike. The

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<sup>23</sup> Guidance Note, Disaster Risk Finance for Social Protection, World Bank, 2020

<sup>24</sup> PAHO, 2020, "Dominica. Health and Climate Change Country Profile 2020"



Government has made a concerted effort to modernize and augment sectoral response capacity to alleviate vulnerability to shocks in the health and communications sectors. Dominica has prepared a National Disaster Management Multi-Hazards Plan for Health, based on regional and international best-practice as established by PAHO-WHO. In the telecommunications sector, the Government has developed a National Emergency Telecommunications Plan (NETP) to provide the necessary policy and institutional anchor to boost the resilience and response capacity of telecommunications infrastructure to external shocks.

39. **Substance:** Dominica has applied what has been learned from the COVID-19 response to update its disaster management strategy in the health sector to establish an operational model to implement emergency functions, identify preparedness tools, and develop standardized operating procedures and contingency plans. It establishes a communications approach based on consultation with stakeholder groups to provide accurate information during health emergencies, disseminate good practices, and mitigate the potential burden on public health infrastructure. To complement national disaster response capacity in the health sector, the NETP outlines the role of information and communications technologies (ICT) across natural and health disaster mitigation, preparedness, response, and recovery to set out a coordination mechanism between governmental, private sector, and affected communities through the main public agencies, including the Office of Disaster Management and community and district level emergency committees. The NETP approval provides the necessary policy basis to implement action items identified in the plan, with multi-stakeholder responsibility for implementation. The action items include the implementation of legal and regulatory reforms, establishment of emergency response call centers and early warning systems, development of infrastructure vulnerability maps, and conducting of emergency drills, among others.

40. **Expected results:** Implementation of the two plans under this PA will significantly enhance national capacity to prepare for and mitigate disaster impacts and health emergencies while limiting the negative impact these events may cause in terms of losses and damages to human life and built assets. The plans will be incorporated into national disaster response simulations led by the Office of Disaster Management to refine their functionality. The updated National Disaster Management Multi-Hazards Plan for Health will provide the country with adequate response planning based on a multi-hazard approach with a special focus on climate risk and cascading events such as hurricanes and health emergencies. It is expected that this will lead to better use and coordination of available resources and greater flexibility to deal with any event and its impact on the health sector. In turn, the NETP will allow for greater use of telecommunications and digital technologies in mitigating and recovering from disasters by guiding the actions of telecom/ICT sector stakeholders to improve coordination between the different agents involved in DRM. Through greater collaboration among infrastructure owners and streamlined processes for emergency communications, the NETP will boost the preparedness and resilience of Dominica's telecommunications infrastructure and services.

***Policy Area B: Strengthening the national institutional framework for disaster and climate resilience across key economic sectors***

**PA #4: The Recipient, through its Cabinet, has approved a National Agriculture Policy and a National Blue Economy Roadmap to embed climate-smart and disaster-resilient economic growth in its primary**

### **livelihood sectors.**

41. **Rationale.** Hurricane Maria demonstrated the extreme vulnerability of the agriculture and blue economy sectors to climatic events, which affect livelihoods and food security in Dominica. Successive damages and losses to its leading crop production sector have contributed to its reduced share in GDP, from 14.53 percent in 2000 to 9.25 percent in 2019, and declining export revenues by 57.4 percent between 2008 and 2017. Coastal and marine ecosystems contributed 25.4 percent of Dominica’s GDP in 2019.<sup>25</sup> Returning to agriculture and fisheries production after Tropical Storm Erika and Hurricane Maria has been challenging, especially for women. Women are less likely to own property and land than men in Dominica, affecting women’s ability to access credit and develop enterprises on an equal basis with men, especially after disasters. Unequal access to resources affects women’s ability to return to productive activity, resulting in longer stays in temporary accommodations and disruptions in livelihoods for female-headed households. Tropical Storm Erika disrupted some 40 percent of informal economic activities, and women were engaged in approximately 55 percent of those activities.<sup>26</sup> A key component of re-invigorating agriculture and the blue economy is to facilitate community-based self-reliance, as rural and coastal communities are home to a large share of socially marginalized women and youth, especially Haitian migrants. Despite its vulnerabilities, agriculture and the blue economy remain the most important productive sectors in the economy of Dominica. These sectors are given primary importance in Dominica’s vision towards climate resilience. The Ministry of Blue and Green Economy, Agriculture and National Food Security (MoBGEANFS) will pursue an integrated territorial (terrestrial and marine) approach that addresses the environmental, economic, social, and institutional and governance dimensions of resilience and transformation.

42. **Substance.** The operation will support the Cabinet-level approval and implementation of the National Agriculture Policy (NAGriP) and the Blue Economy Roadmap under the MoBGEANFS. The NAGriP covers climate-smart agricultural activities in crop, livestock, fisheries and agro-forestry, agro-processing, light agro-manufacturing, agro-tourism, and market services. Its policy objectives are to (a) build climate resilience of agro-biodiversity and agriculture production systems to natural hazards and climate change impacts for more productive and sustainable agriculture; (ii) facilitate the development and enhancement of agribusinesses and value chains through technological, knowledge, market and financial innovation, productivity improvements, diversification and entrepreneurship; and (iii) supply the national food system with an increasing portion of safe and nutritious locally produced foods that ensure basic food needs in the aftermath of disasters. The National Blue Economy Roadmap is based on cross-cutting themes of climate change, good governance, and equality. It aims to enhance the marine sector’s adaptive capacity and productivity introducing improved technologies, land- and marine-based operations and promoting practices that reduce vulnerability, mitigate against, and build resilience to the effects of climate change in all aspects of the blue economy.<sup>27</sup> The Roadmap outlines investment actions and policy initiatives over the short, medium, and long term focused on building climate resilience across sectors. These actions

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<sup>25</sup> World Bank (2021). Report on Blue Economy Rapid Diagnosis: Dominica. (World Bank: June 2021). Unpublished report prepared for the Government of Dominica.

<sup>26</sup> GOCD (2015). Social and Livelihood Assessment Following Tropical Storm Erika, Government of the Commonwealth of Dominica with the Technical Assistance of the UNDP, Barbados and the OECS

<sup>27</sup> Key blue economy sectors include tourism, fisheries, marine transport, aquaculture, and marine renewables.

include (a) expanding efforts to restore coastal and marine habitats; (b) enhancing the capacity of nature-based solutions to mitigate pressing climate and disaster risks; and (c) encouraging climate mitigation in marine transport and marine renewables.

43. **Expected Results.** NAGriP aims to transform agriculture and food systems through a transition from extensive blue and green production practices to more risk-sensitive, climate-smart and sustainable practices for productivity, resilience, value addition, marketing and trade improvements. The National Agricultural Council will provide oversight and coordination for policy implementation, establishing a Policy Communications Program that incorporates key policy goals, including increasing the number of women actively participating in sector programs by identifying and reducing the barriers to their participation and strengthening governance mechanisms at national and local levels to establish a minimum representation of women. Regarding the Blue Economy Roadmap, investment actions and policy interventions are expected to result in the more comprehensive management of coastal and marine resources over the long term to support improved livelihoods and marine ecosystem health.<sup>28</sup> The actions identified by the Roadmap aim to support a transformation of the blue economy while promoting job creation, environmental protection, climate resilience, and the greater inclusion and empowerment of women and youth. These outcomes will improve the climate resilience of these productive sectors and the people who depend on them.

**PA #5: The Recipient, through its Cabinet, has adopted a National Forestry Policy to strengthen forest resource management, enhance resilience, and reduce climate and deforestation impacts.**

44. **Rationale.** Forests dominate Dominica's landscape and economy, covering an estimated 60 percent of the island and supporting 20 percent of all livelihoods.<sup>29</sup> Dominica's extensive forest resources serve as a key enabler for climate and disaster resilience, providing valuable ecosystem services by managing stormwater and reducing flooding to reduce disaster risk locally and serve as an essential carbon sink to support climate mitigation locally and globally. In addition, the country's forest ecosystems play a key role in watershed management to maintain water supply and in preserving globally significant biodiversity that underpins Dominica's nature-based tourism sector. Effective forest resource management and enhanced resilience of forestry, marine, and water resources are key pillars in the NRDS. Despite this importance, the last formal policy for forest resources dates from 1949, and there has been no coherent policy-based approach to managing forest resources since then. This issue has resulted in a weak and fragmented forest governance framework contributing to unsustainable forest use and high rates of forest loss (estimated at over 10 percent of forest cover loss since 2000).<sup>30</sup>

45. **Substance.** The National Forestry Policy streamlines current forest governance and institutional

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<sup>28</sup> The Roadmap sets out a series of selection criteria for investment actions and policy interventions based on outcomes from the Eastern Caribbean Regional Oceanscape Project that include (i) sustainability; (ii) natural capital; (iii) vulnerability reduction; (iv) increased capacity; (v) climate change; (vi) alignment with climate mitigation; (vii) gender equality; (viii) jobs and training opportunities; (ix) potential for regional cooperation; (x) self-financing; and (xi) certainty of benefits.

<sup>29</sup> World Bank, 2021. Using Effective Forest Management to Improve the Flow of Ecosystem Services and Benefit Dominica's Economy'-The Dominica Country Forest Note.

<sup>30</sup> World Bank, 2021. Using Effective Forest Management to Improve the Flow of Ecosystem Services and Benefit Dominica's Economy'-The Dominica Country Forest Note



arrangements by capturing forest management related activities from various national strategies and policies (NRDS, National Land Use Plan, draft National Physical Development Plan, NDC,<sup>31</sup> and draft REDD<sup>32</sup> Strategy) into a coherent policy that reduces fragmentation. The policy promotes more effective governance in forest resource management. It covers all of Dominica's forested areas—forest reserves, national parks, unallocated state lands, the Kalinago Territory, and privately owned land—as well as plantation forests, deforested or degraded land, and agro-forests to outline an institutional framework for integrated forest management based on global best practices, and in line with the vision set out in the NRDS. The policy sets out approaches to effectively manage forest uses and threats to forests, including timber extraction, non-timber forest products, agriculture, land use planning and physical development, tourism, and maintaining forest capacity for performing locally important climate resilience and globally important climate mitigation services. It modernizes the enabling environment in Dominica, including Dominica's ability to attract innovative financing sources in the forest sector.

46. **Expected results.** The National Forest Policy modernizes Dominica's forest resource governance framework by reducing fragmentation and enhancing governance outcomes through conservation, protection, management, and use of forest resources. This approach enhances both mitigation and adaptation outcomes while ensuring that the productive capacity of the forests for goods, products, services, and livelihoods is maintained or enhanced for present and future generations. It is expected that the policy will result in a revised strategic and institutional approach for forestry management spanning the various institutions and agencies involved or with interest in forest management.<sup>33</sup> The policy supports the achievement of Dominica's climate resilience agenda through a focus on (a) maintaining and enhancing biodiversity and ecological functioning of forests; (b) maintaining and increasing forest area cover; and (c) optimizing governance and institutional arrangements for forest resources to help support forest-derived livelihoods. Moreover, it will serve as an entry point for Dominica to attract increased international financing for the forest sector, particularly innovative streams including payment-for-ecosystem services to ensure that forests continue to serve as Dominica's critical enabler of climate and disaster resilience.

**PA #6: The Recipient, through its Cabinet, has approved the revised Draft Building Code Regulations of Dominica 2021, to improve resilience of the built environment to climate and geophysical hazard impacts.**

47. **Rationale.** Dominica is vulnerable to seasonal hurricanes and rainfall, slow onset impacts of climate change such as the sea-level rise, and an ever-present risk of earthquakes. Historically, disasters have had a relatively high impact on the housing sector. According to the 2017 Hurricane Maria PDNA, damages in the housing sector totaled US\$354 million, the sector sustaining the highest percentage of overall damages at 38 percent. To improve the resilience of the housing stocks, the Government has

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<sup>31</sup> NDC = Nationally Determined Contribution.

<sup>32</sup> REDD = Reducing Emissions from Deforestation and Forest Degradation.

<sup>33</sup> The policy outlines coordination mechanisms and communication lines across key institutions with an interest in forestry management. These include link between the Forestry Department and the Ministry of Public Works and the Digital Economy, the MOBGEANFS, the Ministry of National Security and Home Affairs, the Fire and Ambulance Services Division, the MoF, Central Statistics Office. The Results Indicator for this Prior Action is based on memoranda of understanding or coordination agreements established among partner ministries to support implementation of the policy.



published the *Guide to Dominica’s Housing Standards*,<sup>34</sup> which helps people understand the causes of damage and resilient construction practices to minimize future damages. To further strengthen the regulatory foundation that facilitates safe and resilient construction, the Government *adopted the 1996 version of the OECS building code in 2019*. The Government is further updating the code and subsequent regulations to provide improved guidance to address building damages and failures observed on the ground over the past years.

48. **Substance.** The key updates to the building code are generally to clarify certain specifications for the use of concrete blocks in load-bearing walls and the construction of steel framed structures to reduce damage from hurricanes and other climate events. The new code also clarifies that a special inspector must be hired for all buildings accessible to the public to promote inclusion and accessibility. While the Government updates the building code, it is also developing an implementation plan to facilitate a safe and resilient built environment, reduce physical risk to natural hazards, and enable a more resilient recovery. The activities considered part of the implementation plan include capacity building of building professionals in the private sector as well as of building officials, improvement of access to regulatory information for building practitioners in the private sector, and communication and outreach campaigns to promote a safe and resilient built environment across society.

49. **Expected results.** In addition to approving the revised building code regulations, the Government is expected to strengthen the legislative and regulatory foundation that supports a safe, green and inclusive built environment by enacting the revised Physical Planning Act. By enacting and enforcing a more robust building code, the Government will be taking steps to reduce the likelihood that homes and other buildings are impacted by strong winds, heavy rainfall, and ground movement. These outcomes will reduce financial burden on families after a disaster and the Government’s implicit contingent liability. A key first step in code implementation is the capacity building and training of building professionals on the construction, physical planning, and code enforcement sides.

**Table 5: Development Policy Financing Prior Actions and Analytical Underpinnings**

Prior Actions	Analytical Underpinnings
<b>Policy Area A: Strengthening climate and disaster risk financing and recovery framework</b>	
<b>PA 1:</b> The Recipient, through its Cabinet, has approved a national strategy for disaster risk financing, providing a comprehensive framework for using multiple instruments and programs to strengthen financial resilience for improved disaster risk management.	<ul style="list-style-type: none"> <li>Ghesquiere, Francis and Oliver Mahul. 2010. “Financial Protection of the State Against Natural Disasters: A Primer.” Policy Research Working Paper WPS 5429. World Bank, Washington, DC.</li> <li>OECD (Organisation for Economic Co-operation and Development) 2018. <i>Developing the Elements of a Disaster Risk Financing Strategy</i>.</li> </ul>
<b>PA 2:</b> The Recipient, through its Ministry of Finance, has approved the domestic sale of a parametric insurance product for hurricane risk to strengthen financial protection for vulnerable communities from climate-related shocks.	<ul style="list-style-type: none"> <li>World Bank 2021. <i>Advancing Disaster Risk Finance in Dominica</i>. This report presents key relevant recommendations for the Government for a DRF strategy</li> <li>Axco 2021. <i>Eastern Caribbean Non-Life Insurance Market Report</i>. Outlines the low penetration rates of non-life insurance, noting need for more innovation</li> </ul>

<sup>34</sup> <http://physicalplanning.gov.dm/land-use-and-development/documents/142-guide-to-dominica-housing-standards-2018>

<p><b>PA 3:</b> The Recipient, through its Cabinet, has approved the updated National Disaster Management Multi-Hazards Plan for Health and the National Emergency Telecommunications Plan to enhance climate and disaster response framework to respond more effectively to emergencies.</p>	<ul style="list-style-type: none"> <li>• COVID-19 Strategy Update, World Health Organization 2020. The document provides detailed technical guidance for national public health responses to COVID-19.</li> <li>• World Bank. 2021. Disaster Preparedness &amp; Response Capacity Assessment; Investment Proposal and Strategic Roadmap</li> <li>• Crane Williams, Robert; Bissessar, Shiva. 2017. Strengthening Cooperation between Telecommunications Operators and National Disaster Offices in Caribbean Countries. (ECLAC).</li> <li>• 2017 Post-Disaster Needs Assessment Hurricane Maria September 18, 2017: A Report by the Government of the Commonwealth of Dominica, 15 November 2017.</li> </ul>
<p><b>Policy Area B: Strengthening the national institutional framework for disaster and climate resilience across key economic sectors</b></p>	
<p><b>PA 4:</b> The Recipient, through its Cabinet, has approved a National Agriculture Policy and a National Blue Economy Roadmap to embed climate-smart and disaster-resilient economic growth in its primary livelihood sectors.</p>	<ul style="list-style-type: none"> <li>• Interamerican Institute of Cooperation for Agriculture (IICA) (2017) Climate Smart Agriculture in the Easter Caribbean States</li> <li>• A. Bleeker, et al. 2021, “Advancing Gender Equality in Environmental Migration and Disaster Displacement in the Caribbean,” Studies and Perspectives series, No. 98 Santiago, Economic Commission for Latin America and the Caribbean (ECLAC).</li> <li>• World Bank. 2021. Regional Report on Blue Economy Rapid Diagnosis - Dominica Government, UNDP, WB.</li> <li>• World Bank, 2017. The Potential of the Blue Economy: Increasing Long-term Benefits of the Sustainable Use of Marine Resources for Small Island Developing States and Coastal Least Developed Countries.</li> </ul>
<p><b>PA 5:</b> The Recipient, through its Cabinet, has adopted a National Forestry Policy to strengthen forest resource management, enhance resilience, and reduce climate and deforestation impacts.</p>	<ul style="list-style-type: none"> <li>• World Bank. 2021. Using Effective Forest Management to Improve the Flow of Ecosystem Services and Benefit Dominica’s Economy: The Dominica Country Forest Note.</li> <li>• Draft Forest Policy Statement for the Commonwealth of Dominica (2010)</li> <li>• Dominica NDC as submitted to United Nations Framework Convention on Climate Change (2015)</li> </ul>
<p><b>PA 6:</b> The Recipient, through its Cabinet, has approved the revised Draft Building Code Regulations of Dominica 2021, to improve resilience of the built environment to climate and geophysical hazard impacts.</p>	<ul style="list-style-type: none"> <li>• OECS. 2017. iLAND Resilience Project Report that addresses implications of recent natural disasters in the region, reiterated by the severe adverse impacts of Hurricanes Irma and Maria in 2017 on the Dominica’s built sector, for building code contents and implementation.</li> </ul>

#### 4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

50. **World Bank programming in Dominica is guided by the World Bank Group (WBG) Regional Partnership Strategy (RPS) for the OECS for FY15-FY19 endorsed by the Executive Directors on November 13, 2014 (Report No. 85156-LAC).** The Performance and Learning Review (PLR) of the RPS considered by the Executive Directors on May 23, 2018 (Report No. 118511-LAC) extended the RPS to FY20. The objective of the RPS is to lay the foundations for sustainable inclusive growth through (a) Fostering Conditions for Growth and Competitiveness and (b) Enhancing Resilience. This operation directly addresses the priorities of the RPS and the increased focus on macro-fiscal issues and resilience stated in the PLR. This operation addresses issues of climate resilience and disaster management, to reinforce macroeconomic stability and enhance resilience to shocks. Reforms supported under this

operation will contribute to the WBG's twin goals of ending extreme poverty and promoting shared prosperity. The proposed operation also aligns with the new WBG draft 2022–2025 Regional Partnership Framework (RPF) for the OECS (160349-LAC) that will be discussed by the Board of Executive Directors on May 17, 2022. The RPF has the overarching objective to support green, resilient, and inclusive development and strengthen competitiveness as the OECS countries recover from the COVID-19 crisis, address their medium-term development priorities, and build resilience to climate change and other external shocks. Like the Dominica COVID-19 response operation (P175847) prepared in parallel, this operation aims to address climate resiliency and disaster management, reinforce macroeconomic stability, and enhance resilience to shocks.

51. The operation is also consistent with the WBG's COVID-19 Crisis Response Approach Paper while Supporting Green, Resilient and Inclusive Development. In early April 2020, the CERC's<sup>35</sup> of two ongoing projects—the OECS Regional Health Project (P168539) and the Emergency Agricultural Livelihoods and Climate Resilience Project (P166328)—were activated to provide US\$6.6 million for urgent health-related needs, assist farmers, and strengthen food security. Subsequently, US\$5.2 million was also activated from the CERC of the HRP (P166537) to finance social assistance for the vulnerable and those most affected by the crisis. Policy actions supported by this operation are aligned with all four pillars of the World Bank's Approach Paper. Further, this operation supports IDA19 Policy Commitments, including the Special Themes on Climate Change and Gender, Cross-cutting Issues on Debt, and a focus on Results Management.

#### 4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

52. **The proposed operation is in line with the NRDS and the CRRP 2020-2030, which were developed following a substantive consultative process.** Implementation of the NRDS and the CRRP is coordinated by CREAD, which benefits from multi-donor support, including core funding from Canada and the United Kingdom Foreign, Commonwealth, and Development Office (FCDO). CREAD also provides implementation support to various donor-funded projects (World Bank, European Union, FCDO, and Canada). The preparation of this operation benefited from close collaboration with other development partners active in Dominica, particularly the World Food Programme (WFP), the Food and Agriculture Organization, ECLAC, the European Union and FCDO. This cooperation is especially important given Dominica's limited capacity. Also, the FCDO funded the World Bank's support of the DRF Strategy development. The WB and WFP also coordinated closely to ensure that their agreement (PA2) was in line with the risk-layered approach in PA1. The CCRIF SPC was also consulted in this project and will be consulted throughout implementation. Aligning Dominica's risk transfer needs to CCRIF SPC product selection and parameter choices is paramount to ensure a strategic and cost-effective approach to disaster response. The IMF was consulted to ensure that Dominica's Disaster Risk Financing Strategy (PA1) was complementary to Dominica's Disaster Resilience Strategy developed with the IMF.

53. **Community, citizen, and civil society engagement supported the preparation of this operation through multiple channels.** The FPH product (PA 2) was developed after community feedback sessions to

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<sup>35</sup> CERC = Contingent Emergency Response Component



determine the demand for affordable risk transfer products, and its sale to community members was accompanied by multiple information sessions. The preparation of the National Forestry Policy, the National Agriculture Policy, and the Blue Economy Roadmap also included extensive stakeholder consultations with community members, civil society, state agencies and multiple line ministries. Each of these policy documents were revised and updated to consider feedback received during consultations prior to submission for Cabinet approval.

## 5. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1. POVERTY AND SOCIAL IMPACT

54. **The prior actions under Policy Area A are expected to have neutral to positive social and poverty implications.** The strengthening of the national innovative financing framework for disaster and climate resilience is expected to have a positive indirect impact on the welfare of Dominican households. The initiatives under this prior action are expected to prevent a deterioration of the Government's fiscal position and the budgetary resources of households, thus allowing both the Government and households to pursue planned investments after a disaster. In the long run, these investments will result in higher employment, increases in household income, further reductions in poverty, and overall economic growth. Risk financing mechanisms for social protection schemes will help alleviate the social and economic costs of disasters directly and protect the welfare of poor households during and after a crisis. Given the high participation cost, the private insurance benefits may be limited to poorer and more vulnerable groups in the country.

55. **The prior actions under Policy Area B are mostly expected to have a positive impact on welfare in the long run with limited significant impact in the short run.** Policies to boost climate resilience in agriculture and coastal systems can help maintain and boost employment and wages and consequently reduce poverty, vulnerability, and food insecurity. Households in rural areas are expected to benefit from these new policies. Policies aiming to protect forest resources are expected to have positive implications for eco-tourism and the overall green economy but may come at a cost for households whose livelihoods depend on these resources. The effects for these households will have to be monitored, and compensating measures may be needed. A revised building code to limit the impact of disasters through customized building codes and zoning rules will help Dominica become a more climate-resilient country. Enhanced climate resilience will help minimize losses and damages resulting from climate change and climate shocks and reduce adverse effects on the health and well-being of households. In the long run, the protection and preservation of environmental and ecosystems would lead to a healthier environment and population. The climate-proofing of residential buildings will also prevent damages and alleviate the financial burden of disasters on the Government and households but may come at a significant cost for low-income households.

56. **This last Policy Area is expected to have an indirect positive impact on the welfare of Dominican households.** The new emergency health plan will enhance Dominica's capacity to respond to adverse health impacts on Dominica's population following a disaster. Meanwhile, emergency response and early warning systems will play an important role in helping households reduce losses during a disaster,

particularly the loss of lives. Therefore, an effective application of these plans could substantially minimize losses and reduce the risk of vulnerable households falling into deeper poverty after a disaster and minimize the level of reallocation of public funds to address urgent needs post-disaster. This opportunity cost savings could open fiscal space for other priorities.

## 5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

57. **The policy reforms linked to the Cat DDO are not expected to negatively affect Dominica’s environment, forests, and natural resources.** They are expected to have positive impacts due to their support for climate change mitigation and adaptation and enhanced governance of key natural resource sectors. Policy Area A, which aims to strengthen the financing and response framework for disaster and climate resilience, includes the approval of a National Strategy for Disaster Risk Financing (PA1) and an FHP product (PA2). The emergency health plan and emergency telecommunications plan (PA3) are not expected to have significant impacts. Policy Area B, which aims at enhancing the enabling environment for improving sectoral disaster and climate resilience, includes regulations on agriculture and blue economy (PA4), forestry (PA5), and updated building codes (PA6). None of these are expected to have negative impacts on the environment, forests, and natural resources. Instead, they are expected to have positive impacts by reducing deforestation, protecting natural capital used in productive sectors, and enhancing transparency. However, some of the regulations may lead to the construction or retrofitting of infrastructure, which has the potential to raise concerns regarding environmental impacts and how to effectively manage them. In this regard, Dominica has the legislative framework and institutional capacity to prepare environmental and social impact assessments, including those related to budget policies. Further, Dominica’s Disaster Resilience Strategy aims to contain adverse environmental risks and impacts by integrating environmental planning into its public investments. While these standards and those individual acts noted above align with international good practices in terms of regulatory requirements, there have been instances of gaps in enforcement due to limited human and financial resources to monitor enforcement of Environmental Impact Assessments through the Ministry of Planning. A series of World Bank-financed Investment Project Financing (IPF) operations include TA activities to help build capacity, fill gaps in enforcement, and align compliance with the provisions set out in applicable national legislation.

## 5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

58. **The Government has strengthened Dominica’s PFM systems and strives to improve the overall public administration and financial management performance.** The Country Fiduciary Review conducted by the World Bank in 2021 showed mixed, but encouraging, PFM performance. Overall, the PFM system in Dominica is strong in the areas of budgeting process, debt management, predictability, and control in budget execution. However, there are notable weaknesses in regulations, risk management, public asset management, internal audit, financial reporting, and external audit and scrutiny. The Constitution of the Commonwealth of Dominica covers public finance and is augmented through its Financial Administration Act (1994) and the Finance and Audit Act (1966). The Government has been drafting a new PFM Act since 2015, with assistance from the IMF, and should soon table its draft PFM legislation to bring it into a modern PFM regime. The Post-Disaster PFM Review of 2019 identified strengths and weaknesses in the



PFM system to facilitate an efficient and effective response to disasters. Main strengths include budget flexibility and resiliency of information systems, while areas for improvement include traceability of disaster spending, disaster responsive procurement, and auditing.

59. **Budgeting.** The budget process has several features of a multi-year approach which are reflected in the budget calendar. There are internal processes for macro-fiscal planning, fiscal strategy formulation, and annual and medium-term budget formulation. Improvements in the budget formulation have been offset by supplementary budgets, including cuts, which impede service delivery and strategic allocation of resources. The budget statement and supporting details contained in the estimates of revenue and expenditure include all four of the essential elements expected of a transparent budget process.<sup>36</sup> The Government adopted a Fiscal Rules and Responsibility Framework which outlines fiscal responsibility principles, and sets targets for spending, fiscal balances and public debt levels. This action will add credibility to an already reasonable budget process, and the public will have access to annual budget documentation and year-end reports through the Government's website.

60. **Accounting, reporting, and auditing.** The Government uses SmartStream as the Integrated Financial Management System for budget execution, monitoring, accounting, and controls. The Government is currently not IPSAS<sup>37</sup> Cash compliant but hopes to produce IPSAS 2020 financial statements soon as a model for Parliament and the Director of Audit and seek their approval. The Government operates an adequate internal controls system supported by IT controls in SmartStream. The Internal Audit unit is operational in the MoF and is responsible for the audit of all central government entities. Much of the daily activity of the internal audit function is pre-audit of transactions. Audited government financial statements are available on the website, but the preparation of annual financial statements is delayed by more than 12 months from the end of the period covered. Weaknesses in the accountability mechanisms make external audits and their scrutiny ineffective as counterchecks.

61. **The ECCB manages the foreign exchange reserves of the ECCU, including Dominica.** A 2021 IMF safeguards assessment of the ECCB found strong external audit and financial reporting practices that continue to be aligned with international standards and further improvements in the capacity of the internal audit function.<sup>38</sup> The IMF recommended legal reforms to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The ECCB has well-established procedures to ensure the integrity of its operations. It also has a well-functioning internal audit department, and an independent external auditor audits its accounts. The ECCB Board of Directors has an audit sub-committee, which provides additional oversight.

62. **Disbursement and reporting arrangements, ineligible expenses, and audit.** The operation aims to cover disasters triggered by both natural hazards and health emergencies. Credit proceeds may be withdrawn upon the issuing a Government Declaration to respond to a Disaster (as defined in Section 4.1) if there is satisfactory implementation of the program and maintenance of an adequate macroeconomic

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<sup>36</sup> Forecast of the fiscal deficit or surplus, previous year's budget outturn, current year's budget, and aggregated budget data for revenue and expenditure according to the main heads of classification.

<sup>37</sup> IPSAS = International Public Sector Accounting Standards

<sup>38</sup> The country does not have an IMF program. See Annex 2 - IMF Executive Board Concludes 2021 Article IV Consultations

policy framework. The World Bank will disburse the credit proceeds, denominated in US\$, to Dominica's foreign-exchange account at the ECCB. The ECCB will then ensure that an equivalent amount in Eastern Caribbean dollars is immediately credited to Dominica's government account upon deposit in said account, which will become available to finance budgeted expenditures. Within 30 days of the funds transfer, the Government, through the MoF, will provide the World Bank written confirmation of the amount deposited in Dominica's foreign-currency account at the ECCB and that the equivalent Eastern Caribbean dollars amount has been accounted for in the country's budget management system in the account used to finance budgeted expenditures.

63. **Ineligible expenses.** The financial support provided under this operation is not intended to finance goods or services on the list of excluded expenditures.<sup>39</sup> If the loan proceeds or any part thereof are used for ineligible purposes, as defined in the General Conditions applicable to the Financing Agreement, the World Bank will require the Government to promptly refund an equal amount to the World Bank. Upon such request, amounts refunded to the World Bank shall be canceled from the loan.

64. **Audit.** No specific audit of the deposit of the loan proceeds will be required. However, the WB reserves the right to request such an audit at its discretion.

65. **Closing date.** The closing date of the operation is May 6, 2025.

#### 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

7. **The MOF will be responsible for coordinating actions by other relevant ministries and agencies,** including MoBGEANFS; the Ministry of Environment, Rural Modernization, and Kalinago Upliftment; the Ministry of Health, Wellness and New Health Investment; the Ministry of Housing and Urban Development; and the Ministry of Youth Development and Empowerment, Youth at Risk, Gender Affairs, Seniors' Security, and Dominicans with Disabilities. Annex 1 presents the Results Framework agreed to by the Government and the Bank will be used as a monitoring tool. The ministries noted above will be responsible for executing various prior actions and will communicate the results to the MOF, which is responsible for providing written progress reports to the World Bank on an agreed upon basis.

8. **Monitoring and evaluation of the reform program will be undertaken jointly by the Government and World Bank teams.** Result indicators have been specifically selected to reflect available data sources in Dominica and build on lessons learned from earlier policy-based lending operations that recommend using simple and manageable Results Frameworks and available secondary data sources. The Results Framework will be used as a monitoring tool by the Government and the World Bank.

66. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a WB Development Policy Operation may submit complaints to the responsible country authorities, appropriate

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<sup>39</sup> "Excluded Expenditure" for DPF covers items such as alcoholic beverages; tobacco; radioactive and associated materials; nuclear reactors and parts thereof; jewelry of gold, silver, or platinum; goods intended for a military or paramilitary purpose of for luxury consumption; or expenditures for environmentally hazardous goods.

local/national grievance redress mechanisms, or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the WB’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the WB Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## 6. SUMMARY OF RISKS AND MITIGATION

67. **The risk associated with this operation is considered “Moderate”.** Key risks are macroeconomic and institutional capacity due to factors outside the reach of actions supported under this program. World Bank engagement in these areas is expected to continue.

**Table 5: Summary Risk Ratings**

Risk Categories	Rating
1. Political and Governance	● Moderate
2. Macroeconomic	● High
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Moderate
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	● Moderate
<b>Overall</b>	● Moderate

68. **Macroeconomic risk is considered High.** Considerable COVID-19 uncertainty poses a risk to the macroeconomic framework, as growth, fiscal, and debt outcomes could be significantly impacted depending on the pandemic’s continued evolution. These risks could have a direct and substantive impact on the achievement of operational objectives, including policy implementation. Dominica is also

vulnerable to price and supply chain shocks caused by the ongoing war in Ukraine. As an import-dependent small island state, Dominica's economy is especially vulnerable to these exogenous pressures. Ongoing reforms supported by this operation and implemented by the Government, as well as other reforms, are expected to significantly enhance the resiliency of various sectors which will help mitigate these risks. For example, the Disaster Risk Financing Strategy is intended to mitigate the fiscal impacts of disasters by identifying sources for immediate liquidity and streamlining disaster response. This will in turn minimize the likelihood of a disaster-induced economic shock.

69. **Institutional capacity risk is considered Substantial.** Dominica has limited institutional and human resource capacity to implement and sustain supported reforms. Decision-making and technical capacity for implementation is concentrated in the hands of a few. Significant follow-up by the Government and TA support will be maintained to support reform and implementation momentum to mitigate this risk. This related TA should mitigate capacity risk to a significant extent. Nonetheless, residual risk remains as capacity is highly subject to unexpected staff changes or external shocks or events that require attention and can distract from the implementation of the supported reform program.



**ANNEX 1: POLICY AND RESULTS MATRIX**

Prior actions	Results		
Prior Actions	Results Indicator	Baseline	Target
<b>Policy Area A --- Strengthening climate and disaster risk financing and recovery framework</b>			
PA 1: The Recipient, through its Cabinet, has approved a national strategy for disaster risk financing, providing a comprehensive framework for using multiple instruments and programs to strengthen financial resilience for improved disaster risk management.	Percent of GDP (current) available in immediate liquidity for catastrophic hydrometeorological disaster response from at least 3 instruments	10.7 percent (2022)	15.7 percent (2025)
PA 2: The Recipient, through its Ministry of Finance, has approved the domestic sale of a parametric insurance product for hurricane risk to strengthen financial protection for vulnerable communities from climate-related shocks.	Number of New FHP Policy holders	18	100
	Percentage of new FHP policy holders who are women	36 percent (2022)	45 percent (2025)
PA 3: The Recipient, through its Cabinet, has approved the updated National Disaster Management Multi-Hazards Plan for Health and the National Emergency Telecommunications Plan to enhance climate and disaster response framework to respond more effectively to emergencies.	Percentage of emergency responses (including simulations/drills) that apply key considerations of the National Disaster Management Multi-Hazards for Health Plan and the National Emergency Telecommunications Plan where relevant	0 (2022)	100 percent (2025)
<b>Policy Area B --- Strengthening the national institutional framework for disaster and climate resilience across key economic sectors</b>			
PA 4: The Recipient, through its Cabinet, has approved a National Agriculture Policy and a National Blue Economy Roadmap to embed climate-smart and disaster resilient economic growth in its primary livelihood sectors.	Percentage of individuals participating in Agriculture sector programs who are women	18 percent (2022)	40 percent (2025)
PA 5: The Recipient, through its Cabinet, has adopted a National Forestry Policy to strengthen forest resource management, enhance resilience, and reduce climate and deforestation impacts.	Institutional frameworks for forest sector management established	0 (2022)	3 (2025)
PA 6: The Recipient, through its Cabinet, has approved the revised Draft Building Code Regulations of Dominica 2021, to improve resilience of built environment to climate and geophysical hazard impacts.	Number of building professionals trained on code compliance	0 (2022)	200 (2025)



## ANNEX 2: FUND RELATIONS ANNEX

### IMF Executive Board Concludes 2021 Article IV Consultation with Dominica

**February 14, 2022**

Washington, DC: The Executive Board of the International Monetary Fund (IMF) concluded on February 2 the Article IV consultation with Dominica. [1]

The COVID-19 pandemic took a heavy toll at the Dominican economy. GDP is estimated to have contracted by 11 percent in 2020 and is expected to recover modestly to 3.7 percent in 2021. The output decline, driven by a sharp reduction in tourism and related sectors, was contained by strong growth in the construction sector stemming from the large public investment program through 2020-21, financed by exceptionally high revenue from the Citizenship by Investment (CBI) program.

Despite record CBI revenue, the sharp decline in tax revenue and increase in health spending and social transfers led to large fiscal deficits in 2020 and 2021 and caused public debt to peak at an estimated 106 percent of GDP in 2020. The CAD estimate remained high at around 30 percent of GDP in 2020-21, owing to the loss of tourism exports and an increase in imports related to higher public investment and commodity prices—despite a decline in private demand for imports.

The financial sector has remained liquid and stable during the pandemic, but Non-Performing Loans (NPLs) remain above prudential benchmarks. The loan service moratoria authorized by the banks and credit union regulators supported firms and households facing income loss, containing a deterioration in portfolio performance.

In the medium term, growth is expected to recover underpinned by the return of tourism, expanding hotel capacity, and high public investment in infrastructure resilient to disasters financed by CBI revenue. Risks are skewed to the downside and include renewed worldwide and domestic COVID-19 contagion waves, CBI revenue and/or official financing below projected levels, which would slow public investment and economic activity. Weakness in the financial sector, particularly the credit unions, could amplify downside risks.

Executive Board Assessment [2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their pandemic response to support households and businesses. They noted that the outlook for medium-term growth is promising but remains subject to significant downside risks, including from the pandemic trajectory and recovery of tourism. This calls for continued efforts to contain the pandemic and support the recovery in the near term, including by addressing vaccine hesitancy. Looking ahead, Directors encouraged sustained reforms to ensure debt sustainability, strengthen the financial sector, and improve climate resilience.



Given the increase in public debt during the pandemic, Directors underscored the importance of maintaining momentum on fiscal consolidation. They welcomed the approval of the Fiscal Responsibility Act, which will support the reduction of public debt and the achievement of the regional debt target. Going forward, Directors recommended creating space for investment focused on building resilience to disasters, and prioritizing expenditure efficiency measures, including a civil service reform and better targeting of social transfers. They also encouraged measures to improve tax administration and broaden the tax base.

Directors stressed the need for prudent use of Citizenship by Investment (CBI) revenue. They encouraged the authorities to save part of CBI revenue for self-insurance against disasters and public debt reduction. Directors also considered that securing additional insurance, as part of a layered insurance framework, would help cover losses in the case of large and extreme disasters.

Directors noted that, while the financial sector remains liquid and stable, long-standing sectoral vulnerabilities persist, including high non-performing loans and capital adequacy gaps. In this regard, they welcomed banks' plans to strengthen capital buffers to meet increasing loan-loss provisioning requirements. For the non-bank sector, Directors highlighted the importance of addressing capital and liquidity requirements and strengthening supervision. They also encouraged maintaining progress on strengthening the AML/CFT framework to minimize risk to correspondent banking relationships.

Directors encouraged the authorities to implement structural reforms, aimed particularly at reducing informality in the economy and fostering inclusive, sustainable growth more broadly. They also noted that progress on structural reforms that boost competitiveness and build resilience to disasters, along with fiscal consolidation, would help strengthen external sustainability.

It is expected that the next Article IV consultation with Dominica will be held on the standard 12-month cycle.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.



**ANNEX 3: LETTER OF DEVELOPMENT POLICY**



COMMONWEALTH OF DOMINICA

**MINISTRY OF FINANCE**

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5<sup>th</sup> Floor, Financial Centre  
Kennedy Avenue  
Roseau  
Commonwealth of Dominica

April 22, 2022

**LETTER OF DEVELOPMENT POLICY**

David R. Malpass  
President of the World Bank Group  
1818 H Street, NW  
Washington, DC 20433  
USA

Dear Mr. Malpass,

**Ref: IDA US\$20 million for a Dominica Disaster Risk Management Development Policy Credit with a Catastrophe Deferred Drawdown Option**

On behalf of the Government of the Commonwealth of Dominica, I am pleased to provide you with this Letter of Development Policy concerning the IDA credit agreement with a Catastrophe Deferred Drawdown Option (Cat DDO), supporting our efforts to building resilience to disaster and climate risks by: (i) strengthening the legal and institutional framework to increase climate and disaster resilience in priority sectors; and (ii) improving national fiscal capacity to respond to disaster and climate-related risks.

This letter provides a summary of our macroeconomic context and outlook, and describes the goals pursued and the reforms undertaken as part of this programme.

**I. GOVERNMENT'S POLICY DIRECTIONS AND RECENT MACROECONOMIC DEVELOPMENTS**

Dominica's economy was still recovering from Hurricane Maria in 2017 when the global COVID-19 pandemic struck in 2020. Following Hurricane Maria, growth was -6.6 percent in 2017, 3.5 percent in 2018, and picked up to 7.5 percent in 2019 before the pandemic. Economic activity in Dominica contracted by 11 percent in calendar year 2020, owing to reduced activity in the main sectors of the economy following the onset of the COVID-19 pandemic, including construction, tourism, transportation, and wholesale and retail trade. A rebound in growth of an estimated 3.7 percent was experienced in 2021, driven in large part by increased activity in the construction and agriculture sectors, with a ripple effect

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*"Building a Resilient Public Service: a Collective Response"*

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evident in other sectors like wholesale and retail trade, and mining and quarrying. Developments in the manufacturing sector also contributed to the increase in real output.

According to recent IMF and World Bank forecasts, Dominica's economy is expected to grow by 6.8 percent in calendar year 2022, with growth averaging 4.0 % per annum over the medium term. This is, to a considerable extent, dependent on the ongoing evolution of the COVID-19 pandemic, continued growth in global demand, oil price developments, and global geo-political developments.

In building resilience, fighting climate change, and laying a development path to Dynamic Dominica, we have approved a comprehensive National Resilience Development Strategy (NRDS), a Climate Resilience Recovery Plan (CRRP), a Disaster Resilience Strategy, and a Disaster Risk Financing Strategy which present a clear framework for Dominica's development to 2030. These are designed to ensure that we protect lives, livelihoods, and property, and create opportunities for our people. Extreme weather events will continue to occur and so too will pandemics and global economic downturns.

Therefore, Dominica must be prepared to always position itself to be able to respond effectively to such shocks and minimize disruption of normal activity. We must create the natural, physical, and fiscal resilience necessary to weather such storms. It is imperative that we refrain from overcommitting our finances in order to meet the need for extraordinary expenditure which will arise when adverse events occur. As such, we have taken several measures and are committed to additional reforms, to further strengthen the resilience of Dominica, its citizens, and economy.

We are also committed to improving our fiscal and physical capacity to respond to disaster and climate-related risks, as supported through this operation. We confirm and affirm our intention to ensure that the government has a financial protection strategy in place, that our people and businesses can also be prepared financially for disaster impacts, and the most vulnerable are protected. We are committed to ensuring that key sectors have in place the policies and procedures to reduce their risk to hazard and economic shock impacts, and the abilities to respond when a disaster or health emergency strikes. We confirm and affirm our intention support the implementation of these plans and regulations for the agriculture, forestry, blue economy, construction, telecommunications and health sectors.

We are pleased to work together with the World Bank in furthering these objectives through this operation.

## **II. DIRECTION AND DYNAMIC OF REFORMS AND PROGRAMS TO SUPPORT GROWTH**

We consider our policy framework to be progressive. COVID-19 pandemic aside, our economy was growing, and creating new jobs. We consider the developmental roadmap elaborated by this Government through the NRDS and CRRP to be transformative, inclusive and achievable and we are encouraged that the World Bank is supporting our efforts through the provision of this DPC.

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To be sure, it would be a stretch to suggest, even before the pandemic, that our economy and our public finances were fully recovered post-Hurricane Maria and Tropical Storm Erika, or that we do not continue to face formidable developmental headwinds. The COVID-19 pandemic has clearly generated new challenges, but it has also created new-found reform ambition and highlighted the need for greater fiscal, social and environmental resilience in our economic, social and fiscal policies. However, our recovery, and our reforms – planned and completed – offer cause for cautious optimism. Our reform efforts are about continuing the radical reordering, restructuring and resilience strengthening of our economy to meet modern challenges and opportunities.

To continue the transformation of our economy, we must increase productivity and we must continue to work hard and smart. Strengthening fiscal policy, building in buffers to enhance fiscal resilience, and strengthening public financial management are integral to these efforts and we strive to reinforce climate resilience, adaptation and disaster risk management. As part of these reforms, we seek to strengthen efforts in these areas through the implementation of supported reforms under the World Bank’s DPC with Cat DDO and have implemented the agreed-to policy prior actions related thereto.

### **III. REFORMS ENVIAGED WITHIN THE FRAMEWORK OF THIS PROGRAMME AND STRATEGIES TO BE IMPLEMENTED**

This DPC with Cat DDO will build on our ongoing efforts under two Policy Areas: (i) Strengthening climate and disaster risk financing and recovery framework; and (ii) Strengthening the national institutional framework for disaster and climate resilience across key economic sectors. The actions in each of these areas are explained below.

#### **Pillar 1: Strengthening climate and disaster risk financing and recovery framework**

Our government has adopted further policy reforms to strengthen the financing framework for disaster and climate resilience, through (i) the Cabinet approval of a National Strategy for Disaster Risk Financing providing comprehensive framework for using multiple instruments and program; (ii) the approval of a Flexible Hurricane Protection product to ensure affordable individual coverage from climate risks; (iii) and the approval of the updated National Disaster Management Multi-Hazards Plan for Health and the National Emergency Telecommunications Plan to enhance climate and disaster response framework to respond more effectively to emergencies.

#### **Pillar 2: Strengthening the national institutional framework for disaster and climate resilience across key economic sectors**

We have adopted policy reforms to enhance the enabling environment for multi-sector resilience, including regulations on agriculture, forestry, blue economy, and built environment. We have approved through the Cabinet (i) a national agriculture policy to strengthen resilience in agriculture; (ii) a national forestry policy to strengthen forest resource management, enhance resilience, and reduce climate and deforestation impacts; and (iii) the Building Code Regulations 2021 to improve the resilience of the built environment.

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*“Building a Resilient Public Service: a Collective Response”*



## The World Bank

Dominica Disaster Risk Management Development Policy Credit with a Catastrophe Deferred Drawdown Option (P177807)

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The Government appreciates the World Bank's involvement in carrying out this operation and reiterates its commitment to pursue the implementation of this policy framework.

Sincerely,

**ROOSEVELT SKERRIT**  
**PRIME MINISTER AND MINISTER FOR FINANCE**

Cc: Ms. Denise Edwards, Financial Secretary (Acting), Ministry of Finance  
Ms. Donna Harris, Alternate Executive Director, The World Bank Group  
Ms. Lynsey Ward, Advisor to the Executive Director, The World Bank Group

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*"Building a Resilient Public Service: a Collective Response"*

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**ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE**

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<b>Policy Area A: Strengthening climate and disaster risk financing and recovery framework</b>		
PA #1: The Recipient has approved through its Cabinet a National Strategy for Disaster Risk Financing, thereby providing a comprehensive framework for using multiple instruments and programs to strengthen financial resilience for improved disaster risk management.	No significant effects.	PA 1 is expected to indirectly benefit households and businesses in Dominica. No immediate positive impact is expected. However, the initiatives are expected prevent a post-disaster deterioration of the country’s fiscal condition, thus allowing the government to pursue high-return planned investment in both infrastructure and human development
PA #2: The Recipient, through its Ministry of Finance, has approved the sale of a parametric insurance product for hurricane risk to strengthen financial protection for vulnerable communities from climate-related shocks.	No significant effects.	The expansion of insurance coverage is expected to have limited welfare impact on populations in Dominica. It is expected to have positive indirect impact on some groups. The average low-income household is not expected to benefit from the expansion of insurance access in Dominica due to an expected relative high cost.
PA 3: The Recipient, through its Cabinet, has approved an enhanced climate and disaster response framework to respond more effectively to emergencies, as evidenced by the updated National Disaster Management Multi-Hazards Plan for Health and the National Emergency Telecommunications Plan.	No significant effects.	This prior action will have a positive indirect impact on the welfare of Dominican households. The Health plan will allow an efficient use of available resources and give the health sector more flexibility to deal with extreme climate events. An effective application of this plan will also reduce the level of reallocation of public funds to address urgent health needs and alleviate the adverse impact on households in the event of a disaster. This opportunity cost savings could generate fiscal space for other priorities. The adoption of an efficient emergency telecommunications plan will have a positive impact on vulnerable households in Dominica. The implementation of an emergency response and early warning systems will play an important role in helping households reduce losses during a disaster, particularly the loss of lives. The new telecommunication plan, through the implementation of early warning and emergency responses systems, could therefore substantially reduce the risk of vulnerable households of falling into deeper poverty after a disaster.
<b>Policy Area B --- Strengthening the national institutional framework for disaster and climate resilience across key economic sectors</b>		
Prior action #3: The Recipient, through its Cabinet, has approved a National Agriculture	Significant positive effects	The national agriculture policy, with the purpose of building climate resilience into the sector, is expected to have a direct positive impact on vulnerable populations. New policies that are set to boost climate resilience



Policy and a blue economy Strategy to embed climate and disaster resilient economic growth in its primary livelihood sectors.		in agriculture, particularly those aimed at building resilience of agro-biodiversity and facilitating the development of agribusinesses and value chains, will lead to lower input costs for farmers and increased revenue overtime.
Prior Action #4: The Recipient has adopted through its cabinet a National Forestry Policy to strengthen forest resource management, enhance resilience, and reduce climate and deforestation impacts.	Significant positive effects.	New policies to protect forest resources may have a mixed impact on many households whose livelihood depend on these resources. For some vulnerable populations, protected forest areas have major positive implications through enhanced eco-tourism and the overall green economy. Other households depend on wood material for construction, energy use, and craft production. A resilient forest management program will need to fully consider the social impacts of conservation efforts.
Prior Action #5: The Recipient, through its Cabinet, has approved the revised Draft Building Code Regulations of Dominica 2021, to improve resilience of built environment to climate and geophysical hazard impacts.	No significant effects.	The revised building code is expected to have a mixed direct effect on the welfare of households. The climate-proofing of residential buildings will prevent damages and alleviate the financial burden on the government and households in the event of a disaster. However, the revision of building might increase the cost of housing and rent for vulnerable populations, particularly those are the bottom two quintiles of the income distribution.

Detailed Narrative of Poverty Effects

**Policy Area A: Strengthening climate and disaster risk financing and recovery framework**

**1. PA 1: The approval of a National Strategy for DRF will provide to the government a legal framework for adopting cost-effective financing mechanisms for immediate liquidity after a severe climate event, thus allowing the state to maintain a sound fiscal position post-disaster.** Dominica is one of the countries that are most vulnerable to climate change and disasters. It is also the country with the highest GDP losses related to climate disasters. Disasters often cause put significant strain on households and business and come with significant fiscal consequences. In the past, Dominica did not have a framework for managing the fiscal risks that result from disasters and this prior action thus represents an important policy action.

**2. Adoption of the DRF strategy is expected to indirectly benefit households and businesses in Dominica.** The strategy will provide the framework for the government to mobilize financial instruments to respond to – and alleviate the impact of – disasters on households. The strategy envisions the creation of risk transfer instruments to reduce the government’s liquidity risk and the likelihood of compounding losses post-disaster. These initiatives should prevent a deterioration of the fiscal condition, thus allowing the government to pursue planned investment in both infrastructure and human development. In the long run, these investments will result in higher employment, increases in household income, further reductions in poverty, and overall economic growth.

**3. PA 2: A significant share of the Dominican population remains uninsured against disaster losses.** Disasters in Dominica often result in widespread losses for households and businesses. For instance, Hurricane Maria, considered to be Dominica’s worst disaster, affected almost every household and sector.



The value of damage to private housing reached 61 percent of GDP according to a post-disaster need assessment. The poverty headcount increased from 28.8 percent to an estimated 42.8 percent due mostly to a reduction in overall consumption.<sup>40</sup> There is a need to expand access to private insurance to a wider range of the population through a partnership between the government and the private sector. Flexible Hurricane Protection, as proposed in this prior action, is a parametric risk management instrument that provides coverage based on a triggering event and pays out within days of a natural disaster.

**4. Although beneficial, the expansion of insurance coverage is expected to have a limited welfare impact on populations in Dominica.** Private insurance can play a critical role in reducing the risk of falling into poverty through loss protection and direct financing. Parametric insurance, particularly, has been shown to be effective in protecting farmers in Latin America and Africa against weather-related risks.<sup>41</sup> The option of private insurance however comes at a cost, and for households at the lowest quintiles of the income distribution such instruments might not be affordable. The average low-income household is therefore not expected to benefit from the expansion of insurance access in Dominica. In that sense, it would be important for the government to envision alternative programs to insure low-income households against disaster shocks.

**5. PA 3: Climate disasters have serious consequences on the health sector.** Hurricane Maria that hit the island in 2017 resulted in health-related damages estimated at 1.94 percent of GDP and recovery costs estimated at 3.8 percent of GDP.<sup>42</sup> The storm also increased health related risks which were exacerbated due to poor nutrition. The country plans to adopt an updated National Disaster Management Multi-Hazards Plan for Health aiming to build resilience to natural disasters into the national health system while protecting individuals from climate risks. The Plan will provide Dominica with adequate response planning based on a multi-hazard approach.

**6. This prior action will have a positive indirect impact on the welfare of Dominican households.** The plan will allow for an efficient use of available resources and give the health sector more flexibility to deal with extreme climate events. An effective application of this plan will also reduce the level of reallocation of public funds to address urgent health needs and alleviate the adverse impact on households in the event of a disaster. This implies an opportunity for cost savings which could in principle contribute to further investments in health, education, infrastructure, and other social initiatives which will contribute to reducing poverty and inequality.

**7. Dominica needs an emergency telecommunications plan in the face of frequent climate disasters.** Disasters often result in widespread shutdown of telecommunication networks, thus complicating the gathering and sharing of information during and after a disaster. For instance, during Hurricane Maria in 2017, most major telecommunication networks were damaged across the country, although a few locations remained operational.<sup>43</sup> Telecommunication can play an important role during all stages of an

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<sup>40</sup> Post-Disaster Needs Assessment: Hurricane Maria September 18, 2017. A Report by the Government of the Commonwealth of Dominica

<sup>41</sup> World Bank Group. 2018. Developing Parametric Insurance for Weather Related Risks for Indonesia. World Bank, Washington, DC.

<sup>42</sup> Post-Disaster Needs Assessment: Hurricane Maria September 18, 2017. Government of the Commonwealth of Dominica

<sup>43</sup> Post-Disaster Needs Assessment: Hurricane Maria September 18, 2017. Government of the Commonwealth of Dominica



emergency, from preparedness to recovery and there is a strong argument for modern telecommunication and digital services that are resilient to climate events. The new telecommunications plan lays out a coordination framework between public and private sector which envisions regulatory reforms in the sector and establish emergency call centers and early warning systems among other things.

**8. An efficient emergency telecommunications plan will have a positive impact on vulnerable households in Dominica.**

The implementation of an emergency response and early warning systems will play an important role in helping households reduce losses during a disaster, particularly the loss of lives. This has a greater implication for female headed households who often suffer higher incidence of asset losses and deaths from climate disasters for instance due to lack of access to training, climate forecasts, and important information regarding climate hazards.<sup>44</sup> The

the implementation of early warning and emergency responses systems, could therefore substantially reduce the risk of vulnerable households of falling into deeper poverty after a natural disaster. The plan could also have an immediate impact on the welfare of Dominican households if it supports wider internet penetration in Dominica. As data from the HFPS show, 23 percent of Dominican households do not have a functioning laptop/tablet or smartphone with an internet connection (Figure 1).

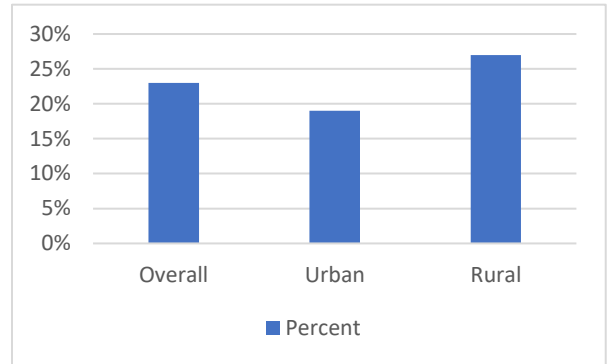


Figure 1: percent of households with no computer/tablet or smartphone in working condition with internet

**Policy Area B --- Strengthening the national institutional framework for disaster and climate resilience across key economic sectors**

9. **PA 4: Climate change impacts the agricultural sector due to the sector’s dependency on climate factors.** Climate Change threatens food production and can have disastrous implications for poverty and food security. Agriculture was one of the sectors that suffered the heaviest losses (21.4 percent of GDP) after Hurricane Maria. The COVID-19 pandemic had significant impact on the farming households in Dominica. The most recent HFPS reveal that 83% of households who received farm income before the pandemic had reported a decrease in such income after the pandemic (Figure 2). The government has approved a national agriculture policy aiming at building resilience into the agriculture and fisheries sector. The plan envisions a wide range of support to farmers from facilitating the development of agribusinesses and value chains to building resilience to natural hazards into agricultural production systems.

<sup>44</sup> Roncoli, Carla, et al. "From accessing to assessing forecasts: an end-to-end study of participatory climate forecast dissemination in Burkina Faso (West Africa)." *Climatic Change* 92.3-4 (2009): 433-460.



10. **The national agriculture policy, with the purpose of building climate resilience into the sector, is expected to have a direct positive impact on vulnerable populations.** In Dominica, agriculture is an important sector for employment, and one of the most vulnerable to climate disasters. New policies that

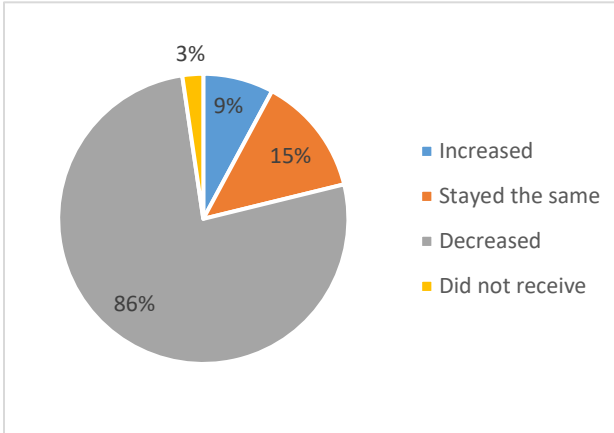


Figure 2. Change in household farm income post-pandemic

are set to boost climate resilience in agriculture, particularly those aiming at enhancing agrobiodiversity and facilitating the development of agribusinesses and value chains, will lead to lower input costs for farmers and increased revenue overtime. This in turn will result in higher profit, income security, and reduction in the level of food insecurity. Households in rural areas are expected to be benefit the most from these new policies.

11. **The Dominican seacoast is critical to the livelihoods of many of its population.** The coast is a source of employment, nutrition, and recreation for many communities. Sectors of the

blue economy however remain underdeveloped and are particularly vulnerable to weather hazards and climate change. For example, changes in sea level and ocean currents have negative effects on the fisheries sector and pose a significant threat to its survival. Maritime tourism is underexploited and increasingly being impacted by climate change. Hurricane Maria for instance decimated many coastal and marine touristic sites.<sup>45</sup> Through effective management and utilization, the marine resources of Dominica’s coast could be a source of economic sustainability and growth for the country. The new blue economy strategy provides a roadmap on how to exploit all opportunities within the seacoast for economic development, focusing on building resilience across sectors, investment in green infrastructure, and capacity building.

12. **The adoption of a blue economy strategy will have a positive impact on vulnerable communities.** The Blue economy strategy will lead better management of marine resources in the long term as well as to the growth and emergence of new industries that have the potential of transforming the productive sector of the economy. This in turn will result in an increase in employment and wages, and consequently a reduction in the level of poverty and vulnerability and food insecurity. This prior action is expected to have an important impact on low-income rural households many of whom depend on coastal resources for their livelihoods.

13. **PA 5: Forest resources are important for tourism in Dominica and play an important role in carbon sequestration.** It is therefore important to preserve forest resources since they have implications for Dominica’s economy and for long-term sustainability. The new set of policies for forestry aim for a more resilient forest system and an increase in forest coverage from its current level of 62 percent of landmass. It will accomplish this through actions that promote forest conservation, optimized governance of forest resources, and an intensification of the fight against deforestation. These goals are aligned with

<sup>45</sup> National Resilience Development Strategy: Dominica 2030



Dominica's objective to become carbon neutral in the coming years.

14. **New policies to protect forest resources may have a mixed impact on many households whose livelihood depend on these resources.** For one group of vulnerable populations, protected forest areas have major positive implications for eco-tourism and the overall green economy. On the other hand, many households may depend on wood material for construction, energy use, and craft production. For instance, although the percentage of households who use wood for energy is in decline, 6 percent still use it as a source of energy.<sup>46</sup> A resilient forest management program will need to fully consider the social impacts of conservation and incorporate alternatives for low-income households who depend on forest resources.

15. **PA 6: An important part of the strategy for climate resilience in Dominica is structural resilience.** After Hurricane Maria, the housing sector incurred damages estimated at 38 percent of GDP; The PDNA estimated that 90% of homes were damaged due to the storm. As such, moving forward, housing development in Dominica will need to consider proper planning for natural disasters. The revised building code through SRO will prioritize actions that aim to limit the impact of natural disasters through customized building codes and zoning rules, thus ensuring a more resilient housing sector.

16. **The revised building code is expected to have a mixed direct effect on the welfare of households.** The climate-proofing of residential buildings will prevent damages and alleviate the financial burden on the government and households in the event of a natural disaster. However, the revision of building might increase the cost of housing and rent for vulnerable populations, particularly those are the bottom two quintiles of the income distribution. In the end, it is important for the government to assure that the new building and zoning requirements will not be an added cost to vulnerable households. The government should consider alternative financing mechanisms to provide incentives to low-income households in retrofitting their home for climate resilience.

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<sup>46</sup> National Resilience Development Strategy: Dominica 2030