

Dominica: Interim Poverty Reduction Strategy Paper

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DOMINICA

Interim Poverty Reduction Strategy Paper

**Ministry of Finance and Planning
Roseau
Commonwealth of Dominica**

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I. INTRODUCTION

Dominica has suffered from a cumulative output loss of 10 percent in the last two years owing in part to: the global economic contraction; the events of September 11th and their depressive effect on tourism; the phased elimination of preferential access to the EU for Dominica's banana exports; and a sharp contraction in Dominica's once promising offshore sector, due to increased international scrutiny. In the wake of these adverse exogenous shocks, the nation's fiscal stance deteriorated sharply, as government revenues declined and the Government failed to adjust its expenditures downwards, even while it incurred additional commercial debt for largely unproductive public investments. A sharp rise in debt service payments associated with this debt therefore further compounded the fiscal problem.

The antecedents of Dominica's current economic crisis date back to the late 1980s. Following a catastrophic hurricane in 1988, sizable public sector wage awards in FY90/91, which further eroded competitiveness, and growing uncertainty about trade preferences¹, economic growth slowed from an average annual rate of 4.6 percent during the 1980s to an average of 2.7 percent between 1990-98. During this period, the main impetus to growth came from exports of manufactured soap products to Jamaica, tourism receipts, and earnings from the offshore sector.

From 1999, however, the economy began to experience a more rapid slowdown marked by a decline in manufactured exports, the tapering-off of tourism receipts, and further damage to the banana crop caused by the Hurricane Lenny (November 1999). Much of the decline in manufactured exports was due to the steady appreciation of the real exchange rate since 1996. As Jamaica reduced external tariffs in line with its regional agreements, Dominica's exports to that country began to face competition from cheaper imports from outside the region. At the same time, tourism sectors across the OECS were being challenged by the mass market strategies of other Caribbean destinations. Then in 2001, Dominica's agricultural output, mainly bananas, was affected by a severe drought.

With the onset of the other exogenous shocks affecting banana exports, tourism and the offshore sector (mentioned above), the economy contracted by 4.2 percent in 2001 and a further 4.7 percent in 2002, exacerbating an already weakened fiscal position. The overall central government deficit reached 5.5 percent of GDP in FY02/03, the primary balance (including grants) fell to -1.6 percent, domestic arrears mounted to around 9.2 percent of GDP and external arrears to 2.1 percent of GDP. This sharp deterioration in the public finances gave rise to a precipitous increase in the country's indebtedness, as the public debt stock rose sharply, from 81 percent of GDP in 2000 to a projected 111 percent of GDP in 2003.

The Government of Dominica is conscious of the deleterious impact of the protracted economic slowdown on the poorest segments of society, as available data suggest a rise in unemployment (currently estimated at 25 percent, up from 15.7 percent in 1999) and in the incidence of household poverty. Hence, in implementing its macroeconomic and structural reforms, the Government will also, *concomitantly*, strengthen its current social protection program—through its *Poverty Reduction Strategy (PRS)*. The PRS will seek to: (a) increase the effectiveness of current social protection programs through better targeting and enhanced operational efficiency; and (b) reduce the incidence of poverty through programs designed to increase employment.

¹ The WTO action on EU preferences for ACP banana imports began in 1991.

II. POVERTY IN DOMINICA

A. Introduction

As a whole, Dominica's social indicators are quite good—for instance, social indicators such as infant mortality, primary school completion, adult literacy and life expectancy rates are significantly higher than the averages for upper-middle income countries, and are similar for the poor and non-poor, reflecting Dominica's long-standing tradition of productive investments in human development, including social protection (Table 2.1).

Despite the parlous economic situation, the country has maintained almost 100% primary school enrolment and has achieved a doubling of secondary school enrolment since 1991. Primary schools rolls are however falling (by 18% in 10 years) due to the decrease in the number of births.

The health situation is also favourable with free immunisation and a decentralised network of clinics. Health indicators are good: infant mortality is low (18 per 1000) and life expectancy is very high (77 years); the incidence of low birth weights is around 9%. Waterborne and infectious diseases have disappeared apart from sporadic, and localised, outbreaks of gastro-enteritis. The major health problems are diabetes and hypertension – traditionally afflictions of the more middle income societies.

Housing on the island is generally of a reasonable standard with wood as the predominant construction material for walls. Access to basic infrastructure is widespread: safe water (91% of households), electricity (88%). Over 50% of households have flush toilets and 28% have pit latrines. Ownership of many modern consumer goods is substantial: telephone (69%), TV (69%), and refrigerators (74%); 42% own washing machines and 1 in 4 households has a vehicle.

Table 2.1--Cross-Country Comparison of Selected Social Indicators

	Dominica	LAC	Upper middle income
Infant mortality (per 1000)	18	36	25
Access to potable water (% pop)	91	85	87
Net primary school enrollment	99	85	87
Adult literacy	91	89	90
Life expectancy at birth (years)	77	70	71
Public spending on education (% of GDP)	7	2.8	2.9
on health (% of GDP)	4.5	3.3	4.4
on social protection (% of GDP)	4.7	4.7	n/a

However, despite these statistics, Dominica is also faced with a relatively high level of poverty (based on regional comparators) and high unemployment (approximately 25 percent for the nation and 40 percent among the poor). Moreover, given the protracted nature and severity of the current economic crisis, available data suggest that the incidence of household poverty has risen, from 27.6 percent in 1995 to 29 percent in 2002, as has the unemployment rate (from 15.7 percent in 1999, measured at the time of the 1999 Labor Force Survey, to 25 percent in 2002).

Table 2.2 The Incidence of Poverty in Dominica

Category	Households	%	Population	%
Indigent/ Very Poor	2,515*	11%	12,280**	15%
Poor	4,425	18%	18,790	24%
ALL POOR	6,940	29%	31,070	39%
NON POOR	17,165	71%	48,810	61%
TOTAL	24,105	100%	79,880	100%

*Figures in () denote SLC Sample. Other figures are for Dominica as a whole. These have been obtained by weighting the sample firstly for sampled EDs and then by parish using the household totals from the preliminary 2001 Census results.

** The average household size obtained in the SLC is higher than that obtained in the Census, 3.3 as against 3.0. The population estimated from the SLC is therefore higher than that contained in the preliminary Census results. Until the definitive results are published this discrepancy cannot be reconciled

B. Methodology

Poverty is defined on the basis of indigence lines (based on minimum food requirements) and poverty lines (minimum food requirements plus an element of non-food expenditure) derived according to the CDB's methodology. The indigence line is EC\$ 2,000 (US\$750) per adult per year and the poverty line is EC\$3,400 (US\$1,300) per adult per year. Current definitions of poverty are more wide-ranging than those based on income alone. They include consideration of, *inter alia*, living conditions, access to health and education, and less easily defined notions such as vulnerability, voicelessness, powerlessness, and lack of opportunity. The general concept of 'wellbeing' has been used in this study to bracket these non-income aspects of poverty. In general, there is a high correlation between lack of income and lack of wellbeing. However this is not always the case – some people and households living below the poverty line may not feel insecure or threatened. Conversely, others may experience lack of wellbeing resulting from factors such as family disruption, teenage pregnancy, crime, drug abuse even though their income puts them above the poverty line. This poverty assessment does not confine itself to an assessment of income poverty alone but also addresses other issues that can affect wellbeing.

Box 1: Poverty Concepts

The Minimum Cost Food Basket (MFB): The basis of poverty line estimation is the specification of a Minimum Cost Daily Food Basket² (MFB) for an adult to achieve a diet of 2,400 calories per day taking into account local dietary preferences and the need for a balanced diet. The total cost of this basket, for an adult, is EC\$5.51 per day which is equivalent to around EC\$165 per month and just over EC\$2,000 per annum.

² The MFB used was prepared by the government nutritionist based on food baskets used for the Country Poverty Assessment (CPA) and knowledge of local dietary characteristics. Prices were derived using the current Consumer Price Index and visits to local supermarkets and markets, where the great majority of food on the island is purchased. The computations were made using a simple spreadsheet model using data from the CFNI publication 'Food Composition Tables for Use in the English Speaking Caribbean', PAHO/CFNI, 1995.

The Indigence Line: The indigence line is defined as the cost of the MFB. Adults with total expenditure below this amount, ie. EC\$2,000 per annum, are classified as indigent, or extremely poor. Essentially they are unable to satisfy even their basic food needs. *In determining whether or not a household is indigent*, account is taken of the number and age of children³ in the household as well as the number of adults (18 years and over). Using this data, a household indigence line (HIL) is established. Households with total expenditures below the HIL are categorized as indigent. For example, the indigence line for a family of 2 adults and 2 children under 13 years would be around \$5,000 per year, which is almost 40% lower than if no adjustment for household composition was made⁴.

The Poverty Line: The poverty line includes a component for non-food expenditure in addition to the MFB used in estimating the indigence line. The non-food element of the poverty line is calculated as the average per capita non food expenditure of the 40% of households with the lowest per capita total expenditure. This approach introduces an element of relative poverty into the calculations, as it is based on actual average expenditures rather than the cost of a specified minimum needs basket of non-food goods and services.

From the Survey of Living Conditions (SLC), average per capita non-food expenditure of the 40% of households with the lowest per capita incomes is approximately EC\$1,400 per annum. The adult poverty line is therefore $\$2,000 + \$1,400 \approx \$3,400$.

The household poverty line (HPL) is obtained by adding the non-food component (\$1,400) multiplied by the household size to the household indigence line (HIL). Households with total expenditure below this amount are categorized as poor. For example, the HPL for a family of 2 adults and 2 children under 13 years would be round \$10,600⁵, 22% lower than if no adjustment for household size had been made.

Other Poverty Indicators

The headcount ratio: By relating the poverty lines to the household expenditures obtained from the SLC and adjusted for household composition, households can be classified as to whether they fall above or below the poverty line. The *headcount ratio* is defined as the ratio of households falling below the poverty line to all households. The results are presented in Table 2.4.

The poverty gap: This is a measure of the extent to which the incomes of poor households fall below the poverty line. More specifically it is the sum of the percentage gaps, for all poor households, between their expenditure and the poverty line averaged across all households.

The poverty gap squared: Similar to the poverty gap but giving much greater emphasis to the poorest households.

The Gini coefficient: A measure of the overall *distribution* of household incomes where 0 would denote a completely equal distribution and 1 would denote a completely unequal one.

³ Children aged under 18 years are assumed to require less food than an adult. The factors are 0.2, 0.3 and 0.5 for children aged under 8 years, 8-12 years and 13-17 years respectively.

⁴ The concept of a model household is however problematic as less than 1 in 6 have four persons, only some of which will have 2 adults with 2 small children.

⁵ That is the HIL + 4*per capita non-food component = $\$5,000 + 4 * \$1,400 = \$10,600$.

C. Comparative Indigence and Poverty Lines for Adult Individuals

Table 2.3 summarizes the adult indigence and poverty lines in Dominica and makes comparison to other Caribbean countries. Comparisons are not straightforward as the surveys were not undertaken at the same time and the purchasing power of the EC\$⁶ varies between countries. For surveys undertaken at the same time, the costs of the MFB (the indigence line) provide a *de facto* PPP comparison. In this respect, the Table 2.3 shows that the cost of the MFB in Dominica is under half that in British Virgins Islands and 30% lower than that in Anguilla.

In consequence, the best indicator of inter-country variation is the proportion of the poverty line expenditure that is required for food. This proportion tends to decrease with affluence. Dominica, with food representing almost 60% of the total expenditure of poor households, is in a similar situation to St. Kitts, Nevis and St. Lucia. Of the other countries shown, the proportion spent on food is much higher in Guyana (74%) indicating a higher degree of poverty and lower in Anguilla, BVI and Turks and Caicos (27-39%) implying greater affluence.

Table 2.3 Caribbean Poverty Lines

Country/ Island	Year	Expenditure (EC\$)			Food #
		Food*	Non-food	Poverty Line***	
Anguilla	2002	3066	4864	7930	39%
Dominica	2002	2011	1389	3400	60%
British Virgin Islands **	2002	4400	12000	16400	27%
Turks and Caicos**	1999	2300	4000	6300	36%
St Kitts	1999/2000	2136	1225	3361	64%
Nevis	1999/2000	2448	1493	3941	62%
Grenada	1998	1431	1831	3262	44%
St. Lucia	1995	1003	874	1876	53%
Guyana	1993	759	267	1026	74%
Belize	1996	1014	724	1737	58%

Source: Anguilla, Dominica and BVI SLCs; Caribbean Development Bank.

* Equivalent to the Indigence line.

** Converted from US\$ at US\$1=EC\$2.70.

*** For an adult.

Food expenditure as % of poverty line.

D. The Incidence of Household Poverty in Dominica

The level of indigence or severe poverty in Dominica is relatively low at around 11% of households or 15% of the population, indicating that the great majority of Dominicans can satisfy their basic food needs. However, the incidence of overall poverty, 29% of households and 39% of

⁶ For example, EC\$100 will purchase a different amount of goods in Dominica than Anguilla. Currently, the PPP value of the US\$ in Dominica is estimated to be around 1.7 times its value in the United States.

the population, is high. This phenomenon reflects the continuing decline in banana production and the stagnation in other sectors such as tourism and manufacturing. On this basis, in mid-2002, there were around 2,500 indigent and 4,400 poor households in Dominica. In all, just under 7,000 households have expenditures below the poverty line⁷.

Table 2.4 compares poverty in Dominica as shown by the headcount ratio with selected other Caribbean countries. Although comparisons are made difficult by the different survey years and the use of a relative measure for non-food expenditure (as with Table 2.3), nevertheless it is clear that **the incidence of household and population poverty in Dominica is amongst the highest in the Caribbean with only St. Vincent and Guyana having comparable levels** (moreover, the St. Vincent information dates back to 1995). However, in terms of indigence, Dominica fares somewhat better, being in a similar situation to several other countries (e.g. St Kitts and Nevis, Belize, Grenada) and with a much lower incidence of severe poverty than Guyana and St. Vincent.

The poverty gap indicators provide a basically similar pattern to that shown by the headcount ratios. However, the Gini coefficient indicates a more balanced distribution of household expenditure in Dominica than in several other countries.

Table 2.4. Comparative Poverty Indicators

Country/ Island	Survey Year	Indigence Headcount		Poverty Line Headcount		Poverty Gap	Poverty Gap Squared	Gini
		H'holds	Pop.	H'holds	Pop.			
Barbados	1996	1%	1%	9%	14%	2.3	na	0.39
Jamaica	2001	na	na	na	17%	na	na	0.38
Trinidad & Tobago	1992	na	11%	na	21%	na	na	0.42
BVI	2002	1%	1%	16%	22%	4.1	1.7	0.23
Anguilla	2002	2%	2%	20%	23%	6.9	3.2	0.31
St. Lucia	1995	5%	7%	19%	25%	8.6	4.4	0.5
Turks & Caicos	1999	3%	3%	18%	26%	5.7	2.6	0.37
St. Kitts	1999	na	11%	16%	31%	2.5	8.9	0.40
Nevis	1999/2000	na	17%	16%	32%	2.8	10	0.37
Grenada	1998	11%	13%	24%	32%	15.3	9.9	0.45
Belize	1996	10%	13%	25%	33%	8.7	4.3	0.51
St Vincent	1995	20%	26%	31%	38%	12.6	6.9	0.56
DOMINICA	2002	11%	15%	29%	39%	10.2	4.8	0.35
Guyana 1/	1993	na	28%	na	43% (35%)*	16.2	8.2	na

Source: Anguilla, Dominica and BVI SLCs; Caribbean Development Bank.

Note: Countries are sorted by percentage of the population that which is poor – the only indicator with a complete set of information.

1/ Number in parentheses pertains to 1999. Source: As for Table 2.3.

⁷ The poverty line is sensitive to the assumptions underlying the derivation of the non-food expenditure component. If a more restrictive assumption were used (other than the average per capita nonfood expenditure of the 40 percent of households with the lowest per capita incomes), e.g. the average non-food expenditure of indigent households (c.\$740), the proportion of poor households would be significantly lower at around 20% of all households and 28% of the population.

E. Geographic Characteristics of Poverty

Poverty in Dominica is concentrated primarily in the rural areas (Table 2.5). The data show that in urban areas 6 and 19 percent of all households are indigent or poor, respectively, while 13 and 33 percent are either indigent or poor in rural areas. Moreover, 67 percent of all poor households reside in rural areas.

Table 2.5 Poverty in Urban and Rural Areas 1/

PARISH	Indigent	Poor	All Poor	Not Poor	Total	% of all poor
Urban *	6%	13%	19% (27%) <u>1/</u>	81%	100%	37%
Sub-centers **	10%	30%	40% (50%)	60%	100%	8%
Rural	13%	20%	33% (46%)	67%	100%	55%
TOTAL	11%	18%	29% (39%)	71%	100%	100%

* Roseau and suburban areas, and Portsmouth

** La Plaine, Marigot, Castle Bruce and Grand Bay

1/ Figures in () relate to population. All other figures related to households

The level of indigence in the Carib Territory is the highest in the nation—59 percent of poor households are indigent compared with a national average of 36 percent. However, the Caribs constitute only four percent (4%) of the total population and the poor in the Carib Territory account for 9 percent of the nation's poor (Table 2.6). **Poverty is also clearly related to unemployment**, as 67 percent of poor Carib households do not have any employed persons while one in three of the nation's poor households have no income earners.

Table 2.6 Selected Characteristics of Urban and Rural Poverty in Dominica

Category	Urban*	Rural	Carib	ALL
Indigent	31	35	59	36
Poor	69	65	41	64
All Poor	100	100	100	100
All Poor as % of Total Poor	24	67	9	100
All Poor as % of all Households	19	33	51	29
Average Household Size	4.7	4.4	4.7	4.5
% of Poor Households with nobody working	32	31	67**	34
% of Poor Households with someone disabled or too sick to work	24	27	29	26
% of Poor Households with at least one adult with secondary education	32	26	20	27
Primary Employment in Poor Households				
Cultivation	9	46	46	37
Government/ Prof/Managerial/ Tech	24	11	7	14
Elementary Occupations only	17	14	19	15
Other	50	29	28	34
All Working Poor Households	100	100	100	100

* Portsmouth and Greater Roseau.

** There are strong grounds for believing that Caribs responding to the questionnaire did not consider subsistence cultivation to be a form of employment.

The high incidence of rural poverty stems primarily from the ongoing decline in agriculture (and bananas in particular), which had long been the mainstay of Dominica's economy. The decline in agricultural production has resulted in rural un- and under-employment, not only amongst the banana cultivators, but it has also eliminated the previously large requirement for casual but often regular, labor. Those displaced from banana production have little alternative but to seek low and irregular income in casual menial labor and small-scale food production, as other employment opportunities in rural areas are limited. As a result, the incidence of second jobs in rural areas is three times higher than in urban areas (15% in rural arrears versus 5% of workers in urban areas). Two-thirds of rural jobs involve cultivation, reflecting the fact that 37% of poor rural households own land that they can cultivate compared to only 12% of urban households, which tend to cultivate their house plots. An increasing number of rural workers seek job opportunities in Roseau or on other islands, or are becoming dependent on government welfare and/or assistance from family members. However, rural households are more likely to benefit from a higher degree of community support than exists in urban areas.

Finally, the incidence of poverty in Dominica varies considerably between parishes (Table 2.7). The lowest incidence is in St. Peter and Roseau at 17% & 18%, respectively, of households. The highest incidence is in St. David, which includes the Carib Territory; this is followed by St. Mark in the south west and St. Patrick in the south east. Over one-third of all poor households are to be found in these three parishes, yet they contain less than a quarter of all households in the country. St. David also contains over twice as many indigent households (28%) as any other parish.

Table 2.7 Geographic Distribution of Household Poverty

PARISH	<i>Indigent</i>	<i>Poor</i>	All Poor		Not Poor	Total	% of all poor
St. George (Roseau)	5	13	18	(23)*	82	100	12
Rest of St. George	11	12	24	(39)	76	100	6
St. John	7	21	28	(37)	72	100	9
St. Peter	6	12	17	(31)	83	100	1
St. Joseph	13	20	33	(44)	67	100	11
St. Paul	12	11	23	(36)	77	100	9
St. Luke	4	28	32	(48)	68	100	3
St. Mark	13	31	44	(62)	56	100	4
St. Patrick	9	32	41	(48)	59	100	16
St. David	28	23	52	(67)	48	100	15
St. Andrew	9	16	25	(32)	75	100	12
TOTAL	<i>11000</i>	<i>18</i>	<i>29</i>	<i>(39)</i>	<i>71</i>	<i>100</i>	<i>100</i>

* Figures in () relate to population. All other figures related to households

NB. Unless otherwise stated, all percentages in this and the following tables are based on the weighted sample results.

F. Demographic Characteristics of Poverty

Poverty in Dominica exhibits the following demographic trends (Table 2.8):

- Poor households tend to be much larger than non-poor households and contain proportionately more children than non-poor households.
- Poor households contain proportionately fewer persons of working age, namely age 25-64.
- There is no significant difference in the gender distribution of poverty in the country.

Table 2.8. Demographic Characteristics of the Poor and the Non-Poor

Household Size (persons)	Poor	Not Poor	Total
1	16%	28%	25%
2	11%	21%	18%
3 or 4	26%	34%	32%
5 or 6	26%	13%	17%
7 and over	21%	3%	8%
Total	100%	100%	100%
Average Household size	4.5	2.8	3.3
Age of Population (years)	Poor	Not Poor	Total
Under 5	9%	7%	8%
5-14	29%	17%	22%
15 – 24	17%	16%	16%
25 – 44	24%	30%	28%
45 – 64	12%	18%	16%
65+	8%	13%	11%
Sex of Population	Poor	Not Poor	Total
Male	50%	51%	50%
Female	50%	49%	50%
Sex of Head of Household **	Poor	Not Poor	Total
Male	63%	68%	66%
Female	37%	32%	34%
Households with no adult (20+ years) males	22%	20%	21%
Sample sizes	Poor	Not Poor	Total
Households	118	469	587
Population	425	1,407	1,832

Source: Dominica Country Poverty Assessment.

III. AN INTERIM POVERTY REDUCTION STRATEGY

The analysis of poverty trends in Chapter 2 revealed that **poverty is primarily a rural phenomenon** stemming in large part from un- and under-employment resulting from the decline in agricultural (and more specifically banana) production and to a lesser extent by the more recent decline in tourism and manufacturing. **It is our Government's position that poverty can best be addressed through the implementation of a comprehensive program that is designed to foster economic growth and private sector employment.** In this regard, a central program objective will be the elimination of the country's fiscal imbalances and debt overhang. In tandem with these objectives, the Government will also implement important structural reforms designed to address the country's lack of external competitiveness and remove other remaining obstacles to growth. Accordingly, the structural agenda will be developed around the three themes: (a) public sector reform; (c) financial system reform; and (d) strengthening external competitiveness.

The main challenge in this poverty reduction strategy (PRS) will be to foster growth and private sector employment while our Government undergoes retrenchment. Therefore, in implementing its PRS, our Government will make every effort to ensure that it maintains a well-targeted system of social protection. In this regard, **it will safeguard its level of social assistance by maintaining social transfers as a percentage of GDP over the medium term and work to improve the targeting of those expenditures towards society's most needy.** The Government will also work with the donor community and NGOs to safeguard the overall level of donor-financed social outlays, and will continually strive to make concrete progress towards attaining the International Development Goals (IDGs) that are still outstanding.⁸

A. Goals and Objectives

1. International Development Goals

In the last two years, a number of International (or Millennium) Development Goals have been established by international agencies. These are shown in Table 3.1 together with the current situation regarding the attainment of these goals in Dominica.

The most important conclusion is that Dominica has already achieved the majority of these goals. However, the current economic situation is serious and is likely to lead to increased poverty in the future. The relevance of the above targets, especially in the short-term, is therefore debatable. Unless there is a return to sustainable economic growth, the attainment of any social or infrastructure-based poverty reduction targets will almost certainly prove impossible.

⁸ The targets of the IDGs (to be reached by 2015, unless otherwise noted are: (i) reducing by half the incidence of extreme poverty; (ii) reducing by two-thirds the infant and child mortality rates and by three-fourths the maternal mortality rate; (iii) achieving universal primary education in all countries; (iv) providing access to reproductive health services for all individuals of appropriate age; (v) eliminating gender disparities in primary and secondary education by 2005; (vi) have halted and begun reverse the spread of HIV/AIDS; and (vii) implementing national strategies for sustainable development by 2005 to ensure that the current loss of environmental resources is reversed globally by 2015 and halve the proportion of people without sustainable access to safe drinking water and basic sanitation.

Table 3.1. International Development Goals

GOAL (to be achieved by 2015)	Regional average (mid 1990s)	Dominica	Comment
Reduce incidence of severe poverty rate by 50%	12%	11% of households 15% of population	Achievement of this target will require both sustained economic growth and careful targeting of social safety nets
Achieve 100% primary school enrolment rate	94%	c. 99%	Already achieved. The challenge will be to maintain standards in the current climate of restricted government expenditure.
Achieve equal ratio of boys and girls at secondary school	Girl enrolment is around 95% of boys' enrolment.	Male secondary school enrolment is slightly lower.	Action needed to counteract trend of male secondary school under-achievement
Reduce under 5 year mortality rate by 2/3rds	38 per 1000	Not available but infant mortality is below 20 per 1000	Achievable.
Ensure that 90% of births are attended by skilled personnel	77%	100%	Already achieved
Access to safe water	85%	84%	Essentially achieved although some households, especially amongst the rural poor, still do not have access.

Source: derived from the UN's Millennium Development Goals for Latin America and the Caribbean, www.developmentgoals.org (World Bank Group).

2. Development Priorities identified by Communities

Table 3.2 summarises the development priorities identified by community residents during the Participatory Poverty Assessments conducted as part of the preparation of the Country Poverty Assessment.

Table 3.2. Development Priorities identified by Communities

No.	Priority Need
	A. Economic Development / Job Creation
A1	Employment creation and income enhancement opportunities
A2	Opportunities for small business development
A3	Markets for agricultural produce, handicrafts, etc.
A4	Promotion of community tourism
A5	Fish landing and marketing facilities
A6	Agro-business opportunities
A7	Opportunities for livestock development
	B. Health
B1	Improved health and sanitation services
	C. Education
C1	Adult education classes
C2	Skills training (youth and women) in computers, construction, food preparation etc.
C3	Create access to tertiary education
	D. Social Programmes/ Community Development
D1	Well-equipped community resource centres
D2	Community education programmes
D3	Support to organise and sustain community organisations
D4	Sporting and recreational facilities
	E. Infrastructure/ Housing
E1	Upgrading of public and community secondary roads.
E2	Access to land for agriculture
E3	Land and credit for housing
E4	Sea and river works for vulnerable communities
E5	Improved water systems

3. Objectives

Taking into account the preceding analysis of poverty in Dominica, it is considered that the poverty reduction strategy should have the following objectives:

- **The promotion of economic growth and job creation.** *This is essential both to provide employment opportunities for all (especially young) Dominicans and to generate government revenues that can be used to target residual poverty and identified social problems.*
- **The betterment of the conditions of those currently in severe poverty and helping them to achieve a sustainable livelihood through a combination of direct income support and other measures.** *There will always be some households (e.g. the elderly, the disabled, some one parent families) who will be unable to support themselves and will need direct income and other support.*

- **The development of the skills and health conditions that will enable current and future households to achieve and maintain a sustainable and fulfilling life.** *Basic health and education services as well as utilities (eg. water, electricity, road access) are essential to the medium and long-term reduction of poverty. The current situation is good. Future emphasis should thus be on maintaining existing services and ensuring their affordability.*
- **The elimination or reduction of the potential causes of future impoverishment.** *Social problems, even if they are not directly linked to poverty at the moment, could lead to impoverishment in the future if they are not addressed.*

4. Goals

In the Dominica context, the current economic crisis has led to a worsening poverty situation and high un-/under-employment. The short-term outlook is also not optimistic, with increased poverty a very real possibility. In this situation, the initial emphasis of a poverty reduction strategy needs to be:

- **The promotion of economic growth and job creation; and**
- **Maximising the effectiveness of Government's financial resources available for pro-poor programmes.**

B. A Macroeconomic Framework

Table 3.3 summarizes Dominica's three-year macroeconomic framework for 2004-06. **The objective of the program is to restore growth partly through the elimination of fiscal imbalances and a sizable reduction in the country's debt burden.** The program will target the historical average growth rate of 2 percent per annum, aim to preserve price stability, and reduce the external current account deficit by nearly 50 percent through improvements in competitiveness.

Table 3.3 Dominica: Macroeconomic Framework, 2002-2006

	2002	2003	2004	2006
	(In percent)			
GDP growth	-4.7	-1.0	1.0	2.0
Inflation	0.5	2.0	1.5	1.5
Current account / GDP	-14.7	-16.7	-15.4	-10.1
	(In percent of GDP, fiscal year)			
Primary savings (excl. grants) 1/	0.6	1.5	4.5	6.5
Primary savings (incl. grants) 1/	5.2	7.2	8.0	10.0
Structural primary balance 1/	-5.1	-2.0	0.5	3.0
Overall fiscal balance 1/	-5.5	-5.6	-4.7	-1.8
Public debt	95.4	111.5

Sources: GoCD and IMF staff estimates.
1/ Fiscal years beginning July 1.

In light of the country's fixed exchange rate regime and participation in the Eastern Caribbean Currency Union (ECCU), the macroeconomic program will focus on fiscal issues, namely a strategy to reduce Dominica debt, tight fiscal policy and fiscal reform.

1. Debt Strategy

A reduction of public debt is needed to unlock the growth possibilities of the economy. At present, Dominica is suffering from debt overhang, investment has collapsed to about 1/3 of its level in 1998, while taxation has increased over the last few years. The high level of debt creates uncertainties about future taxation and expenditure priorities which lead to lower investment and growth. In order to improve investment and growth prospects, the cloud of future taxation needs to be removed. The Government intends to pursue a reduction of its current level of debt. We feel that on this basis, sustainability will be regained and a strengthened fiscal stance will reduce the uncertainty of future taxation.

2. Fiscal Policy

Over the medium term the Government will follow a tight fiscal policy complemented by a restrictive incomes policy, in an attempt to realign relative prices, reduce the relative price of nontradeables, and improve competitiveness of the economy.

Further fiscal consolidation equivalent to about 5 percent of GDP is needed over the medium term (Table 3.4). The underlying fiscal position for fiscal year 2003-2004 is a primary deficit of about 2 percent of GDP (i.e. excluding exceptional grants that are not expected to occur again). The Government's medium-term objective is to achieve a primary surplus of at least 3 percent of GDP. This implies adoption of fiscal measures equivalent to approximately 5 percent of GDP to achieve the medium-term objective. This is considered to be a significant incremental adjustment over and above the 2.5 percent of GDP adjustment package adopted in the FY03/04 budget.

In order to achieve this medium-term target, the Government of Dominica will front-load its fiscal adjustment efforts by targeting: (a) approximately 0.5 percent of GDP primary surplus for the next fiscal year—which is equivalent to about half of the total fiscal adjustment envisaged over the medium term; (b) a primary surplus of about 2 percent of GDP for FY 2005-2006; and (c) a primary surplus of about 3 percent of GDP for FY 2006-2007. However, these targets would be adjusted to accommodate certain one-off expenditures associated with key structural reforms (e.g. the cost of severance payments). Even after the adoption of the fiscal adjustment measures for the FY 2004-2005 budget, sizeable financing gaps will remain (Table 3.4), which are expected to be covered through debt reduction.

Table 3.4 Dominica: Fiscal Deficit and Financing Gap for 2004

	US\$ millions	% of GDP
Primary balance	0.1	0.04
Interest payments	-15.7	-6.0
Overall fiscal balance	-15.6	-6.0
Overall financing	15.6	6.0
Domestic financing	0.0	0.0
External financing	-10.3	-4.0
Financing gap	26.0	10.0
IMF	5.0	1.9
Residual gap	21.0	8.0

Sources: Fund and staff estimates.

3. Fiscal Reform

Fiscal adjustment is required to ensure that the objectives of the debt strategy can be achieved and avoid a situation where the debt rises rapidly again. Elements in the agenda include tax and expenditure reforms as well as stricter procedures to guide borrowing policies.

The main objective of this reform is to make fiscal policy more efficient and supportive of the underlying growth process. Tax rates in Dominica are rather high and may pose an impediment to growth, a reform of the tax system is needed to reduce key tax rates without compromising tax collections. A tax reform is also needed to rationalize the system and reduce distortions. On the expenditure side, the main expenditure item is related to labor costs, high employment in the public sector reduces the labor supply available to the private sector and could be an obstructing factor to growth over the medium-term. Improvement in a variety of other fiscal areas will also be needed ranging from budgetary legislation and procedures for civil service, public pensions and social security. In principle there are four underlying elements to the fiscal reform agenda:

- *Tax Reform.* Several studies have pointed to the rigidity of the system and its reliance on indirect and foreign trade taxation. The program will adopt a tax reform with the aim of improving efficiency and minimizing distortions. One of the main objectives of this reform is the introduction of the VAT by mid-2005.
- *Expenditure Reform.* Building on previous studies, the program identifies areas where public employment could be rationalized. In recognition of the high wage bill, the program sets the broad objective of reducing the wage bill by 10 percent over the next two fiscal years through a reduction in the number of public employees, rationalization of public service delivery and better monitoring of temporary employment. Two considerations would be important in deciding the path of this reform: (i) the cost of the reform; and (ii) the rate of unemployment. To the extent that this reform is costly, the fiscal targets will be adjusted to accommodate such one-off expenditure. Also, consideration will be given to the appropriate timing of this measure, as the unemployment rate is rather high and this measure would complicate the situation.

- *Fiscal Responsibility Law.* The country needs to adopt a legal framework that can be used in the design of fiscal policy. It should allow enough room to pursue an active countercyclical policy while at the same time impose stringent requirements on inter-temporal borrowing so that the debt stock is maintained within a narrow band. Periods of fiscal relaxation would have to be followed by periods of fiscal austerity so that over the business cycle the stock of debt is kept under control. It is expected that this law will be in place by mid-2005.
- *Longer Term Budgeting.* A good practice that needs to be adopted is the formulation of a 3-year rolling budget, this would allow market participants and civil society to get a sense of direction when it comes to fiscal policies reducing uncertainty about future taxation. It is expected to be adopted for the FY 2004-2005 budget.

C. Structural Reform

The structural reform agenda will aim to reinvigorate growth and ensure that the economy achieve its full potential. The main theme of the structural agenda will be growth within a sustainable framework and will be developed around three pillars: (1) public sector reform; (2) financial sector reform; and (3) strengthening competitiveness.

Appendix 1 contains a comprehensive list of measures in these areas, based on discussions with our development partners, to be implemented over the next three-year horizon. It is expected that this matrix will become part of the dialogue with stakeholders during the PRSP consultative process, and in the final analysis, a more streamlined and focused version will be produced.

1. Public Sector Reform

Given that current levels of public expenditure are no longer affordable and the costs of maintaining the current public sector staff and service levels are consuming an unacceptable level of national resources, there is a need for fundamental structural adjustment in Dominica in order to provide a basis for future growth and an acceptable minimum level of public services. Some success has been achieved in earlier reform efforts, but they have failed to fully address the underlying economic weaknesses.

To this end the Government has prepared, with private sector and civil society participation, a Medium Term Public Sector Reform Strategy (MTPSRS) that aims to reduce the size of government in an orderly and effective way in order to achieve fiscal and broader economic stability and at the same time create a dynamic, accountable, efficient and effective public service to provide a strong basis for the sustainable and integrated political, social and economic development of Dominica.

The goal of this reform strategy is to achieve fiscal and broader economic stability and a dynamic, accountable, efficient and effective public service to provide a strong basis for the sustainable and integrated political, social and economic development of Dominica. The strategy has four key components which aim to: (i) modernize public administration; (ii) strengthen economic management; (ii) enhance the enabling environment; and (iii) rationalize social service delivery and improve their targeting. Each component, its objectives and overall strategy is described below.

Box 2: Medium Term Public Sector Reform Strategy

(1) Public Administration Modernisation

- *To develop effective, participative public sector management, policy development and decision making processes and systems including strong political leadership*
- *To define models for service delivery standards, levels, mechanisms and procedures that are effective, efficient, innovative and affordable, and in line with the needs and realistic expectations of the people of Dominica.*
- *To develop a high performing, accountable, modern public sector, characterised by strategic leadership, highly and appropriately skilled and qualified personnel, within an effective performance management culture and rewards framework.*
- *To improve accountability and governance through modernised processes and practices.*

This area will concentrate on the continuing reform of laws, systems and processes of public administration. It will review government roles and functions, and continue improvements in manpower planning and control, and the management of performance in the public sector. It will build an effectively managed and directed public service through work on improving governance, policy and decision making, strengthening management capacity, defining the appropriate role of government and establishing accountability and communication mechanisms to improve transparency. It will also assess and implement options for cost reduction, such as outsourcing of central services and rationalisation of service delivery.

(2) Economic Management

- *To establish a modern, integrated and comprehensive institutional and regulatory framework, for efficient public expenditure and revenue management and economic development.*
- *To introduce effective and efficient revenue and expenditure management policies, systems and processes within a nationally agreed Dominica policy framework and development agenda to link the budget cycle to development plans.*
- *To strengthen the accountability, audit and review mechanisms to assess and improve economic management performance.*

The introduction of effective public expenditure management tools and techniques is critical to the process of economic recovery. This area will develop modern and comprehensive expenditure management systems including the improvement of macro economic analysis and the development of a medium term expenditure framework and Poverty Reduction Strategy, the extension of computerised financial management systems, development of effective debt and treasury management systems and reform of the tax and procurement systems. Improvements in financial systems and reporting should also support greater transparency and improved governance

(3) Enhancing The Enabling Environment

- *To establish an environment that is dynamic, responsive, supportive and conducive to sustainable and diversified private sector (including NGOs) and broader social, cultural and economic development.*
- *To seek national consensus on the role and scope of government in relation to the private sector.*

The emphasis here is on defining and strengthening the role of government in economic development. It will include improving the environment for domestic and external investment, including improving the performance of the ports, more effective customs services, strengthening of the relationships between the public and private sectors, and reform of public utilities. It will also foster the development of a national information technology strategy, and aim to reduce bureaucratic barriers to development and introduce an effective financial sector regulatory framework.

Box 2: Medium Term Public Sector Reform Strategy (Continued)

(4) Rationalisation of Social Services and Improved Targeting

- *To develop a national framework of social services and social safety net that are equitable, efficient, effective and affordable, without distorting incentives for economic performance and individual self-sufficiency within the Dominica development agenda.*

This area will focus on the development of an effective and affordable system of social safety net provision and social services. Dominica has impressive social indicators, but these have come at a very high price. There is a need to strengthen safety nets by improved design and targeting and to ensure that the benefits of human capital investment (such as increased secondary school enrolment) are maintained.

There is scope for rationalisation of the delivery of social services across the country and a need to reduce unit costs and government spending in these areas including consideration of cost recovery options for healthcare and other services. The current large number of poorly targeted social security benefits needs to be more clearly aligned to need and there is a need to respond to new challenges such as increases in HIV/AIDS and drug related social problems.

2. Financial Sector Reform

It is essential to remove the impediments for banks to intermediate funds and revive credit to the private sector to foster growth. In this regard, the results of the ongoing FSAP mission will be important in identifying actions needed to strengthen Dominica's financial sector given the severity and protracted nature of the current economic recession .

At the same time, the Government intends to reduce its participation in the state banks in order to reduce fiscal crowding out. The National Commercial Bank (NCB) is being partly privatized whereas the Agricultural Industrial Development Bank, would be restructured and divested. In undertaking the reform, the Government will try to ensure that the debt strategy is implemented in such a way that it does not reduce bank capital significantly.

3. Strengthening Competitiveness

There are clear indications that Dominica has lost external competitiveness and that policies need to be designed to regain the economy's competitive edge. Dominica has experienced very large current account deficits (about 15-18 percent of GDP) over the last years. In the absence of the exchange rate tool, the program calls for implementation of a host of measures to enhance competitiveness, including measures to reduce costs of production and a strict incomes policy. A study is being conducted by the World Bank to identify areas where competitiveness can be improved in the broader OECS. The study is expected to be ready in July 2003 and the Government will use its recommendations as an input for the identification of actions to be included in the PRS to strengthen Dominica's competitiveness.

D. Social Protection

Objective. The Government of Dominica believes that it now has an appropriate range of programs (Box 2) that address—or potentially could address—the critical risks faced by the population, and that there is little or no need for additional programs. Rather, the Government will aim to rationalize

current programs, in order to ensure that spending and programmatic priorities better reflect priority risks. The Government believes that it can strengthen social protection by focusing both on reallocating resources to strategic social protection priorities, and by strengthening its capacity to implement social protection programs.

Box 2: Dominica's Social Safety Net

Government-administered programs

- **Dominica Social Security (DSS)**—the Social Insurance Program, established in 1970 as the National Provident Fund and transformed into Dominica Social Security in 1976.
- **Public Assistance**—Administered by the Ministry of Community Development and Gender Affairs. This program provides income support to the poor. Eligibility is subject to a means test, a home visit and an annual review; however criteria for eligibility are not documented.
- **Legal Aid Clinic**—Established in April 28, 2003, with assistance from CIDA.
- **School Feeding Program**—Administered by the Ministry of Education, Sports and Youth Affairs. Founded in 1991 under the World Food Program (WFP).
- **Education Trust Fund**— Administered by a Board of Trustees appointed by the Ministry of Education. Provides assistance to secondary school and some tertiary students for transportation uniforms, books and external examination fees.
- **Basic Needs Trust Fund**—Established in 1979; funded by CDB; BNTF Manager reports to CDB via the Permanent Secretary, Ministry of Community Development and Gender Affairs.
- **Text Book Scheme (TBS)**—Program established in 1996, to provide assistance to primary and secondary school students who are unable to purchase the required text books.
- **School for the Hearing Impaired (SHI)**-- Provides special education for persons with disabilities.

Programs Administered by NGOs

- **Dominica Association of Disabled Persons (DADP)**—Empowerment of the mentally and physically disabled. Founded in 1983 with funds received from the British and Canadian Governments for premises and equipment.
- **The Social Center**—Founded in 1950. Designed to benefit the disadvantaged. Pioneered the preschool education program and the Adolescent Skills Training Program.
- **The Dominica Council of Women (DNCW)**—Established with funds from Canada IICA, which assists with providing seed money for projects implemented by the rural poor. This organization serves as an umbrella organization of women's groups; provides skills training for self-employment; a family hot line for access to a counselor; and assists women to access training from other organizations.
- **Dominica Council on Ageing**--Established as an umbrella organization for Men and Women over 60.
- **Reaching Elderly Abandoned Citizens Housebound (REACH)** —Commenced operations in 1978 to provide assistance to the elderly who have been abandoned by their families.
- **Operation Youth Quake (OYQ)**—Established in 1978 to provide a rehabilitative service for deprived, abused and neglected children.
- **Christian Children Fund (CCF)**—Headquartered in the USA. Local operations began in 1983 to assist poor families to provide for their children.
- **Alpha Centre (AC)**—Established in 1974. Caters for Children with mental disabilities.

- **Small Project Assistance Team (SPAT)**—Established in 1981 to provide/develop community development activities in targeted communities where need is identified. Funding provided by external donor agencies.
- **National Development Foundation of Dominica (NDFD)**—Founded in 1981 to provide venture capital for entrepreneurs who could not qualify for funding from commercial banks. Eligibility is determined on the basis of: economic viability, utilization of local raw materials, potential for generating exports or import substitution.
- **Dominica Hucksters Association**—Established in 1982 to support small-scale intra-island trade in agricultural commodities. Produce obtained from farmers, often on consignment, with payment made once the goods are sold overseas.
- **Society of St. Vincent de Paul**—A Catholic Charity established in 1973. Helps provide basic needs assistance in a variety of areas.

The Government will work within its current budget constraint by reallocating spending away from programs yielding relatively low returns to those that have a proven track record of yielding higher returns, as well as seek to mobilize additional concessional donor assistance. **For example, the Government will seek to enhance the coverage of key target groups eligible for access to Public Assistance and the Education Trust Fund through a reallocation of resources.**

In some cases, the overall efficiency of social spending could be increased through some relatively minor reorientations of existing programs. For example, the Government believes that there may be gains from reorienting selected programs to increase their labor intensiveness and, thus, the amount of employment generated. In this context, it may be useful to reassess the merits and demerits of the types and mix of sub-projects currently being undertaken in community-based projects. The Government will explore possible gains from increasing the emphasis on short-term employment generation in sub-projects, relative to the focus on community infrastructure. It will also explore possible gains to strengthening the social protection orientation of the road maintenance projects, so as to ensure (through wage setting or other mechanisms) that more people in need of temporary employment have access to jobs.

Finally, given the current fiscal crisis, the Government will seek to reorient donor support toward its determined social protection priorities. At present, donor funding makes up as much as one-quarter of our country's total budget for social assistance. Moreover, the Government will require financial support and technical assistance from international agencies to continue to strengthen and expand social protection initiatives in the short- to medium-term, until our country is able to reestablish itself on a sustainable growth path. The Government will seek to better engage the donors so as to re-program some of their spending towards the Government's social priorities—including the Republic of China Scholarship Program, the Caribbean Development Bank's Basic Needs Trust Fund, and the European Community's Social Protection Program and SIF—which should help to ease the Government's budget constraint for social protection, and strengthen the impact of Dominica's social protection programs.

Short-term measures. The Government has identified a number of short-term and more longer-term actions for achieving its social protection goals:

- *Improved Targeting Systems* through introduction of objective targeting measures—for example, by enhancing and expanding current means testing procedures and/or a poverty mapping exercise.
- *Upgrading Administrative and Information Systems for Social Assistance*, including developing and recording policies and procedures for all aspects of the program; developing a consolidated and consistent targeting system for identifying beneficiaries; using the consolidated targeting system to establish criteria for short-term eligibility in the face of aggregate shocks and longer-term eligibility based on the measurement of indigence; and developing and implementing computerized management information systems.

With respect to specific programs:

- Undertake major institutional strengthening efforts to ensure the effectiveness of *Public Assistance*, and lay the groundwork for expanding coverage to a higher share of the indigent. In order to achieve broader coverage in an efficient and sustainable way, there is a need for concentrated efforts to improve: targeting, management information systems, and program monitoring.
- Consolidate the *Education Trust Fund* and *ROC programs* and then strengthen and enhance the consolidated program by expanding coverage and making benefits conditional on regular school attendance, and identifying beneficiaries through the consolidated targeting system;
- Target ROC funds exclusively on need and not on academic performance;
- Re-orienting the Road Maintenance Program to strengthen its social protection functions through the following activities: developing administrative mechanisms required to increase the rotation of workers and thus access by those who need short-term employment; expanding activities in geographically targeted areas with a menu of labor intensive activities designed to address housing/environment issues and tourism promotion;
- Establishing clear guidelines for employment and contracting so as to increase transparency of all processes and developing and implementing computerized management information systems.
- Reform *Dominica Social Security Scheme* to ensure its sustainability and, eventually increase coverage. To ensure long-term sustainability, the Government will: (i) establish an advisory board to define medium- and long-term strategies that focus on diversification and transparency and that seek to maximize security and returns; and (ii) implement legislation to define the long-term strategy for increasing contribution rates and retirement ages in the medium term. **In addition, the Government will seek to address its arrears with the DSS within the context of its debt strategy.** Priority should also be given to collecting and analyzing the data necessary to assess which approach to increasing social security coverage is most appropriate for Dominica. Options include increasing compliance, reducing the income floor on contributions and/or introducing a non-contributory pension scheme.
- Consolidate *Training and Adult Education Programs* in the Ministry of Education, Sports and Youth Affairs and reduce overall training expenditures. High returns are available from redirecting savings from adult and adolescent training to child and adolescent education. The

Government will also seek to upgrade labor market information so as to identify critical skill and competency gaps and to identify alternative mechanisms for service delivery, including on-the-job training and private sector provision.

Long Term Measures. Our Government will also pursue the following *long-term measures*:

- *Fostering market insurance options.* The Government will seek measures to help lower insurance costs and increase insurance penetration rates for market insurance instruments. An important focus of these efforts would focus on strengthening property insurance, given the risk of hurricanes and the history of hurricane damage. Efforts to foster development of other private insurance markets will also be considered.
- *Facilitating remittances as informal insurance.* Given the importance of remittances to individuals, households and the economy, the Government will explore proposals for encouraging the growth of remittances. One strategy could involve encouraging banks to play a bigger role in remittances transfers.
- *Exploring market-based service provision.* While the country has an array of publicly-provided social protection programs, relatively little attention has been given to market-based service provision—although there are areas where partnerships exist; e.g., early childhood programs and care for the elderly. Several other areas that show promise for public-private partnerships, such as school feeding and on-the-job training, will be explored further.

IV. TOWARDS A POVERTY REDUCTION STRATEGY FOR DOMINICA

A. The Consultative Process

The consultative process used to inform the PRSP will be modeled on the consultative processes adopted during the implementation of two recent Government initiatives, namely the Integrated Development Planning (IDP) Project and the Country Poverty Assessment (CPA). The IDP has as its developmental objective "to define and establish a participatory process for integrated Development Planning where the private sector and wider civil society play an enhanced role in the design and delivery of more transparent, accountable, and decentralized development". The CPA, on the other hand, was based partly on Participatory Poverty Assessments (PPAs) which sought to "give a voice to the poor" by providing opportunities for them to describe their perceptions and experience of poverty, to analyze and reflect on their reality, and to share their approaches to coping and survival.

Both the IDP and the CPA encouraged stakeholder participation at all levels. Preparation of the IDP is included a first phase is devoted to *sensitization and data gathering*. During that phase, several meetings were held in various communities covering the entire country. In addition, meetings were held with private sector and civil society organizations, media workers, religious leaders, bankers, and representatives of all three (3) political parties. Also, there was a special symposium for youth and a general workshop for stakeholders at the conclusion of the first phase. Similarly, the research underpinning the CPA involved an in-depth investigation into the economic and social well being of our people. Seven communities were selected for investigation representing various concerns such as out-migration of the population, economic hardship arising from decline in the banana industry, problems with land disputes, traditional fishing practices, squatter settlements, as well as progress in economic diversification and poverty alleviation. Special consideration was given to the indigenous peoples of Dominica, the Caribs. This aspect of the investigation involved direct observations, transect walks, community meetings, focus group meetings, key informant interviews and case studies.

In preparing the PRSP a series of consultations will be undertaken involving the public sector (including local authorities), civil society organizations, the private sector and the donor community. These consultations will focus on issues relevant to the Poverty Reduction Strategy. The report of the IPRSP will be used as background material for these consultations.

B. Timeline for Preparation of PRSP

The Consultative Process. The PRSP consultative process is expected to commence in January 2004, and a system will be established to document actual participation of different stakeholders. A summary matrix of key policy recommendations will also be produced to inform and guide the PRSP process. The latter will be appended to the final PRSP document.

The organization, preparation and consultation process for the PRSP will be as follows:

Organization

- A Ministerial Committee—representing the DSS, the Ministry of Finance and Planning, the Ministry of Community Development and Gender Affairs, the Ministry of Education, Sports and Youth Affairs, and Ministry of Health and Social Security—will be organized to oversee the preparation of the PRSP. The Committee will begin its work in January 2004.
- A Technical Committee representing these ministries, chaired by the Ministry of Finance and Planning will also be created to assist the Committee of Ministers. **The technical committee, which is responsible for the core preparation of the PRSP, will be responsible for integrating the work on the PRS within the parameters of the broader macroeconomic framework.** In this regard, the technical committee will also review each of the macroeconomic and structural policy reforms with a view to assessing their potential impact on the poor, and will be responsible for developing proposals to help insulate the poor or otherwise mitigate any known adverse effects on the poor.
- The technical committee will also coordinate consultations with stakeholders such as the donor community, local authorities and the rest of the public sector, civil society organizations, and the private sector—including academics and the business community.

Preparation of the PRSP and consultation process

(i) Preparation of draft outline: January and February 2004

(ii) Consultations to define overall priorities, targets and actions needed for poverty reduction to be inserted in the PRSP: Beginning in March 2004.

- The short- and long-term policy actions described under the PRS will be fleshed out in greater detail by the technical committee, which will then prepare a **Strategic Action Plan** along with **concrete targets** needed for achieving each of the stipulated goals. Expenditure proposals adopted will remain within the overall envelope for social spending established by *the medium-term macroeconomic framework established in conjunction with the Fund*. The Strategic Action Plan will also be prepared *in consultation with the World Bank*.
- **The technical committee will also: (a) develop a concrete proposal for organizing the subsequent discussions with stakeholders—this proposal could entail a**

recommendation for a national workshop or regional workshops with a proposed timetable for holding these discussions; and **(b) establish a participatory system for monitoring the implementation of the poverty reduction strategy**, once fully developed.

- The technical committee will then discuss the draft Strategic Action Plan proposal as well as the proposal for stakeholder consultations with the ministerial committee. Once the ministerial committee has given its seal of approval, the discussion of the Strategic Action Plan with stakeholders will commence according to the approved timetable.

(iii) Preparation of the PRSP: April 2004-May 2004

- The PRSP document will then be drafted by a core group of specialists under the supervision of the Technical committee.
- Preliminary results will then be presented to the stakeholders.
- The technical committee will reflect, as much as possible, the priorities defined to date for poverty reduction in the 2004/05 budget.
- Presentation of strategic directions and preliminary results to Cabinet in May 2004.

(iv) Discussion and approval of PRSP: June-December 2004.

- National and/or regional workshops to be held to discuss the draft PRSP, by end-September 2004.
- Presentation for approval to the Cabinet of final draft PRSP incorporating the views of stakeholders, with objectives and program priorities integrated in the FY 2004-2005 budget by end-November 2004.
- Submission of the PRSP document to the IMF and the World Bank by end-December 2004.

Appendix I: Structural Reform Matrix

Measures	2003	2004	2005	2006
I. Public Sector				
<i>Public Sector Reform</i>	<ul style="list-style-type: none"> ▪ Initiate the public sector reform process, including a 5 percent reduction of nominal wages and allowances, reduction in non-established workers, overtime, and other labor-related measures^{1/} <p>Status: Done. Measures taken in the context of the FY03/04 budget.</p> <ul style="list-style-type: none"> ▪ Prepare comprehensive public sector reform program—end-October <p>Status: Done. Public Sector Reform strategy submitted.</p>	<ul style="list-style-type: none"> ▪ Continue implementing public sector reform by a (i) freeze in hiring; (ii) reallocation of workers; (iii) reducing annual and study leave and limiting the accumulation of annual and study leave; (iv) reduction in overtime; (v) suspension of automatic increments; and (vi) rationalizing allowances. ▪ Improve ministerial controls over non-established workers ▪ Preparations for civil service reform aimed at reducing the government wage bill by 10 percent in the next two fiscal years through reductions in the number of public employees. ▪ Commence implementation of first phase of retrenchment program designed to reduce the nominal wage bill by 5 percent in FY2004-2005 (June) 	<ul style="list-style-type: none"> ▪ Continue implementing public sector reform, including measures prepared in 2004. ▪ Implementation of second phase of retrenchment program designed to reduce the nominal wage bill by 5 percent in FY2005-2006 (June) 	<ul style="list-style-type: none"> ▪ Continue implementing public sector reform.
<i>Social Security</i>		<ul style="list-style-type: none"> ▪ Introduce legislation to Parliament reforming the public retirement system. The legislation should aim at changing the statutory retirement age in the public service from 55 to 60 years—July ▪ Review of Dominica Social Security Scheme, with a view to improving its financial position. Review will make recommendations regarding the pension promise, and DSS' investment 	<ul style="list-style-type: none"> ▪ Continue reforms in the public retirement system 	<ul style="list-style-type: none"> ▪ Continue reforms in the public retirement system.

Appendix I: Structural Reform Matrix

Measures	2003	2004	2005	2006
<p><i>Revenue Mobilization and Expenditure Measures</i></p>	<ul style="list-style-type: none"> ▪ Implement short-term tax reform measures <p style="margin-left: 20px;">Status: Done. Measures were taken in the context of the FY2003-2004 budget.</p> <ul style="list-style-type: none"> ▪ Adopt automatic petroleum pricing and taxation mechanism—end-September <p style="margin-left: 20px;">Status: Done. A specific consumption tax was introduced in September.</p>	<p style="margin-left: 20px;">strategy, including proposals for regional and international diversification</p> <ul style="list-style-type: none"> ▪ Implement further tax reform measures, including <ul style="list-style-type: none"> (i) Take policy decision to reduce significantly discretionary tax exemptions with the goal of ½ percent of GDP in savings for the budget. (ii) Review the effectiveness of statutory and discretionary tax exemptions with a view to strengthen monitoring procedures (iii) publish on a quarterly basis all tax exemptions granted (incl. revenue loss) by entity; (iv) seek assistance from the IMF and CARTAC for the design and implementation of VAT (v) announce in FY2004-2005 budget VAT implementation by mid-2005 and cabinet approval of key decisions (base, rate, registration threshold, filing frequency, refund system)—July (vi) broaden the tax base for professional license fees and strengthen the enforcement of the fees charged—July ▪ Freeze non-interest current expenditure in the 2003/04 budget at the level of 2002/03 budget. ▪ Maintain capital expenditure at the level no higher than 7 percent of GDP, consistent with the PSIP. 	<ul style="list-style-type: none"> ▪ Continue implementing reforms, consistent with introduction of VAT by July 2005 	<ul style="list-style-type: none"> ▪ Continue implementing reforms, consistent with introduction of VAT

Appendix I: Structural Reform Matrix

Measures	2003	2004	2005	2006
<i>Public Expenditure</i>	<ul style="list-style-type: none"> ▪ Adopt three-year PSIP and issue new procedures for the planning and administration of the PSIP—end-October <p>Status: In progress. Implementation of three-year PSIP in progress, but issue of procedures still pending.</p>	<ul style="list-style-type: none"> ▪ Continue updating three-year rolling PSIP in FY2003-2004 budget and following new procedures ▪ Request technical assistance from the Fund and DFID to develop three-year rolling budget. ▪ Implement three-year rolling budget commencing with FY2004-2005 Budget. 	<ul style="list-style-type: none"> ▪ Continue update of three-year rolling PSIP and follow the new procedures 	<ul style="list-style-type: none"> ▪ Continue update of three-year rolling PSIP and follow the new procedures
<i>Statutory Bodies</i>		<ul style="list-style-type: none"> ▪ Review and, if necessary, restructure DEXIA to improve investment and export promotion. 		
<i>Government Financial Management</i>	<ul style="list-style-type: none"> ▪ Implement a fully-functioning cash management system <p>Status: Done. Continuous progress is being made in improving the functioning of the system.</p> <ul style="list-style-type: none"> ▪ Restructuring of Ministry of Finance and Planning (MOFP) ▪ Merge external and domestic debt management units—end-October ▪ Revise debt management legislation to improve accountability, control and 	<ul style="list-style-type: none"> ▪ Implement Financial Management Action Plan, including publication of quarterly reports—June ▪ Enact new FAA Act ▪ Roll-out FM system to line ministries—June ▪ Restructuring of the Ministry of Finance and Planning (MOFP) 	<ul style="list-style-type: none"> ▪ Implement Financial Management Action Plan— ▪ Enact Fiscal Responsibility Law—July 	<ul style="list-style-type: none"> ▪ Implement Financial Management Action Plan

Appendix I: Structural Reform Matrix

Measures	2003	2004	2005	2006
	transparency—October Status: Ongoing.			
<i>Accounting</i>		<ul style="list-style-type: none"> ▪ Design a program to strengthen the Treasury Department and begin its implementation 	<ul style="list-style-type: none"> ▪ Continue implementing program 	<ul style="list-style-type: none"> ▪ Continue implementing program
<i>Procurement</i>		<ul style="list-style-type: none"> ▪ Adopt a Procurement Reform action plan—end-September 	<ul style="list-style-type: none"> • Implement Procurement Reform 	
II. Debt Strategy				
<i>Debt Sustainability</i>	<ul style="list-style-type: none"> ▪ Design a medium-term debt strategy based on conservative assumptions—end-September <p>Status: Done.</p>	<ul style="list-style-type: none"> ▪ Commence negotiations with all creditors. ▪ Satisfactory implementation of the debt strategy—June. 		
III. Financial Sector				
<i>Supervision/ Prudential Regulation</i>	<ul style="list-style-type: none"> ▪ Conduct diagnostic review of the financial sector—end-November <p>Status: In progress.</p>	<ul style="list-style-type: none"> ▪ Enact ECCB's revised Unified Domestic Banking Act—end-March ▪ Implement recommendations of the regional FSAP 	<ul style="list-style-type: none"> ▪ Implement recommendations of the regional FSAP 	<ul style="list-style-type: none"> ▪ Implement recommendations of the regional FSAP
<i>Financial Institutions</i>	<ul style="list-style-type: none"> ▪ Divest government shares in NCB to reduce its shareholding to below 50 percent and Board 	<ul style="list-style-type: none"> ▪ Place NCB under the Companies' Act ▪ Review NCB and AID Bank's operations to determine the need and scope for restructuring— 	<ul style="list-style-type: none"> ▪ Implement the recommendations of the AID Bank 	<ul style="list-style-type: none"> ▪ Implement the recommendations of the AID

Appendix I: Structural Reform Matrix

Measures	2003	2004	2005	2006
<p>Directors accordingly</p> <p>Status: In progress. Expected completion date: December 15.</p> <ul style="list-style-type: none"> ▪ Complete pilot inspection of Roseau Cooperative Credit Union—October ▪ Amend Cooperatives Act to assign responsibility for supervision to MoFP with ECCB technical assistance ▪ Establish a committee and timetable for the review of cooperative regulations <p>Status: In progress.</p> <ul style="list-style-type: none"> ▪ Progress towards establishment of a Single Regulatory Unit to centralize the supervision all financial institutions—offshore and onshore—within MOFP. ▪ Restructuring of the International Business Unit (IBU) into the Financial Services Unit (FSU), and transfer of the administration of the IBCs from the 	<p>March 2004</p>	<ul style="list-style-type: none"> ▪ Continue inspection of other credit unions ▪ Revise cooperative regulations to operationalize MoFP involvement in supervision and inspection. <p>Progress towards establishment of a Single Regulatory Unit to centralize the supervision all financial institutions—offshore and onshore—within MOFP</p> <ul style="list-style-type: none"> ▪ Restructuring of the International Business Unit (IBU) into the Financial Services Unit (FSU), and transfer of the administration of the IBCs from the Registrar's office to the FSU. 	<p>review—June</p>	<p>Bank review.</p>

Appendix I: Structural Reform Matrix

Measures	2003	2004	2005	2006
	Registrar's office to the FSU.			
	IV. Competitiveness			
<i>Electricity</i>		<ul style="list-style-type: none"> ▪ Implementation of recommendations of World Bank technical assistance on the regulatory framework for electricity supply, including if necessary enact revised Electricity Supply Act—end-June 		
<i>Land</i>		<ul style="list-style-type: none"> ▪ Conduct a cadastral survey and strengthen the registry service to accelerate the regulation of property right and facilitate access to credit by small farmers and investors. ▪ Implement a program to collect on outstanding housing development loans or sell the associated mortgages to commercial banks ▪ Sell government land equity in housing developments to private partners. ▪ Revise Land Acquisition Act to make procedures more transparent and expedient. 		
<i>Ports</i>	<ul style="list-style-type: none"> ▪ Reduce cargo handling charges —end-October <p>Status: Done. Cargo charges were reduced by 40 percent in September.</p>	<ul style="list-style-type: none"> ▪ Establish new pay and employment scheme for cargo handlers —end-June 		

Appendix I: Structural Reform Matrix

Measures	2003	2004	2005	2006
<i>Legal Framework for private investment</i>		<ul style="list-style-type: none"> ▪ Enact investment law that streamlines procedures for registering new businesses, while making the procedures fully transparent and minimizing scope for discretion—July. 		
<i>Agriculture</i>		<ul style="list-style-type: none"> ▪ Complete a study on effective protection of agricultural exports. 		
<i>Petroleum</i>	<ul style="list-style-type: none"> ▪ Adopt automatic petroleum pricing and taxation mechanism—end-September <p>Status: Done. A specific consumption tax was introduced in September.</p>	<ul style="list-style-type: none"> ▪ Move petroleum imports price benchmarks from Caribbean postings to international spot market benchmark. 		
<i>Banana sector</i>	<ul style="list-style-type: none"> ▪ Restructure Banana Sector to ensure no transfers of the government to the DBC <p>Status: Delayed. US\$ 1 million were transferred in June.</p>	<ul style="list-style-type: none"> ▪ Continue banana sector restructuring to ensure no transfers of the government to the DBC 	<ul style="list-style-type: none"> ▪ Continue banana sector restructuring to ensure no transfers of the government to the DBC 	<ul style="list-style-type: none"> ▪ Continue banana sector restructuring to ensure no transfers of the government to the DBC
<i>Tourism</i>		<ul style="list-style-type: none"> ▪ Develop a strategic plan to promote tourism 	<ul style="list-style-type: none"> ▪ Implement plan 	<ul style="list-style-type: none"> ▪ Implement plan