

**Statement by Thomas A. Bernes, Executive Director
for Dominica
January 10, 2000**

1. My Dominican authorities are grateful for the work of the IMF team during the last Article IV Consultation, and particularly thank Mr. Rosales for all of his guidance and advice during his period of leading missions to Dominica. We wish him well in his new assignment.
2. Fund staff play a useful role in the economic dialogue of small countries like Dominica and the annual consultations which Dominica has enjoyed over the years serve a very important function. Despite the fact that I have made this point in the past, it is still useful to remind colleagues that because of its small size, Dominica finds it difficult to amass all of the skills necessary to carry out on a regular basis, the kind of analytical exercise of economic developments that is ably undertaken by the Fund and others. Against this background of weak institutional capacity, the Fund offers an invaluable technical assistance role during the annual consultation. For the coming year, we look forward to the regional approach to be taken by staff as we consider the Caribbean region a prime candidate for regional surveillance.
3. The 1999 Article IV Consultation has provided the authorities an opportunity to reflect on their current economic path and has helped the government to assess its current growth strategy and medium-term outlook. My authorities are especially thankful for the staff's assessment on the feasibility of a new airport and recommendations regarding regulation of credit unions, as outlined in Boxes 1 and 3. For the most part, the Dominican government shares the concerns expressed in the staff appraisal and, in particular, agree that *achievement of sustained output growth and employment requires raising public savings and making progress in structural reforms*. However, my authorities have established a set of priorities that they consider critical to the long-term development of Dominica and intend to pursue them at a pace somewhat faster than the staff's desired path.

Policy Issues

4. Let me focus on the key issues raised in the paper without repeating the background on recent developments as they are well-articulated in the staff report. The main issues surround the public sector investment program (PSIP) which includes plans to build a new international airport, stadium, improve roads and water infrastructure. Staff's view is that "serious questions arise about the scale, funding, and phasing of this program" (paragraph 38) and, as a consequence, Dominica should rethink its PSIP. In particular, staff raise, rightfully, the impact of these projects on Dominica's external debt position and on the sustainability of a sound fiscal position. Staff recommend that the government consider the

early adoption of fiscal measures to bolster the public finances, including the introduction of a value added tax (VAT).

5. Directors should note that, currently, Dominica remains among the most vulnerable English speaking countries in the Caribbean. Its economy has been dominated almost entirely by agriculture, mainly bananas, and as staff have described, this sector is undergoing a major contraction. My authorities, in planning for future generations, have embarked on a plan to diversify the economy, and in particular given its location, geography, and climate, have chosen to pursue tourism. Dominica offers a special attraction in that the island abounds in natural beauty, complete with pristine forests, lakes and waterfalls which appeal to the eco-tourist-niche market. However, a major constraint to the development of tourism has been the inadequacy of airlift capacity given the constraints of a tiny domestic airport and the absence of night landing. It is against this background that Directors need to view the authorities PSIP, and specifically the airport. A new airport symbolizes Dominica's need to take-off in another economic direction. While the scale of this project is large, it represents hope for new opportunities.

Looking to the Future

6. Staff have emphasized the need for the government to scale back the airport, to re-examine the assumptions underlying the consultants' feasibility study and to reassess the financing requirements. Since the mission was completed, my authorities have been engaging in discussions with several companies to review possibilities of build-operate-transfer (BOT) arrangements and are prepared to consider any option to minimize any adverse financial implications of such a large undertaking. Furthermore, the World Bank will be sending a mission later this month (January 17-21, 2000) to review the feasibility study and advise the government on all aspects of the project, including the possibility of including multilateral concessional financing. *The government will reserve finalization of any concrete plans until after this evaluation has been completed.* It is important that Directors appreciate that the government is prepared to review their plans for the airport in order to arrive at the best possible set of financing arrangements. However, it should remain clear that the government is committed to the new airport and intends to go ahead with this project in the long-term interests of the country.

7. On the *introduction of a VAT*, my authorities are committed to its implementation but are moving ahead in phases, along the lines recommended by FAD. The current process involves a series of educational seminars with both public and private participation in order to ensure full consultation as well as understanding of the new tax. While staff call for an early adoption of its introduction, it is important that the process be participatory and with the support and comprehension of the broad society. The authorities wish to avoid any missteps in the introduction and implementation of the VAT.

8. Staff's concerns about the supervision of the financial system are well taken and efforts are already underway to bring credit unions under more strict guidelines in accordance with regional initiatives on cooperatives. Dominica aims, with the able expertise

of the Eastern Caribbean Central Bank (ECCB), to maintain the highest international standards in its financial system. In December 1999, Dominica introduced an amendment to the Offshore Banking Act making the ECCB more explicitly involved in the surveillance of the offshore financial sector by providing the Central Bank with the necessary legal authority to assist the Minister of Finance in its regulation and supervision.

9. I am pleased to report that there were no major Y2K-related problems encountered during the turn of the new year to 2000 in Dominica, and banks have reported a smooth transition.

10. Finally, Dominica intends to participate in the IMF's pilot study on transparency with the publication of its staff report and looks forward to continued good dialogue with the Fund throughout 2000.