

Government of Dominica

Budget 2009/2010 Pre- Budget Consultations

INTRODUCTION

This document is in response to a request by letter dated April 27th, 2009 I received as DAAS President from Ms Rosamund Edwards, Financial Secretary on behalf of the Ministry of Finance and Social Security.

We welcome the opportunity to submit our ideas through the Pre-Budget Consultative process. We would also like to see the development and implementation of a National Strategic Plan for the country *a la* the Integrated Development Plan (IDP)

Such a Strategic Plan would be subject to review annually and the Budget would reflect that plan.

We have assumed a core budget with allocations to routine items -- such as transportation and roads, health and hospitals, education and schools, establishment and personnel -- for routine development and maintenance.

In a resource constrained environment, it will be necessary to have some level of cost/benefit analysis to test the effectiveness of alternative disbursement strategies and the utility of discretionary items; and we assume that this is a normal part of the budget process.

We wish also to reiterate our request for an in-depth review of the “Draft Diaspora Policy Paper; A Working Blueprint.” This is a DAAS document that was submitted to Government in 2004. That document incorporates numerous issues and challenges for consideration in the Budget, some of which are touched upon in the content below, e.g. consular services, dual citizenship, repatriation process, health etc. Many of the recommendations in Part 5 were short term and could be considered in the 2009/2010 budget...the Diaspora Desk, definition of the role of the Dominican Diaspora in National Development, investment opportunities, embassies/high commissions/consulates to maintain registry of Dominican Nationals in the Diaspora. Many of the recommendations in the Paper will be of interest in budget formulation, some of which would even help relieve budgetary requirements

LETTER FROM MINISTRY OF FINANCE

Government of the Commonwealth of Dominica

MINISTRY OF FINANCE & SOCIAL SECURITY

Tel: (767) 448-2401 Ext. 3354/3216

Fax: (767) 448-0054

E-mail: finsec@cwdom.dm

Government Website: www.dominica.gov.dm

Ref: .

5th Floor, Financial Centre, Kennedy Avenue, Roseau
Commonwealth of Dominica, West Indies

27th April 2009

Dr. Clayton Shillingford
President
Dominica Academy of Arts and Sciences
1522 Braken Avenue
Wilmington, DE 19808
UNITED STATES OF AMERICA

Dear Sir,

The Government of Dominica is currently engaged in preparing the 2009/10 budget and is soliciting the input of all stakeholders. This serves to invite you to submit the views and suggestions of your organisation to the Government of Dominica for consideration.

You may wish to forward your submission to finsec@cwdom.dm by Monday 4th May 2009.

We look forward to receiving your submission.

Yours faithfully,
ROSAMUND EDWARDS
FINANCIAL SECRETARY

PRELIMINARY COMMENTS

In response to the Government's invitation to participate in this year's consultation and despite some skepticism based on past experiences, we ignore the record and assume for the good of the homeland, that this invitation has been sincerely made. Even so, one is dismayed that the invitation, dated April 27th with a requested reply date of May 4th, can be expected to be the platform for generating an intensive and probing exercise on such an important matter as this. We will therefore confine ourselves in this section to some over-arching principles which are critical to a successful Budget exercise and endorse the specific Budget Recommendations submitted below. **We are aware that many of these recommendations are either ongoing or under consideration but felt that they required repeating and additional emphasis.**

The Budget Context

Annual Budgets are by their nature short term (year-on-year) financial commitments by the Government to list capital and recurrent expenditures for the administration of the country, within expected revenue sources. Without a longer term frame of reference for the management of the resource base, the economy and the society, there is serious risk (and substantial evidence) that such budgets are nothing but expedient and often ill-advised responses to more urgent problems. The time for a longer term planning framework within which the feasibility and desirability of annual budgets can find traction, is long over-due. Such a planning framework need not be a strait-jacket to fetter innovation or to dampen responses to new challenges. It would, however, give a sense of direction within which private decision-making can more intelligently occur.

We would encourage a medium-term budget framework of at least three years to better incorporate policy objectives with available resources. With regards to the financing of the budget, is there an examination of how such financing can be seriously scaled up to better meet the country's escalating social and other costs?

Continuity and Monitoring

Annual Budgets need to be more than a one-shot deal, a statement of a moment in time. There needs to be serious and continuous "ex post" examinations of how past budgets have performed, of how well their objectives have been met. The exercise needs also to identify successes and failures and the reasons for both. Without this linkage, annual budgets lack traceability and provide no basis for commitment. Indeed, budgets of the nature typical in our situation may even mire the country in unsustainable and undesirable ventures. One option may be to strengthen and empower the Auditor-General's Office with the authority to review the **effectiveness** of programs without comment on their political desirability. That is, did the program accomplish what it set out to do?

There is also need for further clarity on the process. For example is this year's expenditures in the budget based on last year's budget or does it reflect the outcome. Is there a systematic review of each ministry's spending to determine where resources can be better spent? Do ministries systematically speed up spending at the end of the budget cycle only to ensure that they maintain their budget share? How carefully does the budget

process incorporate individual ministry's implementation capacity when awarding budget share?

Social Partnership

While the Annual Budget offers an indication of expenditure commitments and their funding, they are largely implemented through actions such as: the production of goods and services; corporate and household consumption, savings, investment; private sector including voluntary, NGO and labour demands for wages, concessions, tax relief, subsidies etc. A consensus on such underlying principles and platforms cannot be only a year-by-year exercise but should ideally be the substance of a social agenda.

Required Data Base.

A National Annual Budget without a regular, consistent and reliable economic and social data base is nothing but a "house of cards" at worst, and wishful thinking at best. In order to secure the confident participation of the broader society, it must be more than that. It should address, for example:

- (a) What information exists on the performance of the economy by sectors?
- (b) What is the extent of integration among the various sectors?
- (c) Which are the performing sectors in the economy and which are not?
- (d) What are the contributing factors to or against good performance?
- (e) What are the current levels of savings and investment?
- (f) What are the relationships between savings and investment?
- (g) How much of needed capital is exported?
- (h) What are the impediments to local take-up of available capital?
- (i) What is the current level of Government borrowing by lenders?
- (j) What are the implications of borrowing for ability to repay (GDP/Debt)?

Such broader type questions as follows also require some informed data base before a believable and trustworthy Budget can be the basis for action. What changes or transformations are occurring in the availability of agricultural land, geological resources, and water availability which would affect the productive capacity of the nation? To what extent and at what price are national social agendas of health and social services, education, senior care, crime and delinquency, housing, sanitation etc being delivered?

The Global Scene

At no time like the present is the Global Economic environment of such critical significance in the design of programs within Budgets for the country. The Budget must speak to this volatility in trade, investment, aid, tourism, technology transfers, the role of transnational corporations (TNC's), cross-border financial flows, etc, to the extent that these affect the national interest.

Role of Government

The role of Government itself in the economy must be the subject of searching scrutiny. Government should seek to divorce itself of the responsibility of being the dominant employer and the effect of ballooning Government service expenditures. Assumptions of economic growth based on such premises are false and misleading. The trend to creating

para-statal agencies (Boards and Commissions) as a substitute for direct Government intervention in the economy may have its uses but pose problems as well. Consequently, the place of the private sector and the confidence that it needs to perform should be examined and clarified.

Foreign Direct Investment (FDI)

Government must speak out loud and clear on the issue of the place of foreign direct investment in the economic life of the country. Are there priority areas and investment activities where FDI is to be encouraged? If so, what, where, what size, for how long, under what conditions etc? Are there activity areas where such investment should be precluded as injurious to the public interest? To what extent should these and similar considerations guide international trading agreements? What are the implications for open and equal investment and benefits access among unequal trading agreement partners? Can a framework be designed to require opportunities for public/private partnerships on critical investment schemes? Should the budget not speak to issues of joint ventures and opportunities for local shareholder equity?

The above discussion spreads a large canvas and may appear daunting at this stage of the 2009 – 2010 Budget exercise but it begs issues that cannot too much longer be ignored. To simply retread old policy tires and approaches is not good enough. Dominica in the 21st century requires thoughtful approaches if we are to cut ourselves free from the drift of the tide.

BUDGET RECOMMENDATIONS

The Budget must reflect the fundamental policies and strategies to be used to achieve sustained growth and development for Dominica and Dominicans. These policies and strategies must include the following with appropriate budgetary allocations.

1. Focus on exploiting natural resources and locational advantage

These would include the following:

- boiling lake, sulphur springs - for tourism and cheap geothermal energy
- wet, cool inland climate, lush tropical forests - for eco-tourism.
- numerous fresh water streams - for tourism and cheap hydro-power
- deep coastal seas - for world-class whale-watching and scuba diving
- ample fish resources in coastal waters - for commercial and sport fishing industries
- large protected harbour at Portsmouth - for mariners for sail boats & yachts
- available agricultural land - for high productivity in traditional crops and for high value crops
- the few beaches - for minimalist beach-type development, complimented with swimming pools
- an under-utilized labor force - for electronics manufacture and IT services

- proximity to the world's largest high-income market.

This focus will provide the comparative and competitive advantage for a stable and dynamic economy, more and secure jobs, increased incomes, and our children won't be leaving the island in droves as they now do

2. Maintain an effective law and order apparatus

Despite the above resources, law and order is the first priority for economic development (under conditions where capital and trained manpower can easily go to alternative locations). Trials must be swift (justice delayed is justice denied), and punishment certain but just; prisoners should earn their keep as far as possible; **the opportunity must not be missed to re-educate and train prisoners for gainful employment and to be socially functional when they leave jail; juvenile crime will need to be given special attention.**

3. Liberalize the trading and investment climate

Open up the Dominican economy even further- you are free to bring in your capital, and free to take out your profits (minus reasonable taxes); minimum or no taxes on exports, same conditions or perhaps some tax advantage for local investors (whose capital is not foot-loose); a trading and investment regime (taxation, banking, trade arrangements, etc) that recognizes the demise of the Dominica/UK nexus and the emergence of an economic environment with global opportunities; an investment climate with laws that protect investment and do not change with changes in Government, and where kickbacks and underhand inducements are illegal and rigorously prohibited. Testimony to the efficacy of this liberalization strategy is the astounding growth of the Chinese economy after years of stagnation due to strategies based on closed markets. **We do not have the needed investment capital so we will never get development if we do not liberally open up the Dominican economy to foreign investment; with appropriate checks and balances, yes, but open it up we must.**

4. Modernize the banking sector to focus on domestic finance and investment

A major part of the Dominican development and poverty problem is the fossilized financial sector - originally focused primarily on trade and associated commerce, with UK primarily, then forced to service housing by the emergence of the Credit Union. It is still in that phase even today, when its mandate has changed radically - from sending funds out of the island with little concern for the domestic economy which generates its income to a much different developmental mandate which is focused on domestic investment and finance. This is a 180 degree turnaround - from moving money out of the economy to moving money into the economy - and it carries with it radical change in banking policy. Consequently, we need a banking strategy that is nationally oriented, financing local investment opportunities in the tourist, IT, manufacturing, agriculture, etc. sectors (not just in housing), with banks mobilizing

both domestic and foreign funds, and like progressive financial institutions, also brokering investment deals and getting paid for that service. And here, Government policy must aggressively encourage banks to do this, because they won't do it of their own volition. That is their nature - stable, dependable, and by extension, static, very static. And a static institution is useless in an economic development context. Further, a static institution as critical as banking is a major impediment to economic development and poverty alleviation. **The banks must change to complement the changing economic conditions, challenges and realities. And government policy must strongly encourage them to do so.**

5. Exploit the major international and regional markets and their needs

These markets are no more primarily in the UK, they are in the US, Europe in general, Japan/Asia and the Caribbean, **and importantly, in Martinique and Guadeloupe today**; and Dominica will have to be prepared to seek out these global and regional opportunities - with quality products, commercial intelligence, knowledgeable executives, a modern, enterprising banking system, a commercially oriented diplomatic corps, and a stable and forward looking Government.

There is a need to procure refrigerated ships to export fresh Dominican produce to the neighboring islands. This is a market that can be exploited, making Dominica the bread basket of the Caribbean

6. Target the new growth sectors in the international/metropolitan markets

Target specifically those sectors that are complementary with Dominican resources. These are primarily **tourism, electronics manufacture, information processing, fisheries, exotic flowers, essential oils, root crops, fruits and vegetables**. With regards to the sectors in Dominica that will lead the economic transformation, it is worth emphasizing that it is no more the agricultural sector, because Dominica can't compete with the more efficient, high volume, low cost, Latin American and other world mass market produces (remember sugar, coffee, cocoa, limes). Some high value flowers, fruits and vegetables, yes, but the dominant banana industry of old is long past. And the training of our human resources will have to reflect this fundamental shift out of a dominant agriculture and complement that shift. Traditional agriculture will still be very important, making an important and not insignificant contribution to economic development if it can increase its production efficiencies and marketing effectiveness, but it will not be dominant.

7. Create a well educated, well trained, highly motivated workforce

You cannot have development without well trained cadre of highly motivated workers. This is a major consideration for any transformation from a stagnant, population-losing economy, to a vibrant, expanding, dynamic economy that can provide for a growing population. **This is necessary to more effectively complement the new directions and new sectors Dominica will have to enter -**

with a dynamic tourism industry there can be no breaking of tourist's legs, no ripping off of tourists, etc; with expanding electronics, data processing, and other sectors, **well trained managers and educated, dependable workers are essential**, not only to carry out functions but to keep these industries competitive with constant improvement.

High school education to O-levels should be the minimum target for all. High school graduates with A levels should all be able to get into UWI's 3-yr programs; Island Scholars should have the option of going to UWI or to any of a select set of world class universities, including Oxford, Cambridge, Harvard, Yale, Princeton, Cornell and MIT. The best and brightest should get training at the best universities in the world, with the best and the brightest students and teachers. They will get exposed to best ideas and practices and bring these back home; they will get a broad world vision appropriate to a small, island economy, which, of necessity, has to look outward for markets and technology.

Dominica should have arrangements with universities, especially in the English speaking world, to get scholarships for its island scholars and other post-secondary students. **The local Associate level Dominica State College should be seamlessly integrated into the UWI and US and other noteworthy educational systems (language being of some consideration). For example, Associates should be able to get into the 2nd yr of UWI's 3-yr programs or the 3rd yr of the US' 4-yr programs** (i.e. they will have only 2 more years to finish a degree in either system); training programs should give some priority to local development needs (tourism, electronics, IT and programming, etc.) but should not be exclusively focused on these for reasons of comprehensiveness, dynamic industrial flexibility, and historical sectoral requirements. University graduates would stay in Dominica if the economy were dynamic, jobs and business opportunities available, taxes were reasonable, and foreign travel was accessible and convenient. It is not Dominica's size that limits our opportunities; it is the weakness of our institutions and the colonially-fostered insecurity of too many of our people.

While formal education is important training should be at all levels. Successful enterprises devote a certain percentage of their annual budget to training and developing their employees. Intensified training in the private and public sector is needed if there is going to be a significant change in the country.

Training on

1. Customer Service
2. Leadership
3. Negotiations and Selling
4. Building effective and successful organizations
5. Building effective teams and Teamwork
6. Continuing education courses in business, finance, etc

In respect of the above the Government should assess the outmigration issue and develop specific programmes to address loss of consumer base, work force, and talent,

8. Psychologically re-orient Dominican population for industrial competitiveness

Recent experience in the US identified a host of attitudes that were eroding its capacity to effectively compete with, for example, Japan, Korea and Taiwan, in many industries. Reflecting national concern with this issue, Government, academia and private corporations began researching the sources of Asian industrial strength. They came up with a host of explanatory factors - cultural, organizational, governmental, etc - most of them psychological. The US then began a process of correcting these factors in the American system. Dominica is just as prone to these problems, even more so, due to our colonial experience and colonially-fostered insecurities. And this applies across the board, from top to bottom – in government, business and the workforce (at Gen. Motors, the process started with the Chairman of the Board). Most of the US solutions are just as applicable to Dominica, even more so, due to our colonial experience. Some of the most critical factors for both public and private sectors are as follows -

- **pushing decision-making to the lowest functional level** of the organization - empower workers and distribute responsibility as far down as it can go, develop sense of vested interest, get buy-in of employees, free management for more critical tasks, especially where top notch management is in short supply; more education and training will facilitate this process
- **fostering entrepreneurship throughout the organization** - weighing and taking risks, recognizing effort required to take risks, recognizing failure integral part of risk-taking, fostering a can-do optimistic mentality, going the extra mile - generating greater economic competitiveness
- **importance of quality for productivity** - quality is #1, stop production line if quality being compromised; retrain workers immediately if quality not up to standard; good quality means less waste and lower cost, more customer satisfaction and loyal customers, more competitive products
- **the importance of teamwork** - especially as this might seem in opposition to the basic, free enterprise, competitive model, but on other hand exploits resource complementarity and intellectual capital, lowers cost, increases profit
- **critical role of constant improvement** - of process, methods, materials, information, technology, etc; a major source of quality and cost reduction, a built-in dynamic for growth and development, and for greater competitiveness of products, services and the economy
- **customer service** – to address customer needs, secure repeat business and use info/feedback for constant improvement of product and service
- **mobilizing local entrepreneurs/business** - Our local entrepreneurs, like our workers, also have to be re-oriented - psychologically and organizationally -- to meet the challenge of economic development and foreign competition; entrepreneurs in agriculture, tourism, IT, etc, will need organizations that will compensate for small

size with information on production methods, processing, marketing and market information, standards and expectations, and the opportunities out there; we have the example of the Banana Association (although it has not been as dynamic as it should/could have been) but its philosophy and systems can be applied for a new banana industry and to other sectors as a start; our competitors are doing just that – e.g. the Indian IT organization, the Puerto Rican tourist association, etc. All the factors mentioned above, quality, teamwork, constant improvement, also apply here. And you do not need any government involvement to set up these organizations.

9. Institute early childhood and parenting programs

Juvenile crime is becoming a major problem in Dominica, as it is in all the Caribbean islands, and it deserves urgent attention. On the one hand, this situation is partly a function of unemployed parents eking out meager livelihoods, too distracted to provide effective parenting; and on the other hand, the spread of destructive values fills the void left by poor parenting (illegal drug use, lack of discipline, disdain for learning and wisdom, poor work habits, disregard for authority and the law, theft and murder, etc). This is an area where early childhood education and community parenting programs need to be developed so that the tasks of education and training are not insurmountable. **Remember the old Jesuit saying, “Give me your child until he is nine, then you can have him for he’ll be mine, forever.” It means take care of early childhood and the child will be well launched into productive adulthood. And just as important, this is necessary so that Dominica is not left with a criminal sub-culture that will engulf the children of law-abiding citizens, and at the same time make life in the island intolerable, with all its consequences for migration and economic stagnation.**

10. Develop a much more efficient Medical Health System

This is one of the most critical necessities if Dominica is to keep trained people and other technocrats it needs to get the development job done. In our survey of concerns/issues it ranked first among our Dominican returnees and no doubt would apply also to resident Dominicans and visitors. Critical medical cases too often have to be sent to Martinique, Guadeloupe, Jamaica or N.America, the cost of flying the sick to these countries is prohibitive; medical equipment in even the main hospital is lacking, poor or outdated; basic medicines and medical supplies are in dangerously short supply, hospitals are understaffed and trained medical personnel are limited, there is a lack of specialists in critical areas; there is no established, systematic process to access emergency medical care outside the island; there is not enough leveraging of a cooperative relationship with Ross Medical School and All Saints University School of Medicine etc, etc. Part of the development process must be the expeditious correction of these problems. Get a small committee together from the local medical establishment, Ross and All Saints Medical Schools, and the UWI Medical School, with the mandate to do a comprehensive review of the situation, get a program together, and get it funded and implemented within a year, allowing for temporary fixes if necessary, but getting the initiative functionally off the ground,

nonetheless. **Further, a strong medical health system in association with these two medical schools can be an excellent component/complement of a dynamic tourist sector, with current and past medical students popularizing Dominica as a health resort, enhanced by its centenarian reputation.**

11. Develop efficient airline links to N. America and other Caribbean islands and local transportation and communication linkages

This is important for effectively exploiting proximity to markets - for tourists coming in and out, for executives visiting plants, for medical students and their families, for export of high value goods, and for general travel by nationals and foreigners. The primary objective should be to get efficient connections so that tourists and other travelers can get to Dominica in one day from the major metropolitan centers in N. America and Europe. Look at St Thomas, for example, and the ease of communication with islands in its vicinity, with the E. Caribbean, and with N. America. The utility/viability of an international airport in Dominica at this point can still be debated. What does cost/benefit analysis say? Who would fund? What other projects would compete for funds? In any event, **efficient air connections are a priority, and this does not necessarily mean an international airport now for now, but it means convenient connections, available airline capacity, modern airport facilities, and efficient and hospitable ground crew. Additionally we need to upgrade the road system and internal and external communication systems**

12. Enhance our eco-tourism product

We need to improve inland transportation for safety, and easy access to eco-tourism sites. The quality of hotels/guest houses should meet certain minimum standards for licensing and hospitality and service could be enhanced by partnership in training with the private sector. As resources would allow include or improve other interests such as golf, hiking, sailing or other activities. These could be a sub-focus to jumpstart our faltering economic situation.

13. Use our diplomatic consulates in foreign capitals as commercial missions

These diplomatic consulates must be used more aggressively as commercial missions -- to seek out investment for Dominica, to secure commercial and technical intelligence, to research markets and complement private sector effort, to secure foreign aid; the focus must shift from a diplomatic mission to a commercial mission; and the mission's success must be based on the amount of business investment and foreign aid, but primarily the former, it secures for the island; replace the traditional, primarily diplomatic role of our foreign consulates with a commercial/industrial imperative, still giving the traditional diplomatic duties some attention. **These missions are very expensive propositions for a small state like Dominica; they must earn their keep in much more tangible ways than they have historically, or**

that they do today for the richer countries; we must re-invent them in the context of our pressing necessities.