The IMF Report on Dominica

(Some Professional Views)

by
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The analysis by the International Monetary Fund (IMF) on the current economic situation of Dominica is well understood. It did not have to take the IMF to explain the problems of (1) low rate of economic growth and (II) deteriorating public finances. This has been pointed out by many interest groups, particularly the DAIC.

The issues to contend with from the IMF report are those related to the development and implementation of a comprehensive programme to increase productive investment and output, and employment growth. The bad economic situation is fuelled by fiscal deterioration which will remain persistent if Government does not galvanize the will and commitment to take the necessary actions to make changes. Revenue is stagnating and expenditures increasing, with the deficit being financed from the banking system and external commercial borrowings. The drying up of external concessionary financing, even though the E.U. special framework of assistance has substantial available sums of money, requires Government to be even more sensitive and serious about effective interrelated development planning and implementation. It must deal apart from all the day to day fire fighting chores, with economic priorities and high yielding investments that will produce sustained output and employment, it must set down who comprises the productive sector and get investment going. We take too long to implement even the simple things which we can all agree on. We must identify the activities that will stimulate the economy in the immediate/short term, and run with implementation.

Dominica currently experiences a rate of growth that borders on zero. The IMF states that there is the potential to achieve much faster rates of output and employment over the medium and long term. It does not specify these rates of growth. It identifies four sectors/sub-sectors with the potential - a restructured banana industry, expanding tourism, other service exports and non-traditional agriculture. We have always had the 'potential' to grow in many of these areas but little has happened. In some, the conditions are worse today. So what will make it happen in the future' What will be the magic hand to get things done fast so that Dominica can get out of this economic slide quickly'.

The IMF recommends private sector investment and an efficient public sector investment program that produces value for money. As a country team, Government, private sector and labour, need to identify those investment opportunities which will create sustained growth, and do everything to make things happen.

The IMF states very bluntly that if the problems the present administration is facing are not tackled promptly, there is a substantial risk of serious economic and social dislocations. It provides prescriptive measures and this is where we have some agreements and disagreements.

To enhance revenue programmes immediately, the IMF calls for a consumption tax on petroleum. With the current decline in production of goods and services and the downturn of business activities, this would be a counter productive measure. It would immediately impact on costs and lead to a spiraling rise in costs of goods and services. For example, in the tourism sector, this would adversely affect costs of tour bus service, and sea tourism operations among others; in the construction industry, increase in building cost; with public transportation, higher fares with the corresponding demands of labour for higher wage rates particularly for various jobs. A 30 per cent increase in the retail price of fuel, as recommended, will create serious pressures on costs. This is highly undesirable in an already crippling global competitive market situation. In addition to this, the IMF recommends that the increase in the sales tax to 5 per cent be applied to all petroleum products. The IMF recommends that no discretionary tax concessions be granted. This has tremendous merit. There has been too much of this arbitrary, adhoc largesse in tax concessions. Much of these have gone in indiscriminate consumption rather than in the production of output and employment growth with corresponding loss of revenue for services.

Government needs, as recommended, to review its fiscal incentive package and adjust with objectivity and boldness appropriate legislative initiatives. To a tax reform programme that is affordable and focuses on strategic growth measures. Some of those which Government should actively consider are abolition of taxes on dividends and withholding taxes, spreading of the tax burden by a phased-in introduction of a VAT with intensive education. To explain the process and implications, introduction of property tax and reduction in income tax rates, meaningful tax benefit on equity investments, investment tax credit to a reasonable maximum, capital cost allowance on a wide range of investment activities which create jobs, among others. In economies such as Dominica, the risk in undertaking investments is comparatively greater and the public sector has a role to minimize that risk in order to attract scarce savings and relatively expensive borrowings into production of goods and services.

The IMF suggests that there is urgent need for control of public expenditure, particularly in the area of unproductive capital spending. Public investment expenditures should be directed at facilitating growth at this time; not for prestige. There is a comment in the IMF report that the construction of the Windsor Park and other stadiums should be postponed. I would put it this way. The Windsor Park stadium as planned should be scaled down and constructed on a phased basis to avoid debt overloading and to attract some concessionary financing.

The IMF makes a recommendation that public sector wages should be frozen in the next three years. There is no doubt that the size of the public sector should be reduced. This should take place from two positions, a cut in the number of ministries and a freeze in Government employment through urgent civil service reform. This should be a serious exercise with all parties involved and committed. Part of the output must be the efficient deployment of trained/skilled staff to achieve desirable targets in the provision of Government services, with strict measures of accountability and performance. Ad hoc employment and square pegs in round holes must be eliminated.

The IMF takes issue with the unsound lending practice of the Government owned National Commercial Bank (NCB) and its beyond limit credits to Government. This is risky over-exposure. At the same time public sector demand for credit ties up cash availability for private sector investment. I am therefore in full agreement with the IMF on the issue of privatization of the NCB with Government maintaining minority interest. But this must be done cautiously and with great transparency. ***With respect to DEXIA, I am convinced that the integration of DEXIA and DBMC as a private sector agricultural trading company with minority farmer interest and traders in the initial years, with a change over to majority after much education and results, is the way forward. With WIBDECO Ltd. dealing with bananas and non-traditional crops, the linkage between the two can be firmly established to facilitate diversification***.

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