

PART I : ECONOMIC PLANNING

Chapter 2

Planning As Development Management - Case of Commonwealth of Dominica

1. Features of the Economy

Dominica is a small windward island country in the string of Caribbean islands. Its total area is 289 Sq.miles. Its population is approximately 79,000. The island gained political independence from the British rule in September 1978. Its topography is highly uneven with several valleys and mountains spread all over the island. There are so many rivers on such a small island that a visitor can choose a different river everyday of the year. All this coupled with thick forests, numerous falls and unpolluted environment make it the only nature island of the Caribbean and offers a unique tourism product. Although it does not have spectacular beaches, it is considered the divers' paradise. Tourism, however, does not play a major role in the economy of the island unlike most other Caribbean islands. Even the state of physical infrastructure like the road, communication, hotels, etc. is also not favourable comparable to other islands in the region. As a result, the total visitor arrivals in the island during the year 1990 was only around 50,000.

Commonwealth of Dominica is a member of the CARICOM, Caribbean Development Bank (CDB) and East Caribbean Central Bank (ECCB). It therefore has the same currency unit as other east caribbean countries, viz. the EC dollar. Since it shares a common central bank, it also has a common monetary policy with the rest of the member countries. The EC \$ was initially (i.e. 1965 to July 1976) pegged to the pound sterling at the rate of £1 = EC \$4.8. Since July 1976, the EC\$ is linked to the U.S. dollar at the rate of U.S \$1 = EC \$2.70. This rate has not changed so far withstanding all the ups and downs in the regional economy as well as the world economy. The per capita GDP in Dominica is about EC \$4,000. Between 1978 and 1987, the economy grew at the rate of 4% p.a. in real terms. In 1988, the real GDP grew by 7.9% as a result of rapid growth in construction (30.6%), tourism (15.5%) and agriculture (6%). Hurricane Hugo devastated the economy in 1989 and it registered a decline of 1.4% in real GDP largely on account of 12.8% drop in agricultural output. In 1990 and 1991 the economy is limping back to normal. Dominica, like other windward islands is vulnerable to Hurricane disaster once in a while. In 1979 also, it suffered severely when Hurricane David had struck the island damaging buildings, physical infrastructure and agriculture. Such natural disasters totally destabilize the economy.

The structure of the Dominican economy has changed considerably between 1978 and 1990. The share of agriculture in GDP has reduced from around 37% to around 28%. Similarly, the share of manufacturing and construction increased from 11% to 15%. The service sector has also increased in its importance over last decade. However, the most important feature of the structure of the Dominican economy is its heavy dependence on a single crop, viz. banana. It is the largest employer of labour in the economy. Banana's share in the total export earnings of Dominica has been more than 70%. When we consider both the production and trade, banana contributed almost 37% of the income generated in the economy. The export of banana, moreover, is done through a long term (3 years) direct rolling contract with Geest Industries Ltd., one of the largest companies in the world banana market. No windward Caribbean islands can sell bananas to anybody else than the Geest as

per the contract¹. The Geest Industries Ltd also buys bananas from other countries in the dollar market where the banana are cheaper per unit of quality .

Like all other small island countries, Dominica also has an open economy highly dependent on its external transactions. Table 1 provides balance of payments for Dominica for the five years 1984-88. It can be seen that both the trade balance and the balance on current account are always in the deficit. These deficits are financed by a combination of foreign assistance programmes and loans from international and regional agencies. Among the imported goods in Dominica, manufactured goods account for about one-third value; food, beverages and tobacco about 22%; machinery and transport equipment about 20%; and chemicals about 14% of the value. Exports, on the other hand, are dominated by banana (72%) and toilet and laundry soaps (18%). In terms of the direction of trade, the share of the CARICOM countries is declining in exports and increasing in imports over the last five years. Currently, about 62% of the exports of Dominica are to U.K.; about 20% to the CARICOM countries and only 5% to U.S.A.; but 25% of the imports are from U.S.A.; 18% from U.K. and 27% from the CARICOM countries. Since EC\$ is pegged to U.S. \$ the predominance of export trade of Dominica with U.K. has serious implications of the dollar-pound parity in the international market on the trade balance of the country.

Although the external debt situation of Dominica is not precarious, the Debt/GDP ratio is rising from 35.9% in 1984 to 56% in 1989-90. Similarly, the ratio of Debt Service/Exports is quite low at 4 to 5%. The average interest rate on the external debt has been declining from 4.8% in 1984 to 2.6% in 1988. However, the existing debt amortisation structure is such that significantly higher debt service payments may start arising around mid-nineties.²

On the domestic fiscal front, the affairs of the government and public sector in Dominica are on the whole well-managed. The government has been exercising considerable restraint and discipline in its expenditures. On the current account, there has been a surplus which is rising significantly from EC\$ 6.1 million in 1984 to EC\$ 33.4 million in 1988. The deficit on capital account, on the other hand, has not been increasing over the same period. As a result, the overall deficit has reduced from EC\$ 46.6 million in 1984 to EC\$ 20.4 million in 1988. However, due to the devastating Hurricane Hugo of September 1989, the government revenue and expenditures were severely affected. The surplus on current account in 1990-91 budget was estimated only at EC\$ 12.3 million, whereas the overall deficit is estimated at EC\$ 93.3 million. The public sector in general in Dominica has been contributing positively to the total saving in the economy. The overall saving and investment rates in the economy have not been as high as other developing countries. Investment as percentage of GDP is around 22 to 23% and domestic saving are around 15%. The share of public sector investment in the total gross investment has been around 50% and the public sector surplus is around 4% of the total GDP. Since the expected growth rate of GDP is around 4% p.a. for the next 2 to 3 years, the incremental capital output ratio for the economy is around 6 which reflects low capital productivity.

1 These banana producing islands including Dominica have long lasting relation with the Geest Industries for over 40 years. In fact, the Geest were the largest owners of plantations in these islands once upon a time. As a result of all this, the infrastructure for marketing, packaging, weighing, processing, etc., at the ports are owned by the Geest Industries in the 4 windward islands. In Dominica, the Dominica Banana Marketing Corporation (DBMC) is created as a statutory body with monopoly power over the export of banana outside the Caribbean region. The contract for export of banana is between the Geest Industries and DBMC.

2 However, there have been efforts by the government to reduce this burden. As a policy, the borrowing is on very concessional terms and only for productive investments. Moreover, Canada has agreed to write-off their loans to Dominica and both France and China have agreed to restructure Dominica's debt on more concessional terms. Similarly, all future aid from U.K. will be on grant terms.

<i>Table 1</i>					
Dominica – Balance of Payments, 1984-88					
(US \$ million)					
	1984	1985	1986	1987	Prel 1988
Exports, Goods and NFS	36.9	38.3	53.9	59.5	67.9
Goods	25.6	28.4	43.4	48.0	55.6
Non-factor services	11.3	9.9	10.5	11.5	12.3
Imports, Goods and NFS	58.4	60.1	59.0	69.8	91.1
Goods	55.8	57.2	55.7	66.4	87.5
Non-factor services	2.6	2.9	3.3	3.4	3.6
Resource Balance (G&NFS)	-21.5	-21.8	-5.1	-10.3	-23.2
Net factor income	-3.2	-5.3	-6.1	-5.1	-3.4
Receipts	0.5	0.3	0.3	0.3	1.2
Payments	3.7	5.6	6.4	5.4	4.6
of which interest	1.9	1.9	1.9	1.8	1.7
Private transfers (net)	6.3	6.5	6.7	7.7	8.4
Current Account Balance	-18.4	-20.6	-4.5	-7.8	-18.2
Official transfers and grants	11.3	14.3	10.8	9.4	8.9
Net private direct investment	2.3	3.0	2.7	8.6	6.9
Net loans	4.8	4.5	4.2	5.4	3.5
Drawings	5.4	5.2	5.4	7.7	5.2
Amortization	0.6	0.7	1.2	2.3	1.7
Commercial Banks	3.0	-0.8	-2.9	-12.7	-9.9
Other	1.5	0.5	1.0	1.5	0.0
Capital Account	22.9	21.5	15.8	12.2	9.4
Errors and omissions	1.7	-1.5	-4.7	4.5	8.9
Overall Balance	6.2	-0.6	6.6	8.9	0.1
Change in Official Reserves	-6.2	0.6	-6.6	-8.9	-0.1
Net IWF	-0.3	-1.5	-0.6	-0.4	-2.1
Government foreign assets	0.2	-0.5	-1.8	-0.3	-0.1
Change in imputed reserves	-6.1	2.6	-4.2	-8.2	2.1

a) Estimates based on partial information compiled by Dominican officials
b) Imputed share of Dominica in the international reserves of the ECCB.
Source: Ministry of Finance, IWF estimates

Inflation in the economy is not very high. Price level rose by less than 20% during 1984-89. The unemployment rate in the economy is around 11% as per the 1989 estimate³. The unemployment rate among males is lower at 7% than among females at 17%. Wages are relatively low and male-female differentials are not substantial - only 28% difference in the median wages. The unemployment problem is more structural because there are severe labour shortages experienced in sectors like agriculture and construction. The skill level of the labour force is also very low. Although official estimates are not available, the overall literacy rate in the economy is likely to be very high. Estimates of life expectancy have also not been possible even with Census because such questions were not included in the Census questionnaire. From the health statistics, however, it is possible to estimate death rate, birth rate and infant mortality rate (IMR). The IMR has declined substantially from 27 in 1977 to 18.5 in 1987. Death rate has also declined from 7 in 1977 to 5.6 in 1987. Similarly the birth rate is reduced from 21.0 in 1977 to 19.8 in 1987. The level and the direction and rate of change in these indicators do imply that other socio-cultural welfare of the population is likely to be fairly high in Dominica.

In the next section, we discuss the major developmental concerns for future in Dominica. The third section is then devoted to outlining the planning process with a brief historical perspective. The fourth section reviews the role of Economic Development Unit (EDU) in managing economic development in Dominica. In the fifth section, we discuss the interlinkages of the planning process with the budget process and the fiscal policy. In the sixth and the last section, we discuss a few limitations of the planning process in Dominica.

II Development Concerns and National Goals

Considering the features of the Dominican economy discussed in the previous section, it is not very surprising that international agencies like World Bank and IMF in their review, do not see a very bright future for Dominica. This is largely because Dominica does not have a very sound base in the tourism sector unlike most of the OECS (i.e. Organisation of Eastern Caribbean States) countries. The future growth of Dominican economy is, therefore, constrained by domestic activities like agriculture, agro-processing and manufacturing. Banana's predominance in Dominican agriculture makes it more vulnerable to the international banana market. The balance of payments (BOP), import of essential commodities and the stability of the economy and the currency depend crucially on the banana exports. The developments taking place in the European Community in 1992 are therefore the prime concern for Dominicans.

The World Bank's projections of macroeconomic aggregates for the Dominican economy are summarised below in Table 2. According to these projections, which are based on the assumption of no banana shock after 1992, the growth of GDP in Dominica would be significantly decelerating, investment rate would be falling and the external debt-service would rise substantially during the mid-nineties. In order to tackle these problems, the country has to generate a current account surplus on BOP requiring a much higher rate of growth of exports than the projected.

If, however, there occurs a banana shock resulting from EC 1992, it might lead to (i) 50% fall in both the price and output of banana, (ii) considerable fall in the contribution of agriculture in real GDP, and (iii) fall in imports by one-half the fall in exports because the banana production in Dominica has a high import content. With banana-shock, therefore, the scenario is very gloomy for Dominica. The current account deficit on BOP, might reach U.S. \$70 million by 2000 A.D. and the debt-service/exports ratio might rise to 24% instead of 6% in 2000 A.D. The economy would be forced to restructure and adjust to such a rude shock but during the process, it may have to suffer severe cuts in the living standards and rising unemployment. The foremost national goal, therefore, is to try to avert the banana-shock and if it is somehow not possible to avert the shock, prepare the economy in such a way that it can absorb the shock with least possible cost. In the words of the Prime Minister, the national goals and objectives for policy making in Dominica are:

- a) To achieve a sustainable rate of economic growth;
- b) To reduce unemployment generally and specifically among target groups;
- c) To improve external competitiveness particularly in the productive sectors; and
- d) To reduce the vulnerability of the economy to external shocks.

3 The definition of unemployed persons was such that it included those who were (i) without work and (ii) available for and seeking work. Excluded from this definition are persons who did not seek work although were willing and able to work. If we include such "discouraged workers", the unemployment rate turns out to be 20.7%.

<i>Table 2</i>			
Dominica – Actual and Projected Macroeconomic Indicators, 1988-2000			
	Preliminary	Projected	
	1988	1989-94	1995-2000
	Real Growth Rates		
Gross Domestic Product	5.6	4.0	2.8
Gross Domestic Income	6.2	3.8	2.5
Consumption	5.6	3.8	2.4
Public	1.5	1.5	1.3
Private	7.3	4.6	2.7
Fixed Domestic Investment	5.6	2.0	0.6
Exports of G&NFS	5.6	5.3	3.6
Imports of G&NFS	5.6	4.0	2.2
	Shares of GDP(%)		
Gross Domestic Product	100.0	100.0	100.0
Gross Domestic Income	100.5	99.0	99.0
Consumption	86.6	86.6	84.0
Public	24.5	22.0	20.0
Private	62.1	63.0	64.0
Fixed Domestic Investment	23.0	22.0	19.0
Exports of G&NFS	45.8	48.0	51.0
Imports of G&NFS	55.4	55.0	54.0

These objectives, moreover, are sought to be achieved by following the strategy of (i) enhancing institutional capability to undertake programmes for improving economic performance; (ii) improving the investment and saving climate in the economy; (iii) diversifying the base of economic activity both within agriculture and into non-traditional areas; (iv) providing the requisite physical infrastructure; (v) upgrading physical facilities and encouraging skill formation for human resource development; and (vi) fostering people's participation and community involvement particularly in rural areas. The basic philosophy accepted by the Dominican government is to rely on the private initiative and enterprise to achieve these goals. The medium term economic strategy to facilitate the private sector investment, particularly the foreign investment, to promote growth of GDP and employment. Foreign capital is also welcomed because it brings new technology, entrepreneurial talent and competitive forces to compel the domestic industries to become more efficient users of the scarce resources. The role of the public sector is envisaged basically as the facilitator and provider of necessary infrastructural and institutional support for the growth of private sector activities. The involvement of the public sector in the directly productive activities would be confined only to those strategically crucial lines for achieving national objectives where the private initiative does not come forth. Thus, the public sector is seen more as a management tool or the policy incentive for private enterprise rather than an intervention to control and regulate market forces and thereby the private sector.

III Planning Process

In 1978 when Dominica got its political Independence, it was perhaps not well prepared for taking hard decisions to manage its resources to foster rapid economic development over longer time horizon. Perhaps it was not required. Moreover, in 1979 Hurricane disaster struck the island. Therefore the first five years saw restructuring and stabilization of the economy on ad hoc basis. A lot of sympathy was generated for the island and hence external aid was easily available. The special treatment it received from the U.K. and the U.S.A. made it complacent and dormant on long-term issues concerning its future path of growth. To put it simplistically, it used to take only a cable to U.K. or U.S.A. asking for a grant to carry out some project, e.g. building a road from point A to B, and it would be by and large accomplished. The need for systematic planning was hardly recognised upto 1983. Even the political philosophy in the country was hostile against the use of the term economic planning. The political lead, direction and commitment were lacking in these matters. The only long-term perspective on development of the country was provided in the *National Structure Plan for Commonwealth of Dominica, 1976-90* prepared in August 1976, i.e. before Independence. It was also not an economic plan as the term is commonly understood. Its focus was mainly on the spatial planning, i.e. the land-use and settlement planning for provision of infrastructure. However, its objectives and scope included some major economic concerns like employment growth, reduction of income disparities and related aspects of development strategy. In [Appendix 1](#) below, we present the objectives, scope and the planning model of the Plan. In 1985, the National Structure Plan had to be revised on account of significant changes in development policies and availability of new data on socio-economic characteristics of the population from the 1981 Census. In [Appendix 2](#), we present some excerpts from the *National Structure Plan (1985)* giving the objectives and goals of the Plan. The Plan emphasises that "Social and economic policies formulated at the national level can only be effective and successful if the spatial distributional implications of these policies are carefully articulated and fully incorporated into the planning process." (p.1). This assumes importance since, for the first time, the need for economic planning at national level in Dominica was recognised and some type of planning process was also envisaged.

The Ministry of Finance was expanded and renamed as Ministry of Finance and Development. Economic Development Unit (EDU) was created within the Ministry and a Development Coordinator with the same status as a Permanent Secretary was appointed as the head of the unit. We shall discuss the role of the EDU in the planning process in more detail in the following section. Currently we may note that it is the apex body responsible for plan formulation and monitoring in Dominica. Its approach to economic planning in the country as explained by the Development coordinator has been to manage economic development through specific projects from below rather than imposing a national economic plan from above. Economic planning is not considered a mechanical process but an interactive and participatory process where there is a scope for revision, modifications and alterations at every stage. Ideally speaking, it has to be a political process considering inputs from technocrats at various stages. Efforts at organizing such thoughts in the form of a Planning Manual or a Process Document are currently ongoing at EDU. What is most significant is the political support the EDU has been able to gain during the last 3 to 4 years for its approach and method of economic planning in Dominica. Essentially it is a sectoral approach based on project identification from below because the political direction and participation in the planning process was possible given the environment in Dominica only at the bottom level where the finance in terms of dollars and cents was discussed and understood. Thus, the capital estimates of projects have to be the starting point in the planning process. These projects have to be so chosen that they would fulfill the objectives and goals notionally agreed.

The currently existing planning process in Dominica started with an instruction from the Cabinet to various Ministries⁵ to prepare sector paper/plan in order to help improve the management of the sector and capital budgeting within the sector.

The steps in the planning process in Dominica are as follows:

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- 4 Dominica is a Republic headed by a non-executive President. Executive power is exercised by cabinet headed by a Prime Minister. Legislative power is vested in parliament. Government policies are elaborated and executed by Permanent Secretaries and Heads of Departments, Units and Sections.
 - 5 These Ministries are Agriculture; Trade, Industry & Tourism; Community Development and Social Services; Immigration & Labour; External Affairs; Legal Affairs; Education & Sports; Health; Communication, Works & Housing; and Finance & Development.

- 1) The concerned Ministry in each sector appoints a National Coordination Committee (NCC) under the chairmanship of the permanent secretary.
- 2) The NCC discusses and prepares terms of reference for the sector plan. Appendix 3 presents the terms of reference of agricultural sector plan in Dominica as a sample.
- 3) The NCC also decides whether outside assistance is needed in the preparation of the sector plan and if so from whom, e.g. Food & Agriculture Organisation (FAO) is identified to provide assistance/consultants to prepare sector plans for agriculture and forestry. Similarly, UNESCO is identified for education.
- 4) The NCC closely monitors and reviews the preparation of sector plans by the consultants. It looks critically at methodology including projections of output, income and employment generated. Similarly, it considers strategy questions like what types of products to produce - for internal consumption or exports? How should they be produced? With what technology? Who should produce? Public sector or private sector? When to produce? Where to produce? For whom to produce? etc. are considered within the sectoral strategy.
- 5) Once the sector plan document is finalised by the committee, it is submitted to the Cabinet for approval and necessary action. The document so finalised by the NCC is also expected to prioritize projects and activities according to what it thinks appropriate. The NCC is made up of representatives from the sector in question and other relevant sectors in government, one member from EDU and two private sector representatives selected by the concerned Ministry. Once the sector plan is submitted to the Cabinet, the NCC is dissolved.
- 6) The Cabinet would modify the sector plan if needed in consultation with anybody it chooses and approve the sector plan.
- 7) The approved plan proposal is implemented through Budgetary Process which is separate and distinct. Hence the priorities set out in the sector plan may or may not be followed in the annual budgeting for the sector.
- 8) The budget process puts all the sector plans converted into budget proposals together at the macrolevel.

The EDU as an organisation has a crucial role to play in the whole planning process including the final stage of dovetailing of the budgetary and planning processes.

IV Economic Development Unit (EDU)

EDU is an institution within the Ministry of Finance and Development. It is headed by Development Co-ordinator who reports directly to the Minister of Finance and Development. The other wing in the Ministry is the Finance Department headed by the Financial Secretary. Chart 1 below presents the organisational structure of EDU. There are currently 36 persons working in EDU; 14 are class A employees, 12 are class B employees and 10 are class C employees. Moreover, there is a separate organisation called Development & Planning Corporation (DPC) whose ex-officio chairman is the Development Coordinator. DPC is a separate statutory body working in close collaboration with the Physical Planning Division of the EDU. As such, there are three divisions in the EDU, viz. (a) Physical Planning; (b) Economic Planning and (c) Property Valuation. These divisions are made for carrying out specific and distinct functions assigned to EDU. Currently, the EDU performs the following functions:

- i) Project appraisal;
- ii) Provides assistance in sector planning;
- iii) facilitates external funding of projects and programmes;
- iv) administers development and building control;
- v) prepares inventory of property with values;
- vi) manages public sector investment programme (PSIP); and
- vii) provide technical assistance and advice to the political directorate.

More specifically, the Physical Planning Division is responsible for function (iv) listed above which basically aims at ensuring most efficient use of the country's land resources in all aspects of development; the Property

Valuation Division is responsible for function (v) listed above which is essentially required to develop a uniform and equitable property taxation system; and the Economic Planning Division performs the rest of the functions listed above except function (vii) which is performed by each of the divisions as and when required.

As can be seen from the organisational chart of EDU presented here, the Economic Planning Division is further divided into two sub-divisions viz. Project Development Sub-division (PDS) and Macroeconomic Analysis Sub-division (MAS). The PDS is headed by a Senior Planning Officer (SPO) and its main function is to facilitate management of PSIP. 5 Planning Officers (POs) each assisting different Ministries/sectors report to the SPO. These POs assist different Ministries in project identification and development. The PDS also provides information on donor funding, liaison on funding negotiations and administration and help in securing funds for specific public sector investment projects in various Ministries. The PDS is not directly responsible for implementation but is involved in it to the extent of implementation of plans, management information system connected to the project, external sources for finance for the project, monitoring and evaluation in collaboration with Ministries. The PDS maintains important data base on PSIP on computer. The basic source of the PSIP information is the Ministry of origin. The PDS assembles it and puts it in an organised way. There are four categories of PSIP:

- a) Funded out of external grants
- b) Funded out of external loans
- c) Funded locally by government revenues and sources
- d) Funded locally by government borrowings.

Data on expenditures by years and ongoing/proposed/conceived projects with project cost and funding agency is maintained and regularly updated on computer at EDU. It is interesting to note that all these data on PSIP on computer at EDU are in financial terms only. Physical targets and achievements are not maintained in the same way. Thus, what EDU monitors is the financial or expenditure performance only.

The main contribution of the PDS is in terms of techno-economic appraisal of capital projects of different Ministries and sectors. The PDS looks into the technical soundness of the project basically in terms of the following:

- a) clearly defined outputs and inputs;
- b) estimates of the quantities required of inputs and consequent quantity of output;
- c) location of the project;
- d) availability of technology;
- e) clear project design detailing the steps to achieve outputs;
- f) physical resource availability;
- g) skill requirement and
- h) supply of manpower.

The financial analysis of the project is carried out in terms of economic prices so that the viability of the project is assessed from the social viewpoint. The financial viability is checked only if the nature of the project demands e.g. Dominican Banana Marketing Corporation. The economic appraisal of the projects usually ignores the environmental costs and benefits. Similarly, the economic prices used in the analysis are derived by adjusting taxes and subsidies. The shadow wage rate is assumed to be 80% of the actual wages. The rate of return on capital is assumed to be at least 7% for the government projects and 12% for the other projects because these are the rates at which funds can be borrowed from the commercial banks. Net Present Value (NPV) and Internal Rate of Return (IRR) are used as the criteria.

In spite of such an elaborate exercise of project appraisal and the required skilled manpower available for doing it, it is clearly recognised that the ultimate investment decisions taken at the top level are political in nature - not necessarily dependent on economic return from alternative projects. As a result, process is modified. The decisions about the project selection out of alternatives as well as about their priorities are taken first. Then, they are appraised as a routine. Therefore, the project gets rejected, if at all, only when it turns out to be totally non-viable. In most cases, thus, the projects sent for appraisal to EDU enters the capital budget of the concerned Ministries. The process of sending the projects for appraisal to EDU seems to be more on account of fund hunting than testing economic viability of the proposed projects. In any case, this part of the planning process is extremely crucial because it links the sector plans with the budget process through EDU.

The Macroeconomic Analysis Sub-division (MAS) of EDU is in overall charge of providing the macroeconomic perspective to the economic development policy of the government. Its main task is to help different ministries in the preparation of their sector plans. Once these plans are made, the MAS is supposed to put them together to evolve a national economic plan by dovetailing the sector plans with one another. A three year national plan is on anvil. EDU will have to monitor and review the progress of the plan annually. The sector plan philosophy is based on the concept of planning from below. Capital projects and their budgeting in respective Ministries is the starting point. The national objectives and goals are arrived at by consensus. Projects to achieve these objectives are identified in the sector plan from the bottom. This is a learning experience for all involved in the whole process including the experts from international agencies like IMF who sometimes attend the sectoral coordination committee meetings discussing the sector plans.

Although there is a strong feeling about the need for a macroframework for the National Plan among a few officers in different Ministries including even EDU, the vision of the top official in EDU shared with conviction by other permanent secretaries in the Ministries does not consider it as a major constraint in the exercise. The presence of the member of the EDU in the meetings for sectoral plan preparation should ensure that the overall national development philosophy is not at variance with the sectoral strategies, but that they are internally consistent. As per the vision, the sector plans should not be merely the technical documents prepared and owned up by technocrats, but they should be people's choices reflecting political processes culminating into political commitments. Currently, however, outside consultants are preparing the sector plans. What is likely to emerge out of the sector plan exercise is at best a listing of alternative feasible strategies and programmes for the sectoral development. Within each scenario, priorities would be assigned by the technocrats. The EDU will have to consider all sector plans and give its feedback to each sector which may have to relook at its plan and revise it. Thus, as iterative method of closer and closer successive approximations is envisaged for national planning in Dominica. This model of planning from below in terms of physical flows of project proposals emanating from below is countered with budgetary financial flows in the opposite direction. These two flows and their consistent reconciliation completes the process. Its role in future is likely to be much more important than so far. This is because there has been a considerable achievement to the credit of EDU over the past 3 to 4 years, viz. (i) of late the term 'economic planning' is accepted as development management although the political philosophy is against the term 'planning'; (ii) Minister working in consultation with officials is accepted and also selectively practised; (iii) concept of project profiles with priorities is accepted and implemented; (iv) the need to synthesise sector plans is recognised by the Prime Minister; etc.

These achievements clearly focus on a very important role of EDU, viz. training and dissemination of information and technology. The permanent secretaries in different Ministries have to be taken into confidence and the whole methodology including iterative character of the process has to be explained to them. Whenever a new PS takes over, the process of training him has to start at EDU. The argument against not putting the methodology and the processes in writing is that informal things have better chance of acceptance than formal communications or written manuals because the latter usually provokes resistance and a tendency to negate among the participants. Similarly, the EDU also believes that sometimes it helps not to coordinate, e.g. the circular inviting the capital budget proposals which the EDU has to consider is sent independently and earlier than the routine finance department's circular. Thus, EDU does not view its role merely as a government sub-division in charge of preparing a plan, but it believes in managing the system to invoke participation and political commitment to the plan.

V Interlinkages with Budget Process

The budgetary process is a separate process taking place every year. The centre of this process is the Finance Department. Since both the planning function and budget function have to be consistent both internally and with each other, the EDU and Finance Department are put under the same Ministry. Both the functions have to rely on elaborate processes integrating the proposals of all the Ministries and public sector undertakings. The Finance Secretary who heads the Finance Department is in charge of the overall budgetary processes, though the preparation of budget is the task of the Fiscal Adviser to the Minister of Finance. The Fiscal Adviser also currently prepares an annual review of the functioning of the economy to be incorporated as the opening part in the budget speech of the Finance Minister.

The budgetary process deals with the recurrent expenditures and capital expenditures by different Ministries. The budget process consists of the following steps: To begin with, Ministry of Finance and Development sends a circular signed by FS and DC to various Ministries inviting their budget proposals. In this circular macro

targets are given, crucial assumptions about inflation, taxation etc. are outlined as a guideline, and specific instructions about capital estimates are given. Appendix 4 below presents summary of circular No.1 for 1991-92 dated January 17, 1991. It may be noted that the circular clearly distinguishes between the PSIP and the projects included in the capital estimates. The latter are financed out of the surplus on current account after meeting the debt repayments, whereas the former have to be financed out of external grants and borrowing and domestic borrowing. Therefore, while the PSIP projects can be included in the budget proposal without confirmed sources of finance, projects included in the capital estimates must have identified confirmed sources of finance.

The second step in the budget process consists of having the budget period meetings. These meetings are organised individually for each Ministry to discuss its budget proposal. The Budget Committee consists of representatives from Ministry of Finance, EDU and the relevant Ministry. The proposals for the recurrent and capital expenditures are discussed and kept pending for finalisation at the end. The third step in the process is to finalise the proposals already pruned in the initial discussion. This takes place in the Ministry of Finance and Development under the chairmanship of the Finance Secretary. Then, the finalised budget proposals are sent to the Cabinet for modification and approval. The Prime Minister presents the bill to the Parliament which approves it after discussion and modification if necessary. Generally, the Parliament does not modify the bill.

In this entire process, there are some important checks inbuilt so as to ensure consistency between the planning process and the budget process. First of all, the Permanent Secretary in various Ministries are basically in charge of preparing both the Plan proposal and the Budget proposal. Secondly, representatives from EDU are members of crucial sectoral committees in both the processes. Thirdly and most importantly, EDU has been given a very important control in the form of project appraisal function. Thus, the set procedure is that the projects have to be assessed/appraised by the EDU before it enters budget discussions. Further, the implementation plans must be submitted to EDU before the approved funds are disbursed. In this way, EDU can effectively monitor and ensure that deviations and departures from the approved plans are not taking place at the time of implementation. This is not a provision only on paper, but it is also used as a control when required. A departure in a livestock project was turned down recently by EDU and hence the funds never got disbursed.

As we have discussed earlier, the planning process works in such a way that only selected projects out of various alternatives are referred to the EDU. The selection of such projects takes place in the sector plan proposal. Out of these projects only prioritised projects are sent by the PS to the EDU for appraisal and fund hunting. When the EDU reports back, the projects with funding assistance would be included in the budget.

In this way the two processes are not expected to produce conflicting or inconsistent project priorities. The planning process is considered the fundamental process assigning priorities within the overall developmental strategy to achieve national goals. The budgetary process is the supplementary process to implement the plan. It is, however, argued that the actual operation of the two processes in Dominica does not ensure full consistency because the selection of the project for inclusion in budget proposal within each Ministry is not strictly dictated by the plan priorities but by the availability of external finance.

VI Limitations

There are several limitations of the economic planning exercise in Dominica. We briefly discuss them as follows:

1) *Lack of Macroframework*: Given the historical background of economic planning in Dominica, while one can appreciate the efforts of EDU to inculcate the culture of political participation in macroeconomic management in general and management of economic development in particular, the need for overall national economic development strategy cannot be overemphasised. Currently, the sector plan preparation lacks direction and guidance usually provided by the overall macroeconomic framework of the national plan. There is a good possibility that different sectoral plans would be prepared with entirely different - many a times internally conflicting strategies. Moreover, the macroframework is again not totally absent. As can be seen from Appendix 4, the circular inviting budget proposal does indicate overall budget ceiling for each Ministry. These ceilings are right now decided largely on historical pattern and partly on other considerations like foreign exchange implications, etc. If there exists a macro framework for the plan, the budget ceiling to Ministries could be used as an effective instrument. The macroframe may emerge over a period of time since Dominica has only recently started taking economic planning more seriously, but, at present at least this is a serious

limitation. This is also because without such a framework the internal consistency of sectoral targets, resource use pattern and potential interlinkages could seriously suffer.

2) *Lack of Coordination & Integration:* A very related aspect is that of coordination and integration of interdepartmental and intersectoral proposals. The sectoral planning committees are formed in such a way that it includes representatives from the related ministries - but in itself this may not ensure integration of the proposed plan which in any case is prepared by outside consultants. The coordination of targets in different sector also plays crucial role. In order to achieve this, iterative method of successively closer and closer approximation of planning is suggested. However, the practicability of such elaborate and time consuming processes raises doubts particularly in the context of the external consultants doing the job of preparing the sectoral plans within the framework of the given terms of reference (See Appendix 3 as an illustration). Even the rapidly changing environment would have an impact on the priority structure to convert the medium term plan into an exercise of contingency planning. Moreover, lack of coordination even among the EDU and the Finance Department is reflected in the fact that the proposals for loan borrowing are not brought in the debt-management system, converting the latter only into a debt-accounting system. Uncritical acceptance of debt-financed projects in the budget when the funding source is suggested by EDU is the example of such an uncoordinated system.

3) *Lack of Political Commitment:* The politicians are educated but not sensitised about the role they are expected to play in the planning process. There is ambivalence, lack of interest and lack of political directorate in the planning process in Dominica. Naturally, therefore, the sectoral plans do not become plans with political commitment. They remain merely as the technocrat's plans. People's representation and participation in the whole planning process remains superfluous. Currently, the sectoral committees include representatives from private sector, but they are appointed and not elected. Political representation on these committees is not yet achieved. As envisaged originally, the sectoral committees were to be consisting of representatives of people so that real issues and projects are freely debated and discussed. What was expected to emerge was only a sector paper and not plan. However, overenthusiasm to implement the ideas in the absence of permanent DC resulted in the current situation where the spirit of the process is ignored. Lack of political commitment and existence of external consultants are the major lacuna in the current planning process in Dominica.

4) *Lack of Decentralized Processes:* The political organisation of Dominica is such that it has a detailed structure of local government administered through thirty-two Village Councils, Portsmouth Town Council and Roseau City Council. Village improvements committees exist in every village and in several neighbourhoods in Roseau and Portsmouth. Several small projects including self-help schemes have been carried out with the assistance of these village councils. At district level, in all seven District Association of Village Councils exist who receive technical advice from the Department of Local and Community Development of the Ministry of Home Affairs and Housing. However, these councils have not been involved effectively in either plan formulation or implementation process. Coordinated and integrated development efforts at the district level do not exist in Dominica. The EDU officials feel that such decentralized planning processes would still take a long time because the processes even at central level are not yet in order.

5) *Lack of Statistics:* In terms of collection, compilation and estimation of basic statistics required for economic planning and economic management, Dominica is seriously lagging behind. Firm estimates of saving, investment, even literacy, etc. are not readily available in the statistical office. For such estimates, the country has to rely on external agencies like Caribbean Development Bank or World Bank or IMF. The statistical office which has meagre staff strength of only 3 persons is located within the Finance Department rather than EDU. Moreover, even the priorities of the statistics department are not properly fixed by higher authorities. As such, useful information does exist in the system but well directed efforts are lacking for collecting, compiling and presenting the data for planning purposes. With the result, planning without adequate data base is encouraged. This can result in serious distortion and wastage of resources.

6) *Lack of Skilled and Trained Personnel:* Dominica is a small island. It does not have general institutions of higher learning. The stock of skilled and trained personnel to carry out the planning or management jobs in the government service is extremely limited. This is recognised as an explicit constraint in the progress of planning in the country. Ability to comprehend abstract concepts and issues related to the economic management of the country's various sectors is seriously limited among the politicians as well as the bureaucrats. EDU's role in training personnel and disseminating information is therefore assuming significance as a precondition for successful planning processes.

7) *High Degree of Openness*: The smallness of the country makes it highly open economy dependent considerably on trade. Moreover, the structure of Dominica's trade also makes it more vulnerable to severe fluctuations resulting from the ever changing conditions in the foreign currency market. Dollar-Pound parity fluctuations can play havoc to Dominica. Since Dominica's currency (EC\$) is pegged to U.S.\$, it loses control over certain domestic policies like the monetary policy. Moreover, since it shares its currency with 6 other nations through ECCB, it also does not have any control over the foreign exchange rate policy. Thus, only fiscal policy and incomes policy are the instruments in the kitty for the Dominican government. Very long term or even medium term economic planning, therefore, has inbuilt limitations in such conditions. However, management of development responding to the environmental stimuli as is being attempted in Dominica is possible. What is required is much more understanding and commitment of people to achieve the desired goals in given time.

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Appendix 1

Excerpts from National Structure Plan, Dominica, 1976-90

The major goals and objectives of the National Structure Plan for Dominica are

- (a) Maximise the use of available land resources in a manner that will increase employment and reduce disparities in income, between rural and urban areas.
- (b) Develop a system of urban and rural settlements commensurate with the location of resources, in a manner that will permit provision of infrastructure and other facilities on an economic basis.
- (c) Improve existing level of infrastructure facilities and services to desirable standards and propose new facilities and services wherever needed, to facilitate optimum utilization of available resources.

The scope and purpose of the National Structure Plan for Dominica are as follows:

- (a) to propose an integrated physical structure of development taking into account spatial constraints, potentials and implications;
- (b) to formulate a generalized countrywide land use plan, which will identify areas of agricultural and settlement growth and communication network that is consistent with the development strategy;
- (c) to provide a set of development guidelines and recommendations for the use of land and the control of urban growth which will maximise production and social benefits and minimise costs;
- (d) to provide implementation recommendations including identification of priority projects and other special studies.

The elaborate planning models followed elsewhere for bigger countries have been simplified in the case of Dominica. A schematic diagram overleaf gives the planning model. (Figure 1.1)

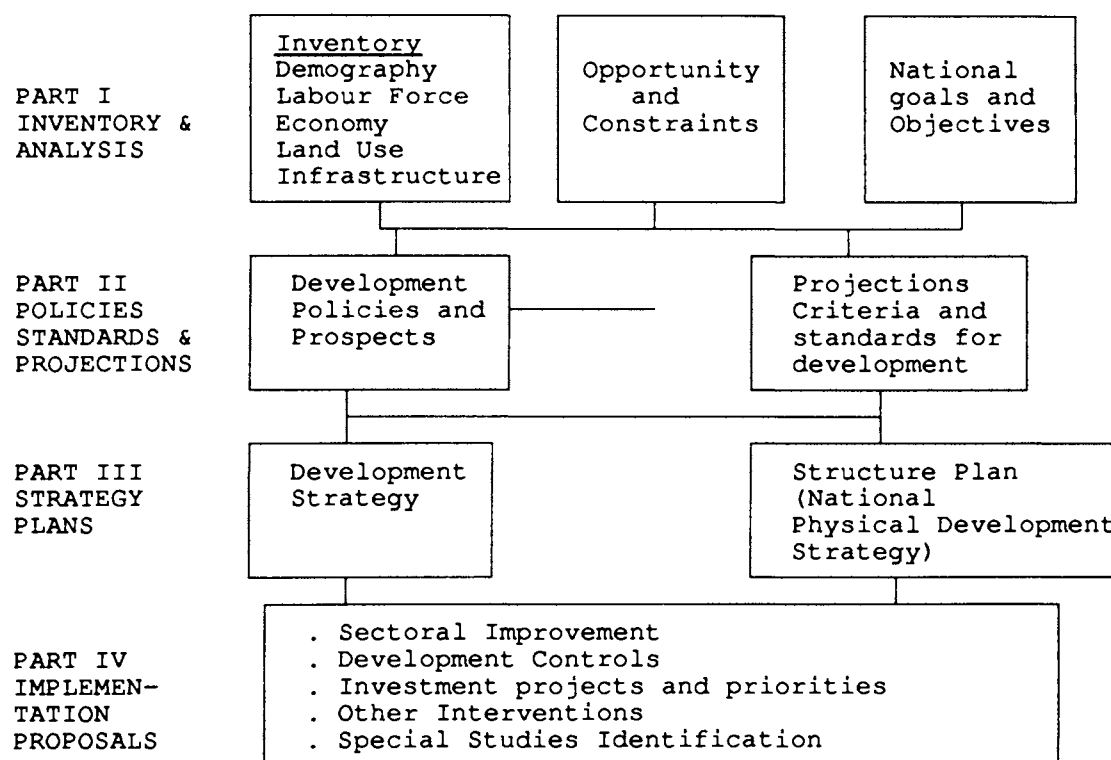


Figure 1.1 : Schematic Design of National Structure Plan for Dominica

Appendix 2

Excerpts from Dominica: National Structure Plan, 1985

1.3 An example of the effect which economic policies may exert on spatial development may be given by the case in which economic development policies emphasise rapid industrialization through the adoption of capital intensive technology. In the case of Dominica locational advantages would probably lead to many industries being located in the Roseau region. This would attract jobseekers from the rural areas to Roseau and accelerate the growth of the city. The rapid growth of the city would place a great strain on municipal and social services and produce the well known social problems associated with rapid urbanization in developing countries. Similarly, fiscal and tax policies may operate to encourage food imports and thus discourage food production in the rural areas of the country. This would, in turn, contribute to, at best, a stagnation in rural incomes, or lowering of rural incomes thus compelling young farmers or would be farmers to leave the rural areas for the city. On the other hand, the size and distribution of human settlements may facilitate or impede the delivery of services, thus affecting the design of social policy. For example, it may be difficult to achieve many objectives of social policy with a very dispersed settlement pattern while a more nucleated pattern of settlements connected by adequate communication networks would provide a better spatial configuration for the attainment of social objectives.

1.4 Given the fact that spatial and socio-economic patterns affect each other it is not enough that spatial planning merely responds to the effects of social and economic policies, solving problems of urbanization created in part by economic policies. It is essential that the spatial implication of alternative social and economic policies should serve as an essential input into the formulation of development policy if undesirable impacts of social and economic policies are to be avoided or, at least, mitigated, leading to the attainment of major social goals. Thus, to produce optimal results, economic and spatial planning should be an integrated process, each discipline benefitting from and reinforcing the other in a continuous process of interaction.

2. Objectives of the Structure Plan

A structure plan is a set of decisions regarding the long- term future of an area in terms of its economic, social and physical development. It sets out, in broad terms, long term policies for development of the area and provides a general framework for decision-making in the development process. Following the prescription set out in the authoritative manual, *Development Plans*, the Dominica Structure Plan will perform the following functions -

- a) interpret national development policies in spatial terms.
- b) establish policies for the spatial development of the nation commensurate with national, social and economic goals.
- c) indicate action areas, that is, priority areas where immediate action must be taken to solve pressing problems.
- d) provide a framework for local and area plans - the policies and proposals of the structure plan will form a general basis for more detailed planning on area and local level.
- e) provide a coordinated basis for the development of individual programmes by various sectors such as housing, roads, utilities, health and education.
- f) provide guidance for development control. The structure plan will propose general development policies for such areas as location of housing, community facilities, and industries.

3. The Goals of the Structure Plan

The overall goal of the plan is to improve the welfare of the people of Dominica and the major development goals to achieve the improvement in people's welfare are the following:

- 1) to develop policies which will ensure that the basic needs of the people are met.
- 2) to develop development strategies which are implementable within the context of physical and financial constraints.
- 3) to promote greater self-sufficiency in food production.
- 4) to increase the availability of basic goods and services to all the people.
- 5) to locate development strategy components in such a way as to promote the integration of urban and rural economies.
- 6) to propose strategies which increase opportunities for productive employment in urban and rural areas.
- 7) to propose a national human settlement policy which will maximise production and increase welfare throughout the nation and maintain an optimum balance in the use of land among competing uses especially between human settlement and agricultural uses.
- 8) to propose a planning process which will ensure the integration of a spatial policies with sectoral policies on a regular and continuous basis.

Appendix 3

Draft Terms of Reference for Agriculture Sector Plan (Dominica)

1. review of Performance of the Agricultural Sector
2. develop goals, objectives and strategies for the sector which will guide the sector's development during 1991 to 1994;
3. identify appropriate areas of emphasis on a sub-sector basis including linkages with Tourism, Agro-Industry, Forestry and Fisheries;
4. set targets for production, foreign exchange and employment;
5. identify appropriate support programmes in:
 - (a) Input, supply and credit
 - (b) Research and Development
 - (c) Training and Extension (including manpower requirements and training needs of the agricultural sector)
 - (d) Intra and Extra-regional infrastructure including marketing, roads, etc.
 - (e) Technology
6. identify major resource and institutional requirements to implement Capital Projects; and develop preliminary profiles to include cost estimates;
7. develop an implementation strategy for the Sector including the allocation of institutional responsibilities and interministerial/intersectoral linkages;
8. identify a monitoring evaluation and review mechanism for the Sector Plan.

Appendix 4

Financial Secretary's Circular No.1/91 To Permanent Secretaries of all Ministries dated January 17, 1991. Subject: Budget Estimates 1991/92

Salient Features

1. Macro targets are projected based on projected nominal GDP growth of 9.5% - Expenditure and Revenue target figures in EC\$ millions are given as it is given in the summary Table in budget. This is for keeping in view the overall macro constraint.
2. The Revenue projections are made on the basis of normal growth expectations without any changes in tax and duty rates.
3. Recurrent expenditures by each Ministry should be kept within the limits indicated for each of them.
4. Projected inflation rate of 4% is assumed - Each Ministry should keep price adjustments within 4% limit.
5. Recurrent expenditure proposals must include an updated description of the year's programme giving quantitative targets and past years performance wherever possible. Proposal for expenditure must bear direct relation to the targets indicated.
6. Since the amount of savings for capital financing projects is limited to only \$7.5 M. projects must be carefully prioritized.
7. Heads of Departments/Accounting Officers must identify carefully the source of financing for each capital expenditure project so as to access as much grant funding as possible.
8. Financing by domestic borrowing should be limited to as low a figure as possible so as to allocate a larger share of domestic savings to private investment.
9. Dates and times for scheduled discussion of budget submission will be advised.
10. The estimates reflect government's plan of operation in each Fiscal Year.
11. All projects included in capital estimates must have identified and confirmed sources of finance.
12. PSIP on the other hand may include projects without confirmed sources of finance.
13. All projects in capital estimates must be submitted along with the project profile or project document.
14. Development of Annual Estimates is a development management process which involves considerable discussions at the level of divisions, the originating ministry, the Ministry of Finance and Development and finally at the level of the Cabinet, before it is finalised.

The macro-targets given in circular:

in EC \$ million	
Recurrent Revenue	138.2
Recurrent Expenditure	123.9
Salaries & Wages	(73.1)
Retiring Benefits	(6.5)
Goods & Services	(26.2)
Interest Payments	(8.2)
Transfers (In public sector with subventions etc.)	(9.9)
Current Account Balance	14.3
Less Debt Repayment	(6.8)
Local Contribution to PSIP	7.5
Capital Revenue	3.0
Capital Expenditure	58.3
Overall Deficit	47.8
Financed by:	
External Grants	20.5
External Loans	15.2
Domestic Borrowing	12.1