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PRIVATE SECTOR ASSESSMENT OF DOMINICA



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Executive summary

The Private Sector Assessment Report (PSAR) describes the current state of Dominica's private sector. It draws on both primary and secondary data sources. Primary data analyses were derived from interviews with key stakeholders from the domestic private and public sectors as well as interviews with regional and international agencies. A listing of the main stakeholders interviewed is documented in the original country report¹. Secondary data were utilized to describe the state of the country at both the micro and macro levels. In addition to these specific elements of the research, the development of the PSAR was assisted by consultations organized under the Caribbean Growth Forum² (CGF) during 2013. The PSAR identifies the components of the private sector, challenges to private-sector development and emerging sectors, and presents an action plan for enhancing private-sector development.

The Commonwealth of Dominica is regarded as the poorest country in the Organization of Eastern Caribbean States (OECS) union.³ Dominica's private sector accounts for 78% of national employment and is dominated by the services sector (tourism in particular), manufacturing and agriculture. The economy has shifted over the past 30 years as the services sector has grown from 50% of GDP to an estimated 68% in 2013 with continuous declines in the share of the agricultural sector since the loss of the preferential European market.

Dominica faces a number of challenges to private-sector development. Although the macroeconomic environment is relatively stable, economic growth has been heavily impacted in recent years by the global financial crisis and two large earthquakes. Apart from these external shocks, there are a number of characteristics of the business environment that hinder private-sector growth. Interviews with private firms and the conclusions of the CGF suggest that access to finance represents one of the largest challenges for the private sector, as 44% of firms identified this as the biggest obstacle to doing business in the country. The other main problematic areas are governance and co-ordination between the private and public sectors, the cost of electricity, transportation and trade, weaknesses in the labour market, and tax rates.

Dominica's emerging sectors capitalize on the island's natural resources. Ecotourism, tertiary education in the natural sciences, renewable energy, and agro-processing and the manufacturing of organic products are expected to drive economic growth in the future. The PSAR identified a number of actions

¹ The original report can be found on Compete Caribbean's website: <https://www.competecaribbean.org>.

² The CGF is a facilitated methodology for public-private dialogue around issues central to private-sector development and growth. It brings a non-traditional approach to the greatest challenge currently faced by the region: creating sustainable and inclusive growth. The Forum also aims to facilitate an action-oriented dialogue around key policy reforms needed across three thematic areas: investment climate, skills and productivity and logistics and connectivity. The CGF is a joint initiative by the Compete Caribbean Program, the Inter-American Development Bank, the World Bank and the Caribbean Development Bank. It is supported by the Department of Foreign Affairs, Trade and Development Canada, the United Kingdom's Department for International Development, CARICOM Secretariat, and the University of the West Indies.

³ The OECS consists of nine members: Anguilla, Antigua & Barbuda, the British Virgin Islands, Dominica, Grenada, Montserrat, Saint Lucia, St. Kitts & Nevis, and St. Vincent & the Grenadines.

that would help to improve the business environment to encourage growth in these sectors. The report identifies the need for improved information and communications technology systems, as well as the need to strengthen the labour market through education and skills training.

Finally, the PSAR recommends that the government of Dominica demonstrate its commitment to private-sector development by developing a National Strategy for Private Sector Development and creating a forum for collaboration between key stakeholders and representatives of labour, the private sector and government.

I. Private sector assessment

Background The government of Dominica seeks to pursue economic growth while maintaining and improving its fiscal position. The government's revised Growth and Social Protection Strategy (GSPS) focuses on:

- Fiscal policy and administrative reform, including creating an enabling environment for private enterprise and investment attraction
- Sectoral strategies for growth
- Strategies for poverty reduction and social protection.

Sectoral strategies relate mainly to tourism and manufacturing (particularly agro-processing). The government's strategy for the development of agro-processing, and of manufacturing in general, is outlined in the GSPS as "to reduce barriers to growth and create an environment that will enhance the performance and competitiveness of manufacturing firms and contribute to efforts to attract investment".

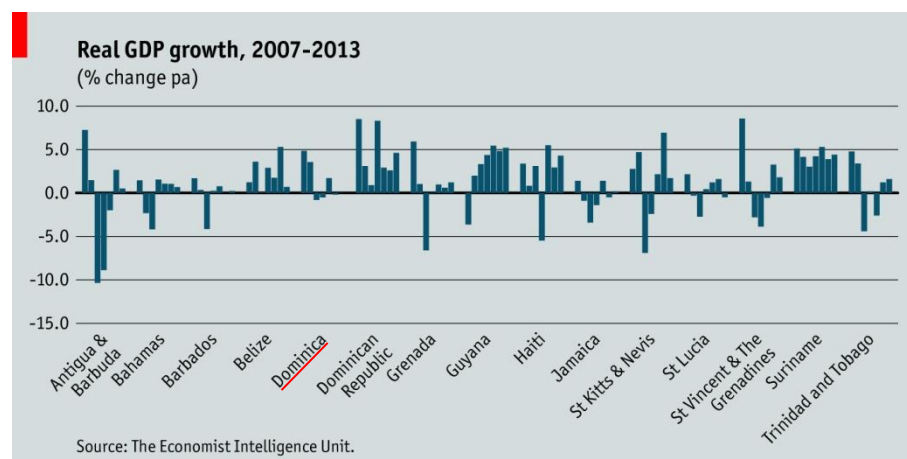
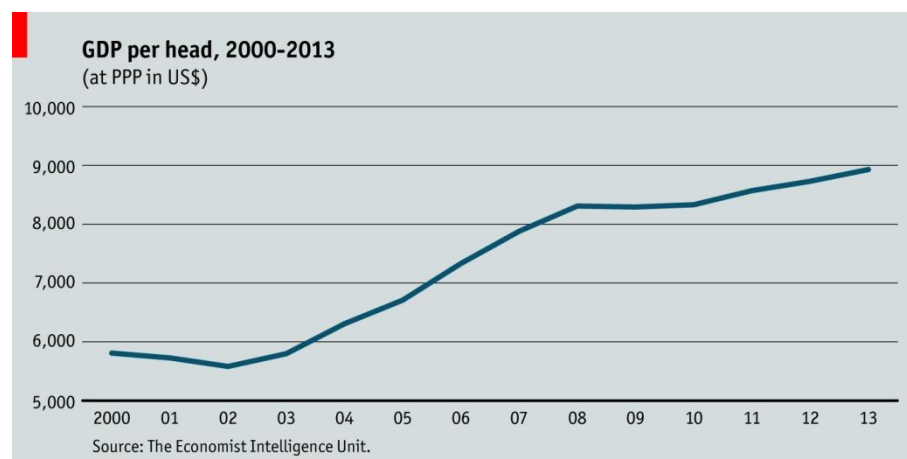
In its effort to fulfil the social strategy, the government has developed an institutional framework for the growth and development of the private sector through the establishment of several agencies, with the key ministry in this regard being the Ministry of Employment, Trade, Industry and Diaspora Affairs. The agencies directly under the ministry include the Invest Dominica Authority, the Dominica Employment and Small Business Support Unit, and the Trade Division.

In the past there appeared to be only limited interaction between private-sector representatives outside of informal, ad hoc arrangements. However, in December 2012 ten private-sector stakeholders signed a memorandum of understanding to form the Dominica Business Forum. The motivation for the creation of the forum was noted thus: "It is time the private sector joined forces to establish proposals for better policies which will enhance the business climate on the island."⁴

Macroeconomic overview The Dominican economy has grown slowly over the past 20 years, with real GDP growth averaging just 2.5% annually between 1983 and 2013 (see Figures 1 and 2⁵). Despite a stable macroeconomic environment, growth has been limited by natural disasters and by international economic developments. Using per-capita GDP, the island was ranked tenth among all comparators, with GDP per head of \$8,930 (at PPP) in 2013 (see Figure 3).

⁴ <http://dominicanewsonline.com/news/homepage/news/business/private-sector-comes-together/>

⁵ Real GDP growth figures from the Economist Intelligence Unit, IMF and Eastern Caribbean Central Bank differ across some years owing to varying methodologies and base years.

Figure 1**Figure 2****Figure 3**

The macroeconomic environment is fairly stable. There are no restrictions on capital flows and little exchange-rate uncertainty, as the island is part of the Eastern Caribbean Currency Union agreement. Inflation on the island is relatively low. Dominica's average annual inflation rate stood at 2.5% between

1983 and 2013, compared with around 8.5% on average in the benchmark grouping (see Figures 4 and 5). In addition, between 2010 and 2013 average annual inflation was 1.7%.

Figure 4

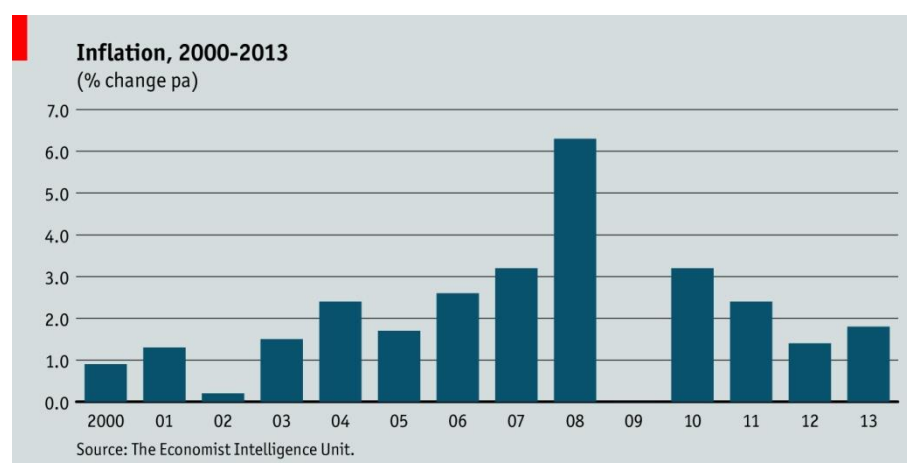
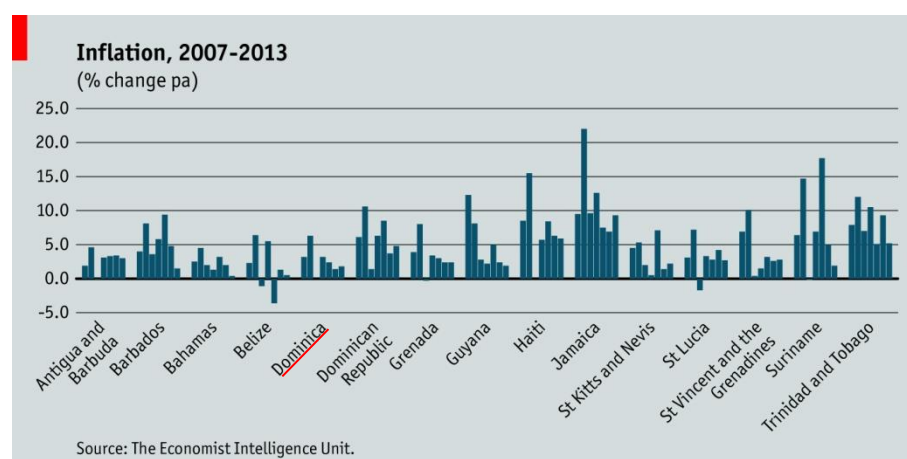


Figure 5



Dominica's economy has been heavily impacted in recent years by the global downturn, and also by two hurricanes (in 2007 and 2008) that have cumulative damage estimated at close to 35% of annual GDP. Historically, the fiscal deficit was primarily driven by the current account. However, in recent times it has been driven by capital expenditure, geared mainly towards reconstruction efforts following the devastating natural disasters.

Given the openness of the Dominican economy, the current economic downturn has underscored the island's high degree of vulnerability to external shocks. International commodity prices have a significant impact not only on domestic prices but also on external current-account sustainability, as the country largely depends on distillate for electricity production⁶. Around 20% of

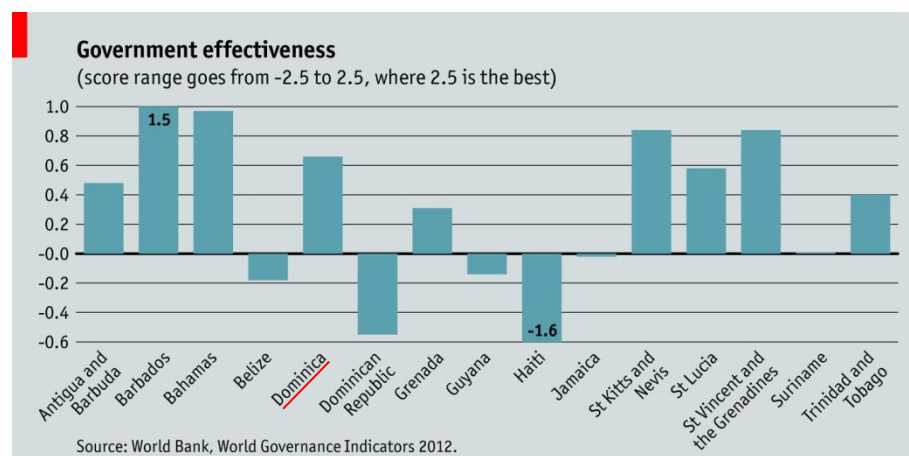
⁶http://www.caricom.org/jsp/community_organs/energy_programme/electricity_gifs_strategy_final_report_summary.pdf

imports to Dominica consist of petroleum products. Thus, as well as affecting demand for travel to the island, fluctuations in international oil prices can influence domestic prices.

Institutional effectiveness

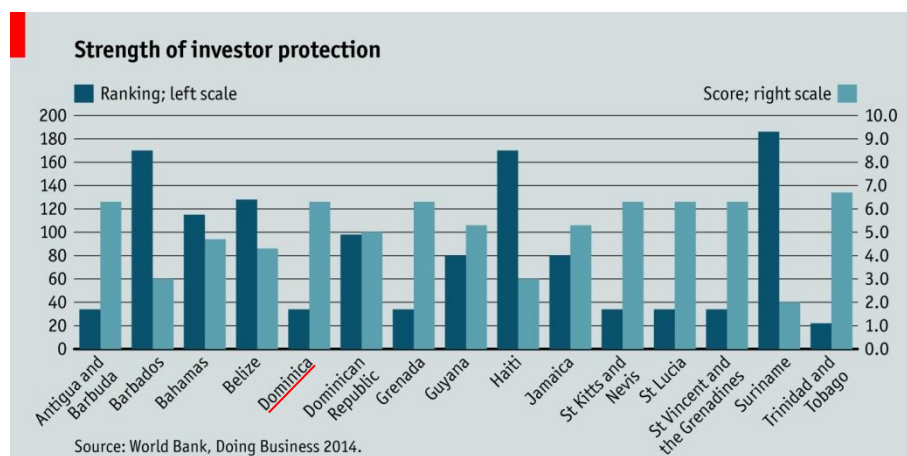
Although they possess certain strengths, Dominica's institutions are not particularly effective in enabling private-sector business activity. Dominica scored 0.66 and was ranked in the 71st percentile (zero corresponds to lowest rank and 100 to the highest rank) in the World Bank's Worldwide Governance Indicators for 2012 (see Figure 6). Its rank for regulatory quality (58th percentile) was also relatively weak.

Figure 6



Based on the data and rankings from the 2014 World Bank's Doing Business rankings, Dominica's relative institutional strengths are investor protection and starting a business. The country has a strong legislative framework with respect to investor protection (see Figure 7), like all the other territories in the Organization of Eastern Caribbean States (OECS) grouping. The high ranking received by Dominica for investor protection in the World Bank's Ease of Doing Business index is largely attributable to the strides that the country has made in its legislative framework, as indicated by the sub-indices measuring (i) extent of director liability and (ii) ease of shareholder suits.

Figure 7



Furthermore, with respect to the time spent by senior management officials on adherence to government regulations, the regulatory framework in Dominica is not as complex as in most comparator economies. The island is considered a front-runner in this regard, trailing only Jamaica, as senior managers spend 2% of their time dealing with regulations (Jamaica's figure is 1.7%). This figure is marginally lower than those in St. Lucia (2.2%) and Barbados (4.3%), and is roughly 5.5 times lower than the figures in St. Kitts and Nevis, Guyana and Mauritius.

Dominica has a number of institutional weaknesses that undermine investment and private-sector development. An inability to enforce contracts effectively constitutes a major constraint. The country was ranked 172nd (out of 189) for enforcing contracts in 2014. In 2014 enforcing contracts in Dominica required 47 procedures and took 681 days on average, at a cost of 36% of the value of the claim. In terms of resolving insolvency, Dominica was ranked 105th in 2014, although in terms of indicators performs better than the average for Latin America and the Caribbean. Dominica lies in the bottom echelon of the Heritage Foundation's Index of Economic Freedom with respect to financial freedom, with a score of 30 (out of a possible maximum of 100). Financial sector indicators suggest that the Dominican banking system is well positioned to weather turmoil in international financial markets. However, the collapse of the Trinidad and Tobago-based CL Financial Group in 2009 exposed deficiencies in the regulation of the non-bank financial sector, and regulation remains weak despite recent efforts to improve oversight.

Components of the productive sector

Overview of the sector

This section addresses the current state of the private sector in Dominica, and provides a broad overview of major trends and the sector's primary components. A later section discusses potential emerging growth sectors.

Dominica's economy is dominated by the services sector (see Table 1). In 1980 services accounted for less than 50% of GDP, but this figure had grown to 68% by 2013. Within the services sector, transport, storage and communications; education; wholesale and retail trade; and real estate, renting and business

activities account for over 40% of GDP. The other large sector in Dominica as a proportion of GDP is agriculture, livestock and forestry, at 14.3%.

Table 1 Contribution to GDP by sector in Dominica 2013

Sector	Share (%)
Transport, storage & communications	12.3
Education	10.9
Wholesale & retail trade	10.7
Agriculture, livestock & forestry	14.3
Real estate, renting & business activities	7.6
Public administration, defence & compulsory social security	7.3
Financial intermediation	4.9
Construction	3.3
Electricity & water	4.0

Source: ECCB (29 August 2014)

In terms of the performance of economic sectors, agriculture has been adversely affected by disease and reduced demand for bananas, while construction has waned due to reduced public-sector capital expenditure and tourism output has fallen owing to a decline in cruise-ship passenger arrivals. However, growth has taken place in soap manufacturing, while the other main sectors (namely education, real estate, renting and business activities, and financial intermediation) have seen marginal increases in output.

In terms of employment, 78% is in the private sector. According to the 2008-09 Country Poverty Assessment conducted by the Caribbean Development Bank (CDB) for Dominica, the island's labour force was estimated at 32,630 people, with 86% of them employed. According to the International Labour Organization's 2005 Labour Force Survey, the largest numbers of workers are in the agriculture sector (at 22% of all workers), wholesale and retail trade (17.9%), construction (7.9%) and transport, storage and communications (7.6%). The categorization of small and medium-sized enterprises (SMEs) varies across regions, due to a lack of comparability and consistency on several measures as well as on the parameters used to define the different sizes of firm, which may be based on employment, sales or investment data. As in most small-island developing states, in Dominica the private sector is characterized by a few dominant firms and numerous micro and small enterprises.

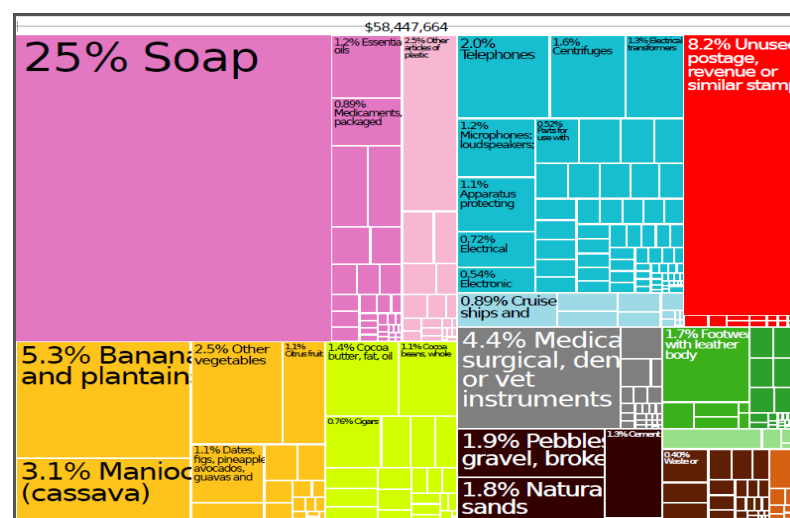
According to the International Finance Corporation and the World Bank, 80% of all firms in Dominica in 2010 were categorized as private businesses under domestic ownership. Of these, 53% were under sole proprietorship, 21.7% were limited-liability companies, 17% were standard partnerships and 8.3% were limited partnerships.

Industry and agriculture

Dominica's top exports are soap, unused postage stamps, bananas and plantains, and medical instruments. The agricultural sector, traditionally a key source of foreign exchange, has contracted significantly in recent years. In 1980 agriculture accounted for almost one-third of all production on the island. Since then, the sector has shrunk significantly, and it now accounts for only about one-eighth of total domestic activity. Over the past 15 years the banana industry in the Windward Islands (of which Dominica is one) has collapsed following

the ending of preferential treatment in Europe, meaning that the government has had to make efforts to reposition the economy to enable it to continue to compete.

Figure 8: Treemap of Exports, Dominica 2010



The diversity of Dominica's exports is lower than that of most comparator countries and is significantly lower than the average for developed countries. Since 1995 ferroalloys, yachts, special-purpose motor vehicles, cleaning products and machinery for working rubber or plastics have fallen from among the top ten exports, and are now no longer even in the top 20. These products have been replaced by unused postage, revenue or similar stamps; other plastic articles; other vegetables; telephones; and natural sands. Soap has moved from third position (at 15% of total exports) to first (at 25%). Whereas primary products in the top ten made up 21%⁷ of total exports in 1995, they accounted for only 14%⁸ in 2010. The analysis reveals that there has been a certain amount of movement up the production chain, with a reduction in exports of primary products and an expansion in exports of more processed products, but that this change has been limited.

There is a need for Dominica to diversify its production base, as well as to move up the value chain, in order to assist economic growth and also reduce poverty through the provision of suitable, sustainable employment opportunities.

Services Tourism, education and also transport, storage, and communications, are the main drivers of activity in the services sector of Dominica's economy (see Figure 9). Tourism is largely dominated by cruise passengers. The World Travel and Tourism Council (WTTC) (2013)⁹ estimates that in 2012 travel and tourism

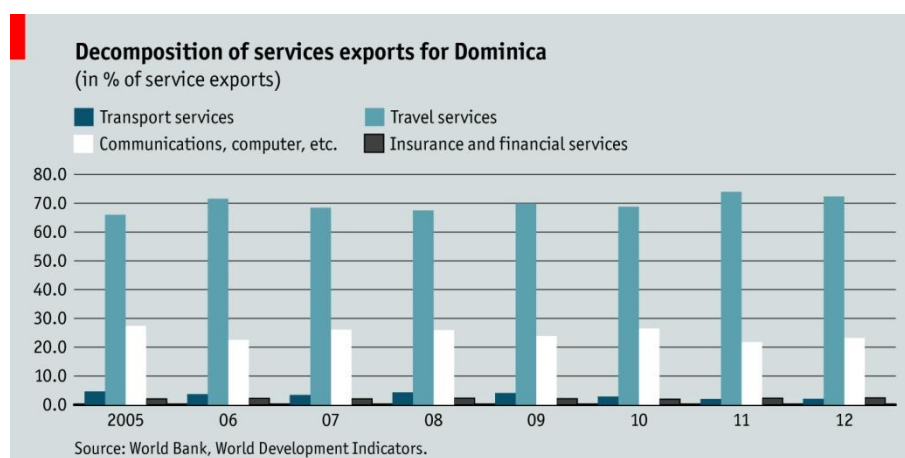
⁷ In 1995 primary-product exports in the top ten included bananas and plantains, and also manioc (cassava).

⁸ In 2010 primary-product exports in the top ten included bananas and plantains, manioc (cassava), other vegetables, pebbles, gravel, broken and crushed stone for aggregate and natural sands.

⁹ http://www.wttc.org/site_media/uploads/downloads/dominica2013.pdf

made a direct contribution¹⁰ to the economy of 9.5% of GDP and 8.8% of total employment (around 3,000 jobs). Travel services are the only category of services trade in which the island runs a trade surplus. For all the other services segments, trade payments far exceed earnings.

Figure 9



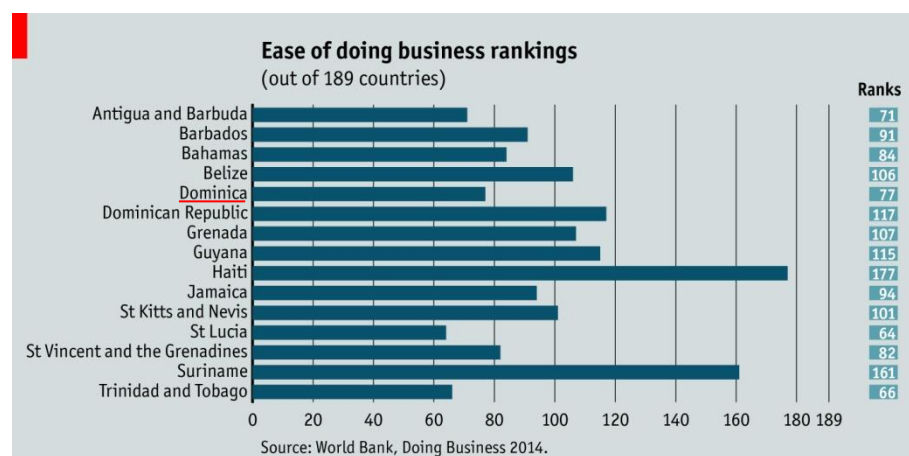
Between 2000 and 2010 transport, storage and communications accounted for around 15% on average of real GDP. This in large part reflects the topography of the island, as well as infrastructure developments that have taken place on the island during the past decade. Road transportation has been a significant contributor, but it is in the area of communications that growth in this sector has been concentrated. The upgrade of the country's telecommunications infrastructure has opened up the market and provided opportunities for growth.

¹⁰ The WTTC defines the direct contribution of travel and tourism to GDP as comprising spending on travel and tourism by residents, businesses and government, together with visitor exports of tourism-related commodities (accommodation, transportation, entertainment and attractions). It defines the direct contribution to employment as consisting of jobs provided in these industries (accommodation services, food and beverage services, retail trade, transportation services, and cultural, sports and recreational services).

II. Key challenges for private sector development

Dominica received a respectable ranking, at 77th (out of 189 economies; see Figure 10), in the World Bank's 2014 Ease of Doing Business index. In the comparator group it was in fourth position in the rankings, behind only Antigua and Barbuda, St. Lucia, and Trinidad and Tobago.

Figure 10



However, although doing business in Dominica is relatively straightforward, there are a number of key challenges facing private-sector development. These include:

- 1. Governance issues:** The lack of specific sectoral strategies for private-sector development; the need for a mechanism for dialogue between the public sector, the private sector and trade unions to address issues relating to identifying skill requirements, to develop programmes to address these needs, and to improve productivity and information sharing.
- 2. Finance issues:** The need to reduce financing costs and improve access to finance generally.
- 3. Energy cost issues:** The need to reduce the cost of energy and accelerate exploitation of renewable energy sources.
- 4. Transport and trade issues:** The need to improve road infrastructure and trade logistics, and to reduce the cost of shipping; the need to strengthen regional collaboration between importers and exporters.
- 5. Labour market issues:** A lack of adequate skills in the labour force at both the technical and management level.

Table 2 Biggest obstacle to business in the OECS, 2010 (% of respondents)

Obstacle	Antigua and Barbuda	Dominica	Grenada	St. Kitts and Nevis	St. Lucia	St. Vincent and Grenadines
Access to finance	15.3	44.0	12.8	20.9	35.0	20.6
Electricity	13.0	29.7	2.7	15.2	22.4	10.6
Transportation	3.9	3.5	4.1	3.4	10.7	1.0
Inadequately educated workforce	1.3	2.1	15.4	10.0	7.4	12.8
Tax rates	18.2	8.6	17.6	20.0	6.0	11.0

Labour regulations	0.0	4.4	2.9	0.0	5.6	0.0
Crime, theft & disorder	7.9	3.6	10.2	13.4	5.1	11.3
Customs & trade regulations	16.1	0.9	2.1	5.2	4.0	9.9
Practices of informal sector	4.8	3.1	8.4	5.8	2.7	7.8
Corruption	7.7	0.0	1.4	3.5	0.9	1.5
Political instability	6.1	0.0	12.3	0.5	0.2	10.2
Tax administration	2.4	0.0	5.7	1.4	0.0	2.6
Access to land	0.7	0.0	3.9	0.7	0.0	0.0
Business licensing & permits	2.7	0.0	0.0	0.0	0.0	0.3
Courts	0.0	0.0	0.8	0.0	0.0	0.3

Source: World Bank, Enterprise Surveys 2010.

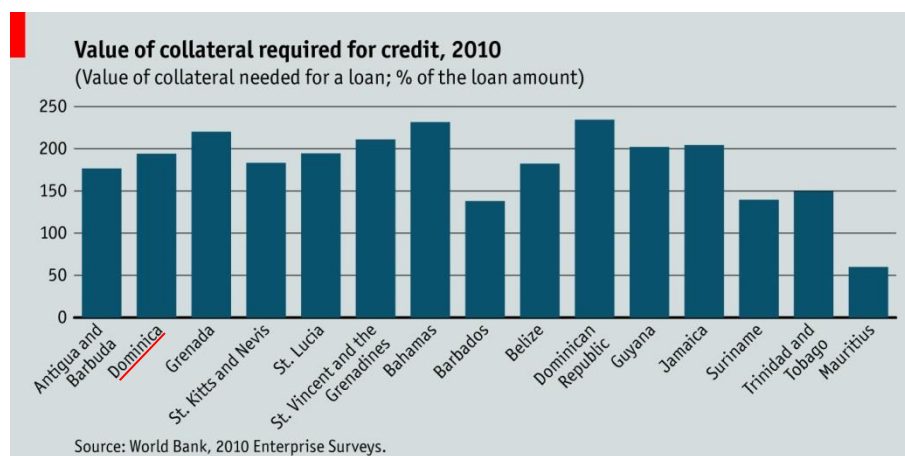
Governance/lack of strategy for private-sector development

In its July 2012 budget address, the government focused on: fiscal policy and administrative reform, including creating an enabling environment for private enterprise and investment attraction; sectoral strategies for growth; and strategies for poverty reduction and social protection. The sectoral strategies relate mainly to tourism and manufacturing (particularly agro-processing). However, it appears that stakeholders consider these announcements to be lacking in substance and want more detail about how the government intends to address the economic issues facing the country. The results of the Caribbean Growth Forum working groups noted the need for a mechanism for greater collaboration between the state, the private sector and labour in addressing issues relating to identifying skill needs, programmes to address these needs, and improving productivity and information sharing.

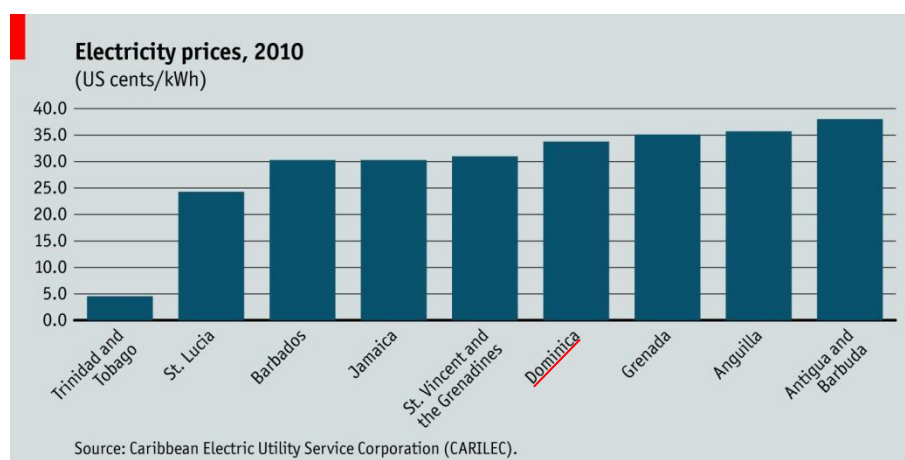
Access to finance

In Dominica and across the Organization of Eastern Caribbean States (OECS), individuals noted that the high cost of finance was a key hurdle limiting the formation of new firms and the expansion of existing enterprises, and that it was mainly due to the underdeveloped state of capital markets. The situation is particularly pressing in Dominica, where 44% of respondents to the World Bank's Enterprise Survey (2010) noted that this was the biggest obstacle to doing business; the OECS average was 25%.

In 2010 private-sector interviewees in Dominica stated that finance was either difficult to obtain due to collateral pre-requisites or too costly (that is, interest rates were too high). With regard to bank loans, only 33% of firms stated that they had direct access to such facilities (this compares with an average of 45% in the comparator countries). Access was also limited by a lack of information on potential borrowers (owing to the absence of either a public or a private registry bureau), and by the fact that financial sector regulators lacked an appreciation of the special circumstances of smaller enterprises. Collateral as a proportion of loan size in Dominica averaged 194%, largely owing to banks' assessment of the likelihood of impending loss of value in the real-estate assets used to back loans, a lack of information about borrowers and the poor quality of business plans. This was the fourth-highest ratio in the OECS (see Figure 11). The interest-rate spread in Dominica averaged 6% in 2013.

Figure 11**Cost of electricity**

Based on interviews and the results of the World Bank Enterprise Surveys (2010), the cost of electricity was noted by 66% of respondents as one of the major constraints on businesses in Dominica—nearly twice the regional average. As a net importer of energy, Dominica is vulnerable to fluctuations in oil prices on the global market. The cost of power per kilowatt-hour exceeded US\$0.30 in all of the OECS countries included, whereas the cost was less than US\$0.05 in Trinidad and Tobago—unsurprisingly, given its plentiful energy resources (see Figure 12).

Figure 12

It is difficult for a business to be supplied with electricity in Dominica. The island is ranked 64th (out of 189 economies) in the "getting electricity" category of the World Bank's Ease of Doing Business index (2014). Dominica has one of the worst rankings in the Caribbean basin. On average, getting a supply of electricity in Dominica requires five procedures and takes 61 days, at the high cost of 649.7% of annual income per head, where a physical connection to the grid does not already exist. The fact that electricity is supplied by a monopoly provider, Dominica Electricity Services (DOMLEC), makes obtaining an electricity supply difficult. Clients must bear the entire cost if any external

works have to be carried out by DOMLEC's private contractors in order to connect them to the grid.

Table 3 Infrastructure indicators for Dominica and comparator countries

Economy	Dominica	Average for Latin America and the Caribbean
Number of electrical outages in a typical month	2.8	2.5
Duration of a typical electricity outage (hours)	2.0	1.3
Losses due to outages (% of annual sales)	0.1	1.1
Percentage of firms owning or sharing a generator	8.8	28.8
Percentage of electricity obtained from a generator	0.1	2.1
Days to obtain an electricity connection	61	21.3
Percentage of firms identifying electricity as a major constraint	66.1	37.6

Source: World Bank, Enterprise Surveys 2010

Transportation and trade

Challenges to trade include inadequacies of infrastructure and transportation, as well as high costs and the slowness of trade. Dominica is a volcanic island that has one of the lowest population densities and among the most intact forest cover in the Caribbean archipelago. Owing to its topography, it has a limited road network, and this makes travel to the island's airport and seaports time-consuming. Many firms highlighted as problematic the difficult terrain and the long distances that must be travelled to reach the country's sole operational airport, Melvin Hall. One respondent even stated a preference for taking the inter-island ferry from the capital, Roseau, to the neighbouring French islands in preference to travelling inland to Melvin Hall airport in Dominica's north-west.

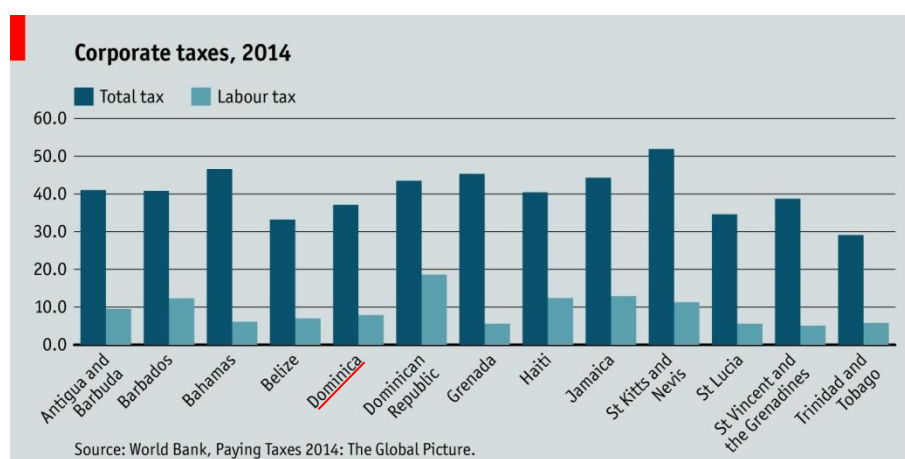
Dominica has one of the poorest rankings for trading across borders among the comparator countries, and especially among those in the OECS, in the Ease of Doing Business index. The number of documents required for export and the costs associated with exporting are significantly higher than the regional averages, and Dominica lags behind the regional and global best performers on these indicators. The time taken to export commodities, at 13 days on average in 2014, outperforms the regional average but trails the regional and global best performers by around four and eight days respectively. The time required to clear imports was not deemed by private-sector survey respondents to be a major hurdle to trading, as it is in the Dominican Republic and Guyana. In this respect, Dominica was on par with Barbados, Jamaica and most of its OECS counterparts, in all of which it took around seven or eight days to clear imports. The costs of importing goods and the time taken to do so in Dominica have always been significantly higher than the regional averages, with eight required procedures (as opposed to an average of seven regionally) and an average timespan of 14 days, at an estimated average cost per consignment of US\$1,600.

Addressing the logistical issues affecting trade and transportation will require a variety of measures, including reform of trade procedures, investment in suitable vessels, and investment in road infrastructure.

Corporate taxation

Around 23% of firms in Dominica identified tax rates as a major impediment to business. This is in line with the situation in comparator countries such as the Bahamas, Barbados and Belize, where the figure is around 20%, but is higher than Trinidad and Tobago's figure of 13%. The corresponding figure in Jamaica is much higher, at 74%, while in Antigua and Barbuda it is 71% and in St. Kitts and Nevis it is 68%. The rate of tax applied to corporate entities in Dominica stands at nearly 40% of profits (see Figure 13), in line with rates in many comparators, and particularly those in the OECS.

Figure 13



Dominica is ranked 75th (out of 189 economies) for ease of paying taxes in the Ease of Doing Business index, well above the Latin American and Caribbean average. On average, firms make 37 payments a year, spend 117 hours per year filing, preparing and paying taxes, and pay total taxes amounting to 37.1% of profits. The number of payments made annually in Dominica is roughly in line with the regional average of 30, but is substantially higher than the regional best performers, Belize, and the global leader, the UAE. According to the index, labour taxes paid by firms in Dominica represent 79% of profits—relatively high amongst OECS comparators.

Labour market and gender

Respondents to the World Bank's Enterprise Surveys cited the lack of an adequately trained labour force and the low participation rate of women in the workforce as hindrances not only to business development in the private sector but also to the advancement of the economy as a whole. Although Dominica performs better than any of the other members of the comparator group in this regard, 12.7% of its firms identified an inadequately trained labour force as a major constraint (the next best performers were Jamaica and St. Lucia, at 20% and 22% respectively).

The World Bank's Enterprise Surveys for 2010 reveal that there is clear gender segmentation in the labour market, with women more dependent on low-skilled, low-paid employment. Women play a modest role in the private sector

in terms of ownership, at 41%, and top management, at 23.6% (see Figures 14 and 15). Women make up 32.1% of full-time workers, and are heavily reliant for employment on wholesale and retail trade (a sector noted for its low skill requirements, low remuneration and high staff turnover rates) and agriculture (where work is seasonal). According to the CDB's Country Poverty Assessment for 2008-09, the overall rate of male and female unemployment in 2009 stood at around 14%, but unemployment was significantly higher among the poor, and especially poor women.

Figure 14

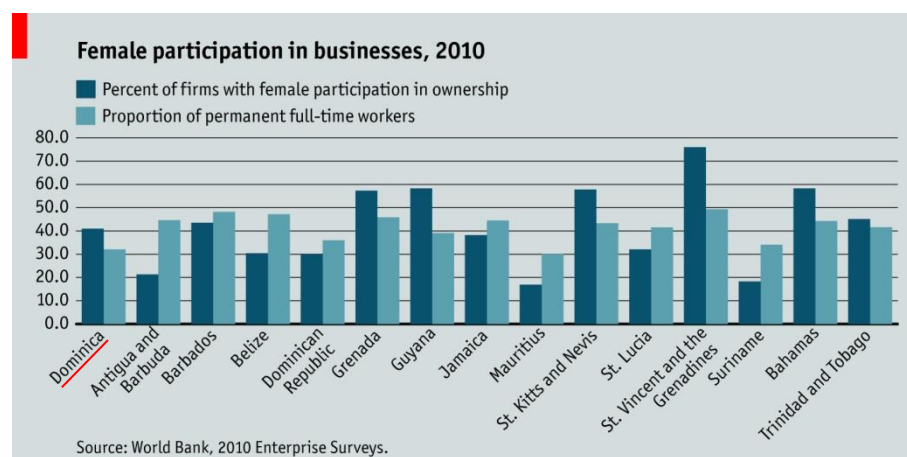


Figure 15



Environment

As a small-island developing state in the Caribbean basin, Dominica is susceptible to natural disasters, particularly hurricanes, and climate change. Such phenomena have the potential to cause widespread damage to exported commodities. Climate change can lead to shrinkage in the cryosphere, rising greenhouse-gas emissions from the burning of fossil fuels, rising sea levels and rising average temperatures, which will have detrimental effects on the nation's flora and fauna. Dominica has one of the smallest ecological footprints among the comparator countries. Its carbon dioxide (CO₂) emissions amounted to 1.883 tonnes per head in 2008, the lowest level in the OECS grouping. This environmental performance was surpassed only by St. Vincent and the

Grenadines (with CO₂ emissions of 1.847 tonnes/head), Belize (1.32 tonnes/head) and Haiti (0.25 tonnes/head).

As one of the least densely populated countries in the Caribbean basin, a small ecological footprint is to be expected, and the extent of forest cover in Dominica should counteract CO₂ emissions resulting from economic activity. There is a significant amount of private-sector activity on the island in the field of renewable energy. Dominica has a renowned natural-resource endowment, which the government is willing to take advantage of in a sustainable manner. The country is a pioneer in the use of renewable-energy technologies, including wind turbines, solar power and geothermal energy.

III. Emerging sectors

The analysis for this section was derived from the opinions of key stakeholders and experts, which in turn was based on secondary sources of data and analysis. Dominica has a number of strengths that would be likely to support the continued growth and development of the private sector, including relatively low inflation; a fairly good rating for government effectiveness in the World Bank's Worldwide Governance Indicators index (although the country is ranked only fourth-highest in the Organization of Eastern Caribbean States, or OECS, on this measure); a firmly established system for gender representation (in terms of women's representation in various institutions and Dominica's membership of relevant international treaties)¹¹; and a high potential for the exploitation of renewable energy. The island's natural beauty and heritage can also be leveraged to support its continued focus on tourism as a substitute for banana production. The Eastern Caribbean Central Bank also notes that, in addition to these sectors, growth in the economy will also need to emerge from the financial sector and from real-estate, renting and business activities. Although agriculture and construction are the two sectors to have recorded the fastest average growth rates in the past four years, they are not expected to contribute so strongly to private-sector growth in the future. Instead, many of the opportunities for the emerging sectors are based on Dominica's physical environment.

Dominica has an abundant natural-resource endowment, as exemplified by its lush flora and fauna and its hydropower resources. The island, which is often referred to as the Nature Isle of the Caribbean, has extensive forest cover and arable land, accounting for 22.6% and 27.8% of the total land mass, respectively. It is clear from this that the attributes of Dominica's physical environment provide opportunities for ventures in offshore education in the natural sciences, ecotourism and alternative energy. In terms of manufacturing, the production of organic soap is already realizing its potential, with output of soap expanding by nearly 30% in 2012, drawing on the natural resources of the island.

Agriculture Agriculture experienced the fastest average rate of growth of any sector in the local economy in the period from 2008 to 2012. Agriculture, livestock and forestry contributed just over 12.5% of GDP in 2001-10, with food crops responsible for the largest proportion of growth in the sector. The agricultural sector faced challenges when the Windward Islands' banana industry collapsed, but other food crops have provided a cushion, as producers have exported other crops. In addition, the rate of growth in the banana industry has since picked up again.

¹¹ In May 2006, the Commonwealth of Dominica adopted a Gender Policy which sought to address conceptual and nationally relevant gender perspectives and to provide analysis that can be integrated into the design, implementation, monitoring and evaluation of all government policies and programs. It is spearheaded by the Bureau of the Gender Affairs, an umbrella organization of the Ministry of Community Development, Culture and Gender Affairs and consists of an institutional framework of Gender Mainstreaming. The latter can be broken down into the various components: (i) a gender management system, (ii) a gender management team and (iii) gender focal points.

Although agriculture accounts for two of the country's four fastest-growing sectors (see Table 4), it is vulnerable to disease, natural disasters and competition from lower-cost suppliers. However, agriculture continues to receive significant investment, as there is increasing export demand for the wide variety of crops in which Dominica enjoys a competitive advantage within the Caribbean region, thanks to the environment and the framework of support for agriculture in the country. The government has started a programme of rehabilitating feeder roads in the major production areas, and support will also be provided for farm irrigation, especially where farmers are able to organize themselves into groups for this purpose.

Table 4 Growth in GDP by economic activity

Activity	Average growth, 2007-12 (constant 2006 prices)
Bananas	7.7
Construction	6.9
Electricity	3.4
Other crops (excl bananas)	3.3
Education	2.7
Wholesale & retail trade	2.6
Restaurants	2.6
Road transport	2.3
Insurance	1.9
GDP	1.8

Source: ECCB (2013)

Education Education services have been the second-largest driver of economic activity in Dominica in the past decade, accounting for just over 14% of GDP. This performance has been driven mainly by the expansion of the private education subsector, but has also been supported by consistent growth in public education. The foreign-owned Ross University School of Medicine is one of the main private institutions providing medical training to students from North America. Related to the expansion of education has been growth in the real-estate, renting and business activities sector, which has contributed just over 11% of GDP in the past decade. This sector is involved in the provision of accommodation services to Ross University.

Energy Dominica's natural resources have led to the island becoming known as the Nature Isle. These resources provide sustainable entrepreneurial opportunities in several sectors, including geothermal and other renewable energies. Although the electricity and water subsectors currently account for only slightly over 5% of GDP, the government has provided resources to examine the feasibility of generating electricity from geothermal energy, which would be likely to boost the contribution of this segment to overall economic output. After the drilling of three test wells, it was confirmed that there was an exploitable geothermal resource in the Roseau Valley that could be used to produce electricity. The drilling stage was completed in early 2014 for the planned 10-15 MW geothermal plant, which it is hoped will be constructed by 2015; the electricity generated will be used to augment the domestic power supply, 70% of which is currently dependent on diesel imports. Dominica is also exploring the feasibility of supplying both Guadeloupe and Martinique as

part of the expansion of this sector. Geothermal energy is well positioned for take-off in Dominica, providing an incentive for both domestic and foreign investment and giving the economy a much-needed boost. According to the Energy Sector Management Assessment Program¹² (part of the World Bank Group), discussions between the government and private sector on potential public-private partnerships to develop geothermal power are currently underway.

Tourism Although not listed in Table 4 as one of the main drivers of growth in GDP, tourism is viewed by the government as a sector that is crucial to the development of Dominica's economy in order to compensate for declines in other sectors. Following the problems that have afflicted the banana industry in particular, the focus has shifted to tourism services. To that end, the government has improved air access infrastructure by completing the upgrade of Melville Hall Airport to accommodate night landings, thus considerably easing air access constraints on both arrival numbers and investment. Major rehabilitation of the road network between the capital, Roseau, and the airport will afford both local citizens and visitors a comfortable journey with enhanced safety.

The government is also confronting the challenge of increasing the quantity and quality of hotels in Dominica, as it seeks to erase the image of Roseau as the only capital in the OECS with inadequate hotel accommodation and facilities for hosting international meetings. The ongoing project involving the construction of a new and modern State House Complex with conference facilities represents the first step towards changing the island's image in this regard.

Efforts to support the expansion of the accommodation stock in Dominica are already underway. In particular, the government has undertaken activities to re-examine its present tax and incentive regimes with an aim of updating them while ensuring that they are WTO compliant. Recognising the level of the commitment required to achieve a projected increase of approximately 50 rooms per year over a ten year period, the Government also sought to revise the Tourism Incentives Development Bill during the third quarter of 2014 as well as a few other pieces of key legislation. Notably, the contemplated benefits are not only targeted towards hotels but also include villas, camping, glamping, resorts and shared property schemes.

¹² See <https://www.esmap.org/node/4473>

IV. Priority areas and action plan

Dominica's Public Sector Assessment Report (PSAR) highlights the key challenges facing private-sector development, as well as the emerging sectors that are expected to encourage economic growth going forward. The PSAR recommends a set of actions to help Dominica strengthen its labour market, improve access to finance and reduce the costs of doing business.

Background Private-sector development is a priority for the Organization of Eastern Caribbean States (OECS), including Dominica. The government has been making strides in terms of improving the business environment and encouraging private-sector development. However, Dominica has yet to articulate a national strategy for private-sector development, and there are gaps in the execution of programmes to improve the business environment.

The opportunities to increase the effectiveness of such programmes mainly relate to the issues raised in the PSAR regarding the lack of easily accessible finance, the lack of the skills needed by the private sector, and process issues related to the operation of customs and trade. One reason for the existence of these gaps is the exclusion of the private sector from decision-making and strategic planning. It is hoped that this issue will be addressed by the establishment of a high-level steering committee comprising of labour, private-sector and public-sector representatives.

The three working groups organised for Dominica by the Caribbean Growth Forum (CGF)—namely the logistics and connectivity group, the investment climate group and the skills and productivity group—identified a number of issues that when addressed have the potential to catalyse private-sector development. Strengthening Dominica's workforce, as well as the country's technology and information-management systems, will encourage private-sector growth by improving productivity and efficiency¹³. With regard to the labour market, even when the hurdles already noted have been overcome, the limited availability of trained staff and the lack of specialist skills still have the potential to limit further expansion in the private sector. Enhancements to the labour market, and the use of technology and innovative techniques, are imperative if the economy is to create and support the growth of competitive industries.

Priority areas General political and governance issues

One of the critical recommendations to emerge from both the private-sector assessment and the CGF was the need for the implementation of a tripartite arrangement between key stakeholders and representatives of labour, the private sector and the government. The development of such a mechanism would address the concerns regarding skills and productivity issues that have been raised in the CGF working groups, and would give the private sector a voice in the development of sector-specific policies. In addition, it would allow business-specific issues such as the need to improve access to finance, as well

¹³ The level of technology use in most enterprises is relatively low at present.

as general social issues such as youth unemployment, to be addressed. Dominica could learn from the experience of the Social Partnership model in Barbados. The Social Partnership, which is chaired by the prime minister of Barbados, draws members from labour and private-sector representative bodies. In the case of Dominica, it is recommended that once representative bodies for labour and the private sector have been organised appropriately, such a tripartite group be tasked with implementing the other elements of the action plan identified from the PSAR.

A national strategic plan will ensure that policy planning is continuous and not influenced by the electoral cycle. It is considered that such an approach to development planning would enhance the transparency of government policy formation, as well as reducing business uncertainty. The government's demonstration of its commitment to private-sector development can boost investor confidence and open up avenues for public-private partnerships in provision of public goods (for example, buildings and infrastructure) where opportunities exist.

Improving ICT systems to enhance efficiency and reduce the cost of doing business

In Dominica technology use is at a relatively low level in most enterprises, yet there is also strong demand from private-sector enterprises for data to assist in strategic planning and the formulation of business plans in order to access finance. The problem is not that data does not exist in the region, but rather that there is a lack of infrastructure and human resources to consistently collate and present data. The private sector is also not utilising the available technology to its fullest potential even though it would benefit from its use in the general operations of firms. For example, in interviews firms reported that they utilize a significant amount of their human resources in the physical collection of payments when the technology exists to provide a far more efficient solution, reducing fraud and associated security issues in the process.

The development of information systems, as well as monitoring and evaluation systems to assess the effectiveness of policies, are important for private-sector development. Improved technologies will also help to enhance access to finance by lowering costs and reducing information asymmetries between borrowers and lenders. Such asymmetries, along with informality, directly affect levels of collateral required by commercial banks in the region, as they increase the riskiness of lending and this uncertainty is passed on to customers through collateral requirements. As noted in the World Bank's Doing Business report, introducing more advanced technology to reduce the transaction and interest costs charged by banks operating in Dominica should be a high priority.

The private sector will need to develop a culture of information-sharing in order to assist governments in understanding the sector's needs and its contribution to the economy. One avenue for doing this would be the establishment of a private-sector-funded research unit, perhaps overseen by the private-sector representative on the tripartite committee. Such a unit could identify opportunities (both domestic and foreign) for private-sector growth, as well as potential threats to the various subsectors. Pooling of resources would

allow the decision-making process of individual firms and other economic agents to benefit from research and data, and this should bolster firms' profitability as well as enhance overall economic sustainability.

Education and skills capacity building

The limited availability of trained staff and a lack of specialist skills have the potential to limit the further expansion of the private sector in Dominica. In seeking to address these issues, two main areas will require attention: 1) education, human resources and human-capital planning in relation to the skills that will be needed in the future, and 2) vocational and on-the-job training.

Human-resources planning

Before the details of any strategic plan can be finalized, there needs to be a human-resources development strategy based on a balance between the needs of industry and the strategic direction of the government. Human-capital planning that supports the national strategic plan would be helpful in the immediate term, as well as assisting the future growth of the private sector by signalling which sectors the government intends to support. Such clear signalling would encourage investment (both foreign and domestic) by the private sector in these strategic sectors, for example geothermal energy. A combination of the right investments in labour and physical capital can increase the productive capacity of an economy.

R&D, particularly in science, technology and engineering, has been a dominant feature of emerging countries' human-capital plans in terms of attempting to ensure the highest possible return per worker. Governments in countries with economies not based on natural resources, such as Taiwan, South Korea and Malaysia, have strategized the role of R&D for industrial competitiveness and identified competencies in areas such as information technology, robotics, micro-electronics, laser technology, food and agro-technology, and bio-technology. While not all such industries are directly transferable to small-island states like Dominica and its OECS co-members, there are still lessons that non-resource-based economies can provide, particularly in relation to renewable-energy technologies (namely geothermal, solar, wind and wave power) and technologies related to the marine environment, agro-processing and niche manufacturing.

Vocational and on-the-job training

With respect to on-the-job training and apprenticeships, enterprises need to be incentivized (for instance, through the use of tax allowances) to invest in this aspect of skills development to ensure that businesses can access the skills that they require for their growth, as well as to provide an opportunity for uncertified workers to enhance their earning capacity through on-the-job certification initiatives such as National Vocational Qualifications (NVQs).

Given the specific nature of the skills required by some organisations, it is unlikely that the necessary training will be available in the education sector,

and this means that these skills need to be acquired internally. As with investments in plant and equipment, incentives need to be put in place for investment in training at enterprise level (rather than at educational institutions), through apprenticeships and on-the-job training with recognition through certification, together with opportunities for workers to improve their employment prospects within and outside the enterprise where they are currently employed. Caribbean Vocational Qualifications (CVQs) and NVQs provide the ideal mechanism in this respect, and participation by enterprises should be strongly encouraged. Such enhancements of skills benefit the individual enterprise by raising productivity, and also demonstrate to potential investors that there is a skills base and a commitment to ongoing training in the country.

Energy conservation and exploitation of renewable resources

In terms of conservation, the adaptation of behaviour to reduce usage of resources and the adoption of energy-efficient technologies, along with retrofitting, provide avenues to reduce costs in the short to medium term. For Dominica, the possibility of exploiting alternative energy sources is high: the country is ranked first in the Caribbean region for renewable energy, and is ranked sixth in relation to the existence of an enabling environment, second for existing renewable generation and second for renewable-energy projects that are expected to come on line in the next five years.¹⁴

The main opportunities in this area relate to the potential for geothermal energy to provide a low-cost alternative to existing sources of electricity generation, and also to cushion the negative impact that international oil prices can have on Dominica's balance of payments and the competitiveness of its firms. Incentives in this area could include concessionary reductions of duties on imports of materials; technical assistance; and the development of special funds for investments in alternative-energy projects and enterprises providing complementary services, such as retrofitting. Skills training in this area and knowledge transfers from international investors should form an integral part of the skills-development section of the national strategic plan.

A long-term action plan for private-sector growth

The preceding analysis has identified a number of issues affecting the development and growth of the private sector in Dominica. The resulting priorities of the Action Plan are:

Action 1: Establish a tripartite committee (government-employers-labour) to identify the needs of all bodies and to guide and oversee private-sector development strategies.

Action 2: Conduct a skill needs assessment to identify the specific skill gaps in key strategic sectors and develop plans to address them.

Action 3: Develop a national strategic plan that includes development strategies for specific sectors. It should be the national strategic plan that guides the overall approach to private-sector growth and development. In this regard, a

¹⁴ http://www.castalia-advisors.com/files/Castalia-CREF_RE_Islands_Index_121010-1.pdf

national strategic plan will ensure that national policy planning is continuous and not influenced by the electoral cycle. It is considered that such an approach to development planning will also enhance the transparency of government policy formation, as well as reducing business uncertainty.

Action 4: Reduce the cost of finance through the reduction of transaction and operating costs in financial institutions via: the use of appropriate technology; the reduction of both risk and risk-aversion through the establishment of a credit bureau and a collateral registries; and the introduction of alternative financial products, such as equity financing, and greater competition in the financial sector at a level appropriate for the small size of Dominica's financial market.

To reduce transaction and operating costs, it is recommended that policies be structured around technological advances (for instance, credit information systems) and reducing operating costs (for example, via incentives and/or policies that reduce electricity costs, such as the retrofitting of buildings to facilitate the use of renewable energy). All of these policies should contribute to reducing the interest rates charged for credit.

Action 5: Increase the capacity of businesses to access finance, through the provision of support (technical assistance and training) for the adoption of accepted business practices (such as record-keeping) and the acquisition of the skills required to develop business plans for funding and strategic-planning purposes.

Action 6: Provide incentives for energy conservation and frameworks for the exploitation of renewable/alternative energy. Incentives and support in this area will act as both a cost-reduction tool and an opportunity for investment and enterprise development in the renewable/alternative energy sector.

Action 7: Education and training curriculum reform that addresses the requirements of the government's long-term strategic direction as well as the more immediate needs of the private sector.

Conclusions Private-sector development cannot be separated from the sustainable development of the country as a whole. This implies that social issues such as poverty, unemployment and environmental vulnerabilities should be considered in any plan to enhance private-sector development. Indeed, these issues can often show up in the bottom line for businesses via higher security and insurance costs. It is imperative that these issues be kept in mind during the development of strategic plans to support the private sector.

In relation to the development of a national strategic plan with a regional focus, attention should be paid to the recommendations that have consistently emerged from research in the region regarding niche-market development, moving up the value chain, development of strategic alliances and joint ventures for knowledge and technology transfer, and the development of

clusters (both vertical and horizontal).¹⁵ While activities in these areas are not explicitly mentioned in the Action Plan due to their specific nature, they should remain as options during the development of the strategic plan for private-sector development and growth in Dominica. A further caveat is that the implementation of the Action Plan cannot be undertaken in isolation from regional integration efforts at the OECS and Caribbean Community (CARICOM) levels.

It should be noted that, while all the Action Points relate to the establishment of a conducive environment for the development of the private sector and are external to enterprises, the private sector itself will need to take responsibility for adopting a more proactive approach to exploiting market opportunities. Lessons should also be learned in relation to the need to draw on the strengths of the region. In this vein, the Caribbean needs to exploit those resources in which it has an advantage and a brand, suggesting a concentration on alternative energy (geothermal, solar); specialist agricultural products and agro-processing; eco-tourism; "edu-tourism" (drawing on human resources in the region); heritage tourism; health and wellness (both product-specific and related to tourism); and financial services, among others.

¹⁵ An overview of policy recommendations made in this respect can be found in Lashley, J. (2010), "Productive Sector Development in the Caribbean: Manufacturing and Mining", in Alleyne, F., Lewis-Bynoe, D. and Archibald, X. (2010), *Growth and Development Strategies for the Caribbean*. Caribbean Development Bank: Barbados.

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