



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 02-Dec-2024 | Report No: PIDIC00187



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Dominica	P508114	Dominica: Strengthening Fiscal and Climate Resilience DPC	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	13-Mar-2025	Macroeconomics, Trade and Investment	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency		
Commonwealth of Dominica	Ministry of Finance, Economic Development, Climate Resilience and Social Security		

Proposed Development Objective(s)

The operation aims to support the Commonwealth of Dominica in achieving sustainable climate-resilient growth through: (i) strengthening domestic revenue mobilization and financial sector resilience; and (ii) promoting biodiversity and disaster preparedness.

Financing (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?

Is this project Private Capital Enabling (PCE)?

SUMMARY

Total Financing	20.00
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DETAILS

Total World Bank Group Financing	20.00
World Bank Lending	20.00



Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Dominica is a small, middle-income island economy, rich in biodiversity but highly vulnerable to natural disasters. Dominica, often referred to as the "Nature Island of the Caribbean," boasts extraordinary natural wealth and marine diversity that is increasingly threatened by climate change and environmental mismanagement, potentially affecting local livelihoods, tourism and the region's biodiversity. Moreover, increase in temperatures has exacerbated Dominica's exposure to extreme weather events such as hurricanes, landslides, and floods, posing increasing risks to its infrastructure, population and economy. In 2015, Dominica was struck by Tropical Storm Erika, which caused damage amounting to US\$ 480 million (90 percent of the country's GDP). This was followed by the catastrophic impact of Hurricane Maria in 2017, which inflicted an unprecedented US\$1.3 billion in damages and losses—equivalent to 226 percent of Dominica's GDP. Although Dominica avoided the worst of Hurricane Beryl's destruction that hit the region in July 2024—unlike St. Vincent and the Grenadines and Grenada—it still caused considerable damage to infrastructure, forced evacuations, and disrupted daily life across the island.

Dominica's exposure to climate events, combined with the Covid-19 pandemic, has heavily strained its fiscal position and the resilience of its financial sector. Public debt surged from 66.9 percent of GDP in 2016 to 114 percent in 2020, and a fiscal surplus in 2016 turned into a deficit of 10.7 percent by 2020 as a result of the Hurricane Maria and the Covid-19 pandemic. Owing to the revenues from the Citizenship by Investment (CBI) program, tourism recovery, and careful fiscal policy, debt decreased to 101.8 percent of GDP by 2023. However, Dominica's dependence on volatile CBI revenues and a narrow economic base leaves it vulnerable to shocks, especially with new scrutiny on the CBI program from the UK, US, and OECD that has caused CBI revenue to drop from 36.7 percent in 2022 to 18 percent of GDP in 2023. Although the financial sector is adequately capitalized, declining asset quality and heavy reliance on credit unions pose risks. In 2023, non-performing loans (NPLs) reached 12.9 percent, exceeding the Eastern Caribbean Central Bank's (ECCB) 5 percent cap.¹

Relationship to CPF

The World Bank Group's (WBG) engagement in Dominica is guided by the WBG Regional Partnership Framework (RPF) for the OECS covering FY 2022 – 2025 (Report No. 160349-LAC). The RPF covers the six OECS countries that are member countries of the WBG, namely Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The RPF objectives are closely aligned to the development priorities identified in the Systematic Regional Diagnostic (SRD) for the OECS countries, which discusses key constraints and opportunities for green, inclusive, and sustainable growth in the region, the national and regional development strategies of the Eastern Caribbean, and the priorities for resilient recovery from the impacts of the COVID-19 pandemic crisis. The regional

¹ ECCB Economic and Financial Review: <https://cdn.eccb-centralbank.org/documents/2024-06-21-10-53-44-GDA2023.pdf>



approach of this RPF is motivated by the shared development challenges faced by the OECS countries, the benefits of regional initiatives to effectively overcome these challenges, and the strong commonalities of the World Bank's engagement in these countries. The proposed operation's development objectives are closely aligned with the overarching objective of the RPF to support green, resilient, and inclusive development (GRID) and competitiveness, as the OECS countries recover from the COVID-19 crisis, address their medium-term development priorities, and build resilience to climate change and other external shocks. The operation is also closely linked to other World Bank analytical reports including the OECS Country Climate and Development Report (CCDR) published in October 2024 and forthcoming Strengthening Tax Policy for Climate Resilient Growth in Dominica.

C. Proposed Development Objective(s)

The proposed operation aims to support the Commonwealth of Dominica in achieving sustainable climate-resilient growth through: (i) strengthening domestic revenue mobilization and financial sector resilience; and (ii) promoting biodiversity and disaster preparedness.

Key Results

The reforms supported by this Development Policy Financing (DPF) are directly linked to the key developmental objectives of Dominica as outlined in its 2030 Development Agenda, National Resilience Development Strategy (NRDS), and the Climate Resilience and Recovery Plan (CRRP) 2020-2030. These objectives focus on achieving a robust, sustainable, and inclusive economy; transforming Dominica into the world's first climate-resilient nation; strengthening institutional systems; and protecting and sustainably leveraging natural and other unique assets. The key results of the proposed DPF include: (i) an increase in tax revenue; (ii) an improvement in the asset quality of the financial sector and deepening the financial sector through the development of digital payments; (iii) a decrease in greenhouse gas (GHG) emissions through an increase in diesel tax, promoting biodiversity, climate resilience, and sustainable eco-tourism through the establishment of a Sperm Whale Sanctuary; and (vi) an increase in response capacity to disasters through the development of a risk-based asset management system and disaster-responsive post-disaster budget execution guidelines. These reforms are designed to support Dominica's vision of becoming a climate-resilient nation and achieving sustainable development and economic growth.

D. Concept Description

This proposed Development Policy Credit (DPC), amounting to \$USD 20 million, is the first of a programmatic series of two operations that seek to strengthen Dominica's fiscal, financial and physical resilience, including its biodiversity. The first pillar aims to mobilize domestic revenue and enhance financial sector resilience to support sustainable growth. Key reforms under this pillar include raising excise taxes on diesel, sugary drinks, alcohol, and tobacco, and introducing a stamp duty on outgoing money transfers. These measures target revenue growth, lower greenhouse gas emissions, and encourage better health outcomes. To address the low asset quality of credit unions, the pillar also supports a more robust Asset Quality Review (AQR) process for assessing financial institutions' resilience. The second pillar focuses on biodiversity protection and disaster preparedness to build climate resilience. It supports the establishment of the first marine protected area for sperm whale conservation and the adoption of a risk-based asset management system to enhance preparedness for climate events.



E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

While the operation's first pillar could reduce purchasing power for poor and vulnerable Dominicans in the short term, it is likely to improve fiscal space for pro-poor spending, boost digital infrastructure, and expand access to financial services, leading to positive or neutral impacts for poverty-reduction in the medium and long term.² Under the first pillar, the proposed increases in taxes and fees would raise the cost of diesel, food, goods and services that use diesel as an input, sugary and sweetened beverages, and solid waste management in the short term, reducing poor and vulnerable Dominicans' purchasing power. The team will assess the distributional impacts of these measures. In the medium and long term, however, the increase in tax revenue, improvements in tax, and the strengthening of the financial viability of the state-owned AID bank through an AQR will improve fiscal space, which has remained constrained since Hurricane Maria and the pandemic. Additionally, approval of the Payment Systems Bill will significantly improve access to both public and financial services for disadvantaged populations in the medium term, thereby helping to reduce poverty.

The operation's second pillar should help strengthen poor and vulnerable Dominicans' resilience to both climate-related shocks and other shocks, further reducing poverty. In many Caribbean countries, climate-related shocks disproportionately threaten poor and vulnerable people, as they are more likely to work in exposed sectors like agriculture and tourism, their housing and physical assets may be of lower quality, and they lack the financial resources to bounce back or invest in adaptation strategies.³ This can lead poor and vulnerable households to adopt coping strategies that damage their long-term welfare, including reduced investment in human capital: in April 2024 more than two-thirds of those Dominicans facing lack of food or lack of money to buy food reduced their expenditure on health and education in response.⁴ Establishing and operationalizing the GIS unit within the government can help target the interventions needed to boost the resilience of poor and vulnerable households and recover when shocks hit, including information on infrastructure, the environment, and exposure to shocks. Implementation of these interventions can also be strengthened through the Disaster Risk Finance Strategy, which provides accurate tracking and reporting of disaster expenditures in the national budget.

Environmental, Forests, and Other Natural Resource Aspects

The policy reforms supported by this operation are not expected to have significant negative environmental effects and are likely to yield short to medium-term positive impacts by supporting climate change mitigation and adaptation. The measures do not include policy reforms that involve production decisions or actions that could be expected to negatively impact the environment and natural resources. Under Pillar 1, the increase in diesel excise is anticipated to have positive environmental impacts by reducing pollution, while increase in tax revenues, through these taxes and fees as well as an increase in tourism levy and SSB excise, are likely to increase public expenditure on climate by creating more fiscal space. The increase in the waste management fee may have a potential negative impact on the environment and human health through improper or illegal disposal of waste, if not properly managed. However, the Solid Waste Management Act 2002 and Dominica Solid Waste Management Corporation (DSWMC)

² Poverty estimates are not available for Dominica, as the country lacks a recent household survey capturing income, expenditure, or consumption. Dominica also has no recent labor force survey or census. However, it is expected that the solid growth prospects and lower inflation should contribute to reduce poverty in the medium term.

³ See, for example, the 2024 Jamaica Poverty Assessment.

⁴ See the Caribbean Community (CARICOM) and World Food Programme (WFP) Food Security and Livelihoods Survey. The survey was conducted online, its results are not nationally representative.



provides the necessary guidance for adequate management of waste in Dominica. Additionally, the policy reform to digitalize tax filing and payment and to develop payments systems bill will reduce paper transactions, thereby benefiting the environment. The policy reforms under Pillar 2 are expected to positively impact the environment. These reforms include the establishment of a Sperm Whale Sanctuary to protect endangered sperm whales that protect biodiversity of Dominica, reduce GHG emissions and promote climate resilience. The implementation of a national disaster risk strategy to develop a risk-based asset management system and clear budget tagging and reporting for post-disaster expenditures will enhance environmental resilience and disaster response capacity. Furthermore, a GIS unit, which is crucial for monitoring changes in the country's climate, forests, natural resources, and disasters.

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APPROVAL

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