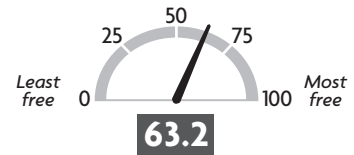


DOMINICA

Economic Freedom Score



World Rank: **70**

Regional Rank: **14**

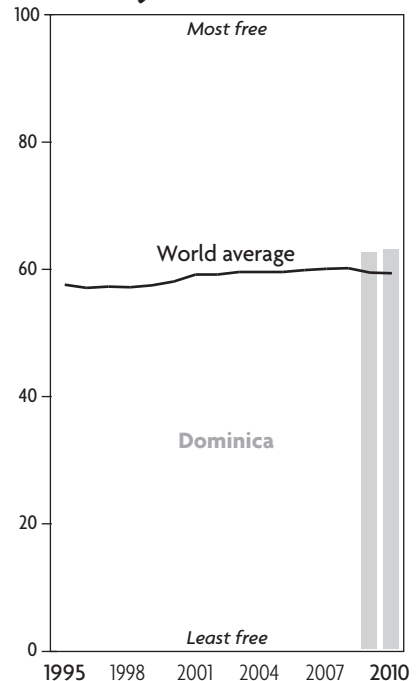
Dominica's economic freedom score is 63.2, making its economy the 70th freest in the 2010 *Index*. Its overall score is 0.6 point higher than last year, with only small changes in any of the 10 economic freedoms. Dominica is ranked 14th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world and regional averages.

Dominica scores above the world average in six of the 10 economic freedoms. The entrepreneurial environment is relatively efficient, and foreign investors receive treatment generally equal to nationals. Property rights are respected, although pirated materials are bought and sold without consequence.

Two major weaknesses limit Dominica's overall economic freedom. Sounder and more prudent public finance management is needed to promote long-term economic growth. Government expenditure equals nearly 40 percent of GDP, and the efficiency of government services has been poor, undermining the economy's overall productivity. Dominica's low score in financial freedom reflects problems with bank supervision and the regulatory framework.

BACKGROUND: Dominica has a unicameral parliamentary government with a president and prime minister. Tourism is less significant than on other Eastern Caribbean islands, although ecotourists are drawn to the rugged mountains and rain forests. Bananas, citrus, coconuts, coconut soap, and cocoa dominate the economy, and nearly one-third of the labor force works in agriculture. Banana producers continue to struggle to recover from the effects of 2007's Hurricane Dean. The government has tried to diversify agriculture by encouraging the growing of coffee, patchouli, aloe vera, cut flowers, and exotic fruits. In 2008, after Venezuela promised millions in funding for agricultural and industrial development, Dominica's government decided to join Venezuela's Bolivarian Alternative for the Americas (ALBA) socialist trade scheme. This could undermine regional economic integration under the CARICOM Single Market and Economy.

Country's Score Over Time



Quick Facts

Population: 73.2 thousand

GDP (PPP): \$0.6 billion
 3.4% growth in 2008
 2.9% 5-year compound annual growth
 \$8,696 per capita

Unemployment: estimated to be more than 10%

Inflation (CPI): 6.9%

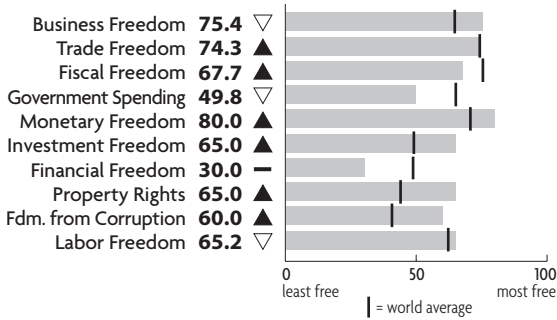
FDI Inflow: \$60 million

2008 data unless otherwise noted
 Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

DOMINICA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 75.4

The overall freedom to conduct a business is relatively well protected under Dominica's regulatory environment. Starting a business takes less than half of the world average of 35 days. Obtaining a business license requires 13 procedures, compared to the world average of 18, and almost 40 days less than the world average of 218 days.

TRADE FREEDOM — 74.3

Dominica's weighted average tariff rate was 7.9 percent in 2007. Dominica is trying to improve customs efficiency, modernize customs operations, and address inefficiencies in the clearance of goods, but some import and export bans and restrictions, import taxes and fees, export fees, restrictions on services markets, import licensing, export subsidies, and limited state trading add to the cost of trade. Ten points were deducted from Dominica's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 67.7

The top income tax rate is 38 percent; a reduction planned for January 2009 did not take place. The corporate tax rate is 30 percent. Tax reforms begun in 2008 continued in 2009 with income tax cuts for lower brackets. Other taxes include a value-added tax (VAT), an environmental tax, and excise taxes on food and fuel that were reduced in late 2008. In the most recent year, overall tax revenue as a percentage of GDP was 29.8 percent.

GOVERNMENT SPENDING — 49.8

Total government expenditures, including consumption and transfer payments, are relatively high. In the most recent year, government spending equaled 40.9 percent of GDP. Prudent management of aid inflows remains central to sound fiscal management.

MONETARY FREEDOM — 80

Inflation has been moderate, averaging 5.6 percent between 2006 and 2008. Dominica's currency is the Eastern Caribbean Dollar, a regional currency. The Eastern Caribbean Central Bank issues the EC\$, manages monetary policy, and regulates and supervises commercial banking in member countries. In 2003, the government began a comprehensive restructuring of the economy, including elimination of price controls and privatization of the state banana com-

pany. Five points were deducted from Dominica's monetary freedom score to adjust for remaining price controls on fuel.

INVESTMENT FREEDOM — 65

Foreign investment is subject to little restriction, and foreign investors generally receive national treatment. Foreign investors may hold up to 100 percent of an investment. Dominica reserves many small-business opportunities for nationals. Investment is hindered by non-transparent bureaucracy and regulation, infrastructure constraints, underdeveloped markets, and inefficient contract enforcement and land registration. There are no restrictions on the repatriation of dividends for totally foreign-owned firms; a mixed foreign-domestic company may repatriate profits to the extent of its foreign participation. In general, non-national investors must obtain an Alien Landholding License to purchase up to one acre of land for residential use and up to three acres for trade or business purposes.

FINANCIAL FREEDOM — 30

Dominica's underdeveloped financial sector is dominated by banking, and regulation and supervision are poor. Shallow markets and a lack of available financial instruments restrict access to credit. One of the four banks is government-owned. In the past few years, offshore financial services have expanded rapidly. Dominica is one of nine members of the Eastern Caribbean Central Bank. Non-performing loans have declined from over 20 percent of total assets in 2003 to around 10 percent. The government hopes that implementing its Financial Services Act will strengthen the regulatory and prudential framework for non-bank financial institutions, which are dominated by insurance companies and credit unions. Regulation of the non-bank financial sector remains uneven.

PROPERTY RIGHTS — 65

Dominica has an efficient legal system based on British common law. The judiciary is independent, and public trials are generally fair. When the male head of household dies without a will, the wife may not inherit or sell the property, but she may live in it and pass it to her children. Pirated copyrighted material is sold openly.

FREEDOM FROM CORRUPTION — 60

Corruption is perceived as significant. Dominica ranks 33rd out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. There are criminal penalties for official corruption, but the law is not implemented effectively. Monitoring of non-bank financial institutions needs to be strengthened to deter money laundering.

LABOR FREEDOM — 65.2

Dominica's employment regulations are relatively inflexible. The non-salary cost of employing a worker is moderate, and dismissing an employee is difficult or costly.