Document of
The World Bank

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Report No. 92951-GD

INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A PROPOSED CREDIT
IN THE AMOUNT OF SDR 7.2 MILLION (US$10 MILLION EQUIVALENT)

AND A PROPOSED LOAN
IN THE AMOUNT OF US$5 MILLION

TO

GRENADA

FOR THE

SECOND PROGRAMMATIC RESILIENCE BUILDING
DEVELOPMENT POLICY CREDIT AND LOAN

September 29, 2015

Macroeconomics and Fiscal Management Global Practice
Latin America and the Caribbean Region

GRENADA - GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of September 1, 2015)

Currency Unit: East Caribbean Dollar (EC$)
US$1.00 = EC$2.70

ABBREVIATIONS AND ACRONYMS

ASYCUDA	Automated System for Customs Data
AMC	Asset Management Company
BAICO	British American Insurance Company
BMIS	Beneficiary Management Information System
CARCOSAI	Caribbean Organization of Supreme Audit Institutions
CAS	Country Assistance Strategy
CCRIF	Caribbean Catastrophic Risk Insurance Facility
CCT	Conditional Cash-Transfer
CDB	Caribbean Development Bank
CDF	Comprehensive Debt Framework
CLICO	Colonial Life Insurance Company
CPA	Country Poverty Assessment
DeMPA	Debt Management and Performance Assessment
DFID	Department for International Development
DPA	Department of Public Administration
DCP1	Development Policy Credit 1
DSA	Debt Sustainability Analysis
ECCU	Eastern Caribbean Currency Union
ECCB	Eastern Caribbean Central Bank
ECERA	Eastern Caribbean Energy Regulatory Authority
ECF	Extended Credit Facility
EFI	Equitable Growth, Finance and Institutions (EFI) Practice Group
ESA	Electricity Supply Act
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GLCI	Grenadian Living Conditions Indicator
GTA	Grenada Tourism Authority
HR	Human Resources
ICRR	Implementation Completion and Results Report
ICT	Information and Communications Technology
IDA	International Development Association
IDF	Institutional Development Fund
IFIs	International Financial Institutions
IMF	International Monetary Fund

LAC	Latin American and Caribbean
MNIB	Marketing and National Importing Board
MoF	Ministry of Finance
MoSDH	Ministry of Social Development and Housing
MoT	Ministry of Tourism
MTDS	Medium-Term Debt Management Strategy
MW	Megawatt
NPL	Nonperforming Loan
OECS	Organization of Eastern Caribbean States
PFM	Public Financial Management
PPD	Public-Private Dialogue
PPP	Public-Private Partnership
PURC	Public Utilities Regulatory Commission
PV	Photovoltaic
RDVRP	Regional Disaster Vulnerability Reduction Project
RPS	Regional Partnership Strategy
SDR	Special Drawing Rights
SEED	Support for Education, Empowerment and Development
SME	Small and Medium Enterprise
SNAP	Safety Nets Advancement Project
SSNA	Social Safety Nets Assessment
WDI	World Development Indicators

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GRENADA

SECOND PROGRAMMATIC RESILIENCE BUILDING
DEVELOPMENT POLICY CREDIT/LOAN

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SUMMARY OF PROPOSED CREDIT/LOAN AND PROGRAM

GRENADA:

SECOND PROGRAMMATIC RESILIENCE BUILDING

DEVELOPMENT POLICY CREDIT/LOAN

Borrower	Grenada
Implementation Agency	Ministry of Finance, Planning, Economic Development, Trade, Energy and Cooperatives
Financing Data	IDA Credit Terms: Standard IDA terms (40-year maturity; 10-year grace period). The service charge payable by the recipient is equal to three-fourths of one percent (0.75%) of the credit. The maximum commitment charge rate is one-half of one percent (0.5%) per year. The credit amount is denominated in Special Drawing Rights (SDR) and payable in United States dollars (US$). Amount: SDR 7.2 million (US$10 million equivalent) IBRD Loan Terms: US$ commitment linked IBRD Flexible Loan with a fixed spread, level repayments on March 15 and semiannually thereafter 10 years Grace Period and 29.5 years Final Maturity, with Front-end Fee capitalized. Amount: US$ 5 million
Operation Type	Programmatic (2nd of 3 operations); single-tranche disbursement
Pillars of the Operation And Program Development Objective(s)	The Program Development Objective of the proposed DPC/DPL series is to support Grenada in implementing a program of policy and institutional reforms to: (i) create conditions for private investment in a sustainable manner; (ii) support improved public resource management; and (iii) enhance resilience against natural disasters and key elements of resilience in the banking sector.
Result Indicators	***(i) Creating conditions for private investment in a sustainable manner*** • Tourist receipts. *Baseline 2013 = EC$ 307 million; Target 2017 = EC$332 million (8 percent increase).* • Renegotiation of airlift agreements by the Airlift Committee. *Baseline 2013 = 0; Target 2017 = at least 2 contracts renegotiated.* • Total output of commercialized agricultural estates. *Baseline 2013 = 350 tons; Target 2017 = at least 500 tons.* • Commercialization of Government-owned agricultural estates. *Baseline 2013 = 0; Target 2017 = at least 3 government-owned estates commercialized.* • Number of farmers serviced by the Marketing and National Importing Board (MNIB). *Baseline 2013 = 1,623; Target 2017 = at least 2,500.* • Average clearance time for border control procedures. *Baseline 2013 = approximately 6 working days; Target 2017 = approximately 3 working days.* • Share of public-private partnership (PPP) projects under development that conform to the processes and requirements defined in the PPP policy. *Baseline 2013 = 0 percent; Target 2017 = 100 percent.* • Share of installed power generation capacity from renewable energy technologies. *Baseline 2013 = 1 percent; Target 2017 = 3 percent.* ***(ii) Supporting improved public resource management*** • Establishment of the Government employment structure based on the recommendations of recent human resources audits. *Baseline 2013=0; Target 2017=At least 4 ministries*

	and 1 department have established official job descriptions with clearly defined responsibilities, including the Ministry of Agriculture, Ministry of Labor, Ministry of Legal Affairs, Ministry of Education, and Department of Public Administration. • Publication of contract awards. *Baseline 2013 =0; Target 2017 = All contract awards are published in conformity with the new procurement law.* • Share of support for education, empowerment and development (SEED) program beneficiaries that are identified by using a targeting tool. *Baseline 2013 = 0; Target 2017 = 80 percent.* • Share of debt (public and publically guaranteed) with a maturity of less than 90 days. *Baseline 2013 = 17 percent; Target 2017 = 10 percent.* ***(iii) Enhancing resilience against natural disaster and key elements of resilience in the banking sector*** • Share of new public/commercial buildings and private housing built in safe regulated areas, in accordance with regulatory acts. *Baseline 2013 = 0 percent; Target 2017 = 50 percent.* • Share of engineers registered. *Baseline 2013 = 0 percent; Target 2017 = 40 percent.* • Provisions of loan losses to nonperforming loans (NPLs) for the banking sector. *Baseline 2013 = 30 percent of NPLs; Target 2017 = 60 percent of NPLs.*
Overall risk rating	Substantial
Climate and disaster risks	*(i) Are there short and long term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)? Yes* [X] *No* [ ] *(ii)* As a small island nation Grenada is inherently vulnerable to natural disasters and climate change, which could seriously impact multiple dimensions of the proposed operation. Weather-related shocks could dramatically reduce output in key sectors such as agriculture and tourism, while disaster mitigation, response and recovery efforts could strain the public resource envelope, diverting scare financing away from long-term development objectives and potentially increasing indebtedness levels. The Government is strengthening its capacity to address these risks while protecting fiscal stability through the use of risk-financing tools. In the event of a disaster some damage to major private-sector enterprises would be covered by their own insurance plans. Grenada's government participates in the Caribbean Catastrophic Risk Insurance Facility (CCRIF), which would help offset the fiscal cost of a natural disaster.
Operation ID	P151821

IDA/IBRD PROGRAM DOCUMENT FOR A SECOND PROGRAMMATIC RESILIENCE BUILDING DEVELOPMENT POLICY CREDIT/LOAN TO GRENADA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document presents the second operation in a programmatic series of three development policy credits/loans (DPCs/DPLs) to Grenada. The proposed operation is in an amount equivalent to US$15 million (IDA [SDR 7.2 US$10 million equivalent) and IBRD US$5 million).** Building upon the series' first operation, the second Resilience Building DPC/DPL (DPC/DPL2) supports the implementation of policy and institutional reforms defined in the Government's national development strategy, the New Economy Plan (NEP). The Government's program focuses on establishing the institutional framework and policy conditions necessary for sustained economic growth, as well as restoring fiscal sustainability, building resilience against natural disasters, and advancing the social development agenda.

2. **As a small, open, middle-income island economy, Grenada faces significant systemic vulnerabilities and structural challenges.** Due to its substantial exposure to natural disasters, small size and limited diversification, Grenada is vulnerable to a wide range of exogenous shocks. In recent years its economy has been undermined by slow growth and a high debt burden. Continued low growth and weak dynamism of the private sector have contributed to high debt levels. In addition, there has been an overreliance on public expenditure to respond to shocks and stimulate growth, and the fiscal management framework has not emphasized fiscal discipline and expenditure efficiency. The resulting lack of fiscal space and the weak institutional capacity has limited the Government's ability to mitigate the social impact of crises and to protect the poor and the vulnerable. Grenada was hit hard by the 2008 global financial crisis. Real GDP contracted by more than 8 percent between 2009 and 2012, while the fiscal deficit more than doubled as a share of GDP, reaching 7.3 percent in 2013, and the public debt climbed above 100 percent of GDP.[1] Narrowing fiscal space and weak institutional capacity limited the Government's ability to mitigate the crisis' social impact and protect the poor and vulnerable.

3. **There are indications that the poverty rate remains high, but social indicators have recently improved.** The poverty rate was 37.7 percent in 2008, the latest year for which figures are available, and 2.4 percent of the population lived in extreme poverty.[2] While the absence of disaggregated poverty and socioeconomic data prevents a thorough empirical analysis of poverty and social indicators, a 2012 report on progress toward the Millennium Development Goals (MDGs) reveals considerable progress in a number of key areas.[3] Net primary school enrollment rates are high, and the national literacy rate has increased substantially over the past decade. The malnutrition rate fell from 30.6 percent in 1999 to 17.9 percent in 2011, and the under-5 mortality rate decreased from 15.9 per 1,000 live births in 2000 to 11.8 in 2013. With a Gini coefficient of 0.37, inequality is low compared to both the other members of the Organization of Eastern

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[1] The IMF's World Economic Outlook and Staff Reports.
[2] The CDB (2007/2008) "Country Poverty Assessment - Grenada, Carriacou, and Petit Martinique"
[3] MDG Global Database, http://mdgs.un.org/unsd/mdg/Data.aspx.

Caribbean States (OECS) and the Latin America and the Caribbean (LAC) region as a whole.[4] Nevertheless, socioeconomic disparities between women and men remain significant, in particular in employment and education.

4. **Since 2013 the Government has implemented an ambitious reform agenda with technical and financial assistance provided through this DPC/DPL series.** Promoting growth, restoring fiscal sustainability, strengthening financial stability, and advancing the nation's social-development agenda remain the Government's top priorities. The program development objectives (PDOs) of this DPC/DPL series also address key policy areas defined in the Comprehensive Debt Framework (CDF). The CDF is designed to achieve debt sustainability in Caribbean countries by: (i) creating conditions for private investment in a sustainable manner; (ii) supporting improved public resource management; and (iii) enhancing resilience against natural disasters and key elements of resilience in the banking sector.

5. **This operation is part of a multi-donor engagement**. The current administration, which was elected in February 2013, has demonstrated a credible commitment to restoring fiscal discipline under a structural reform program supported by the World Bank, the IMF, and the Caribbean Development Bank (CDB). This DPC/DPL series supports the Government's long-term efforts to address systemic vulnerabilities by targeting structural reforms in the areas of private sector development and fiscal management. The series complements concurrent operations by the IMF and CDB. The IMF program, anchored by a 36-month IMF Extended Credit Facility (ECF), focuses on improving medium-term growth prospects, restoring fiscal sustainability and strengthening the financial sector. The CDB is currently implementing the second of three operations in a programmatic lending series that is closely aligned with the DPC/DPL.

2. MACROECONOMIC POLICY FRAMEWORK[5]

2.1 RECENT ECONOMIC DEVELOPMENTS

6. **Grenada's economic recovery accelerated in 2014, driven by the strong performance of tourism and agriculture.** Grenada's economy started to recover in 2013, and though it expanded by just 2.4 percent, this was the country's strongest performance since 2007. The construction sector expanded by 20 percent in a single year as work commenced on the Sandals La Source Hotel and Spa, a major tourism project. GDP grew by 5.7 percent in 2014, spurred by external demand for tourism services coupled with a strong increase in agricultural output. The tourism receipts and arrivals rose (Figure 1), supported by the continued economic recovery of key tourism markets such as the US and UK and an increased capacity in the tourism sector. Strong growth in the agricultural sector was supported by an increased output of key crops such as nutmeg and reforms and modernization efforts in the sector including the introduction of enhanced technology. However, domestic demand remained weak as deleveraging continued in the both the public and private sectors. Growth continued into the first quarter of 2015 with annual growth projected at 2.2 percent. Unemployment remained high at 28.9 percent, with youth unemployment reaching 45.3 percent in 2014. Nevertheless, the employment situation has improved significantly since 2013; overall unemployment has dropped by 4.6 percentage points and youth unemployment

[4] The LAC region's Gini coefficient declined from 0.549 in 2005 to 0.529 in 2009.
[5] All macroeconomic data used in this section are obtained from the IMF Staff Reports.

by 10 percentage points.

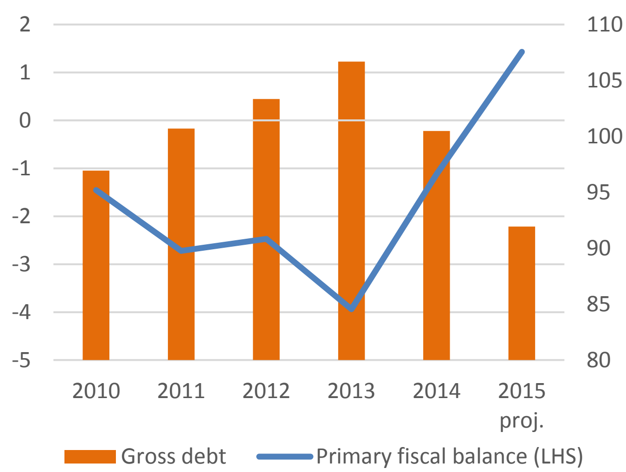
7. **Inflation remains low due to falling world oil prices and weak domestic demand, while the strengthening of the US dollar has caused appreciation of the real effective exchange rate (REER).** The consumer price index (CPI) dropped for a second consecutive year, hitting -0.6 percent in 2014 as decreasing costs for telecommunications services compounded the effect of declining oil prices and a soft domestic consumer market. The inflation fell by 0.7 percent (year-on-year) in April 2015. The REER fell by 3 percent between mid-2013 and mid-2014, then rose due to appreciation of the US dollar, to which the East Caribbean dollar is pegged. CPI deflation combined with a stronger US dollar caused the REER to appreciate by around 4 percent since mid-2014, partially offsetting Grenada's previous competitiveness gains.

8. **External imbalances narrowed significantly in 2014 as the tourism sector recovered and oil prices fell.** Tourism is Grenada's largest export sector. Tourism service exports increased in 2014 as the US economy recovered, while import growth was slowed by weak domestic demand. Between 2013 and 2014 the current account deficit narrowed by more than 7 percentage points to 15.5 percent of GDP. A moderate import growth following the completion of the Sandals resort project in 2013, combined with low global oil prices, bolstered the current account. The resort project pushed FDI inflows to 13.4 percent of GDP in 2013, but after its completion FDI moderated to 4.4 percent. The current-account deficit was mainly financed by new public debt inflows, including financing from international financial institutions. International reserves increased from 4.1 to 4.9 months of imports of goods and services between 2013 and 2014.

Figure 1. Tourism Receipts and Arrivals

Source: WDI and World Bank Staff Estimates

Figure 2. Public Debt and the Primary Fiscal Balance (% of GDP)



Source: IMF Staff Report

9. **The fiscal balance improved significantly in 2014, driven by tax reforms and expenditure compression.** The overall deficit narrowed from 7.3 percent of GDP (cash-basis) in 2013 to 4.7 percent in 2014, while the primary deficit narrowed from 3.9 percent to 1.1 percent (Figure 2). This occurred despite a one-time retroactive wage payment to public officials equal to 1.1 percent of GDP (Annex 4, Table 4A-1). The Government's fiscal performance was strong on

both the revenue and expenditure sides. A comprehensive tax reform program[6] initiated in early 2014 combined with renewed growth increased tax revenues by 4.5 percentage points from the previous year.[7] Current expenditures were successfully contained, including the wage bill and reduction in public employment (mainly from attrition), while improving revenue performance enabled a moderate expansion in capital expenditures. The Government's fiscal position remained strong in the first four months of 2015 and the primary balance recorded a surplus of about 0.6 percent of GDP.

10. **Grenada's ambitious fiscal consolidation efforts are yielding positive results.** The Government launched its consolidation program in 2014, targeting a fiscal adjustment of 7.5 percentage points of GDP over 2014-16 and implementing comprehensive tax reforms supported under the IMF program. In 2014 the Government achieved a fiscal consolidation of 3.5 percent of GDP, almost half of the total consolidation planned for 2014-16, by containing current expenditures and restoring tax revenues to pre-crisis levels. In addition, the Government has made good progress in clearing arrears. Both domestic and external arrears declined by around 20 percent during 2013-2014 and no new external arrears have been accumulated, apart from those related to debt under restructuring negotiations since the inception of the IMF program.

11. **The Government's efforts to restructure public and publicly guaranteed debt involve all of Grenada's lenders, with a focus on private and bilateral creditors.**[8] The Government has made important progress in restructuring the public debt, which climbed to 100.5 percent of GDP at end-2014. In April 2015 the Government reached a nonbinding agreement with a committee of private bond holders regarding the financial terms of the restructuring of American and East Caribbean Dollars denominated bonds due in 2025, which account for about a third of the total public debt. The terms include an overall nominal principal reduction of 50 percent, which will be implemented in two stages. The first will take effect upon completion of the official exchange and the second will follow the successful completion of the sixth review under the ECF-supported program with the IMF expected in 2017. A formal exchange offer is expected by fall 2015.[9] The anticipated restructuring of these bonds combined with the ongoing fiscal consolidation are expected to reduce the public debt stock to 78 percent of GDP by 2017, helping to restore debt sustainability over the medium term.

12. **The Government is working to restructure the remaining public debt.** In December 2014 the authorities reached an agreement with the Export-Import Bank of Taiwan Province of China, which included a 50 percent principal haircut—equivalent to 2 percent of GDP and 5.3 percent of the total debt stock.[10] The Paris Club has provided financing assurances and agreed to discuss the treatment of its claims on Grenada in fall 2015. Negotiations with remaining creditors,

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[6] Tax reform measures include a reduction in the personal income tax threshold, an increase in property tax rates, streamlining tax exemptions, and an increase in the custom service charge.
[7] The increase was mainly due to an increase in tax revenue across all tax categories (which include income tax, property tax, VAT, and trade tax but exclude revenue from the CBI), which increased by 1.6 percentage points of GDP in 2014, and the external grants.
[8] The Government has engaged in debt restructuring negotiations since March 2013.
[9] The financial terms include a coupon of 7 percent per annual with a maturity of 15 years and revenue sharing from the CBI program.
[10] Under the terms of the agreement the post-haircut balance on the loan will be repayable over 15 years at an interest rate of 7 percent, including a grace period of 3.5 years.

including non-Paris Club bilateral official creditors and domestic creditors, are ongoing. Grenada's Marketing and National Importing Board (MNIB) has reached a financial agreement with a private creditor to restructure US$5.7 million in publicly guaranteed debt. The agreement is expected to reduce the outstanding principal by 47 percent and, importantly, it will remove the public guarantee from the remaining debt. As a result, the stock of publicly guaranteed debt is expected to decline by 0.7 percent of GDP.

13. **The banking sector continues to suffer from high levels of nonperforming loans (NPLs)**. A legacy of the global financial crisis, the share of NPLs in the total loan portfolio of banks increased from 9.4 percent in 2011 to 14.5 percent by mid-2014, and most banks reported losses. The NPLs declined marginally to 13.7 percent in the first quarter of 2015. NPLs are under-provisioned (coverage ratio of 30 percent in 2013 in Grenada versus above 80 percent on average in LAC countries). Weak balance sheets have discouraged lending; credit to the private sector contracted by 5.1 percent in 2014, and access to credit for small and medium enterprises (SMEs) is especially constrained. Meanwhile, liquidity and capital-adequacy ratios have increased. The Eastern Caribbean Central Bank (ECCB) lowered the floor on savings deposit rates from 3 percent to 2 percent in March 2015 to help increase the profitability of commercial banks.[11] The ECCB, together with the IMF, the World Bank and the CDB, is working on strengthening the banking sector.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

14. **The economic recovery is expected to continue, driven by external demand and the impact of structural reforms.** Annual GDP growth is projected to average about 2.2 percent over 2015-17 and reach 2.5 percent over the medium term, bolstered by a continued recovery in the US, steady increases in agricultural output and robust FDI inflows. The decline in oil prices should also stimulate domestic demand. The Government's fiscal targets are ambitious, and its consolidation measures are expected to slow growth in the short run; however, this effect is expected to be offset by an increase in private capital flows for tourism-related construction projects and by rising export receipts. A recently established citizenship-by-investment (CBI) program[12] could potentially serve as an important source of both public revenue and private investment. Stronger growth should also increase employment, particularly in the tourism, agriculture and construction sectors.

15. **Rising exports are expected to further improve Grenada's external accounts.** Notwithstanding the recent appreciation of the US dollar, the current-account deficit is projected to narrow to 13 percent of GDP in 2015 and to improve further but remain elevated at around 15 percent of GDP over the medium term. Gains from lower fuel prices will be slightly offset by the smaller share of oil imports financed under Grenada's PetroCaribe arrangement with Venezuela.[13] However, the net impact is likely to be marginal. Tourism-related foreign and

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[11] This is the first time regional monetary policies have loosened since 2002.

[12] The CBI program grants citizenship to people contributing to the country's development through (i) a donation of at least US$150,000 for a single applicant and at least US$200,000 for a family up to four people to the National Transformation Fund (NTF), an off-budget entity, or (ii) investment of at least US$2,450,000 in the private sector (real estate or other Government-approved projects).

[13] The decline in global oil prices is expected to lower the share of the country's oil imports financed under the Petrocaribe agreement from 50 to 40 percent. Despite the loss of Petrocaribe financing, the net impact on the country's

domestic investment are anticipated to recover over the medium term. However, further appreciation of the US dollar could negatively impact Grenada's competitiveness.

16. **Inflation is expected to increase slightly as economic activity picks up, but it should remain low over the medium term.** Annual inflation is projected to reach 0.7 percent by end-2015 and then increase gradually to about 2 percent over the medium term. The inflationary effect of accelerating growth and marginally higher imported inflation will drive this trend.

Table 1. Structural Conditionality under the IMF Program

	Measure	Timing
Structural Benchmarks		
	Growth-Enhancing Reforms	
	Parliamentary approval of the revised Investment Promotion Act	November 30, 2014
	Fiscal Adjustment Measures	
	Parliamentary approval of 2015 budget consistent with program commitments	December 31, 2014
	Fiscal structural reforms	
1	Parliamentary approval of the revised PFM legislation	August 31, 2014
2	Cabinet approval of a strategic plan for statutory bodies	October 31, 2014
3	Parliamentary approval of the revised legislation on tax incentive regime	November 30, 2014
4	Parliamentary approval of the legislation for the fiscal policy framework	December 31, 0214
5	Minister of Finance (MoF) approval of regulations for the National Transformation Fund	February 28, 2015
6	Parliamentary approval of a public debt management law	March 31, 2015
7	MoF approval of regulations for the revised PFM legislation	June 30, 2015
8	Publication of all citizenship by investment statistics on a quarterly basis	Beginning July 31, 2015
9	Parliamentary approval of a tax administration act	November 30, 2015
10	Implementation of the new Chart of Accounts for the 2016 Budget	December 31, 2015
11	Cabinet approval of a strategic plan to modernize the public sector	March 31, 2016

Source: IMF

17. **Grenada's medium-term fiscal and debt outlook is positive.** The fiscal balance is expected to improve further in 2015, and the Government is targeting a primary surplus of at least 1.4 percent of GDP in 2015. The successful completion of the fiscal consolidation program is expected to yield a primary surplus of 3.5 percent of GDP by 2016, as also required by the 2015 Fiscal Responsibility Act. Lower oil prices and higher fuel taxes[14] will support the Government's improving fiscal stance through lower transportation and utility costs. In 2015 structural reforms in both tax and expenditure measures, debt restructuring and stronger financial regulation (see Table 1) will reinforce the fiscal adjustment. In addition, the Government is implementing a strategic plan to reform its financially weak state-owned enterprises (SOEs) and Statutory Bodies (SBs). This may require the payment of severance to existing employees as some institutions are

external position is expected to remain positive even under a complete disruption of the financing (Source: IMF Staff Report for the Second Review).

[14] The Government increased fuel taxes by EC$1 per gallon on gasoline and diesel in March 2015, which is projected to yield 0.3 percent of GDP in revenues in 2015.

restructured.[15] With financing from IFIs, and debt forgiveness and restructuring, the Government is expected to have adequate financing through 2017 (Annex 4, Table A-2). It should be noted that these projections are predicated on the full implementation of the fiscal consolidation program over the next two years, as well as full execution of the in principle debt restructuring agreement reached with Grenada's private bondholders.

Table 2. Grenada: Key Macroeconomic Indicators

	2010	2011	2012	2013	2014	Proj. 2015	Proj. 2016	Proj. 2017
	Annual percentage change, unless otherwise indicated							
Real Economy								
Real GDP	-0.5	0.8	-1.2	2.3	5.7	2.2	2.0	2.4
CPI (end-of-period)	4.2	3.5	1.8	-1.2	-0.6	0.7	2.1	2.4
	Percent of GDP, unless otherwise indicated							
Fiscal Accounts								
Revenues	24.6	23.6	20.8	20.9	24.5	23.3	23.2	24.0
Expenditures	28.2	28.8	26.7	28.1	29.2	25.3	23.1	23.8
Current primary	18.8	18.6	18.3	17.8	16.4	14.8	14.2	14.2
Interest	2.2	2.5	3.4	3.3	3.5	3.4	3.4	3.3
Capital	7.3	7.8	5.0	7.1	9.2	7.1	5.5	6.3
General Government Balance	-3.6	-5.2	-5.9	-7.3	-4.7	-2.0	0.0	0.3
Primary Balance	-1.5	-2.7	-2.5	-3.9	-1.1	1.4	3.5	3.5
	Annual percentage change, unless otherwise indicated							
Selected Monetary Accounts								
Broad Money	1.0	0.7	0.7	4.1	4.1	5.9	4.8	…
Credit to the Private Sectors	5.6	2.2	0.2	-5.7	-5.1	-3.2	0.1	…
	Percent of GDP, unless otherwise indicated							
Balance of Payments								
Current-Account Balance	-23.7	-23.6	-21.1	-23.2	-15.5	-12.9	-13.4	-15.4
Exports	26.6	28.2	28.9	28.5	28.9	29.4	29.8	30.9
Imports	49.2	50.8	49.5	50.4	43.5	41.2	41.8	43.2
Foreign Direct Investment	7.8	5.5	3.9	13.4	4.4	4.9	5.9	7.6
Gross International Reserves (in months of imports)	3.1	3.2	2.9	4.1	4.9	5.1	5.0	4.8
Public debt (public and publicly guaranteed)	96.9	100.7	103.3	106.7	100.5	91.9	87.9	78.0
Terms of Trade (percentage change)	-2.5	4.3	14.9	7.9	-1.4	15.9	-2.9	-1.4
Exchange Rate	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Memorandum Items:								
Nominal GDP (EC$ million)	2082	2102	2160	2275	2462	2555	2671	2803
Nominal GDP (US$ million)	771	779	800	842	912	946	989	1038

Source: IMF and World Bank Staff calculations

[15] The Government requested the Caribbean Regional Technical Assistance Center to undertake an analysis of the financial performance of SOEs, which provided restructuring options in May 2014. The Government finalized a strategic plan in February 2015.

18. **Debt levels are expected to decline gradually as fiscal consolidation and debt restructuring continue.** According to the recent joint World Bank-IMF debt sustainability analysis (DSA) the debt-to-GDP ratio under the baseline scenario began to decline in 2014 and is projected to continue falling over the near term. However, debt levels remain high, and this projection is vulnerable to external economic shocks, exogenous domestic shocks and fiscal slippage. Under the baseline scenario the present value of the external debt-to-GDP, debt-to-exports and debt service-to-exports ratios all remain below their indicative thresholds through 2034, though they remain highly exposed to external and policy shocks. Comprehensive debt restructuring would significantly reduce debt-related vulnerabilities. Successful debt restructuring combined with the completion of the fiscal consolidation program could reduce debt levels to the Eastern Caribbean Currency Union (ECCU) target of 60 percent by 2020 (see Annex 5).[16]

19. **Grenada's macroeconomic policy framework is adequate for the proposed operation.** Sound macroeconomic policies have facilitated a gradual but sustained recovery in the real sector driven by tourism and agriculture and supported by strong external demand. The Government's debt restructuring and fiscal consolidation programs are expected to shift the primary deficit to a primary surplus by 2015, putting the debt burden on a downward trajectory and reinforcing medium-term fiscal stability. The favorable financial terms obtained during the debt restructuring negotiations are expected to open new fiscal space for social spending and growth-enhancing investments over the medium term. Meanwhile, renewed private-sector confidence is expected to speed the recovery of FDI inflows and boost domestic investment.

2.3 IMF RELATIONS

20. **A 36-month ECF arrangement was approved by the IMF Board in June 2014.** This arrangement is for an amount equivalent to SDR 14.04 million, (about US$21.9 million at current exchange rates) or 120 percent of its quota. The IMF's first and second reviews, were approved by the IMF's Executive Board in December 2014 and June 2015, respectively. Both reviews concluded that Grenada has been making solid progress on its economic reform program and that fiscal consolidation is on track. Total disbursement of SDR 6.04 million have been made to date under the arrangement. The third review is expected to be discussed by the IMF Executive Board in November 2015. This DPC/DPL series complements the IMF's ECF, which focuses on improving medium-term growth prospects, restoring fiscal sustainability and strengthening the financial sector. In addition, this DPC/DPL series supports the Government's long-term efforts to address systemic vulnerabilities by targeting structural reforms in the areas of private sector development and fiscal management.

3. THE GOVERNMENT'S PROGRAM

21. **The Government recently launched its new Growth and Poverty Reduction Strategy (GPRS) for 2014-18, which aims for achieving a higher, sustainable and more equitable growth path.** The GPRS is the country's first comprehensive economic growth and poverty

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[16] In the current macroeconomic framework, total public debt is projected to be reduced to 64.8 percent of GDP by 2020. However, this does not include the restructuring of the remainder of domestic debt, the Paris Club and other official creditors. When this is completed, public debt is expected to reach 60 percent of GDP by 2020. The timeline for reaching debt targets has recently been extended from 2020 to 2030 by the ECCB (February, 2015).

reduction strategy aiming to transfer Grenada's economy to the New Economy. The New Economy Plan (NEP) is a long-term development strategy based on accelerated economic growth, fiscal sustainability, social development, and debt management. It identifies responsible fiscal and debt policies, public administrative reforms, vocational training, environmental sustainability, and private-sector development as vital to promoting robust and inclusive growth. The Government has already made important progress in strengthening the tourism, agribusiness and energy sector, reforming public procurement, improving the regulatory framework for public-private partnerships (PPPs) and enhancing debt management, all of which are policy areas supported under the proposed operation.

22. **The Government's strategy includes important components on human-capital formation and social inclusion.** This NEP includes provisions to facilitate vocational training and youth employment opportunities, improve educational access and quality, expand healthcare services and facilities, and provide affordable housing to low-income families. The NEP also envisages a further strengthening of the Support for Education, Empowerment and Development (SEED) program, the foundation of the social safety net, and ensures that SEED benefits reach the poorest and most vulnerable. The Government has strengthened the programmatic design of its social safety net policies to enhance their effectiveness and coverage by developing a beneficiary-information management system and adopting a new targeting instrument.

4. THE PROPOSED OPERATION

4.1 LINKS TO THE GOVERNMENT'S PROGRAM AND OPERATION DESCRIPTION

23. **The proposed operation supports the implementation of key policy and institutional reforms defined in the Government's development strategy.** The operation targets measures designed to: (i) create conditions for private investment in a sustainable manner; (ii) support improved public resource management; and (iii) enhance resilience against natural disasters and key elements of resilience in the banking sector. The operation is aligned with the Government's development strategy and supports its objectives of accelerating economic growth, restoring fiscal and debt sustainability, and improving social development indicators.

24. **The preparation of this DPC/DPL series incorporated lessons learned from previous World Bank operations.** The 2011 Implementation Completion and Results Report (ICRR) for the Economic and Social Development Policy Loan and Credit (P117000), approved by the Executive Directors on June 8, 2010, highlighted that a programmatic approach supporting a multi-year program could have had a stronger development impact than a one-year stand-alone program. The 2011 ICRR also found that limited implementation capacity in small states requires that programmatic design be simple and selective and that programs should be augmented by intensive technical assistance and support during the implementation phase. Furthermore, the policy matrix should be concise, with a small number of clearly circumscribed indicators that are both critical to the program's performance and within the Government's control. Based on these lessons, the DPC/DPL series focuses on a narrow range of precisely defined reforms in critical policy areas.

25. **Technical assistance (TA) is being provided in support of the DPC/DPL series.** Ongoing TA programs encompass public accountability mechanisms, capital audits, the public procurement process, investment policy, PPP policy, the financial sector, debt management, social

safety nets, disaster risk management, and the energy sector. A grant from the World Bank's Institutional Development Fund (IDF) in the amount of US$402,000 supports accountability mechanisms for capital projects, including oversight by the Public Accounts Committees of Parliament and audits by the Directorates of Audit of select Caribbean countries. This IDF grant was provided to the Caribbean Organization of Supreme Audit Institutions (CAROSAI), and Grenada is one of the pilot countries. The CDB is implementing a program to develop a regional center of excellence in public procurement the Caribbean countries financed by a US$320,000 IDF grant. Additional technical assistance has been provided by the IMF in public financial management, tax and SOE reforms.

4.2 PRIOR ACTIONS, RESULTS, AND ANALYTICAL UNDERPINNINGS

26. **This DPC/DPL2 supports the Government's key reform agenda with strong policy measures.** The key measures achieved under the DPC/DPL2 include the four tourism related regulations including the 2015 Tourism Authority Regulations, commencement of the process of commercializing selected Government-owned agricultural estates, the PPP policy, a new procurement law, the phase out plan of the social safety net programs, and a new Banking Act. These measures are critical to strengthen the tourism and agribusiness sectors and their linkages, enhance the business environment, improve public resource management through more efficient procurement systems and better targeting of social safety net programs, and address vulnerability in the banking sector.

27. **The DPC/DPL2 focuses on fewer strategic policy measures to strengthen the selectivity of the operation.** Some measures, such as those related to trade logistics, the energy sector reform, and the physical planning regulatory system to reduce the risks associated with natural disasters, have been postponed to the DPC3 to allow the Government to achieve stronger results in these critical areas, while a measure related to strengthening the tourism and agribusiness linkages, has been advanced due to faster progress. Overall, the DPC/DPL2 includes a comprehensive package to enhance competitiveness, fiscal and debt management and the financial sector.

28. **The policy actions supported by the proposed operation are described below and summarized in Annex 1 and Annex 6.** The result indicators have been updated to reflect changes in the program's prior actions and triggers (see Annex 7).

PILLAR 1: CREATING CONDITIONS FOR PRIVATE INVESTMENT IN A SUSTAINABLE MANNER

29. **Grenada's development strategy prioritizes private sector-led growth.** Like many small Caribbean states, Grenada faces a major challenge in moving from subsidy-driven policies to a focus on creating an attractive climate for private investors. This can be achieved through a mix of economy-wide regulatory reforms and targeted policy interventions. The Government has begun implementing ambitious reforms to boost productivity in the agricultural and agribusiness sectors, increase competitiveness in the tourism industry, minimize the administrative costs of international trade, encourage foreign investment, and create a more enabling legal and institutional climate for private-sector growth.

(i) Strengthening the Institutional Governance Framework for the Tourism Sector

30. **Tourism has enormous potentials to create sustainable jobs, increase export earnings, and attract investments over the medium term.** In 2013 the sector accounted for 44 percent of total exports, 18 percent of employment and 20 percent of GDP. However, deficiencies in the governance framework, including the absence of an effective public-private dialogue (PPD) mechanism, long delayed the design and implementation of a shared tourism-development strategy. In this context the recently formulated Tourism Strategic Plan for 2011-14 provided the basis for a much-needed overhaul of sector policies.

31. **Efforts to modernize sector governance gained momentum in 2013, and the enactment of the Grenada Tourism Authority (GTA) Act in January 2014 was supported under the DPC1.** The Act established the GTA as a statutory body, which is tasked with overseeing the tourism sector, as well as designing and implementing tourism policies. Because publicity and promotion are essential to the growth of tourism, the GTA began by formulating a Strategic Marketing and Product Development Policy through an inclusive consultative process. This policy calls for: (i) the creation of an internationally recognized "Pure Grenada" brand; (ii) the development of cultural tourism as discrete subsector; (iii) the prioritization of the yachting and eco-tourism subsectors; and (iv) the launching of joint marketing initiatives with airlines in key source markets. Four regulations related to the Tourism Authority Act were approved by the Government in May and July 2015. Expanding commercial airline services is a key challenge for Grenada, which has resorted to subsidizing airlines through direct payments to regional carriers or minimum revenue guarantees for international carriers.[17] Currently Grenada has ad hoc mechanism to negotiate airlift agreements with international carriers. To improve tourism receipts and reduce public expenditures in the sector, the Government is in the process of reestablishing an Airlift Committee with a broad mandate to renegotiate airlift agreements, including the joint marketing initiatives outlined in the GTA's strategic plan. The establishment of a well-staffed, professionally-trained negotiating team under the airlift committee will increase the bargaining power of the Government. This is contemplated in the new trigger #1 for the DPC3.

DPC/DPL2 Prior Action #1: The Grenada Tourism Authority (GTA) has instituted a new regulatory framework for the tourism sector in accordance with the 2013 Tourism Authority Act.

DPC3 Trigger #1: The Government has taken measures to improve the efficiency of the Airlift Committee, allowing it to renegotiate agreements with air-carriers on a rolling basis.

32. **Expected Results.** Over the medium term these measures are expected to reinvigorate the tourism sector and support denser linkages between tourism and the broader national economy, in particular, local SMEs and agribusiness. Joint marketing initiatives with international airlines should increase tourism arrivals and reduce the costs of airline subsidies and guarantees. Tourism receipts are expected to increase by 8 percent from a base of EC$307 million in 2013 to EC$332 million in 2017. The Airlift Committee is expected to renegotiate at least two agreements with air carriers by 2017.

[17] Nine countries reported paying a total of US$50 million a year to airlines. World Bank (2012) "Logistics Connectivity in the Caribbean: Current Challenges and Future Prospects."

(ii) Promoting the Commercialization and Modernization of the Agribusiness Sector

33. **The Government is committed to increasing value added in the agribusiness sector by boosting its technological sophistication and strengthening linkages between agriculture and tourism.** The Government recognizes the need to boost the productivity and export competitiveness of key agricultural products such as nutmeg and cocoa.[18] Its strategy for these commodities is based on: (i) commercializing inefficient Government-owned estates; (ii) strengthening agricultural extension and marketing services; and (iii) establishing an appropriate food-safety and product-quality regulatory framework to facilitate exports and improve linkages to the tourism sector.

34. **The policy to commercialize several loss-making Government-owned agricultural estates, launched under the DPC1, continues to make progress.** As of June 2015 two estates have already been entered into commercial agreements with private firms. Appropriate worker safeguards have been put in place, and commercial agreements are expected to boost estate productivity by an estimated 25 percent. Commercial agreements will attract a projected EC$6.2 million in private investment by 2016, while cutting government expenditures by EC$4.5 million and generating EC$1.8 million in public revenues.[19] DPC3 Trigger #2 was added to oversee the completion of privatization of the two estates which have commenced commercial agreements with the private entities under the DPC/DPL2.

35. **Grenada has transformed the Marketing and National Importing Board (MNIB) into a voluntary, demand-driven provider of extension and marketing services.** These reforms are designed to enable the MNIB to better facilitate economic linkages between the tourism and agribusiness sectors. Selling local agricultural products to hotels, restaurants and resorts could boost producer revenue by an estimated 22 percent over the current average farm-gate price. However, at present few local farmers are able to meet the hospitality industry's demands in terms of volume, quality consistency and safety verification.[20] The MNIB restructuring was completed in December 2014 with the appointment of a new chief executive officer, the adoption of a new organizational structure, and the preparation of a new strategic plan. Prior Action #3 under the DPC/DPL2 was originally a DPC3 trigger. Due to faster progress, this action has been brought forward and included in the DPC/DPL2.

36. **Upgrading the agribusiness value chain is vital to expand access to export markets.** This will require an internationally harmonized regulatory framework for food safety and quality standards[21] complemented by the establishment of a modern, pro-competition governance

[18] The top four agricultural exports are nutmeg (35 percent), cocoa beans (17 percent), non-fillet fresh fish (16 percent), and wheat flours (6 percent).
[19] *Source:* MNIB
[20] It has been estimated that on average only 58 percent of tourism expenditures filter into local economies in the OECS. With the exception of the service sector, where 90 percent of services are provided by locals, there is a high percentage of imports into the islands for tourism consumption, particularly in the areas of meat, dairy, vegetables, fruits, and manufactured goods.
[21] A recent World Bank review of the economic and market impacts of food safety standards in developing countries shows that "market access flowing from compliance with public and private food safety standards produces clear benefits just as market exclusion resulting from non-compliance imposes costs." ("Food Safety Standards. Economic and Market Impacts in Developing Countries," World Bank, Viewpoint Note 341, July 2014, p. 5).

framework for sectoral institutions, which is contemplated in the new trigger #3 for the DPC3. The adoption of international standards is also expected to strengthen the link between the agriculture and tourism sectors by enabling producers to meet the hospitality industry's quality and safety requirements.

DPC/DPL2 Prior Action #2: The Government has commenced commercialization of selected Government-owned estates by entering into two commercial agreements with private entities for commercial use in the agribusiness sector.

DPC/DPL2 Prior Action #3: The Government has approved a strategic plan to strengthen tourism and agribusiness linkages by transforming the Marketing and National Importing Board (MNIB) into a service provider of information on markets, product quality, and standards.

DPC3 Trigger #2: The Government has completed commercialization of selected-Government-owned estates by signing lease agreements with the private entities for commercial use in the agribusiness sector.

DPC3 Trigger #3: The Government has established a regulatory framework on quality and safety standards for agricultural products.

37. **Expected Results.** These measures are expected to commercialize and modernize Grenada's agribusiness sector by: (i) attracting private investment and encouraging the use of improved technologies in government-owned agricultural estates; (ii) establishing a long-term strategic decision-making process for the governance of key agricultural industries; (iii) modernizing the role of the MNIB as a service provider; and (iv) harmonizing the regulatory framework for product safety and quality with international standards. The total output of all commercialized agricultural estates is expected to increase from a baseline of 350 tons to at least 500 tons by 2017, and at least three government-owned estates are expected to be commercialized over the period. The number of farmers receiving NMIB services will increase from a baseline of 1,623 in 2013 to at least 2,500 by 2017.

(iii) Strengthening the Business Environment

38. **The Government is implementing economy-wide reforms to improve the investment climate.** The Government demonstrated its commitment to this effort by passing a new Customs Bill in 2014, which was supported by DPC1.[22] Upgrading the administration of cross-border trade remains a priority policy area, and the Government is working to ensure that at least 80 percent of trade transactions are processed through the Automated System for Customs Data (ASYCUDA) World[23] by the end of this DPC/DPL series. The Government continues to work on completing the

[22] The new Customs Act aligns Grenada's legislation with international good practice and enables the establishment of a modern customs administration through modern risk management, electronic processing, record keeping and audit powers, self-assessment, and clear accountability and adequate delegation of authority.
[23] ASYCUDA World allows traders to submit declarations through a web-enabled processing system, reducing the need to physically visit customs facilities. Efficiencies are expected to reduce the overall time and cost of trade transaction processing. Because ASYCUDA World is expected to process transactions more efficiently than the current system, an increase in the volume of transactions processed through ASYCUDA World will automatically lead to a reduction in clearance times. Customs administration is also expected to benefit from increased customs control and capabilities, which in the long run would lead to increased compliance and revenue collection.

measure that supported the reforms on trade logistics. However, implementation has been slower than expected. While the Bureau of Standards has made excellent progress on ASCUYDA implementation, customs connections with the Port Authority and Veterinary Services are behind schedule. Therefore, this Prior Action has been moved to the DPC3 (Trigger #4) in agreement with the Government.

DPC3 Trigger #4: The Government has enhanced border agency coordination by: (a) having all technical border-control agencies processing trade transactions through ASYCUDA World and (b) establishing a single payment point for the private sector to comply with all border agencies whose revenues are transferred to the Government's consolidated fund.

39. **Expected Results.** By the end of this DPC/DPL series these measures are expected to reduce the time and cost involved in complying with import and export procedures. ASYCUDA World allows traders to submit declarations through a web-enabled processing system, reducing the need to physically visit customs facilities. The use of ASYCUDA World and the establishment of a single payment point are expected to reduce average clearance time for border-control procedures from approximately six working days in 2013 to approximately three working days in 2017.

40. **The Government is committed to increasing both domestic and foreign investment.** Annual FDI inflows fell from a peak of US$172 million in 2007 to US$55.9 million in 2012-13. To revise this declining trend the Government is reforming its investment legislation. With technical assistance from the World Bank, the Government is overhauling the institutional framework for investment-promotion function of the Grenada Industrial Development Corporation (GIDC) [24]. These reforms will enable the GIDC, or any other authorized investment-promotion authority, to adopt international best practices for attracting and managing FDI inflows. Recent evaluations show that every US$1 dollar spent on investment promotion increases FDI inflows by US$189, and every US$78 spent on investment promotion creates one new job in the domestic economy.[25]

41. **The Government plans to expand the use of PPPs to mobilize private investment in infrastructure and public services under a well-defined policy and institutional framework.** The Government has identified a number of PPP opportunities in key sectors and introduced a PPP policy framework based on international best practices. This policy framework outlines principles and processes for identifying and managing PPPs, it also includes a strategy for developing a PPP pipeline and defines institutional responsibilities for implementing PPP projects. The Government is working to establish the necessary institutional arrangements within the Ministry of Finance (MoF) to ensure that PPPs are prepared and managed according to policy guidelines. The PPP policy was approved by the Government in February 2015.

[24] The World Bank's technical assistance was also provided to revise the Investment Promotion Act, which was supported under the IMF program. See Table 1 – Structural Conditionality under the IMF Program: Parliamentary approval of the revised Investment Promotion Act (achieved on November 30, 2014).

[25] Torfinn Harding and Beata S. Javorcik, "Roll out the Red Carpet and They Will Come: Investment Promotion and FDI Inflows," University of Oxford. *The Economic Journal*, vol. 121, issue 557 (December 2011).

DPC/DPL2 Prior Action #4: The Government has approved a policy framework with clear guiding principles and processes for identifying PPPs and set out institutional responsibilities for developing a PPP pipeline and implementing PPP projects.

DPC3 Trigger #5: The Government has put in place a legal and institutional framework for PPPs that allows the Ministry of Finance to manage their fiscal implications.

42. **Expected Results.** These measures will create an enabling environment for private investment in infrastructure through PPPs and ensure that these arrangements generate increased value for money for both the Government and service users. One hundred percent of investment projects are expected to follow the processes and requirements defined in the PPP policy by 2017, compared to zero percent in 2013.

43. **The Government is committed to reducing high costs in the electricity sector and alleviating dependence on imported fossil fuels.** Electricity production in Grenada is limited and expensive, and generation depends heavily on imported diesel. High electricity costs reduce enterprise competitiveness and represent a large share of consumption among poor households. An overdependence on diesel fuel exposes Grenada to oil-price volatility and contributes to carbon emissions. A critical component in the establishment of an independent energy regulator will be the adoption of a policy and regulatory framework for the development and use of renewable energy projects. Promoting renewable energy will help diversify the country's energy-generation mix, reduce exposure to high and volatile oil prices, potentially improve the reliability and climate resilience of the power sector, and support the transition toward a greener economy. The Government's energy policy objectives are to: (i) reduce electricity tariffs in the medium term; (ii) incentivize investment in renewable energy; and (iii) progress toward a low-carbon economy. The Government is pursuing these objectives within a commercial and legislative framework based on international best practices for promoting operational efficiency, enhancing consumer protections, expanding renewable energy, and improving energy efficiency, competitiveness and investment.

44. **The Government recognizes the need to establish electricity sector regulations as a tool to help it achieve its objectives in the energy sector.** The Government is participating in the establishment of a regional energy advisory committee, the Eastern Caribbean Energy Regulatory Authority (ECERA), with the support of an IDA credit. Preliminary determinations have been made with respect to ECERA's scope of authority, financing mechanism and staffing requirements. Final determinations on these issues should be made by the end of 2015, and new energy legislation is expected to be in place by the end of 2016. ECERA will provide an independent advisory process on electricity tariffs and contribute to improved public confidence in electricity-sector governance. ECERA will also support the new Public Utilities Regulatory Commission (PURC) as the national regulatory authority. ECERA is expected to improve the investment climate for the region's electricity sector, increase financial and technical efficiency, facilitate renewable energy projects, and expand possibilities for cross-border electricity exchanges and island interconnections.

45. **The Government has drafted legislation including draft primary legislation for the energy sector and draft amendments to the Public Utilities Commission Act, which will lead to the establishment of the energy regulator and advisory committee.** It will also formally establish the PURC and facilitate its engagement with ECERA. The new Electricity Supply Act

(ESA) aligns the legal framework with Grenada's energy sector plans, ensuring that key policies are given legal force, specifically with regard to the promotion of renewable energy and future participation in ECERA. In parallel with legislative developments the Government is working on renewable-energy initiatives with a number of partners. It is assessing the potential for geothermal energy development, building a wind farm and energy storage system on the island of Carriacou, and facilitating the installation of additional distributed photovoltaic systems on public, commercial and residential buildings. The Prior Action supporting the energy sector reform has been dropped to increase the selectivity of the operation. However, this does not affect the key objectives of the operation. The Government is advancing the energy sector reform, by improving the regulatory framework and strengthening its engagement with the regional advisory body.

DPC3 Trigger #6: The Government has approved the establishment of an independent energy regulator in the form of a national PURC and endorsed full participation in the regional advisory body, ECERA.

46. **Expected Results.** The new regulatory framework will incorporate policies and regulations that facilitate the incorporation of alternative renewable energy technologies (eg. Solar, wind and geothermal). Policy reforms are expected to increase the share of installed power generation capacity from renewable energy technologies. In 2013 approximately 0.3 MW of Grenada's installed, which is 1 percent of total generation capacity, was renewable energy produced by photovoltaic solar. At least 3.0 MW of installed renewable capacity, 3 percent of total generation capacity, is expected to be on-grid by 2017.

PILLAR 2: SUPPORTING IMPROVED PUBLIC RESOURCE MANAGEMENT

47. **Enhancing the effectiveness with which the public sector utilizes its limited resources will help the Government achieve its development objectives while also restoring fiscal and debt sustainability.** This DPC/DPL series supports public-sector modernization reforms to increase the efficiency of human resources (HR) management, improves the targeting of social safety net programs, and strengthens debt-management capacity. These reforms are designed to advance the Government's broader fiscal consolidation program.

(i) Promoting Public Sector Modernization

48. **Grenada's public sector suffers from inefficient management and allocation of human resources, insufficient technical staff, and weak accountability for results.** The wage bill reached 10.3 percent of GDP in 2014, or 49.5 percent of current expenditures. Adjustments in staffing and relative wages and stricter controls on new hiring, as agreed to under the IMF program, will contain the wage bill's growth. Building upon recent progress, the Government aims to further improve HR management and accountability mechanisms. The DPC/DPL series supports the Government's efforts to: (i) improve the management of public employees and (ii) introduce formal accountability for results in the public administration.

49. **The Government is now implementing the Public Sector Modernization Strategy supported by the DPC1.** With assistance from a World Bank IDF grant closed in 2012, the

Government conducted HR audits in pilot ministries and departments.[26] Audit recommendations included strengthening strategic planning, HR and performance management systems. The DPC/DPL series originally envisioned that HR audit recommendations would be followed by action plans developed and implemented under DPC/DPL2.[27] However, institutional weaknesses and insufficient financing for technical assistance hampered the implementation of the action plans. The Department of Public Administration (DPA) is currently reviewing staff allocations and job descriptions in the Ministry of Education, which has the largest number of public employees.

50. **Improving public employment management will require an incremental approach that reflects capacity limitations.** While the action plans target improvements in organizational management, the centralization of the current civil service system—in which the Public Service Commission is responsible for managing public servants—limits the devolution of HR and personnel management functions. Relatively low staffing levels and hiring restrictions also place a considerable burden on the permanent secretaries tasked with institutional modernization. As a result public sector modernization will need to occur gradually over the medium term. Rather than completely overhauling the public administration system, as recommended in the HR audit action plans and the DPC/DPL2, the Government has decided to move incrementally in improving institutional efficiency. A strategic planning approach was adopted to establish a clear framework for identifying personnel redundancies, reallocating staff and adjusting job responsibilities to match institutional objectives. While the strategic planning process is currently limited to certain ministries, the DPA plans to eventually involve all of the state ministries in this exercise.[28] While reforms supported by the Prior Action on public employment management have been steadily advancing, this Prior Action has nonetheless been dropped to increase the selectivity of the operation. However, strategic plans were prepared by three ministries and one department and were approved by the Government in January and February 2015.

51. **The Government will publish annual performance reports to monitor the status of public sector policies and evaluate the use of public funds to achieve strategic results.** In recent years the Cabinet Office has introduced a system of performance agreements between the Government and senior officials. These agreements establish a mechanism for identifying key policy objectives and help hold public officials accountable for reaching strategic goals. Building on this initiative the Cabinet Office decided to introduce a system of annual performance reports to review progress on strategic goals and further strengthen the accountability of public officials. The initiative is being supported through technical assistance from the Commonwealth Secretariat. Establishing accountability for results through annual performance reports should lead to improved strategic planning and resource allocation. The Prior Action on accountability for results in the public administration has been dropped to reduce the number of Prior Actions and increase the selectivity of the operation. However, this does not affect the key objectives of the operation.

[26] Pilot agencies include the Ministries of Health, Agriculture, and Legal Affairs, and the Supreme Court Registry.
[27] These action plans would lay out a comprehensive approach to improving the performance of public agencies encompassing strategic planning, HR management (including job analysis and evaluation), performance assessment, staff training and recordkeeping.
[28] The Ministries of Labor, Agriculture, and Legal Affairs and the DPA have strategic plans approved by the Government.

DPC3 Trigger #7: The Ministry of Education has established computerized personnel records for teachers and ministry personnel to increase the efficiency of human-resources management.

52. **Expected Results.** These measures are expected to enhance public sector efficiency by realigning the structure of the public service with the critical functions of key government entities, which together employ at least 70 percent of the total government workforce. Ensuring that staffing levels and distribution reflect strategic priorities will help gradually reduce the size of the wage bill as a share of GDP, as agreed to under the IMF program. Cutbacks in vacant posts and attrition helped reduce the size of the public service by 7.5 percent in 2014, and the wage bill was reduced from 10.8 percent of GDP to 10.3 percent. The supported reforms are expected to contribute to further reducing the wage bill at a projected annual rate of 1.4 percent. The devolution of nonessential government functions will also contribute a modest 1 to 2 percent decrease in the wage bill.[29] At least four ministries and one department, including the Ministries of Agriculture, Labor, Legal Affairs, Education, and the DPA are expected to establish official job descriptions with clearly defined responsibilities by 2017.[30]

(ii) Strengthening Public Procurement Systems

53. **The passage of the Public Procurement Law in August 2014 was a significant milestone in the DPC/DPL series.** The new law expands upon the 2007 Public Procurement and Contract Administration Act. Its purpose is to increase efficiency by centralizing procurement in select government agencies, leveraging economies of scale, reducing transaction costs, and alleviating capacity constraints at the decentralized level. The law also provides for electronic and regional procurement, in accordance with Grenada's regional agreements, and includes provisions related to conflict of interest, debarment, whistle-blower protection and due process for bidders. The Public Procurement Board is responsible for policy advice and operational oversight. To ensure external checks and balances the law provides for an independent Review Commission tasked with addressing bidder complaints.

54. **Establishing procurement regulations and an institutional framework for implementing the procurement law are critical to ensure the efficient use of public funds and the delivery of quality public services.** The following steps are required for full implementation of the public procurement law: (i) the passage of procurement regulations; (ii) the development of an institutional framework for implementing the law; (iii) the creation of training manuals and other staff tools; and (iv) the establishment of monitoring and evaluation mechanisms. Increasing the transparency of procurement processes is vital to the objectives of the DPC/DPL series and will be carried out in parallel with other activities. The launch of a public procurement website will allow free access to procurement information, including sample tender documents, bidding opportunities and contract award information. The trigger for the DPC3 will support the implementation of the procurement law by monitoring the passage of relevant regulations and establishment of key institutions. The new procurement regulations must be precisely specified and operationalized as legal provisions in order to mitigate potential risks resulting from simplified arrangements. These regulations will emphasize the environmental and life-cycle costs of procurement. Institutional milestones include the nomination of all members of the Public

[29] See the 2015 Grenada Budget Statement.
[30] These pilot ministries were selected by the DPA, which is in charge of the strategic planning exercise.

Procurement Board and Review Commission, along with the nomination of the Chief Procurement Officer and other staff.

DPC/DPL2 Prior Action #5: Parliament has approved a new public procurement law consistent with international best practices. **DPC3 Trigger #8:** Procurement regulations have been approved by the Government, and the institutional framework for implementing the procurement law is in place.

55. **Expected Results.** By the end of the series these reforms are expected to enhance transparency in public procurement. All contract awards are expected to be published in conformity with the new procurement law by 2017 on the Government's procurement website.

(iii) Strengthening the Targeting of Social Safety Net Programs

56. **Grenada operates a significant number of social protection programs, but weaknesses in coverage and coordination limit their impact.** Grenada currently has more than 30 social protection programs. However, many of these are inaccurately targeted and cover a very small percentage of poor and vulnerable households,[31] while some provide overlapping services or suffer from systemic expenditure inefficiencies. Building on the recommendations of the 2009 Social Safety Net Assessment **(**SSNA) the Government consolidated three of its main cash-transfer programs into the Support for Education, Empowerment, and Development (SEED) program, a conditional cash transfer system established in 2011. Over the past year the Ministry of Social Development and Housing (MoSDH) has been working to develop a robust targeting mechanism to recertify existing beneficiaries, identify new beneficiaries and establish a Beneficiary Management Information System (BMIS). The Grenadian Living Conditions Indicator (GLCI) has been piloted as a targeting instrument, and the BMIS is now fully operational. The GLCI will be applied to the database of existing SEED households beginning in fall 2015.[28] Given the political and financial implications of applying a targeting instrument, phased implementation is critical to ensure the successful phasing out of ineligible households. The MoSDH has prepared a Phase-Out Plan to address the attrition that will result from application of the GLCI, and to ensure that equity objectives for an improved safety net program are achieved. The Phase-Out Plan, approved by the government in early August 2015, provides an action plan for managing the phase out process for ineligible households; and more importantly, sets a roadmap for complementary enrollment of new households which were not previously receiving SEED transfers, but are eligible based on their household score.

57. **In addition to strengthening the SEED Program and augmenting its implementation mechanisms the Government recently developed a Social Safety Net Policy Framework.** The framework provides guidelines for operationalizing SSNA recommendations. The framework's five objectives are to: (i) strengthen the systematic production and use of evidence on poverty and vulnerability for better policy design and programming, including research, monitoring and

[28] Over time the Government intends to use the new targeting tool and the BMIS for other safety net programs and to facilitate rapid-response emergency interventions to poor and vulnerable households following a disaster.

evaluation; (ii) sharpen the poverty-reduction focus of social safety net design and programming; (iii) undertake social and legal reforms to improve access to services for the poor and vulnerable; (iv) help beneficiary households achieve economic independence; and (v) ensure efficient, effective, transparent, participatory and accountable social protection services. The Prior Action on social safety nets (Prior Action #6), which required the Government to include the establishment and implementation of eligibility criteria for the application of the targeting instrument, has been modified to also include a requirement that the Government prepares the Phase-Out Plan.

DPC/DPL2 Prior Action #6: The Government has approved a phase out plan to improve the targeting of beneficiaries of the Support for Education, Empowerment, and Development (SEED) program. **DPC3 Trigger #9:** The Government has expanded the policy for better targeting of beneficiaries of social programs.

58. **Expected Results.** By the end of the series the SEED program is expected to substantially improve its beneficiary targeting. The share of SEED beneficiaries identified by using the targeting instrument is expected to increase to 80 percent by 2017, compared to zero percent in 2013. Over time the targeting instrument is expected to be expanded to other social programs.

(iv) Enhancing Debt Management

59. **Complementing government actions to restructure the debt, measures supported under this DPC/DPL series focus on strengthening debt-management capacity to ensure sustainability over the medium term.** The MoF has initiated work on developing a Medium Term Debt Management Strategy (MTDS), signaling its commitment to sound debt management to financial markets and creditors.[32] A joint World Bank-IMF MTDS technical assistance mission conducted in January 2015 supported the strategy's development. The Government approved strategic options for the MTDS in February 2015, and a procedures manual is currently being developed.[33] The MoF carried out a second Debt Management Performance Assessment (DeMPA) in July 2015 with the help of the World Bank technical assistance mission. The Prior Action on enhancing debt management has been dropped to increase the selectivity of the operation. However, this does not affect the overall objectives of the operation. The Government is nonetheless finalizing the MTDS for the period 2016-2011.

DPC3 Trigger #10: The Ministry of Finance has (a) adopted a procedures manual for the MTDS and (b) implemented the recommendations of the Debt Management Performance Assessment (DeMPA).

60. **Expected Results.** By the end of this DPC/DPL series these measures are expected to improve the composition of the debt portfolio and contribute to long-term debt sustainability. The

[32] The MTDS will allow the Government to analyze how debt composition affects relative costs and risks by using scenario analysis to achieve a desired composition which captures the Government's tradeoff preferences.
[33] The procedures manual will define the debt-management procedures used by the MoF's Debt Management Unit. It will guide officers in recording and reporting debt data and in managing the flow of information between the various MoF agencies involved in debt management. The manual's content will reflect international best practices.

Government has already made steady progress in improving its debt profile, and the share of debt (public and publically guaranteed) with a maturity of less than 90 days is expected to decrease from 17 percent in 2013 to 10 percent in 2017. At the end of August 2014 this share had reached 15.8 percent.

PILLAR 3: ENHANCING RESILIENCE AGAINST NATURAL DISASTERS AND KEY ELEMENTS OF RESILIENCE IN THE BANKING SECTOR

(i) Building Resilience to Natural Disasters through an Improved Physical Planning Regulatory System

61. **Grenada is highly exposed to a range of natural disasters and weather-related shocks.**[34] The island is vulnerable to high winds, excess rainfall, hurricanes and droughts, as well earthquakes, volcanic eruptions and tsunamis hazards, and the uncertainty generated by this exposure negatively impacts economic stability and growth. Between 1992 and 2011 Grenada experienced average annual losses of 9.5 percent of GDP[35] due to these hazards. Significant capital expenditures are required to repair and rebuild damaged public infrastructure, which has a deeply negative impact on state finances.

62. **The Government urgently needs to develop a comprehensive strategy for managing disaster risks, including risk-reduction and risk-financing measures.** Some basic financial-protection instruments are already in place, such as the pooled insurance mechanism offered through the Caribbean Catastrophic Risk Insurance Facility (CCRIF), as well as insurance coverage for select public buildings. However, no assessments of the vulnerability of public infrastructure to natural hazards have been conducted, and existing financial-protection instruments have not been integrated into a comprehensive strategy.

63. **Building resilience into the development process requires cross-sector support.** This begins with sound national planning and ultimately includes the integration of the national planning into the national investment portfolio. Properly assessing and mitigating potential risks through emergency response systems, as well as appropriate zoning and engineering requirements, is instrumental to reducing the impact of natural disasters on economic growth.

64. **This DPC/DPL series includes short- and medium-term policy measures to strengthen the physical planning regulatory system.** The DPC1 covered improved building standards, better zoning processes and planning, and the professionalization of engineers and architects. The DPC3 will support the enactment of measures approved by the Government under the DPC1. Once enacted as legislation through Parliament, policies and practices listed in the code and bill become law and binding. Activities supported under the DPC/DPL series will significantly improve the quality of new constructions and reduce the risks associated with natural disasters. The Prior Action on building resilience against natural disasters has been dropped to increase the selectivity of the operation. However, this does not affect the key objectives of the operation. Trigger #11 has been added to DPC3 to advance the reforms supported under DPC1 to improve the physical planning system of the construction sector.

[34] GFDRR, Grenada: Country Note, 2010.
[35] Global Climate Risk Index 2013, Germanwatch, November 2012. http://germanwatch.org/en/download/7170.pdf.

DPC3 Trigger #11: Parliament has enacted (a) the Grenada Building Code and the Grenada Building Guidelines and (b) the Physical Planning and Development Control Bill (2014).

65. **Expected Results.** By the end of this DPC/DPL series these measures are expected to promote the construction of buildings that are more resilient to natural disasters and better adapted to withstand climate change. It is expected that (i) the share of new public and commercial buildings and private housing built in safe and regulated areas in accordance with regulatory acts will increase from zero in 2013 to 50 percent in 2017,[36] and (ii) the share of registered engineers will increase from zero in 2013 to 40 percent in 2017.[37]

(ii) Improving key elements of Banking-Sector Resilience through Better Regulation and Supervision

66. **In recent years Grenada has significantly improved its oversight of the non-bank financial sector.** The country has been at the forefront of regional efforts to strengthen regulation and supervision of the insurance industry following the BAICO/CLICO insurance crisis in 2009. Insurance companies now comply with statutory provisions that require them to hold sufficient liquid assets in local financial institutions to cover their policyholders' liabilities. The Grenada Authority for the Regulation of Financial Institutions (GARFIN) has intensified its oversight of credit unions since its creation in 2007.

67. **The Government is actively supporting regional efforts that will make the banking system more resilient.** The global financial crisis severely affected the banking sector in many Caribbean countries. Since 2009, the ECCB took over four failed banks in Antigua and Anguilla. In February 2014, the ECCU Monetary Council to which Grenada is a member approved a regional strategy to strengthen the banking sector. The strategy includes three building blocks: i) a comprehensive diagnostic; ii) legal and institutional reforms with a new banking and asset management company (AMC) legislation and the establishment of a regional AMC; and iii) restructuring strategies for weak banks. The diagnostic was completed in the first half of 2015.

68. **The new banking legal framework approved in April 2015 significantly strengthens prudential regulation, supervision and problem bank resolution.** The framework consists of the uniform Banking Act and amendments to the ECCB Agreement Act. The changes upgrade the framework in line with international standards. For instance the new Banking Act includes a mandatory prompt corrective action framework in case banks do not comply with the Act or prudential guidelines issued by the ECCB. It upgrades transparency and corporate governance requirements. The Agreement Act has been modified to facilitate resolution. The framework for dealing with problem banks now provides various options. Based on the completion of the comprehensive diagnostic and approval of the banking legal framework, the ECCB and the Government are discussing how to incorporate the results of the analysis into restructuring plans. The passing of the AMC legislation is pending the signing of the Agreement by all ECCU member

[36] The Ministry of Public Works approves about 60 applications for public and commercial buildings and private housing per month. Approximately 300-400 plans are approved for construction per year. The number of accepted plans is not expected to decrease due to the new regulatory acts.
[37] There are currently about 50 registered engineers on the island.

countries. [38] As the Government was advancing the Banking sector reform and approved a significantly strengthened banking regulation, Prior Action #7 has been revised to reflect the progress made by the Government in the sector. The Banking Act was passed by Parliament in April 2015.

DPC/DPL2 Prior Action #7: Parliament has approved a new Banking Act to strengthen bank regulation, supervision and resolution.

DPC3 Trigger #12: The Government has approved recommendations based on the findings of the comprehensive and independent valuation of bank assets.

69. **Expected Results.** Initiatives to improve bank regulation and supervision and frameworks for bank resolution are regional, so results will hinge on the progress of regional reforms. If planned reforms are successfully implemented over 2015-2017, Grenada's weak banks should be stronger, with lower and better provisioned NPLs, and restructuring actions under way. Consequently in the short-term, the provision for loan losses to NPLs for the banking sector should increase from 30 percent of NPLs in 2013 to 60 percent of NPLs in 2017.

ANALYTICAL UNDERPINNINGS

70. **The World Bank has engaged in extensive policy dialogue with the government and completed a number of analytical studies that underpin the reforms supported by this operation.** Table 3 presents selected findings from relevant analytical studies.

Table 3: DPC/DPL Prior Actions and Analytical Underpinnings

Prior actions	Analytical Underpinnings
Pillar 1: Creating conditions for private investment in a sustainable manner	
Tourism Development	World Bank "Logistics Connectivity in the Caribbean: Current Challenges and Future Prospects" (2012); OECS-World Bank, "Improving the Organization of Eastern Caribbean States' Regional Competitiveness through Tourism: the importance of a regional approach and the means to implement it", Caribbean Growth Forum (August, 2014); Report No. 44060-LAC, OECS, Increasing Linkages of Tourism with Agriculture, Manufacturing and Service Sectors (2008).
Agribusiness Development	"Food Safety Standards. Economic and Market Impacts in Developing Countries", World Bank, Viewpoint Note 341, July 2014; Report No. 31863-LAC, OECS, Towards a New Agenda for Growth (2005); Report No. 31725-LAC, A Time to Choose: Caribbean Development in the 21st Century (2005); Caribbean Growth Forum, Grenada Chapter, Investment Climate Working Group (March, 2013).
Trade Logistics	Report No. 31725-LAC, A Time to Choose: Caribbean Development in the 21st Century (2005).
Public Private Partnerships	Report No: ACS7995-LAC Caribbean Infrastructure PPP Roadmap (2014) Draft PPP Policy for Grenada (2014), prepared under a technical mission to Grenada under DPC1.
Pillar 2: Improving the efficiency of public resource management	
Public Employment Management	HR audits, Bank staff analyses, and agreements reached between the Department of Public Administration and Bank staff; Report No. 31863-LAC, OECS, Towards a New Agenda for Growth (2005).

[38] As of September 2015, Anguilla and Montserrat are yet to sign.

Social Safety Nets	Social Safety Net Assessment (2009); Tailoring Social Protection to Small Island Developing States, Lessons Learned from the Caribbean (2013).
Pillar 3: Enhancing resilience against natural disasters and key elements of resilience in the banking sector	
Natural Disasters	CDKN Guide: Tackling Exposure, Placing disaster risk management at the hard of national economic and fiscal policy (2012); WPS5429 – Financial protection of the state against natural disasters (Ghesquierre and Mahul, 2010); Global Facility for Disaster Reduction & Recovery (GFDRR) Grenada Country Note (2010); WPS5232 – Assessing the Financial Vulnerability to Climate-Related Natural Hazards (Mechler et al., 2010); IMF WP/09/159 – Macroeconomic Fluctuations in the Caribbean: the Role of Climatic and External Shocks (Sosa and Cashin, 2009); WPS5956 – Fiscal Implications of Climate Change (Bones et al., 2012).

4.3 LINKS TO THE RPS, OTHER BANK OPERATIONS AND WORLD BANK STRATEGY

71. **This DPC/DPL series is envisaged in the Regional Partnership Strategy (RPS) for the OECS (Report No. 85156-LAC), which was discussed by the Executive Directors on November 13, 2014.** This DPC/DPL series contributes to the following RPS objectives: (i) improved investment climate; (ii) increased tourism benefits with stronger linkages to agribusiness; (iii) improved budget management and transparency; (iv) strengthened capacity to manage PPPs; (v) improved targeting and reduced fragmentation of the social-protection system; and (vi) increased capacity to manage natural hazards. The RPS is aligned with the Government's objectives and aims to provide Grenada with focused, demand-driven support to achieve its development goals. Moreover, the pillars of the DPC/DPL series are consistent with the World Bank's twin goals of ending extreme poverty and sustainably increasing shared prosperity.

72. **The social safety net component of the DPC/DPL2 is closely linked to the Safety Nets Advancement Project (SNAP) (P123128).** The SNAP aims to strengthen the basic architecture of the SEED program and build the capacity of the MoSDH to implement it. The project adopts the World Bank's new Program for Results framework, which ties disbursements to specific technical milestones that support the development and implementation of a robust and transparent cash-transfer program. The SNAP will continue to serve as a platform for providing relevant technical assistance, while the proposed operation will enhance the Government's approach to delivering social safety net programs to poor and vulnerable households.

73. **This DPC/DPL series' public sector modernization agenda builds on recent World Bank-supported operations.** Strengthening Personnel Expenditure Management (P117873), a World Bank IDF grant which closed at the end of 2012, supported improvements in the Government's capacity to manage personnel expenditures. The DPA has conducted HR and expenditure reviews and generated reports with recommendations on improving staffing in pilot ministries and departments. The IDF also strengthened the Cabinet Office's capacity to coordinate the government planning process. The DPA currently oversees a group of experienced personnel in conducting HR analyses, expanding the coverage with HR audits, and supporting ministries and other agencies in developing job descriptions. An HR audit of the Ministry of Education originally supported by the IDF has not yet been completed, but support for it is continued by the DPA under the DPC/DPL series.

74. **Energy sector reforms are linked to the ECERA project (P101414) through the IDA credit.** The project consists of two parts: (i) establishing ECERA, which is expected to be completed by FY2016, and (ii) operationalizing ECERA over its first three years. Activities will be geared toward establishing and implementing appropriate regulations for each participating country, developing new licensing recommendations, and setting cost-reflective and performance-based tariffs. In addition to the traditional role of regulation, which includes utility management and tariff oversight, ECERA seeks to promote renewable energy as a key component of the sector.

75. **The Grenada DPC/DPL series directly complements the Regional Disaster Vulnerability Reduction Project (RDVRP) (P149259), which Grenada has been implementing since 2011.** The RDVRP is a US$26.2 million project that aims to reduce physical vulnerability through risk-reduction and climate-change adaptation. It includes a combination of civil works, capacity-building, and institutional development activities. This DPC/DPL series complements the physical investments and technical assistance financed under the RDVRP in three ways: (i) building financial resilience to natural disasters; (ii) stimulating private-sector-led growth, and (iii) contributing to fiscal and debt sustainability. The RDVRP will also provide the technical assistance necessary to support triggers proposed under Pillar 3 of this DPC/DPL series. Additional financing for the RDVRP was approved in June 2015 and will support the Government in further reducing its vulnerability to natural hazards and climate change and enhancing its capacity to assess disaster risks.

76. **Reforms supported by the PPP component will be complemented by the Caribbean Regional PPP Support project (P150569).** This is a technical assistance project undertaken in coordination with the CDB and the IADB. It will develop: (i) a model PPP policy, as well as materials and tools for countries to use in implementing it, and (ii) a capacity-building series on PPP fundamentals that will be open to attendees from Grenada. Activities will also include hands-on support for Governments interested in pioneering new PPP policies and screening potential PPP projects. The project will also examine the business case for establishing a lasting regional PPP support mechanism to provide technical and financial resources to prepare and implement PPP projects.

77. **Financial sector reforms are supported by donor-funded technical assistance.** The UK Department for International Development (DFID) and Canada Department of Foreign Affairs, Trade and Development have provided about US$7 million to the World Bank to support the regional strategy over the past three years. This assistance has focused on the articulation of the regional strategy, the comprehensive diagnostic (asset quality review and dynamic modelling), as well as the drafting of the legal reforms and operationalization of the regional AMC.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

CONSULTATIONS

78. **The DPC/DPL series supports the Government's reform agenda, which was developed in consultation with stakeholders.** As with all legislative measures and reforms in Grenada the new Government's program was subject to a thorough consultative process involving the private sector, civil society, and groups likely to be impacted by policy changes. The

consultative process is an important institutional feature of Grenada's Government. The prime minister chairs a monthly meeting of the Committee of Social Partners, which includes the private sector, labor unions, entrepreneurs, government officials, churches, and non-governmental organizations. The committee discusses issues affecting the economy and possible solutions. Where viable these suggestions are incorporated in policies, laws and strategies. Other consultation methods include public hearings, ad-hoc meetings on specific topics, citizen panels, surveys, electronic platforms (e.g., government websites) and the media.

79. **The authorities have consulted a wide range of stakeholders on the specific measures supported by this DPC/DPL series.** DPC/DPL actions related to private sector development are informed by the consultative process launched by the national chapter of the Caribbean Growth Forum, which took place in June 2014. This process included stakeholders from all branches of government, as well as the private sector and civil society.[39]

COLLABORATION WITH OTHER DEVELOPMENT PARTNERS

80. **The content of this DPC/DPL series is aligned with the programs of the country's active development partners.** Grenada has been well served by several bilateral and multilateral agencies, including the European Union (EU), the Canadian International Development Agency (CIDA), the UK DFID, the US Agency for International Development (USAID), the Pan-American Health Organization (PAHO) and the Caribbean Development Bank (CDB), which lends IADB funds in addition to its own resources. These agencies and the World Bank are active participants in the Eastern Caribbean Donor Group. The World Bank and the Government work to promote donor coordination and exploit synergies. The World Bank and the IMF collaborated closely in the preparation of this operation, and the proposed prior actions complement the policy measures supported by the IMF program. The World Bank has also collaborated with the CDB in defining certain elements of the series.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACTS

81. **The overall poverty and social impact of the policy measures supported by this DPC/DPL series is expected to be positive or neutral.** Some of the proposed measures will have a direct positive effect, while the benefit of others will only be evident indirectly. Due to the limited availability of data on poverty, with the last CPA having been conducted in 2008, the concrete impact on poverty cannot be assessed and primarily qualitative instead of quantitative analysis has been used for the PSIA. A more detailed analysis will be carried out if the new poverty data becomes available in the span of the DPC/DPL series. The supported policy measures address vulnerabilities of different parts of the economy and are meant to contribute to poverty reduction and shared prosperity.

82. **Policy measures supported under Pillar 1 are expected to have a positive poverty and social impact.** The commercialization of government-owned estates may increase employment and have a positive effect on staff incomes as productivity increases. International evidence

[39] The concluding recommendations are available online: http://caribgrowth.competecaribbean.org/.

suggests that commercialized agricultural estates show sharp increases in productivity and increased salaries for workers. As a condition of its commercial agreements the Government requires that the size of the estate's labor force remain constant, protecting employees from potential layoffs. In case of any potential involuntary resettlement due to the commercialization of the Government estates, Grenada's legal framework[40] requires to identify and mitigate negative economic and social impacts resulting from resettlement on people affected and to provide prompt and full compensation for land and other assets acquired compulsorily. A Board of Assessment, which is appointed for each case, assesses, awards and apportions compensation. Tourism regulations designed and implemented by the GTA are expected to improve the overall performance of the tourism sector and boost tourism receipts. The services provided by the reformed MNIB are expected to benefit around 52 percent of Grenadian farmers. The GTA's tourism related regulations, along with enhanced MNIB services, is expected to strengthen linkages between agriculture and tourism, increasing the revenue of agricultural producers by 22 percent and creating new employment opportunities. Creating an enabling environment for PPPs through the PPP policy framework will promote private investments in infrastructures and have a positive impact on FDI inflows and job creation.

83. **The social impact of the reforms supported under Pillar 2 is also expected to be positive over the medium-to-long term.** Greater efficiency in the use of public funds and human resources should promote improved service delivery, provided that the growth of the civil service can be contained.[41] In this respect, a good public procurement system is a perquisite for the well-functioning public sector and is even more critical with the additional flow of funds resulting from this DPC/DPL series, IMF and CDB programs. Similarly, a decreased debt level as result of enhanced debt management capacity would reduce interest payments and fiscal pressure on the government budget. Reforming social safety net systems will directly contribute to the Government's long-term social protection objectives. The consolidation of existing social protection programs within an improved institutional and administrative framework will help to ensure adequate assistance to poor and vulnerable households. Equity objectives would be achieved through the application of the GLCI, which will more effectively identify poor households, many of whom are currently not receiving safety net support.[42]

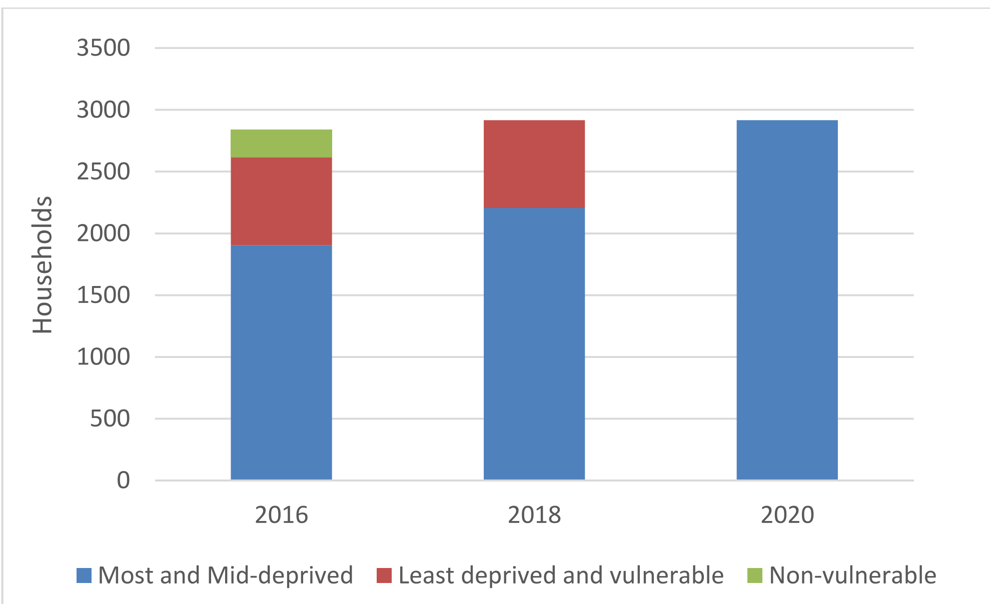
84. **Once the new targeting tool of social safety net programs is fully operationalized and applied to existing SEED beneficiaries, gradual phasing out of the ineligible households will allow for phasing in of the new eligible households, identified based on their household score, who are currently not receiving the benefit (Figure 3).** A more comprehensive and accurate data will allow policymakers to better analyze the impact of programs, including possible gender

[40] Grenada Constitution Order 1973, Land Acquisition Act of 1945, and Land Settlement Act of 1993.
[41] In case of retirements, the pension arrangements provided by law will be a new income source for those who lose jobs through attrition.
[42] Results from application of the GLCI over the sample of Grenada households using 2011 Census data revealed 29.8 percent of 32,392 assessed households were in the two poorest quintiles established by the GLCI (approximately 9,670 households).

implications.[43] The Government recently prepared the Grenada Country Gender Assessment[44] to analyze gender dynamics in economic, social and governance policies and prepared a Gender Equality Policy and Action Plan. Gender issues will be adequately addressed through national planning and policy processes.

85. **The SOE reform that the Government plans to implement is likely to have a positive impact in the long term as it will help the Government improve its fiscal position and reduce contingent liabilities.** The Government finalized a strategic plan to reform weak SOEs and SBs in February 2015 and will soon restructure some institutions. The SOE reforms are important structural reforms for the Government, supported under the IMF program. The reforms also focus on improving the corporate governance of SOEs and SBs and reducing the contingency liabilities of the Government. The Government will provide severance payments to existing employees and intends to improve targeting of social safety net programs to mitigate social risks associated with the reform. Prior Action #6 of this operation focuses on better targeting of social programs to improve access to services for the poor and vulnerable households.

Figure 3. Planned SEED Beneficiary Structure



Note. The GLCI separates assessed households into five living condition categories. The categories from the those worse off to better off are (i) Most Deprived, (ii) Mid Deprived; (iii) Least Deprived; (iv) Vulnerable; and (v) Non Vulnerable.

Source: World Bank staff calculation

[43] The Social Safety Net Assessment prepared in 2009 reported significant errors of exclusion and indicated that a large share of the target groups for key programs remained uncovered (e.g., student assistance schemes reaching about 10 percent of students who are poor; public assistance reaching about 25 percent of the elderly). Similarly, analysis of the parish distribution of beneficiaries and of poverty suggested that errors of exclusion were even more pronounced in some parishes, with St. Patricks and St. Andrews particularly underserved.

[44] The assessment was prepared with the support of the CDB in 2014, in partnership with the MoSDH, the private sector, and civil society.

86. **The reforms supported under Pillar 3 are expected to be neutral in the short term, but to have a positive impact in the long term.** Safer construction practices will make roads, bridges, and buildings more resilient to natural disasters, not only preventing loss of life and destruction of property, but also reducing economic vulnerability to shocks. The stronger regulatory framework for banks under the new Banking Act will increase capital, and provide the tools for the supervisor to address weak banks at an early stage. This will mitigate the potential adverse impacts of bank failures on the fiscal performance of the Government and the economy.

5.2 ENVIRONMENTAL ASPECTS

87. **Reforms supported in this DPC/DPL series are expected to have a negligible or positive environmental impact.** The commercialization of government estates will transform mostly idle Government-owned land into professionally managed agricultural estates, and its commercial agreements will not extend to the protected areas such as Forest Reserve and the Watershed to protect the country's environment system. The private firms managing the estates are prohibited to engage in any practices known to have a harmful effect on the soil. In addition, these firms are required to meet local and international acceptable legal and environmental standards in all phases of operations which are applicable to the export of agricultural products. Potential PPP projects will be handled in compliance with the country's relevant environmental legislations to protect its environment and be subjected to an environmental impact assessment before commencing any work. Furthermore, the PPP policy framework allows the potential PPP projects to follow policy guidelines consistent with international best practices. This is expected to have a positive impact on environment in the long run. The legislation for the energy sector will introduce the legal means for providing incentives for renewable energy. Increased renewable energy generation could have a positive impact on the environment. Improvements in building regulations are also expected to have a positive environmental impact by rationalizing construction planning. In Grenada, the Land Development Control Authority is responsible for ensuring that development processes are undertaken in an orderly manner, and several pieces of legislation have been placed to enhance and conserve its environment, which are adequate to handle environmental issues in the country.[45]

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

88. **Fiduciary risks are moderate, as Grenada's public financial management (PFM) system, budget practices, and the foreign-exchange policies of the ECCB are all adequate to support the proposed operation.** The Government is making progress in improving the PFM system to mitigate fiduciary risks, and the national budget and annual Statements of Accounts (SOA) of Government are publicly available. Grenada's PFM strengths are in the budget system and chart of accounts being based on consistent administrative and economic classifications, in cash management with the continued transition to a Treasury Single Account (TSA), and in external audit, where the Director of Audit carries out comprehensive annual audits. However, a number of important weaknesses remain, especially in the areas of sector planning, budget execution, public procurement, financial reporting and internal audit. A comprehensive assessment

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[45] The Physical Planning and Development Control Act No 25 of 2012, the Public Health Act of 1958, the Litter Abatement Act of 1973, Waste Management Act 2001, the 1986 Fisheries Act, and the 1990 National Parks and Protected Areas Act.

of Grenada's PFM system using the Public Accountability and Financial Assessment (PEFA) framework was carried out in 2010. Following this assessment the Government prepared and implemented a comprehensive action plan to design and implement a broad set of PFM reforms. Parliament passed an updated PFM Bill in August 2014, which significantly revamped the PFM Act No. 27 of 2007. By addressing weaknesses in the previous law the updated bill aims to strengthen the overall fiscal framework for the economy and outlines proper procedures for transparency and accountability. Although the new bill is comprehensive, its requirements have not yet been fully implemented.

89. **The budget system is based on consistent administrative and economic classifications that broadly reflect the IMF's Government Finance Statistical Manual and the United Nation's Classifications of Functions of Government Manual**. Revenue projections and current expenditures in the annual budget are close to actual amounts. However, predictability and controls in budget execution have been limited. Monthly execution reports are prepared by the budget department using information generated directly from the SmartStream budgeting software.

90. **Grenada has a functioning audit mechanism.** The Director of Audit carries out a comprehensive annual audit of the government's statements of account (SOAs). The internal audit unit at the Accountant General's department in the MoF has improved in recent years, but it lacks an adequate legal framework. Internal audits are conducted on the basis of annual plans, and ad hoc requests are also accommodated. Audits are primarily focused on compliance reviews and assessment of processes and controls. Reports are submitted to the Accountant General, who shares them with the MoF's permanent secretary. The most recent audited annual SOA is from 2011, and audit of the 2012 SOA is currently being finalized.

91. **As a member of the ECCU Grenada uses the East Caribbean dollar (EC$) as its national currency.** The currency is managed by the ECCB, which also holds the foreign-exchange reserves of its member states. The ECCB operates a currency board that maintains 100 percent foreign-exchange backing for all issued currency. In April 2012 the IMF completed a Safeguards Assessment of the ECCB that did not identify any significant safeguards risks. The ECCB has well-established procedures to ensure the integrity of its operations. It also has a well-functioning internal audit department in place, and its accounts are audited by an independent external auditor. The ECCB Board of Directors has an audit sub-committee, which provides additional oversight.

92. **Disbursement and Auditing Arrangements.** The proposed credit will follow the World Bank's standard disbursement procedures for development policy support. The proceeds of the credit/loan will be disbursed against satisfactory implementation of the Program (specified prior actions achieved) and maintenance of adequate macroeconomic policy framework. The World Bank will disburse the credit and loan proceeds, denominated in US dollars, into Grenada's foreign-exchange account at the ECCB and this account forms part of the country's foreign exchange reserves at the ECCB. The ECCB will then immediately ensure that upon deposit is made in said account, an equivalent amount will be credited into Grenada's account, which will become available to finance budgeted expenditures. Within 30 days of the funds transfer, the Government of Grenada, through its MoF, will provide the World Bank with written confirmation of the amount deposited into the foreign-currency account at the ECCB and that the equivalent amount credited in the borrower's accounting system to an account that finances budget

expenditures. The ECCB fiduciary environment is adequate, and no specific audit of the deposit account will be required. However, the World Bank reserves the right to request such an audit. If the proceeds of the credit/loan are used to finance typically expenditures excluded under the Loan Agreement, the World Bank will require the borrower, to refund an amount equal to the ineligible payment promptly upon notice. Amounts refunded to the World Bank upon such a request shall be cancelled. The borrower's representative of this credit/loan will be the Minister of Finance.

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

93. **Monitoring, Evaluation, and Results Framework.** The MoF will be responsible for coordinating actions by other relevant ministries and agencies. A number of other agencies are involved in implementing the reform program supported by this DPC/DPL series, including MoSDH, the Ministry of Agriculture, Lands, Forestry, Fisheries, and Environment, the MoT, the DPA, and the Ministry of Works. The World Bank has discussed the importance of developing a monitoring and evaluation process with the relevant institutions to ensure adequate feedback to policymakers. Monitoring and evaluation capacity is traditionally weak in Grenada, and the Government recognizes the need to strengthen these mechanisms. The results framework agreed up by the Government and the World Bank is presented in Annex 1. It includes indicators to be assessed at the end of the DPC/DPL series in 2017. These indicators represent agreed-upon benchmarks for evaluating the program supported by this DPC/DPL series. The World Bank will maintain an ongoing dialog with counterparts in the MoF regarding the monitoring and evaluation of reforms supported by the DPC/DPL series.

94. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche-release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank attention and World Bank management has been given an opportunity to respond. For information on how to submit complaints to the GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Inspection Panel please visit www.inspectionpanel.org

6. SUMMARY OF RISKS AND RISKS MITIGATION

95. **There are substantial risks to the achievement of the objectives of this DPC/DPL series.** Areas of particular concern include macroeconomic risks, risks related to institutional capacity and environmental risks.

Table 4: Systematic Operations Risk-Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	High
8. Stakeholders	Low
9. Other	Not applicable
OVERALL	**Substantial**

96. **While Grenada's macroeconomic outlook is generally positive, important downside risks remain, and the macroeconomic risk rating for this operation is substantial.** A sluggish global, in particular US recovery could impede the resurgence of the tourism industry, diminish remittances, slow GDP growth and reduce FDI. An adverse external environment could also exacerbate the external financing gap and make the process of fiscal adjustment more difficult. The continued appreciation of the US dollar could further erode competitiveness, while rebounding oil prices could boost inflation, raise production costs and widen the current-account deficit. Potential delays in addressing financial-sector weaknesses could undermine efforts to improve the regulatory environment or address vulnerabilities in the financial sector.[46] However, the Government has the support of Congress, political legitimacy, and concurrence for reforms. Ongoing reforms are expected to significantly enhance the macroeconomic framework, which will help mitigate these risks.

97. **Implementation capacity risks are substantial.** While Grenada's institutional and technical capacity is relatively robust by regional standards, a limited number of technical experts in core ministries may pose implementation risks. Inadequate fiscal resources could also hinder the execution of the reform strategy and action plans supported by the DPC/DPL series. Grenada's development partners are working closely with the Government to provide technical assistance to support the implementation of key policy actions, coordinating and when possible consolidating their interventions to minimize administrative burdens. In this context the Government has carefully prioritized a limited number of critical measures. The implementation requirements for each of these were discussed at length to ensure that implementation timeframes were realistic.

98. **Due to Grenada's inherent vulnerability to natural disasters and climate change environmental risks are high.** An estimated 53 percent of Grenada's economic output and 52 percent of its population are threatened by two or more types of natural disaster.[47] Natural disasters

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[46] Last year the ECCU finance ministers agreed on a regional strategy to strengthen the banking sector, and appropriate diagnostic assessments and legislation are currently being prepared.

[47] Dilley, M. et al. "Natural Disasters Hotspots: A Global Risk Analysis," Disaster Risk Management Series No. 5, 2005. Table 1.1b and Table 7.2b.

and climate change could seriously impact this operation by disrupting economic activity, including in DPC/DPL-specific sectors such as agriculture and tourism. The high costs of disaster mitigation and response could threaten fiscal stability, redirect public resources away from long-term development plans or increase indebtedness. This operation, complemented by support provided under the World Bank's RDVRP and ongoing FAO (Food and Agriculture Organization of the United Nations) programs,[48] will help strengthen the Government's capacity to manage disasters, evaluate environmental risks and protect fiscal stability through risk-financing tools such as CCRIF, which would help reduce the fiscal cost of a large-scale disaster.

[48] In collaboration with various development partners, the FAO is providing technical assistance on the development of disaster risk management plans for the agriculture sector in the Caribbean including Grenada.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Triggers			Results (April 2017)
Prior Actions under DPC 1	**Prior Actions for DPC/DPL 2**	**Triggers for DPC 3**	
Pillar 1: Creating conditions for private investment in a sustainable manner			
Prior action #1: Parliament has enacted the Grenada Tourism Authority Act, establishing the institutional framework for governance of the tourism sector.	**Prior action #1:** The Grenada Tourism Authority (GTA) has instituted a new regulatory framework for the tourism sector in accordance with the 2013 Tourism Authority Act. Evidence: (a) The Government has approved the "Licensing Fee Structure" in accordance with GTA Act 2013 through Cabinet conclusion No. 661 dated April 27, 2015; and (b) the Cabinet has approved: (i) the "Declaration of Tourism Enterprise Order 2015", (ii) the "Tourism and Beach Vending Regulations 2015", and (iii) the "Grenada Tourism Authority (Accommodation and Tourism Enterprise) Regulations 2015", giving effect to the GTA Act 2013 through Cabinet conclusion No. 1182 dated July 27, 2015.	**Trigger #1:** The Government has taken measures to improve the efficiency of the Airlift Committee, allowing it to renegotiate agreements with air-carriers on a rolling basis.	**Result:** Improved performance of the tourism sector with broader linkages to local SMEs and agribusinesses. **Indicator:** Tourist receipts. Baseline 2013 = EC$ 307 million; Target 2017 = EC$332 million (8 percent increase). **Indicator:** Renegotiation of airlift agreements by the Airlift Committee. Baseline 2013 = 0; Target 2017 = at least 2 agreements renegotiated.
Prior action #2: The Government has (a) appointed a committee for commercialization of selected Government-owned estates and (b) approved the criteria for the commercialization of such estates.	**Prior action #2:** The Government has commenced commercialization of selected Government-owned estates by entering into two commercial agreements with private entities	**Trigger #2:** The Government has completed commercialization of selected-Government-owned estates by signing lease agreements with the private entities for commercial use in the agribusiness sector.	**Result:** More modernized agribusiness sector. **Indicator:** Total output of commercialized agricultural estates. Baseline 2013 = 350 tons; Target 2017 = at least 500 tons.

	for commercial use in the agribusiness sector. Evidence: Commercial agreements signed for two Government-owned estates. **Prior action #3:** The Government has approved a strategic plan to strengthen tourism and agribusiness linkages by transforming the Marketing and National Importing Board (MNIB) into a service provider of information on markets, product quality, and standards. Evidence: The Government has approved the "MNIB Strategic Plan" through Cabinet conclusion No. 1762 dated Nov 24, 2014	**Trigger #3:** The Government has established a regulatory framework on quality and safety standards for agricultural products.	**Indicator:** Commercialization of Government-owned agricultural estates. Baseline 2013 = 0; Target 2017 = at least 3 Government-owned estates commercialized. **Indicator:** Number of farmers serviced by MNIB. Baseline 2013 = 1,623; Target 2017 = at least 2,500.
Prior action #3: The Government's Customs Bill has been submitted to Parliament on May 9, 2014, establishing (a) procedures for electronic processing of trade transactions, (b) procedures for record keeping and audit powers by the Customs and Excise Division of the Ministry of Finance, and (c) accountability procedures and delegation of authority in decision making.		**Trigger #4:** The Government has enhanced border agency coordination by: (a) having all technical border-control agencies processing trade transactions through ASYCUDA World and (b) establishing a single payment point for the private sector to comply with all border agencies whose revenues are transferred to the Government's consolidated fund.	**Result:** Reduced time and costs to comply with import and export procedures. **Indicator:** Average clearance time for border control procedures. Baseline 2013 = approximately 6 working days; Target 2017 = approximately 3 working days.
[no prior action]	**Prior action #4:** The Government has approved a policy framework with clear	**Trigger #5:** The Government has put in place a legal and institutional framework	**Result:** An enabling environment for private investment in improved infrastructure through PPPs is in place.

	guiding principles and processes for identifying PPPs and set out institutional responsibilities for developing a PPP pipeline and implementing PPP projects. Evidence: The Government has approved the “PPP Policy Framework” through Cabinet conclusion No. 348 on March 2, 2015	for PPPs that allows the Ministry of Finance to manage the PPPs’ fiscal implications.	**Indicator:** Share of public-private partnership (PPP) projects under development that conform to the processes and requirements defined in the PPP policy. Baseline 2013 = 0 percent; Target 2017 = 100 percent.
[no prior action]		**Trigger #6:** The Government has approved the establishment of an independent energy regulator in the form of a national PURC and endorsed full participation in the regional advisory body, ECERA.	**Result:** Improving the regulatory framework as demonstrated by increased share of installed power generation capacity from renewable energy technologies. **Indicator:** Share of installed power generation capacity from renewable energy technologies. Baseline 2013 = 1 percent; Target 2017 = 3 percent.
Pillar 2: Supporting improved public resource management			
Prior action #4: The Government has endorsed a public sector modernization policy establishing procedures for: (a) strategically realigning public employment; (b) strengthening management of selected agencies; and (c) developing a results focus in planning and budgeting.		**Trigger #7:** The Ministry of Education has established computerized personnel records for teachers and ministry personnel to increase the efficiency of human-resources management.	**Result:** Greater efficiency of HR management in the public sector. **Indicator:** Establishment of the government employment structure based on the recommendations of recent human resources audits. Baseline 2013 = 0; Target 2017 = At least 4 ministries and 1 department have established official job descriptions with clearly defined responsibilities, including the Ministry of Agriculture, Ministry of Labor, Ministry of Legal Affairs,

			Ministry of Education, and Department of Public Administration.
[no prior action]	**Prior action #5:** Parliament has approved a new public procurement law consistent with international best practices. Evidence: "Public Procurement and Disposable of Property Bill 2014" (Act 39, 455) as published in the Government Gazette on September 26, 2014.	**Trigger #8:** Procurement regulations have been approved by the Government, and the institutional framework for implementing the procurement law is in place.	**Result:** Increased transparency of public procurement. **Indicator:** Publication of contract awards. Baseline 2013 =0; Target 2017 = All contract awards are published in conformity with the new procurement law.
Prior action #5: The Government has adopted a policy framework for strengthening the design and programming of its social safety nets.	**Prior action #6:** The Government has approved a phase out plan to improve the targeting of beneficiaries of the Support for Education, Empowerment, and Development (SEED) program. Evidence: The Government has approved the "Phase-Out Plan for the beneficiaries of the SEED Programme" through Cabinet conclusion No. 1254 dated on August 4, 2015.	**Trigger #9:** The Government has expanded the policy for better targeting of beneficiaries to social programs.	**Result:** The SEED program better targets poor and vulnerable households and uses the targeting instrument to more objectively identify beneficiaries. **Indicator:** Share of SEED program beneficiaries that are identified by using a targeting tool. Baseline 2013 = 0; Target 2017 = 80 percent.
[no prior action]		**Trigger #10:** The Ministry of Finance has (a) adopted a procedural manual for the MTDS and (b) implemented the recommendations of the Debt Management Performance Assessment (DeMPA).	**Result:** Long-term debt sustainability of government operations. **Indicator:** Share of debt (public and publically guaranteed) with a maturity of less than 90 days. Baseline 2013 = 17 percent; Target 2017 = 10 percent.

Pillar 3: Enhancing resilience against natural disasters and key elements of resilience in the banking sector			
Prior action #6: The Government has approved (a) the Grenada Building Code and the Grenada Building Guidelines; and (b) the Physical Planning and Development Control Bill, 2014, for submission to Parliament. **Prior action #7:** The Government's Architects (Registration) Bill and the Engineers Registration Bill establishing respectively procedures for the professional practice of architects and engineers in the recipient's territory have been submitted to Parliament.		**Trigger #11:** Parliament has enacted (a) the Grenada Building Code and the Grenada Building Guidelines and (b) the Physical Planning and Development Control Bill (2014).	**Result:** The construction sector is more professional, and structures are more resilient to natural disasters and better adapted to climate change. **Indicator:** Share of new public/commercial buildings and private housing built in safe and regulated areas in accordance with regulatory acts. Baseline 2013 = 0 percent; Target 2017 = 50 percent. **Indicator:** Share of engineers registered. Baseline 2013 = 0 percent; Target 2017 = 40 percent.
[no prior action]	**Prior action #7:** Parliament has approved a new Banking Act to strengthen bank regulation, supervision and resolution. Evidence: "The Banking Act, 2015" (Act 20, 515) as published in the Government Gazette on July 17, 2015.	**Trigger #12:** The Government has approved recommendations to address the result of the comprehensive and independent valuation of bank assets.	**Result:** Improved key elements of resilience in the banking sector. **Indicator:** Provisions for loan losses to NPLs for the banking sector Baseline 2013 = 30 percent of NPLs; Target 2017 = 60 percent of NPLs.

ANNEX 2: LETTER OF DEVELOPMENT POLICY

Ref. No. ....
In replying the above Number and date of this letter should be quoted.

MINISTRY OF FINANCE
AND ENERGY
FINANCIAL COMPLEX,
THE CARENAGE,
ST. GEORGE'S,
GRENADA, W.I.

Letter of Development Policy
Second Programmatic Resilience Building Development Policy
Credit and Loan

September 14, 2015

Dr. Jim Yong Kim
President
World Bank
Washington DC 20433
UNITED STATES OF AMERICA

Dear Dr. Kim

The Government of Grenada hereby expresses its gratitude for all the technical assistance and financial support given by the World Bank since the commencement of Grenada's Homegrown Programme of Fiscal Adjustment and Reforms in June 2014.

Our Homegrown Programme has three pillars that, together, are expected to generate meaningful, inclusive, and sustainable economic growth:

1. A bold attempt to redirect economic activity away from the public sector through a correction of the fiscal deficit and an overhaul of inefficient revenue and expenditure drivers;

2. Structural reforms to ensure fiscal discipline going forward, and to promote an environment in which the private sector can invest with confidence; and

3. Measures to strengthen financial system stability.

Tel. (473) 440-2731-(4)
Facsimile: (473) 440-4115

Furthermore, Grenada has prepared a Growth and Poverty Reduction Strategy for the period 2014-2018.

Background

Grenada's economy was among the hardest-hit by the global financial crisis, with Gross Domestic Product (GDP) contracting by 6.7 percent in 2009 with further contractions for most of the period 2010 - 2012. The economy is now recovering, having grown by 3.1 percent in 2013 and 5.7 percent in 2014. We project growth of at least 2.0 percent in 2015. The lead sectors contributing to this performance are: Tourism, Agriculture and Education.

Despite some layoffs in the banking sector, the preliminary results of the 2014 Labour Force Survey indicate that unemployment is now 28.9 percent. In 2013, Grenada's unemployment rate was estimated at around 32.5 percent down from more than 40 percent at the end of 2012. Unemployment is particularly acute among younger persons, with almost half of our youth of working age currently unemployed. Such a longstanding dislocation has placed pressure on the Government to expand social safety nets and public sector employment.

The inability of the economy to grow and generate jobs is believed to be the result of several interrelated factors including: an adverse external environment resulting a stalled recovery period after Hurricane Ivan and precipitous decline of foreign direct investment; weak competitiveness due to limited transport and hotel infrastructure; an inability to provide a meaningful counter-cyclical fiscal response due to limited fiscal space and a significant decline in foreign grants and concessional lending.

In the 2015 Budget Statement, I outlined the main areas of focus in the upcoming period for our comprehensive Homegrown Programme of Fiscal Adjustment and Reforms. These reforms include the following:

- Introduction of fiscal responsibility legislation

- Stronger oversight of statutory bodies
- Expenditure reduction including the introduction of attrition and waste reduction policies
- Improving tax administration

Structural Reforms to Support Growth and Achieve Fiscal and Debt Sustainability

With the support of this Credit, Grenada is expected to address three key pillars aimed sustained inclusive growth and shared prosperity. These are:

- Improved conditions for private investment;
- Enhanced public resource management through the improvements in public sector management, more efficient safety net programmes, and enhanced debt management capacity;
- Enhanced preparedness against natural disasters and stability of the financial sector.

(1) Improved Conditions for Private Investment

The Government is committed to strengthening the role of the private sector to lead economic growth and development. In so doing, we have decided to focus on two of the main growth sectors identified in the Growth and Poverty Reduction Strategy: Tourism and Agriculture.

Government has moved to modernize and strengthen the institutional framework for the tourism sector by establishing the Grenada Tourism Authority. In the case of agri-business, the fundamental objective is to improve the productivity and competitiveness of the agri-business sector. In this regard, two Government Estates have entered into commercial agreements with private firms. However the development of the agribusiness sector also demands a greater role for the Marketing and National Importing Board (MNIB). Indeed, given the high risk nature of agribusiness, the sector requires a transformational agent like the MNIB to help our farmers by providing the requisite market intelligence and markets for their output. In this regard, Government has approved a Strategic Plan 2015-20 for MNIB and implementation has begun.

Grenada's overall ranking fell in the 2015 Doing Business Report. However, Grenada's ranking on trading across borders actually improved from 61 to 51 out of 179 countries. With advice from IFC and World Bank, our Parliament enacted a new Investment Act which draws on international best practices and provides for a clear and transparent framework to attract private investment.

With Bank assistance, our Government has just approved a Policy for Public-Private Partnerships (PPPs). Our next priority in this area is the development of a PPP law and PPP Unit.

(2) Enhancing public resource management

Improving Public Sector Management

As part of our Government's drive to achieve fiscal sustainability, we must address expenditure on salaries and wages. In this regard, we have:

a) Capped the nominal wage bill through 2016 at December 2013 levels (excluding retroactive payments).

b) Approved an Attrition Policy whereby only a third of departing employees are to be replaced.

c) Set a target to reduce non-personnel expenditure by at least 20 percent.

The reform programme needed to complement this strategy requires Government to fully adopt the Public Sector Modernization Policy aimed at strategically realigning public employment, strengthening management of selected agencies and developing a result oriented focus in planning and budgeting. To date, strategic plans for three pilot ministries were recently approved by Cabinet.

Additionally improving the system of accountability in the Public Service by ensuring the system is supported by appropriate rules and procedures for performance reporting must also be addressed. In this regard, a new Public Finance Management law was passed in August 2014.

With Bank support, a new Public Procurement Act (Act 39 of 2014) was passed by in Parliament in August 2014.

Better Targeting of Social Safety Nets

The most recent Country Poverty Assessment (CPA), undertaken by the Caribbean Development Bank in 2008, showed that around 38 percent of the population in Grenada was deemed to be poor; 2.4 percent of who were indigent or extremely poor. Poverty is particularly prevalent among the less educated, the unemployed and female-headed households. Government has tried to address these issues through the use of a number of social assistance programmes; however, we continue to be challenged in terms of the coverage, coordination and overall efficiency of these multiple programmes. In this regard our reform agenda for social safety nets seeks to implement a Safety Nets framework to strengthen the policy design and programming to ensure greater effectiveness and coverage. A phased plan to improve the targeting of beneficiaries of the support for Education, Empowerment and Development (SEED) Programme has been developed.

Enhancing Debt Management

The collaborative and comprehensive debt restructuring of Grenada's public debt is well advanced. In December 2014, Grenada and the EXIM Bank of Taiwan signed an agreement to restructure US$36.6 million of debt. The negotiations for the restructuring of the commercial debt are well advanced and Grenada reached an agreement in principle with a committee of bond holders on the key financial terms in April 2015. Technical assistance from the IMF, the World Bank and the Eastern Caribbean Central Bank (ECCB) was provided in January 2015, to support the development of a Medium Term Debt Management Strategy.

(3) Enhancing Preparedness Against Natural Disasters and Stability of the Financial Sector

Enhancing Natural Disaster Management

With support from the World Bank, Grenada is implementing a Regional Disaster and Vulnerability Reduction Programme aimed at improving resilience through critical infrastructure and enhanced disaster management capacity.

Financial Sector Stability

Our Government is committed to the stability of the financial system, and supports ongoing regional efforts to strengthen financial regulation and supervision. In this regard, a new Banking law was approved in Parliament in April 2015, and amendments to the ECCB and Asset Management Company legislation will soon be passed. An Asset Quality Review of all banks was completed by end April 2015. This has been followed by a Dynamic Modelling exercise to ascertain capitalization needs and guide the bank resolution strategy in the Eastern Caribbean Currency Union. The ECCB has undertaken an assessment of the debt restructuring on the banks and we are guided by these findings.

Government's Commitment

The Government of Grenada is working assiduously to implement the Homegrown Programme. After the first year, the results are very encouraging and we are resolved to meet of our stated commitments. In this regard, Grenada appreciates the partnership of the World Bank Group.

Yours faithfully

....

Dr. The Right Honourable Keith C. Mitchell
PRIME MINISTER AND MINISTER OF FINANCE

ANNEX 3: FUND RELATIONS ANNEX

IMF Executive Board Completes Second Review Under the ECF Arrangement for Grenada, and Approves US$2.8 Million Disbursement

Press Release No.15/304
June 29, 2015

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Grenada's economic performance under a three-year program supported by an arrangement under the Extended Credit Facility (ECF). The completion of the review enables the disbursement of SDR 2 million (about US$2.8 million), bringing total disbursements under the arrangement to SDR 6.04 million (about US$8.5 million).

The ECF arrangement in the amount equivalent to SDR 14.04 million (then about US$21.7 million, or 120 percent of Grenada's quota at the IMF) was approved by the Executive Board on June 26, 2014 (see Press Release No. 14/310).

Following the Executive Board's discussion on Grenada, Mr. Min Zhu, Deputy Managing Director and Acting Chair, said:

"The Grenadian authorities have achieved important results in the context of their Fund-supported economic program. Fiscal targets have been exceeded, important reforms of the fiscal policy framework have been put in place, and significant progress has been made in restructuring public debt. Stronger economic activity has supported program implementation, although unemployment remains elevated. Maintaining social cohesion and support from all stakeholders remains critical to completing the reforms and putting Grenada on a higher, sustainable, and more inclusive growth path.

"Grenada is well advanced in its ambitious fiscal adjustment and in restoring debt sustainability. Safeguarding the fiscal performance achieved thus far and carefully monitoring budget execution will help achieve this year's fiscal objectives. A final round of adjustment will be needed, as planned, to achieve the program's fiscal targets for 2016. An agreement on debt relief with the remaining stakeholders will be necessary to return public debt to a sustainable level.

"Recent reforms to the fiscal policy framework are a major step forward to promote durable fiscal discipline and support debt sustainability over the medium-term. The comprehensive reforms include the introduction of fiscal responsibility and public debt management legislation, and reforms of the tax incentive regime and of the framework governing state-owned enterprises and other parastatal entities.

"In the context of the exchange rate peg, continued structural reforms are needed to strengthen competitiveness and boost potential growth. These reforms should focus on lowering production costs, including in the energy sector, and improving the investment environment. Strengthening social protection programs should aim at promoting inclusive growth.

“Good progress has been achieved in advancing the regional strategy to strengthen the banking system, coordinated by the Eastern Caribbean Central Bank. Full implementation of the strategy will be essential to preserving financial stability.”

Source: http://www.imf.org/external/np/sec/pr/2015/pr15304.htm

ANNEX 4: GOVERNMENT FINANCES

Table 4A-1. Grenada: Key Fiscal Indicators
(Percent of GDP)

					Est.	Proj.	Proj.	Proj.
	2010	2011	2012	2013	2014	2015	2016	2017
Overall balance	-3.6	-5.2	-5.9	-7.3	-4.7	-2.0	0.0	0.2
Primary balance	-1.5	-2.7	-2.5	-3.9	-1.1	1.4	3.5	3.5
Total Revenue and Grants	24.6	23.6	20.8	20.9	24.5	23.3	23.2	24.0
Tax Revenue	18.7	18.4	18.0	16.6	18.2	18.8	19.6	19.6
Taxes on goods and services	8.2	8.3	8.1	7.5	7.9	8.1	8.6	8.6
Taxes on income and profits	3.8	3.5	3.5	2.9	3.7	3.7	3.6	3.6
Taxes on property	0.8	0.7	0.8	0.7	0.9	0.9	0.9	0.9
Taxes on international trade	5.9	5.9	5.6	5.5	5.8	6.1	6.4	6.4
Non-Tax Revenue	1.9	1.8	1.7	2.9	2.2	1.6	1.5	2.3
Grants	4.0	3.4	1.1	1.4	4.1	3.0	2.1	2.1
Total Expenditure and net lending	28.2	28.8	26.7	28.1	29.2	25.3	23.1	23.8
Current expenditure	21.0	21.0	21.7	21.1	19.9	18.2	17.6	17.5
Wages and salaries	9.4	11.0	10.5	10.7	9.8	8.6	8.2	8.2
Pensions and NIS contributions	2.0	1.9	2.0	2.1	2.1	2.0	2.0	1.9
Goods and services	5.2	3.6	4.0	3.3	2.9	2.7	2.6	2.6
Transfers	2.2	2.5	1.7	1.7	1.5	1.5	1.4	1.4
Interest Payments	2.2	2.5	3.4	3.3	3.5	3.4	3.4	3.3
Capital expenditure and net lending	7.3	7.8	5.0	7.1	9.2	7.1	5.5	6.3
Grant-financed	2.2	3.1	1.1	1.4	3.7	3.0	2.1	2.1
Non-grant Financed	5.1	4.6	4.0	5.7	5.5	4.1	3.4	4.2
Public Debt	96.9	100.7	103.3	106.7	100.5	91.9	87.9	78.0
External	68.9	69.0	67.6	70.0	66.9	61.9	60.8	52.5
Domestic	28.0	31.7	35.8	36.7	33.6	30.0	27.1	25.5

Source: IMF and World Bank Staff Calculation

Table 4A-2. Grenada: Medium-Term Central Government Financing Projections
(EC$ millions)

	2014	2015	2016	2017
Stock of deposits at beginning of the period	69.5	99.4	126.0	136.1
Inflows	704.7	1418.0	650.7	782.7
Primary surplus		36.5	92.5	97.1
Debt placement	531.3	517.2	558.2	529.0
External	117.0	104.1	131.5	70.0
Domestic	414.3	413.1	426.6	459.0
Arrears accumulation	74.8	29.2		
Debt forgiveness 1/	46.3	153.6	0.0	156.5
CBI inflows to budget and NTF				
New debt issued under restructuring 1/	52.2	669.5		
Transfer from the NTF for arrears repayment		12.0		
Outflows	674.8	1,391.4	640.5	776.1
Primary deficit	27.6			
Interest bill	87.3	88.0	91.7	92.0
Scheduled Amortization	432.7	453.5	541.1	519.8
External	37.6	53.8	80.2	82.2
Domestic	395.1	399.6	460.9	437.6
Arrears clearance 2/	127.2	143.4	7.8	7.8
o/w/ Regularization of arrears	90.8	74.2		
Debt restructuring 1/		706.5	0.0	156.5
Net cash flow (+surplus/-deficit) / Available Financing	29.9	26.7	10.2	6.6
Stock of deposits at the end of the period	99.4	126.0	136.2	142.8
Memorandum:				
Overall balance	-114.9	-51.5	0.8	5.0
Central Government Debt	2,349.5	2,225.3	2,225.4	2,063.7
Stock of arrears	277.4	163.5	155.7	147.9
Stock of registered debt	2,072.0	2,061.8	2,069.7	1,915.8

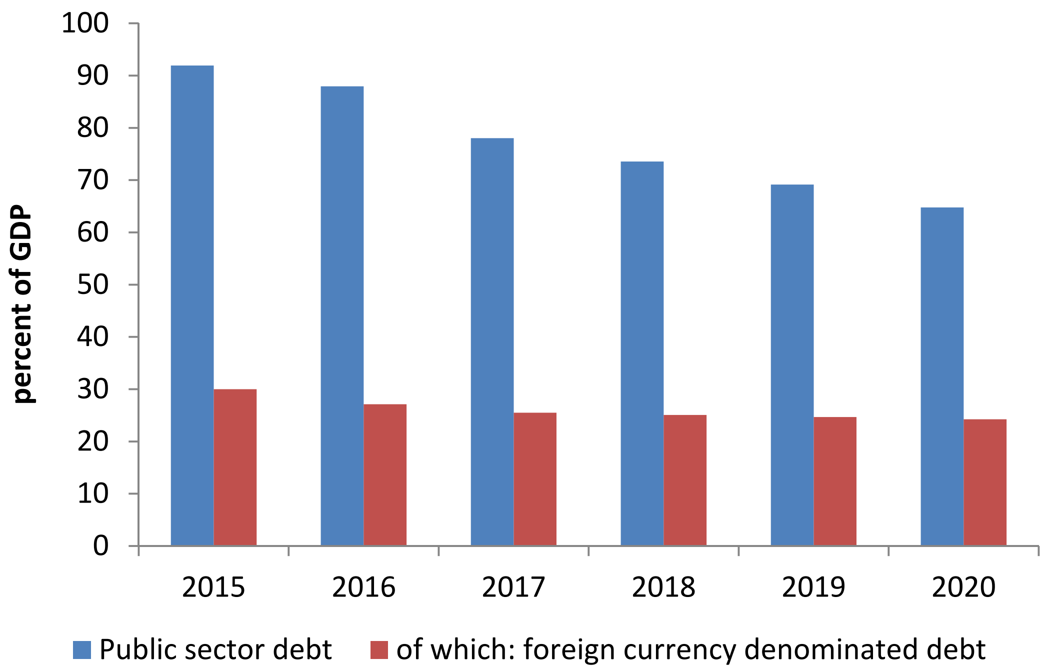
Source: Country authorities and IMF staff estimates.

ANNEX 5: DEBT SUSTAINABILITY ANALYSIS

A5.1. **This annex presents a public-sector debt and external debt-sustainability analysis for Grenada, using both a deterministic model and stochastic simulations, based on macroeconomic assumptions for future years.** The baseline projections of the debt-to-GDP ratio are based on macroeconomic assumptions consistent with the medium-term macroeconomic framework in Table 2. The baseline scenario assumes average annual real GDP growth of 2.4 percent and average annual inflation of 2.3 percent from 2015 to 2020. The primary budget surplus is assumed to average 3.1 percent of GDP over the period, and the interest rate on public debt is projected at 3.7 percent. Between 2021 and 2035, growth is expected to increase to an annual average of 2.5 percent, with inflation rising slightly to an annual average of 2.5 percent. The DSA as the macroeconomic projections presented in section 2.2 assumes the implementation of the fiscal consolidation efforts and the progress achieved to date in the debt restructuring.

A5.2. **The progress achieved to date in the debt restructuring has affected significantly Grenada's debt sustainability.** In 2015, total public debt is forecasted at 91.9 percent of GDP, while external public debt will reach 61.9 percent of GDP (Figure A5.1). By 2020, following the successful implementation of the Government's fiscal consolidation program, external public debt is projected to decline to 40.5 percent of GDP, and total public debt to 64.8 percent of GDP—both dropping below pre-crisis levels. In 2035, debt under the baseline scenario stays at the threshold of 40 percent of GDP for external debt and below the 56 percent of GDP for public debt the end of the time period in the analysis.

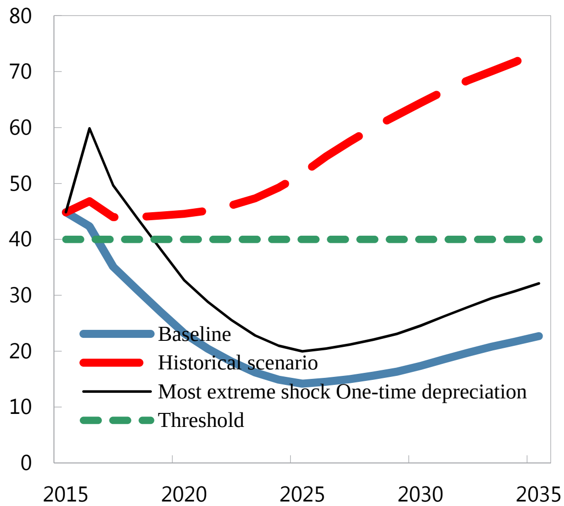
Figure A5.1: Debt-to-GDP ratio (nominal) for public and external debt under the baseline scenario



Source: IMF.

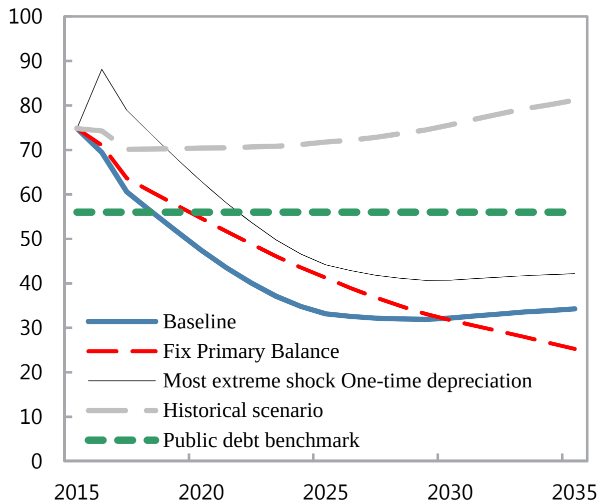
A5.3. **A sensitivity analysis indicates that Grenada remains vulnerable to shocks in external and policy variables.** The impact of different shocks has been evaluated, assuming slower growth, a higher primary balance, or a one-time currency depreciation. The most extreme impact on debt levels results from a one-time, 30 percent real depreciation in 2016. Under this scenario, external debt as a share of GDP peaks at 59.8 percent and public debt at 88.1 percent (in present value terms) in 2015 before declining continuously in the ensuing years (Figure A5.2 and A5.3).

Figure A5.2: Debt-to-GDP ratio (present value) for external debt under different scenarios



Source: IMF.

Figure A5.3: Debt-to-GDP ratio (present value) for public debt under different scenarios



Source: IMF.

ANNEX 6: DPC/DPL – COMPARISON OF DPC/DPL2 INDICATIVE TRIGGERS AND PRIOR ACTIONS

DPC/DPL2 Original Indicative Triggers (at the time of the first operation)	**Current DPC/DPL2 Prior Actions**
Tourism Development	
(Indicative) Trigger #1 The new Tourism Authority has established a regulatory framework and organizational structure, including a permanent public-private dialogue (PPD) platform to ensure the design and implementation of a shared tourism policy.	PA #1 The Grenada Tourism Authority (GTA) has instituted a new regulatory framework for the tourism sector in accordance with the 2013 Tourism Authority Act.
Agribusiness Development	
(Indicative) Trigger #2 The policy to commercialize Government-owned agricultural estates is implemented for at least 3 of the Government-owned estates.	PA #2 The Government has commenced commercialization of selected Government-owned estates by entering into two commercial agreements with private entities for commercial use in the agribusiness sector. PA #3 The Government has approved a strategic plan to strengthen the tourism and agribusiness linkages by transforming the Marketing and National Importing Board (MNIB) into a service provider of information on markets, product quality and standards.
Trade Logistics	
(Indicative) Trigger #3 The recipient has enhanced border-agency coordination by: (a) having all technical border control agencies processing trade transactions through ASYCUDA World and (b) establishing a single payment point for the private sector to comply with all border agencies whose revenues are transferred to the recipient's consolidated fund.	Moved to DPC3.
Public-Private Partnerships	
(Indicative) Trigger #4 The Government has approved a policy framework for Public-Private Partnerships (PPPs) that is immediately applicable to all investment projects.	PA #4 The Government has approved a policy framework with clear guiding principles and processes for identifying PPPs and set out institutional responsibilities for developing a PPP pipeline and implementing PPP projects.
The Energy Sector	
(Indicative) Trigger #5 Government approval of the policy for the amendment to the Electricity Supply Act based on the adopted policy changes towards a competitive cost of electricity.	Dropped.
Public Employment Management	
(Indicative) Trigger #6 Public employment structures in three ministries and one government department have been aligned with the functions and tasks of the government entities in line with the recommendations of the HR audit conducted in 2010-13.	Dropped.
Accountability for Results in the Public Administration	

(Indicative) Trigger #7 The Government has approved a regulation defining rules and procedures for producing and publishing annual public performance reports.	Dropped.
Procurement	
(Indicative) Trigger #8 A new public procurement law, consistent with good international practice, has been submitted to Parliament.	PA #5 Parliament has approved a new public procurement law consistent with international best practices.
Social Safety Nets	
(Indicative) Trigger #9 The recipient established eligibility criteria for application of the targeting instrument and started its implementation.	PA #6 The Government has approved a phase out plan to improve the targeting of beneficiaries of the Support for Education, Empowerment and Development (SEED) program.
Debt Management	
(Indicative) Trigger #10 The Government has approved a Medium-Term Debt Management Strategy (MTDS).	Dropped.
Natural Disasters	
(Indicative) Trigger #11 The Government has approved the Revised Road Traffic Bill.	Dropped.
The Banking Sector	
(Indicative) Trigger #12 The recipient has undertaken a comprehensive and independent valuation of the assets of the weak banks.	PA#7: Parliament has approved a new Banking Act to strengthen bank regulation, supervision and resolution.

ANNEX 7: DPC/DPL - COMPARISON OF INDICATORS

Second DPC/DPL (Indicators as envisaged at the time of the first operation)	**Second DPC/DPL (Indicators)**
Tourism Development	
Increase in tourist receipts. Baseline (2013): EC$ 307 million; Target (2016): 8 percent increase.	Tourist receipts. Baseline 2013 = EC$ 307 million; Target 2017 = EC$332 million (8 percent increase). Renegotiation of airlift agreements by the Airlift Committee. Baseline 2013 = 0; Target 2017 = at least 2 contracts renegotiated.
Agribusiness Development	
Increase in total output of commercialized agricultural estates. Baseline (2013): 350 tons; Target (2016): 100 percent increase. Increase in the number of farmers serviced by MNIB. Baseline (2013): 1,623; Target (2016): 3,000.	Total output of commercialized agricultural estates. Baseline 2013 = 350 tons; Target 2017 = at least 500 tons. Commercialization of Government-owned agricultural estates. Baseline 2013 = 0; Target 2017 = at least 3 Government-owned estates commercialized. Number of farmers serviced by MNIB. Baseline 2013 = 1,623; Target 2017 = at least 2,500.
Trade logistics	
Reduction of the clearance time of border control procedures by half. Baseline (2013): approximately 6 working days; Target (2016): approximately 3 working days.	Average clearance time for border control procedures. Baseline 2013 = approximately 6 working days; Target 2017 = approximately 3 working days.
Public Private Partnerships	
Increase in the share of PPP projects under development that are proceeding according to the processes and requirements defined in the PPP policy. Baseline (2013): 0 percent; Target (2016): 100 percent.	Share of PPP projects under development that conform to the processes and requirements defined in the PPP policy. Baseline 2013 = 0 percent; Target 2017 = 100 percent.
The Energy Sector	
Implementation of a new mechanism for electricity tariff setting. Baseline (2013): There is no existing electricity tariff setting mechanism; Target (2016): New electricity tariff setting mechanism is implemented.	Share of installed power generation capacity from renewable energy technologies. Baseline 2013 = 1 percent; Target 2017 = 3 percent.
Public Employment Management	
Better alignment of the government employment structure with the recommendations of the HR audits. Baseline (2013): Functions and tasks in government entities are not aligned with the recommendations of the HR audits; Target (2016): Functions and tasks in government entities that employ at least 70 percent of the total government workforce as well as HR and payroll information are aligned with the recommendations of the HR audits.	Establishment of the government employment structure based on the recommendations of recent human resources audits. Baseline 2013 = 0; Target 2017 = At least 4 ministries and 1 department have established official job descriptions with clearly defined responsibilities, including the Ministry of Agriculture, Ministry of Labor, Ministry of Legal Affairs, Ministry of Education, and Department of Public Administration.
Accountability for Results in the Public Administration	

Increase in the number of public entities that publish annual performance reports. Baseline (2013): No public entity publishes annual performance reports; Target (2016): At least three ministries publish annual performance reports.	Dropped.
Procurement	
Increased transparency of public procurement and confidence of the private sector in the system. Baseline (2013): Contract awards are not published; Target (2016): Contract awards consistent with the new procurement law are published.	Publication of contract awards. Baseline 2013 =0; Target 2017 = All contract awards are published in conformity with the new procurement law.
Social Safety Nets	
Increase in the number of social programs using the targeting tool to identify beneficiaries. Baseline (2013):0; Target (2016): 3.	Share of SEED program beneficiaries that are identified by using a targeting tool. Baseline 2013 = 0; Target 2017 = 80 percent.
Debt Management	
Decrease of the share of debt with a maturity of less than 90 days. Baseline (2013): 17 percent; Target (2016): 10 percent.	Share of debt (public and publically-guaranteed) with a maturity of less than 90 days. Baseline 2013 = 17 percent; Target 2017 = 10 percent.
Natural Disasters	
Increase in the proportion of new public/commercial buildings and private housing built in safe and regulated areas in accordance with regulatory acts. Baseline (2013):0 percent; Target (2016): 50 percent. Increase in the percentage of engineers registered. Baseline (2013): 0 percent; Target (2016): 40 percent.	Share of new public/commercial buildings and private housing built in safe and regulated areas, in accordance with regulatory acts. Baseline 2013 = 0 percent; Target 2017 = 50 percent. Share of engineers registered. Baseline 2013 = 0 percent; Target 2017 = 40 percent.
The Banking Sector	
Reduction of the share of NPLs in the total loan portfolio of banks. Baseline (2013): 9 percent; Target (2016): 5 percent.	Provisions for loan losses to NPLs for the banking sector. Baseline 2013 = 30 percent of NPLs; Target 2017 = 60 percent of NPLs.