

**PROGRAM INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

<September 18, 2015>

Report No.:

<b>Operation Name</b>	Second Programmatic Resilience Building Development Policy Credit and Loan
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Country</b>	Grenada
<b>Sector</b>	General industry and trade sector (50%); Agro-industry, marketing, and trade (15%); General public administration sector (14%); Other social services (14%); General transportation sector (7%)
<b>Operation ID</b>	P151821
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	MINISTRY OF FINANCE
<b>Implementing Agency</b>	
<b>Date PID Prepared</b>	September 18, 2015
<b>Estimated Date of Appraisal</b>	September 17, 2015
<b>Estimated Date of Board Approval</b>	October 28, 2015
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

## I. Country and Sector Background

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. Narrowing fiscal space and weak institutional capacity limited the Government's ability to mitigate the crisis' social impact and protect the poor and vulnerable.

## II. Operation Objectives

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 of this DPC/DPL series support Government efforts to implement 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.

### **III. Rationale for Bank Involvement**

The Government has implemented an ambitious reform agenda since 2013 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.

This operation is part of a multi-donor effort. The current administration 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. 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.

### **IV. Tentative financing**

Source:	(\$m.)
Borrower/Recipient	0
International Development Association (IDA)	10
IBRD	5
Others (specify)	
Total	15

### **V. Institutional and Implementation Arrangements**

The Ministry of Finance (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 Ministry of Social Development and Housing (MoSDH), the Ministry of Agriculture, Lands, Forestry, Fisheries, and Environment, the Ministry of Tourism, the Department of Public Administration, 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 is traditionally a weak area in small island economies, including Grenada, and the

Government recognizes the need to strengthen these mechanisms. The results framework agreed up by the Government and the World Bank that 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.

## **VI. Risks and Risk Mitigation**

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.

**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. 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.

**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.

**Due to Grenada's inherent vulnerability to natural disasters and climate change environmental risks are high.** Natural disasters 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 Regional Disaster Vulnerability Reduction Project and ongoing FAO programs, will help strengthen the Government's capacity to manage disasters, evaluate environmental risks and protect fiscal stability through risk-financing tools such as Caribbean Catastrophic Risk Insurance Policy, which would help reduce the fiscal cost of a large-scale disaster.

## **VII. Poverty and Social Impacts and Environment Aspects**

### *Poverty and Social Impacts*

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 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 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 Grenada Tourism Authority (GTA) are expected to improve the overall performance of the tourism sector and boost tourism receipts. The services provided by the reformed Marketing and National Importing Board (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.

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. In this respect, a good public procurement system is a prerequisite 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.

Once the new targeting tool is fully operationalized and applied to existing Support for Education, Empowerment and Development (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. A more comprehensive and accurate data will allow policymakers to better analyze the impact of programs, including

possible gender implications. The Government recently prepared the Grenada Country Gender Assessment 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.

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 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 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. One of the prior actions of this operation focuses on better targeting of social programs to improve access to services for the poor and vulnerable households.

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.

### *Environmental Aspects*

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 locally 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.

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