PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

<December 4, 2014>
Report No.:AB7691

Operation Name	Second Programmatic Resilience Building Development Policy Credit
Region	Latin America and Caribbean
Country	Grenada
Sector	
Operation ID	P151821
Lending Instrument	Development Policy Credit
Borrower(s)	Government of Grenada
Implementing Agency	Ministry of Finance, Planning, Economy, Energy and Cooperatives Government of Grenada St. George's, Grenada Tel: (473) 440-2928
Date PID Prepared	December 4, 2014
Estimated Date of Appraisal	February 11, 2015
Estimated Date of Board Approval	March 27, 2015
Concept Review Decision	Following the concept review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

As a small, open, middle-income island economy, Grenada faces significant systemic vulnerabilities and structural challenges. Due to a combination of high exposure to natural disasters, high openness, its small size and limited diversification, Grenada is very vulnerable to external shocks. Continued low growth and weak dynamism of the private sector have contributed to a deteriorating fiscal balances and eventually high debt levels. The government is working to address these vulnerabilities by implementing an ambitious reform agenda through technical and financial assistance of this DPC series. After suffering one of the worst recessions in a decade subsequent to the global financial crisis, Grenada's economic recovery has taken shape since 2013 and continues to hold in 2014. Economic activity recovered in 2013, increasing 2.4 percent, the best performance since 2007.

While Grenada has shown improvements in some social indicators, poverty appears to have worsened according to the most recent data. At this stage, the limited availability of disaggregated poverty and socio-economic data does not allow to measure the effectiveness of national and regional policies to reduce poverty and support shared prosperity. The latest Country Poverty Assessment (CPA), conducted in 2008, showed that around 38 percent of the population in Grenada was deemed to be poor, 2.4 percent of whom were indigent or extremely poor. With a Gini coefficient of 0.37, inequality in the country was comparatively low relative to both the remaining OECS member states and the LAC average. Compared to the previous analysis conducted in 1999, the poverty rate increased by around 17 percent, while the indigence level fell by more than 80 percent between 1998 and 2008. With GDP having declined a cumulative 5.7 percent since 2008, the incidence of poverty is unlikely to have improved since the last CPA. In terms of social indicators, Grenada has shown improvement in some social areas such as the percentage of the malnourished population (decreased from 30.9 percent in 1999 to 17.9 percent in 2011), the under-5 mortality rate (decreased slightly from 15.7 percent in 2000 to 11.8 percent in 2013), the net enrollment level in primary and secondary education (above 90 percent for boys and girls), and the literacy rate (98 percent in 2011 compared to 94 percent in 2002).

The Government's economic reform program aims at promoting sustained economic growth, restoring fiscal sustainability, strengthening financial stability, and advancing the nation's social development agenda. In the 2014 budget presentation, the Government introduced a home-grown economic reform program to build a New Economy, in response to the challenges faced by the country over the past several years. The home-grown program was adopted as a long term development strategy and includes pillars around different strategic areas of focus, such as economic growth, fiscal sustainability, social development and debt management. The government has made good progress so far on the area of tourism sector reforms, agribusiness sector development, the procurement law, and the PPP policy, which are policy measures supported under this DPC series.

Grenada's ambitious fiscal consolidation efforts are yielding results. In the onset of the global financial crisis, Grenada's fiscal position started to deteriorate as the authorities extended temporary tax breaks for the business sector resulting in significant revenue shortfalls. The primary deficit (incl. grants) continued to worsen and reached 4.0 percent of GDP in 2013. By late 2013, the Government had undertaken fiscal consolidation efforts and the implementation of fiscal adjustment measures started in early 2014. These measures have been already yielding results both on revenue and spending side. In 2014, Grenada's fiscal balance is projected to improve, despite retroactive payments to public officials, and to reach an overall deficit of 6.0 percent of GDP, while the primary deficit is projected to reach 2.4 percent of GDP.

The strategy for debt management is to first address the debt overhang through a comprehensive and collaborative debt restructuring. Creditor meetings to discuss the debt exchange offer have been launched in March 2014. The Government has made substantial progress on the restructuring negotiations of both bilateral official debt and private debt so far and expects that the debt exchange is to be completed by early 2015. On debt-related capacity building, several initiatives have been undertaken with the assistance of the Eastern Caribbean Central Bank's Debt Management Advisory Services.

The strategy for social development and empowerment of the population aims to improve training and employment opportunities for the youth, facilitate better access and quality of education, improve health care services and facilities and provide affordable housing to low income families. The Government recently articulated a Social Safety Net Policy Framework which provides guidelines for operationalizing the recommendations from the 2009 Social Safety Net Assessment as well as strengthening social safety nets overall. A further strengthening of the flagship social safety net program "Support for Education, Empowerment and Development" is envisaged as well to ensure that the benefits provided under the program reach the neediest. Over the past year, the Ministry of Social Development and Housing has been working on the development of a robust targeting mechanism to re-certify existing beneficiary households and identify potential new beneficiary households, and on a development of a Beneficiary Management Information System. The targeting instrument has been developed and its use on a sample of new applications is currently on-going.

II. Proposed Objective(s)

The Program Development Objective of the proposed DPC series is to support the Government of Grenada to implement a program of policy and institutional reforms to (i) create conditions for private investment in a sustainable manner, (ii) support improved public sector management and better targeting of social safety net programs, (iii) enhance resilience against natural disasters, and (iv) facilitate debt portfolio restructuring and enhance debt management.

III. Preliminary Description

The proposed DPC is the second operation in a programmatic series of three DPCs. The operation is structured around four pillars, namely (1) promoting private sector-led growth; (2) reducing fiscal, financial, and social vulnerability; (3) building resilience to natural disasters; and (4) facilitating debt portfolio restructuring and enhancing debt management.

The first pillar supports economy-wide investment climate reforms in the areas of trade, SME development, and Public-Private Partnerships, along with industry-specific policy interventions in priority sectors such as tourism, agribusiness, and energy sectors. These measures are expected to stimulate private sector-led growth and economic diversification.

The second pillar supports structural reforms in the area of fiscal management, the financial sector and social safety nets, which include public service modernization, improvements in the regulation and supervision of the financial sector, and better targeting mechanisms for social safety net programs. These reforms will help the Government strengthen fiscal management, and lower financial sector risks, and reduce social vulnerability.

The third pillar supports the Government’s efforts to reduce both its physical and fiscal vulnerability to natural disasters and better manage its impacts through a development of a national Disaster Risk Financing and Insurance framework with the aim of the improvement of the physical planning regulatory system and the development of a comprehensive risk financing strategy. These measures are expected to improve the government’s fiscal management of natural disasters and capacity to effectively allocate resources and monitor investments following a disaster event, by identifying cost-effective financial protection measures and insurance instruments.

The fourth pillar supports the Government’s efforts to strengthen institutional capacity on debt management, through the development of an in-house detailed Medium-Term Debt Management Strategy, aligned with budget discussions to give a clear signal to markets and creditors of the country’s medium-term commitment to its debt management strategy. These measures are expected to lead to changes in the debt portfolio that will contribute to the long-term debt sustainability of Government operations.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The poverty and social impact of the policy measures supported by this DPC series is expected to be positive or neutral; Pillar 1 policy measures are expected to have a neutral or positive poverty and social impact. An improved functioning of the commercial estates is likely to increase employment and possibly the income of the employed staff. The government has also made it a condition of the lease that the estate's labor force remains the same size, helping to protect employment on the estates. The Tourism Authority's Strategic Marketing and Product Development Policy are expected to improve linkages between agriculture and tourism, thereby increasing the revenue of agricultural producers, offering new employment possibilities and reducing poverty.

The impact of the reforms supported under Pillar 2 is expected to be positive in the medium to long term. Strategic planning and accountability through Annual Performance Reports are aimed at focusing on results, including those related to poverty reduction and better services to the citizens. While the impact is not immediate, this should lead to greater efficiency in the use of public funds and delivery of better services. The strengthening of public sector management generally is a way to support sustainable poverty reduction and improvement of welfare of the citizens of Grenada. In addition, the reforms under Pillar 2 help operationalize the Social Safety Net Policy Framework and directly contribute to the Government's long term social protection objectives. The consolidation of existing social protection programs, as well as an improved institutional and administrative framework for these programs, including development and implementation of new targeting instrument and Benefit Management Information System, will contribute to an improved approach to the delivery of social safety nets and is meant to ensure that Grenada's poor and vulnerable population receives adequate assistance.

The reforms supported under Pillar 3 and 4 are expected to be neutral in the short term, but have a positive impact in the long term. A safer construction of roads, bridges and buildings, which is more resilient to natural disasters, will prevent the loss of lives and destruction of property, thereby having a positive impact on the livelihood of the population exposed to natural shocks. Building financial resilience to natural disasters is likely to free up fiscal space for spending that could contribute to the reduction of poverty. Similarly, a decreased debt level would reduce interest payments and fiscal pressure on the government budget.

Environmental Aspects

Reforms supported in the proposed DPC are expected to have a negligible or positive environmental impact. Overall the reforms supported are to improve the institutional and policy framework of the government of Grenada with the aim of improving governance and therefore will have no direct bearing on the environment. This said, the amended Electricity Supply Act will introduce the legal means for providing incentives in renewable energy, and as such could have a positive impact on the environment as the economy moves toward greater use of renewable energy.

V. Tentative financing

Source:		($million)
Borrower		0
International Development Association		10
	Total	10

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