



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 17-Sep-2020 | Report No: PIDC30280



BASIC INFORMATION

A. Basic Project Data

Country Grenada	Project ID P174527	Project Name Grenada COVID-19 Crisis Response and Fiscal Management DPC (P174527)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Dec 15, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Grenada	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The development objective of this operation is to support Grenada’s response to the COVID-19 crisis by (i) strengthening its health and social systems, (ii) saving jobs and providing income-support to firms and households, and (iii) strengthening fiscal management and transparency.

Financing (in US\$, Millions)

SUMMARY

Total Financing	25.00
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DETAILS

Total World Bank Group Financing	25.00
World Bank Lending	25.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The proposed COVID-19 Crisis Response and Fiscal Management Development Policy Credit (DPC), for an amount of US\$25 million, is an emergency response standalone operation, aimed at supporting Grenada’s efforts to mitigate the health, social, and economic impacts of the coronavirus pandemic in the short term, while advancing the recovery and



building resilience over the medium term. The operation supports the authorities' measures to protect lives and livelihoods, especially of the poor and vulnerable, from the impacts of the pandemic while preserving recent gains in economic management and fiscal sustainability. In addition, the operation supports the policies of the Government of Grenada (GoG) to facilitate the recovery process and rebuild better after the crisis, opening up opportunities for private sector development and ensuring food security while reducing vulnerabilities to climate and natural disaster in important governance systems.

Grenada's economy is predicted to undergo a massive recession despite successful containment measures in curbing the number of coronavirus cases on the island. As of August 25, 2020, Grenada had only 24 infections and zero deaths from COVID-19. However, the island-wide lockdown and closure of international borders that helped contain the health crisis precipitated a tremendous economic contraction as Grenada's main growth sectors came to a halt. The fallout in tourism (which accounts for about 40.5 percent of GDP) and the offshore university (about 20 percent of GDP) are expected to drive a massive contraction in real GDP of about 12-18 percent, the first recession in eight years and the largest since 2009. In this context, the GoG-executed fiscal stimulus measures costing about 2.2 percent of GDP, ramping up health spending and income and payroll support programs to workers, liquidity support for small businesses, and expanding jobs under the public sector investment program.

Grenada's macroeconomic framework is deemed adequate for the proposed operation, given the strong institutional policy framework (anchored by the 2015 Fiscal Responsibility Law [FRL]), solid track record of economic management, and credible commitment to continued fiscal discipline despite the current crisis. The Grenadian economy was on a steady growth path when the COVID-19 crisis hit. In 2017, Grenada successfully completed a 3-year adjustment program under the IMF Extended Credit Facility, as well as the WBG Programmatic Resilience Building DPC series, which resulted in successful restructuring of public debt and strengthening of public financial management systems. Real output growth averaged 4.7 percent annually between 2013 and 2018, driven by expansion in the tourism and construction sectors. In 2019, Grenada's GDP grew 2.0 percent, as a slower expansion in construction and tourism was partly offset by continued buoyancy in private education given higher enrollment at St. George's University (about 20 percent of GDP). An uptick in enrollment at the private international St. George's University spurred growth in the services sector. Grenada maintained a strong fiscal position in 2019 with the General Government reaching an overall surplus of 5.0 percent of GDP, supported by a sizable primary surplus of 6.8 percent of GDP, consistent with its continued commitment to the FRL. General Government debt had declined to 59.1 percent of GDP in 2019 and was on track to reach the debt anchor of 55 percent of GDP by 2020, prior to the pandemic. With the onset of the pandemic, debt is anticipated to increase. The Government has committed to return to the core parameters of the FRL and restore fiscal space, once the crisis moderates (IMF, Rapid Credit Facility, April 2020).

Relationship to CPF

Bank programming in Grenada is guided by the Regional Partnership Strategy (RPS) for the Organization of the Eastern Caribbean States (OECS) FY15–19 and the Performance and Learning Review (PLR) of the RPS published in May 2018.

The objective of the RPS is to contribute to laying the foundations for sustainable inclusive growth through three areas of engagement: (i) competitiveness, (ii) public sector modernization, and (iii) resilience. The PLR noted the continued relevance of these programming priorities particularly in the areas of (i) Fostering Conditions for Growth and Competitiveness; and (ii) Enhancing Resilience, which incorporates a broader resilience agenda that includes the blue economy, deeper engagement on climate change resilience also encompassing disaster risk financing and management areas, and social protection areas. This proposed budget support operation directly addresses the priorities noted in the RPS and the increased focus on public financial management issues and economic resilience stated in the PLR, as well as support for the COVID-19 mitigation measures. In particular, this operation seeks to address issues of growth and competitiveness, through measures to mitigate short-term impacts on the firms. The operation also aims to enhance public sector with build-in resilience through reforms of debt transparency and internal and external auditing framework. It is specifically designed to build on complementarities between strengthening resilience to climate change and natural



disasters in the past budget support and investment projects, and the fiscal aspects that arise from such recurrent climatic events, such as increased macroeconomic instability and rising debt levels. As such, the operation is closely aligned with the key objectives noted in the RPS and the PLR, as well as clearly articulated regional and national priorities.

C. Proposed Development Objective(s)

The development objective of this operation is to support Grenada's response to the COVID-19 crisis by (i) strengthening its health and social systems, (ii) saving jobs and providing income-support to firms and households, and (iii) strengthening fiscal management and transparency.

Key Results

This operation is expected to enhance health and social systems in response to the COVID-19 through increasing spending on the health sector and providing income support to the most impacted. The DPC aims to save jobs and protect livelihood through payroll support and credits to the MSMEs. Fiscal management and transparency will also be strengthened with the publication of annual Debt Management Report and the Financial Statements on the MoF website.

D. Concept Description

The development objective of this operation is to support Grenada's response to the COVID-19 crisis in the short term and also enhance the long-term sustainability and resilience through (i) strengthening its health and social systems, (ii) saving jobs and protecting livelihoods of households and firms, and (iii) strengthening fiscal management and transparency. The DPO has a mix of COVID-19 response measures and medium-term structural measures critical for Grenada to stay the course on a strong resilience program and weather the crisis impacts. It will enable Grenada to preserve the gains from fiscal consolidation, build social inclusion, and foster a resilient recovery. The proposed operation is aligned with the WB's COVID-19 Crisis Response Approach and the GoG's strategies to respond to the crisis. The structural reforms in the operation also contribute to the Grenada National Sustainable Development Plan 2030, which aims to promote human dignity and realize the full potential through sustainable economic, social, and environmental progress for all.

The primary objective of the Prior Actions (PA) under Pillar 1 is to support the GoG in building the capacity of the health and social protection systems to respond to the health threat posed by COVID-19 and protect poor and vulnerable households from the economic and social shocks of the crisis. The actions focus on both short-term relief for immediate response to the crisis, as well as longer-term measures to aid a resilient recovery. Given the severity of the pandemic globally, the health measures are important both to avoid new outbreaks locally and to ensure a safe reopening of the economy and international borders. Pillar 1 supports targeted funding to the health sector to strengthen the response to COVID-19 and protocols in preparation for reopening. In light of the significant numbers of workers who are anticipated to become unemployed as a result of the lockdown measures, the operation supports the Government's efforts to provide temporary unemployment benefits to vulnerable workers, in the short-term, while advancing the institutional framework to implement a formal contributory unemployment benefit program, over the long term.

The second pillar of the operation aims to support the GoG in saving jobs by providing payroll support to vulnerable workers in the tourism and agricultural sectors, and protecting livelihoods of individuals through income support to self-employed workers in these sectors. The supply and demand shocks associated with COVID-19 have threatened the livelihoods of both households and firms. With reduced revenues, the economic viability of otherwise healthy firms is jeopardized, and a significant share of the labor force faces potential loss of jobs and income. These risks are particularly heightened for certain firms, including those in the tourism sector facing a near-complete shutdown, and micro, small and medium-sized enterprises (MSMEs) with limited cashflow which tend to be more vulnerable to crises. This pillar also supports the GoG's actions to protect the viability of firms by providing liquidity to help them weather the crisis and build resilience for a stronger recovery.

Pillar 3 supports GoG's structural reform measures to achieve a resilient, inclusive, and sustainable recovery by strengthening policies and institutions aligned with sound practices on public financial management, governance and



transparency. Despite the uncertainties and negative impacts from COVID-19, it is critical to plan for the post-crisis recovery and maintain focus on long-term development objectives. Significant progress has been made in Grenada to reduce macroeconomic vulnerabilities, especially in the area of fiscal sustainability through the fiscal rule and debt target, as well as in public governance by incorporating climate resilience aspects. However, weaknesses remain in certain areas of debt transparency and management, public financial management and auditing. It is critical to enhance those areas, particularly given the surge in public expenditures and increase in borrowing. In this context, strong governance and institutions ensure appropriate (re)prioritization of government interventions and actions including enhancing efficiency of spending through better design and implementation of projects.

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

Poverty and Social Impacts

The prior actions supported by this operation are expected to have a positive but limited direct impact on poor and vulnerable households. In a country with very low access to health insurance and no established unemployment insurance system, the strengthening of health and social systems under pillar 1 are a necessary step towards protecting the vulnerable population from negative shocks. Similarly, policies under Pillar 2 are specifically designed to protect employment and earnings from the impact of the crises, which is crucial to sustain the livelihoods of the poor who rely almost exclusively on labor income. Taken together, the three industries targeted by the various policies – tourism, construction, and agriculture - employ about 60 percent of the population in the Bottom 40 (B40) of the income distribution. However, requirements to access the income support, which include registration with the NIS and other regulatory authorities, are expected to limit their reach to the poor population. For example, within each industry, over 50 percent of the workers in the B40 are not registered with the NIS. Additionally, targeting mechanisms are limited. The supporting measures are not specifically targeting the most disadvantaged group within each industry, except that the support to farmers targets specifically the small-scale, backyard and disadvantaged groups. Lastly, low NIS registration is also expected to limit access to the two cross-sectoral policies: small business development fund and unemployment assistance. With regards to gender disaggregation, the extent to which the policies are likely to benefit women depend on the sector. The policies in the tourism sector are more likely to benefit women as they account for about 70 percent of the employed in targeted occupations and are more likely to be enrolled with the NIS relative to men. However, the agriculture and construction industries are highly dominated by men. Policies supported under Pillar 3 are expected to have a positive indirect effect in the medium term, since increased transparency and accountability in the use of public resources are expected to translate into better services for the poor and vulnerable.

Environmental, Forests, and Other Natural Resource Aspects

The proposed DPC is not expected to have significant negative impacts, and may have positive impacts, on Grenada's environment, forests, and natural resources. The environmental analysis found that these prior actions are not likely to have significant negative effects on the environment, forests, and other natural resources. Furthermore, PA7 under Pillar 3 is expected to contribute positively to climate resilience in Grenada as it aims to develop a comprehensive PIAM framework that incorporates climate change risks and mitigation measures to improve pre-disaster planning, mitigation, and post-disaster recovery efforts and facilitate the implementation of a DRF strategy. Furthermore, the combined PAs under this DPC will benefit the poor and vulnerable groups, who are disadvantaged and have less resources facing climate impacts. In particular, the measures benefit farmers who rely on natural resources for their livelihoods and those in tourism who are vulnerable to climate change, by providing resources that are expected to increase these populations' resilience to climate-related risks, which are compounded by the COVID-19 pandemic. It is also noted that PAs that could potentially result in marginal negative impacts on the environment have been analyzed and it is determined that they do not pose significant risks, primarily due to Grenada's regulatory framework for environmental management. In particular under PA4, potential indirect land use changes and agricultural inputs including pesticides, fertilizers, or toxic chemicals would be managed by the National Land Policy and the Pesticides and Toxic Chemicals Control Act (2014), respectively.



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APPROVAL

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