



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 20-May-2023 | Report No: PIDA36198



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Grenada	P178930	Grenada Second Recovery and Resilience Programmatic DPC (P178930)	P176663
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	20-Jul-2023	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Grenada	Ministry of Finance		

Proposed Development Objective(s)

The development objective of this proposed operation is to support Grenada’s recovery, through two pillars, (i) Promoting a greener and more climate-resilient economy; and (ii) Improving sustainability, inclusiveness and accountability of fiscal management.

Financing (in US\$, Millions)

SUMMARY

Total Financing	30.00
------------------------	-------

DETAILS

Total World Bank Group Financing	30.00
World Bank Lending	30.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

The proposed Second Recovery and Resilience Development Policy Credit (DPC), in the amount of US\$30 million, is the second in a series of two International Development Association (IDA) operations that aim to support Grenada's economic recovery by (i) promoting a greener and more climate-resilient economy; and (ii) improving sustainability, inclusiveness, and accountability of fiscal management. The COVID-19 pandemic has compromised Grenada's previously strong socio-economic performance. The recovery has been slower than in other regions due to its impact on the county's tourism sector. Narrowed policy space and reduced private sector savings significantly reduced Grenada's ability build resilience against external shocks, including the food and fuel crisis, climate-related events and a global growth slow-down. The series supports reforms by the Government of Grenada (GoG) to address the direct challenges stemming from climate change and the energy crisis, while ensuring an effective, efficient, and accountable use of public resources. The programmatic approach extends assistance in line with the World Bank Group (WBG) COVID-19 Crisis Response Approach Paper and the strategy of the GoG to support post-crisis recovery. This proposed operation complements previous DPC operations, including the COVID-19 Emergency DPC (2020), the Fiscal Resilience and Blue Growth DPC series (2018-19), the Disaster Risk Management (DRM) DPC with a Catastrophe Deferred Drawdown Option (2019), and the Programmatic Resilience Building DPC (2015-17). Reforms supported under this operation also benefitted from significant technical assistance provided by the World Bank (WB).

Supported by strong fiscal reforms, Grenada achieved solid growth before the COVID-19 pandemic but remains vulnerable to climate-related extreme events. Boosted by home-grown structural reforms, Grenada's real output growth averaged 4.5 percent annually between 2014 and 2019, significantly outpacing an average growth of 2.8 percent in the Organization of Eastern Caribbean States (OECS) region. Growth-friendly fiscal policies, anchored by the Fiscal Responsibility Act (FRA) of 2015, improved fiscal performance significantly. Solid growth, continuous fiscal surpluses, and debt restructurings conducted between 2013 and 2015 pushed public debt down from 90.1 percent of GDP in 2015 to 58.5 percent in 2019. Yet, Grenada faces unique development challenges, including a lack of economic diversification, lack of economies of scale in the provision of public services, and high exposure to climate change and weather-related natural disasters, particularly hurricanes.

Grenada recovered only slowly from the deep economic contraction of 2020. The COVID-19 crisis slammed the brakes on tourism in Grenada and interrupted other major economic activities. Despite a timely government response and largely successful containment of the virus locally, the economy contracted by 13.8 percent in 2020 and only enjoyed a moderate recovery in 2021 (growing by 4.7 percent), as tourism remained subdued and the scope for fiscal stimulus was limited. Tourism and construction (particularly public works) gained strength in 2022, but at 5.8 percent, the estimated growth for the year was weaker than expected. Estimates suggest that by the end of 2022, real output was only at 95 percent of 2019 levels. The food and fuel crisis almost reversed gains in poverty reduction achieved over the past decade, lowering household income and aggravating poverty. Moreover, public debt increased by 10 percentage points between 2019 and 2020, narrowing the fiscal space to support growth and respond to future climate-related shocks.

Relationship to CPF

WB programming in Grenada is guided by the WBG OECS Regional Partnership Strategy (RPS) for FY22-25, approved by the Executive Directors on May 17, 2022 (Report No. 160349-LAC). The RPS supports improvements to fiscal, debt and public financial management. This operation aims to improve access to finance and market liquidity over the



medium term, and builds resilience by strengthening the social protection system and public financial management. The operation specifically links to “Sustainable and Inclusive Growth” and “Resilience and Sustainability” under Tier 1 of the IDA19 Results Measurement System. It also supports the remaining IDA19 Policy Commitments, including “Jobs and Economic Transformation”, “Climate Change”, “Gender and Development”, and “Governance and Institutions” (except for the commitment specific to Fragile, Conflict and Violent countries).

The WB has quickly adapted its program in Grenada to respond to the COVID-19 pandemic and the food insecurity crisis. Activation of the Contingent Emergency Response Component under the OECS Regional Health Project (P174096) helped finance the country’s health response to the pandemic, including the procurement of medical supplies and equipment, and minor civil works to refurbish the isolation ward and oxygen plant. This DPC continues the support under the COVID-19 Emergency DPC and addresses the second, equally important pillar of the WBG **Global Crisis Response Framework**, as it focuses on the socio-economic consequences of the crisis. It also fosters growth, competitiveness, and resilience. Support under IDA19 will accelerate the GoG’s plans for economic diversification using the Blue Economy growth model. In 2022, the WB board also approved a US\$10 million package under the Crisis Response Window (Early Response Financing), to help Grenada mitigate food insecurity risks associated with the war in Ukraine

C. Proposed Development Objective(s)

The development objective of this proposed operation is to support Grenada’s recovery, through two pillars, (i) Promoting a greener and more climate-resilient economy; and (ii) Improving sustainability, inclusiveness and accountability of fiscal management.

Key Results

This operation is expected to assist the GoG recover from the COVID-19 pandemic and rebuild toward a greener, more climate-resilient, and inclusive economy. The operation aims to establish a comprehensive disaster risk management legislation under Prior Action 1 (PA) to utilize resources efficiently and effectively. PA 2 and PA 3 of the operation will promote renewable energy and improve energy efficiency. Pillar 2 will assist the GoG in strengthening fiscal accountability and mitigating risks to fiscal sustainability. The environmental levies supported under PA 4 on electricity consumption and water use will promote preservation of energy and other resources and mitigate the impacts of climate change effects, while strengthening revenue collection. PA 5 will not only promote tax revenue, strengthen fiscal sustainability, as well as facilitate the shift toward a healthier lifestyle. PA 6 and PA 7 support including climate change and gender considerations into the budgeting process, which helps identify and monitor the related spending. The Unemployment Insurance (PA 8) not only strengthens the labor market’s resilience, but also relieves the fiscal pressures to provide allowances to the unemployed after a crisis. PA 9 supports enhancing the fiscal accountability and transparency through publishing the statistical information and use of the National Transformation Fund.

D. Project Description

Pillar 1 --- Promoting a greener and more climate-resilient economy

Pillar 1 aims to support Grenada by building resilience to climate change and related extreme weather events through adaptation and mitigation. Grenada is highly vulnerable to extreme weather events especially hurricanes, which are expected to have more severe impacts as the effects of climate change increase. These impacts are higher for women and other vulnerable groups, given that women tend to work in climate-vulnerable sectors like tourism, and they have less



of a financial cushion. Global climate change commitments to reduce fossil fuel usage, and the introduction of green taxation should result in less supply and higher prices of fossil fuel, and more use of renewable of energy. Energy consumption is crucial for the tourism-dependent small economy and private sector development. Adapting to this shift in energy usage and mitigating the rising risks are critical to Grenada’s sustainable and inclusive development. PA 1 will strengthen adaptation efforts through the completion and enactment of the comprehensive disaster risks management legislation to cushion the severe impacts of extreme weather events. PA 2 and PA 3 will support Grenada in enhancing the resilience of energy services, efficient use of energy, reducing the reliance on traditional energy (adaptation), and decreasing Greenhouse Gas (GHG) emissions (*mitigation*) by facilitating the adoption of renewable energy and creating investments and technical conditions for renewable generation integration and scale up.

Pillar 2 --- Improving sustainability, inclusiveness and accountability of fiscal management

Pillar 2 supports the Government in strengthening sustainable, inclusive and accountable fiscal management. With passive monetary policy under the currency board arrangement, fiscal policy and fiscal resources are the most important tool that the Government can use to promote economic development, support the most vulnerable groups and cushion external shocks. The sustainability and quality of fiscal management are directly linked to sustainability and efficiency of government policies. PA 4 assists demand-side adaptation measures by reducing the energy and resources consumption through environmental levies (EVLs) on electricity consumption and water use, which also help improve revenue collection. PA 5 supports the government in promoting a healthy lifestyle while increasing tax revenue for other development projects. PA 6 and 7 promote the accountable and efficient use of fiscal resources; through helping the GoG incorporate climate resilience and gender considerations into the budgeting process, as well as strengthen the identification, allocation and monitoring of fiscal spending in reducing gender disparities. PA 8 promotes a permanent unemployment insurance to address the labor market vulnerabilities, which also partially relieves the Government of fiscal burdens as it tries to mitigate unemployment aftershocks. PA 9 aims to increase fiscal accountability and transformation through publishing the information of the most important financing sources for Grenada’s transformation projects under the National Transformation Fund.

E. Implementation

Institutional and Implementation Arrangements

The monitoring, evaluation, and results framework is being coordinated by the Ministry of Finance. A number of other agencies are involved in implementing the reform program supported by this DPC, including the Ministry of Climate Resilience, The Environment, Forestry, Fisheries & Disaster Management, and Ministry of Infrastructure Development, Public Utilities, Energy, Transport and Implementation. The WB and GoG have discussed the importance of developing a monitoring and evaluation process and stock takes with the relevant institutions and stakeholders to ensure adequate feedback to policy makers. Monitoring and evaluation capacity are traditionally weak in Grenada, and the Government recognizes the need to strengthen these mechanisms. Each of the PAs is supported by respective WB engagement in DRM, energy, governance, labor market, and tax policies. The Results Framework agreed to by the Government and the WB is presented in Annex 1 in the DPC program document. It includes indicators to be assessed at the end of the DPC in 2024. These indicators represent agreed-upon benchmarks for evaluating the program supported by this DPC. The WB will maintain an ongoing dialogue with counterparts at the Ministry of Finance regarding the monitoring and evaluation of reforms supported by the operation.

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



Poverty and Social Impacts

The poverty and social impacts of the policies supported by this operation are expected to be positive, with most benefits projected to be realized in the medium and long term. The operation's poverty and social impact analysis (PSIA) focuses on the potential impact of the PAs on poverty, expenditure distribution, employment, informality, delivery of government services, gender, resiliency, and disaster risk management. This quantitative analysis relies on the official household budget survey, the Labor Force Survey, and academic literature. Overall, the policies included in this DPC aim to continue to support economic reactivation in the short term, and to lay the foundation for sustainable economic development with broad social benefits in the medium and long term. In Grenada, poor and vulnerable households depend almost entirely on labor income, and most of them are employed in the informal sector and in occupations vulnerable to adverse shocks—such as tourism and related industries. The programs considered under Pillar 1 of this operation aim to contribute to environmentally sustainable economic growth by protecting the poor and vulnerable, who are typically more affected by natural hazards such as tropical storms and hurricanes, are less prepared to face shocks, and have fewer means to cope with their effects. Pillar 2 is expected to benefit and protect the poor and vulnerable in the medium and long term by (i) limiting income losses and dampening the impact of negative shocks, including climate-related events, on employment; (ii) promoting a healthy lifestyle; and (iii) enhancing budget policy targeting to address gender inequalities and climate change, with a view to achieving a higher standard of living—particularly for the poor and vulnerable.

The policies supported by Prior Actions under Pillar 1 are expected to positively impact poverty and inequality in the short, medium, and long term. The policy framework for comprehensive DRM legislation under PA 1 is expected to improve cautionary planning and enhance preparedness and capability to face natural disasters. This measure could particularly benefit vulnerable and poor populations, as they are more likely to be less prepared to face natural disasters and have fewer means to cope with the consequences of adverse weather and other extreme natural events. The approval of the Generation Code and the National Energy Policy under PA 2 & PA 3, respectively, are expected to improve livelihoods by ensuring affordable energy, improving energy efficiency, and contributing to the transition to renewable energy. As poor households spend proportionally more than better-off ones on fuel consumption, these measures could benefit them in the medium and long term.

Prior Actions supported under Pillar 2 are also expected to directly reduce poverty and inequality in the medium and long run. Policies under PA 4 are expected to have negative effects on poverty and inequality in the short term, as poor households spend a larger share of their income on electricity and water consumption; however, households with low consumption will pay less (and potentially nothing) for the EVL. The adverse effects are mitigated by parallel government measures, ensuring financial assistance to poor households for access to electricity and water. In the medium and long term, preserving energy and water is expected to benefit poorer households. PA 5 is expected to curb consumption of unhealthy products and promote public health through taxation of tobacco, alcohol, and SSBs. While health taxes appear to be regressive in the short term, they are progressive in the long run since the benefits from reduced consumption, lower healthcare costs, and increased labor income accrue more significantly to poorer populations. Higher food prices in the short term are mitigated by parallel government measures, including VAT exemptions for several key food items and financial subsidies to poorer households. Identifying investments that target climate change under PA 6 will improve long-term social outcomes, as long as the investments are realized. Gender-responsive budgeting under PA 7 encourages government institutions to tailor their policies to the different needs of men, women, and other subsections of the population, and is expected to help narrow current gender gaps. The provision of unemployment benefits under PA 8 is expected to provide a much-needed cushion as the pandemic's effects on the economy persist; it should also provide support in the face of other shocks (such as natural disasters), increasing workers' resiliency in the medium and long term. PA 9 is expected to significantly enhance the accountability and transparency of fiscal policy and the efficiency of transformational projects under the NTF, which in turn are set



to positively impact economic growth and shared prosperity in the medium and long term.

Environmental, Forests, and Other Natural Resource Aspects

The proposed DPC is not expected to have significant negative impacts on Grenada's environment, forests, and other natural resources.

Pillar 1: Promoting a greener and more climate-resilient economy

PA 1 supports DRM legislation that will harmonize sectoral laws, create the National Disaster Management Agency, improve the cost-effective and timeliness of funding for hazard response, and enhance gender-responsiveness in planning for and responding to disasters. This PA is expected to have a neutral impact on Grenada's environment, forests, and natural resources.

PA 2 and PA 3 are expected to have positive environmental impacts, as they support GHG reduction through the promotion of energy efficiency and renewable energy. The PAs will increase the supply of renewable energy from private generators through the existing grid, foster the installation and use of renewable generation capacity, and promote energy storage technologies and resilient systems. The installation and operation of new generation facilities may have potential negative impacts; however, Grenada's environmental protection system and robust regulatory framework could mitigate such impacts. In addition, the PAs will be supported by the WB Energy Efficiency project and complemented by a five-year implementation plan starting in the second semester of 2023, featuring a results-based monitoring and evaluation system.

Pillar 2: Improving the sustainability, inclusiveness, and accountability of fiscal management

PA 4 is expected to positively impact Grenada's environment, forests, and other natural resources, as the environmental levy on electricity and water use will reduce their consumption while boosting the capabilities of the Grenada Solid Waste Management Authority.

PA 5 supports health-related taxation to improve fiscal sustainability and promote a healthy lifestyle, and is expected to have a neutral environmental impact. PA 6 promotes a climate budget tagging approach, which will likely lead to additional investments in climate change mitigation and adaptation and assign greater value to the conservation of natural resources. Its impact is expected to be environmentally positive. PA 8 aims to develop an UI program, which is expected to protect formal workers over the long term from employment loss risks arising from public health or climate-related disasters - and therefore increase resilience of the labor supply. PA 7 and PA 9 support gender-responsive budgeting and greater fiscal transparency, both of which are expected to have neutral environmental impacts.

Overall, this operation is not expected to have a negative effect on Grenada's environment, forests, or other natural resources, and is instead expected to positively contribute to green, resilient, and inclusive development in the country.

G. Risks and Mitigation

Overall risks to achieving the operation's objectives are considered Substantial. The GoG has a good track record and has presented a comprehensive reform agenda of structural reforms and improved public management, with timely and comprehensive support from international development partners (including the WB). Nevertheless, and despite the government's comprehensive response to consecutive crises and transformational agenda for the future, residual risks remain substantial, especially due to external factors. Continued risks arise from: the abovementioned pension ruling and its fiscal implications; high exposure to natural disasters and climate change; high dependence on the external sector, in particular tourism; major uncertainties in the global economy, including geo-political tensions and



potential global recessions in the near term; and limited government capacity. The government remains committed to mitigating the extended impacts of the pandemic, building socio-economic resilience, and promoting private sector development. These commitments, partially supported under this DPC, will help mitigate risks to the operation.

CONTACT POINT

World Bank

Ran Li
Senior Economist

Borrower/Client/Recipient

Grenada
Mike Sylvester
Permanent Secretary
Ps@mof.gov.gd

Implementing Agencies

Ministry of Finance
Mike Sylvester
Permanent Secretary
Ps@mof.gov.gd

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Ran Li
----------------------	--------

Approved By

Country Director:	Ricardo Alfredo Habalian	03-May-2023
-------------------	--------------------------	-------------