



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 22-Dec-2022 | Report No: PIDC34740



BASIC INFORMATION

A. Basic Project Data

Country Grenada	Project ID P178930	Project Name Grenada Second Recovery and Resilience Programmatic DPC (P178930)	Parent Project ID (if any) P176663
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Jun 07, 2023	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 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
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DETAILS

Total World Bank Group Financing	30.00
World Bank Lending	30.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The proposed Second Recovery and Resilience Development Policy Credit (DPC), for the amount of US\$30 million, is the second in a series of two operations supporting 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 severe impacts of the pandemic put a stop to the strong socio-economic performance in Grenada and the recovery has been slower than other regions due to the profound impacts on the tourism sector. Narrowed



policy space and reduced savings in the private sector have significantly compromised Grenada's ability to continue structural reforms and build resilience against external shocks including climate-related events. The series supports actions taken by the Government of Grenada (GoG) in addressing the most dire challenges from climate change and energy crisis, while ensuring the effective, efficient and accountable use of public resources. The two pillars will jointly support a faster recovery in Grenada and lay the foundations for long-term socio-economic resilience. The programmatic approach extends the needed assistance in line with the WBG's COVID-19 Crisis Response Approach Paper and the Government's strategies to support post-crisis recovery. The proposed operation complements the previous DPC operations, including the COVID-19 Emergency DPC (2020), Fiscal Resilience and Blue Growth DPC series (2018-19), the DRM DPC with a Catastrophe Deferred Drawdown Option (2019), and the Programmatic Resilience Building DPC (2015-17).

Supported by strong growth-enhancing and fiscal reforms, Grenada achieved solid growth pre the COVID-19 pandemic; however, it remains vulnerable to climate-related extreme events. Supported by its home-grown structural reforms (Box 1), Grenada's real output growth averaged 4.5 percent annually between 2014 and 2019, significantly outpacing average growth of 2.8 percent in the Organization of Eastern Caribbean States (OECS) region (Figure 1). Growth-friendly fiscal policies, anchored on the Fiscal Responsibility Act (FRA) adopted in 2015, improved fiscal performance significantly. Solid growth, continuous fiscal surpluses anchored by the FRA, and debt restructuring between 2013-2015 put public debt downward from 90.1 percent of GDP in 2015 to 58.5 percent in 2019 (Figure 2). Yet, Grenada faces unique development challenges, including a lack of economic diversification, and high exposure to climate change and weather-related natural disasters, particularly hurricanes.

The fuel and food crisis has further protracted socio-economic recovery in Grenada from the deep contraction in 2020 and aggravated the pre-existing challenges. The COVID-19 crisis slammed the brakes on tourism in Grenada and interrupted other main economic activities. Despite timely government responses and the broadly contained local spreading of cases, the economy plunged into a deep contraction of 13.8 percent in 2020. The recovery in 2021 was only moderate at 4.7 percent as tourism remained subdued and the scope for fiscal stimulus was limited. Tourism and construction, particularly public construction, gained strength in 2022. Nevertheless, the food and fuel crisis and muted the expected strong growth in 2022, which reached an estimated 5.8 percent. Real output is estimated to only reach 95 percent of the 2019 level by the end of 2022. The dual crises almost reversed the gains in poverty reduction achieved in the past decade, lowering household income and aggravating poverty. Public debt increased by 10 p.p. between 2019 and 2020, narrowing fiscal space to support growth and respond to future climate-related shocks. The compound crisis highlighted the urgency to advance reforms in support of climate resilience and improved fiscal management.

Relationship to CPF

Bank programming in Grenada is guided by the WBG Regional Partnership Strategy (RPS) for the OECS for FY15-19 as discussed by the Executive Directors on November 13, 2014 (Report No. 85156-LAC), as well as the OECS RPS for FY22-25 to be considered by the Executive Directors on May 17, 2022 (Report No. 160349-LAC). A Performance and Learning Review (PLR) of the RPS FY15-19, which was considered by the Executive Directors on May 23, 2018 (Report No. 118511-LAC), extended the RPS to FY20 and validated its strategic objectives: to lay the foundations for sustainable inclusive growth through (i) Fostering Conditions for Growth and Competitiveness; and (ii) Enhancing Resilience with a broader resilience agenda. The Systematic Regional Diagnostic (SRD) for the OECS completed in FY19 identified the following priorities for inclusive and sustainable growth: (i) build cross-cutting resilience to external shocks; (ii) embed growth in the blue economy; (iii) strengthen and harness human capital; (iv) embrace new technologies; and (iv) strengthen regional integration. This proposed budget support operation thus directly addresses the constraints noted in the RPS, PLR, and SRD, taking into account the extraordinary situation with COVID-19. It is also aligned with FY22-25 Eastern Caribbean Regional Partnership Framework (Report No. 160349-LAC, to be discussed by the Board of Executive Directors on May 17), supporting an improvement of the 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 finance management. This operation specifically links to “Sustainable and Inclusive Growth” and “Resilience and Sustainability” under the Tier-1 of the IDA19 Results Measurement System. This operation also supports the remaining IDA19 Policy Commitments, including “Jobs and Economic Transformation (JET)”, “Climate Change”, “Gender and Development”, and “Governance and Institutions” (except for FCV commitment).

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 Government of Grenada 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 (PA1) to utilize resources efficiently and effectively. PA2 and PA3 of the operation will promote renewable energy and improve energy efficiency. The environmental level supported under PA4 on electricity consumption and water use will promote preservation of energy and other resources and mitigate the impacts of climate change effects. Pillar 2 will assist the Government in strengthening fiscal accountability and mitigating risks to fiscal sustainability. PA5 and PA6 will not only promote tax revenue, strengthen fiscal sustainability, as well as facilitate the shift toward a healthier lifestyle. PA7 and PA8 support including climate change and gender considerations into the budgeting process, which helps identify and monitor the related spending. The Unemployment Insurance (PA9) not only strengthens the labor market’s resilience, but also relieves the fiscal pressures to provide allowances to the unemployed after a crisis. PA10 supports enhancing the fiscal accountability and transparency through publishing the statistical information and use of the National Transformation Fund.

D. Concept 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 GHG emissions (*mitigation*) by facilitating the adoption of renewable energy and creating investments and technical conditions for renewable generation integration and scale up. PA 4 assists demand-side adaptation measures by reducing the energy and resources consumption through environmental levies (EVLs) on electricity consumption and water use.



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. Before the pandemic, Grenada had consistently accumulated fiscal cushion with a significantly higher primary surplus than the FRA targets, possibly indicating the need to use the fiscal space better to address structural challenges. This issue is critical after the pandemic, with debt level having surged by more than 10 percent of GDP and the vulnerable groups having experienced disproportionate impacts. Given the suspension of the FRA amid the pandemic and increasing threats from climate change, PA 5 focuses on helping the Government strengthen revenue collection through applying digital technology to tax administration, as part of the commitments under the Medium-term Recovery Plan to return to the FRA. PA 6 supports the government in promoting a healthy lifestyle while increasing tax revenue for other development projects. PA7, 8 and 9 promote the accountable and efficient use of fiscal resources; PA 7 & PA 8 help 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 the respective areas. PA 9 promotes 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 10 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. 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 of the benefits expected 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 prior actions on poverty, expenditure distribution, employment, informality, government's delivery of services, gender, resiliency, and disaster risk management. The quantitative analysis relies on the official household budget survey, the LFS, and an academic literature review. Overall, the set of policies included in this DPC aims to continue to support economic reactivation in the short term and lay the foundations to achieve 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. In addition, most of them are employed in the informal sector and occupations more vulnerable to adverse shocks, like the tourism and tourism-related sectors. The programs considered under Pillar 1 aim to contribute to environmentally sustainable economic growth by protecting the poor and vulnerable, typically more affected by natural hazards like tropical storms and hurricanes, less prepared to face shocks, and with fewer means to cope with the effects once they strike. Pillar 2 of this operation is expected to benefit and protect the poor and vulnerable in the medium- and long-term, specifically by (i) limiting income losses and cushioning the impact of negative shocks, including climate-related events, on employment; (ii) promoting healthy lifestyle; and (iii) enhancing budget policy targeting to address gender inequalities and climate change for a better standard of living, particularly for the poor and vulnerable.

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 disaster risk legislation that will be harmonizing legislation, creating of National Disaster Management Agency, having more cost-effective and timely funding of hazard response; and improving gender-responsiveness in planning for and responding to disasters. This PA is expected to have a neutral environmental 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 by improving energy efficiency and promoting renewable energy. Particularly by increasing different types of renewable energy from private generators through existing public grids, increasing the installation and use of renewable energy generation, and promoting energy storage technologies and resilient systems. Potential negative impacts may result from the new facilities' installation and operation; however, Grenada's environmental system and robust regulatory framework could mitigate any adverse impacts that could result from such energy projects. In addition, this PAs will be supported by the WB Energy Efficiency IPF, and complemented with a 5-year implementation action plan as from the second semester of 2023, with a monitoring framework with results-based Monitoring and Evaluation system and indicators. PA 4 is also expected to positively impact Grenada’s environment, forests, and other natural resources, as the new environmental levy on electricity consumption and water use to manage energy and resource demand will reduce water and electricity consumption while strengthening the Grenada Solid Water Management Authority.

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

PA 5 promotes the continued adoption of the online tax payment system. Their impact is expected to be environmentally neutral. PA 6 supports health-related taxation to improve fiscal sustainability and promote healthy lifestyle and is expected to have a neutral environmental impact. PA 7 is improving the Public Investment Management system by developing a climate budget tagging approach, which likely will lead to additional investments in climate change mitigation and adaptation and provide greater value to the conservation of natural resources. The impact is expected to be environmentally positive. PA 9 aims to develop an UI Programme, which is expected to protect formal workers over the longer term from employment loss risks arising from public health or climate-related disasters - and therefore increase resilience of the labor supply. PA 8 and PA 10 support gender responsive budgeting and improving 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 a green, resilient, and inclusive development in Grenada through a sub-set of the Prior Actions that underpin this operation

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APPROVAL

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