PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

June 22, 2016
Report No.: AB7857

Operation Name	Third Programmatic Resilience Building Development Policy Credit
Region	Latin America and Caribbean
Country	Grenada
Sector	
Operation ID	P156761
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	June 7, 2016
Estimated Date of Appraisal	September 12, 2016
Estimated Date of Board Approval	October 31, 2016
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

Grenada suffers from systemic vulnerabilities and structural challenges due to its small size and high exposure to natural disasters. As a small, open middle-income island economy, Grenada is vulnerable to a wide range of exogenous shocks, including weather events, volatile terms of trade, and economic downturns in key source markets for tourism and foreign direct investment (FDI). Grenada was significantly affected by the 2008 global financial crisis, and its economy has only recently started to show signs of a sustained recovery.

Although there are no recent poverty measures, social indicators have been improving over the past decade. The poverty rate was 37.7 percent in 2008, the latest year for which figures are available, and 2.4 percent of the population lived in extreme poverty. Over the past decade Grenada made considerable progress on a number of its Millennium Development Goals. With a Gini coefficient of 0.37, inequality is low compared to both the other members of the Organization of Eastern Caribbean States (OECS) and the entire Latin America and the Caribbean (LAC) region. Furthermore, Grenada's population has near-universal access to drinking water and sanitation.

Technical assistance and budget support provided through this DPC/DPL series has successfully facilitated the implementation of the Government's ambitious reform program for 2013-16. Promoting private-sector-led growth, restoring fiscal sustainability and improving social development indicators remain the Government's top priorities. The Government has demonstrated a credible commitment to restoring fiscal discipline as part of its structural reform program. 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, fiscal management, disaster-risk management and banking sector stability.

Grenada's robust economic expansion continued in 2015, driven by strong growth in the tourism and agricultural sectors. Although slowing from the previous year, the real GDP growth rate reached 4.6 percent, down from 5.7 percent in 2014. Yet despite recent growth, unemployment remains high. The average inflation rate remained negative for the third consecutive year, due largely to the pass-through effect of low global oil prices on domestic transportation costs, combined with weak domestic demand. The external accounts have improved significantly over the past two years. Rising tourism receipts and slower import growth due to fiscal consolidation and low fuel prices narrowed the current-account deficit to 14.5 percent of GDP in 2015, down from a peak of 23.2 percent in 2013.

Grenada maintained a sound fiscal stance in 2015, supported by accelerating economic activity, ongoing tax reforms and tight expenditure controls. The overall deficit (cash basis) narrowed from 4.7 percent of GDP in 2014 to 1.3 percent in 2015, while the primary balance improved from a deficit of 1.1 percent of GDP in 2014 to a surplus of approximately 2.2 percent in 2015, the country's first primary surplus in a decade. Robust economic activity and comprehensive tax reforms boosted tax revenues, while current expenditures—especially the wage bill—remained restrained. The Government's restructuring of all public and publicly guaranteed debt is nearing completion. The agreements reached to date, the public debt stock fell from a peak of 107 percent of GDP in 2013 to 94.3 percent at end-2015.

Grenada's macroeconomic policy framework is considered adequate for the proposed operation. Sound macroeconomic policies have enabled a robust expansion in the real sector driven by tourism, agriculture and construction and supported by strong external demand. The progress made under the debt restructuring and fiscal consolidation programs generated a primary surplus in 2015, placing the debt burden on a downward trajectory and reinforcing medium-term fiscal stability. The completion of the debt-restructuring process should open new fiscal space for social spending and growth-enhancing investments over the medium term.

II. Proposed Objective(s)

The Program Development Objective of the proposed DPC/DPL series is to support Grenada in implementing 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. Preliminary Description

The proposed DPC is the third and final operation in a programmatic series of three DPC/DPLs. The operation is structured around three pillars, namely: (i) creating conditions for private investment in a sustainable manner; (ii) supporting improved public resource management; and (iii) enhancing resilience against natural disasters and key elements of resilience in the banking sector. The operation is aligned with the Government's development strategy and supports its objectives of accelerating economic growth, restoring fiscal and debt sustainability, and improving social development indicators.

The first pillar supports economy-wide investment climate reforms in the areas of trade logistics, 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 increase competitiveness in the tourism industry, boost productivity in agribusiness, minimize the administrative costs of international trade, and create a more enabling legal and institutional climate for private-sector growth.

The second pillar supports public-sector modernization reforms to increase the efficiency of human resources management, strengthen public procurement systems, improves the targeting of social safety net programs, and strengthens debt-management capacity. These reforms are designed to advance the Government's broader fiscal consolidation program. Improving the efficient management of public sector resources will support the Government to achieve its development objectives while restoring fiscal and debt sustainability.

The third pillar supports policy measures to strengthen the physical planning regulatory system. The first operation covered improved building standards, better zoning processes and planning, and the professionalization of engineers and architects. Under the proposed operation, the Government aims to advance the reforms to improve the physical planning regulatory system of the construction sector. These measures are expected to significantly improve the quality of new constructions and reduce the risks associated with natural disasters.

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/DPL series is expected to be positive or neutral; the policy measures supported under Pillar 1 of the proposed operation are expected to have a positive poverty and social impact. The commercialization of government-owned agricultural estates may increase employment and modestly boost income levels among estate workers. If involuntary resettlement results from the commercialization of these estates, Grenada's legal framework requires that the authorities identify and mitigate any negative economic and social impacts and provide appropriate compensation for forfeited land or loss of employment. Improving inter-agency coordination and automating customs processes is likely to reduce the administrative costs of trade, potentially lowering prices for imported food and consumer goods. Creating an enabling environment for PPPs should boost private investment in infrastructure and improve public services, with a positive impact on job creation. Strengthening energy regulation and promoting investment in renewable energy will help diversify electricity generation, increasingly the reliability and resilience of the power supply. Investment in renewable energy is also expected to increase employment in the power sector while reducing spending on imported fossil fuels.

The poverty and social impact of the reforms supported under Pillar 2 is also expected to be positive over the medium-to-long term. Greater efficiency in public resource management will promote improved service delivery, provided that the growth of the civil service can be contained. An updated public procurement system is a perquisite for a well-functioning public sector and will become increasingly critical to accommodate a rising flow of funds resulting from this DPC/DPL series and other donor support operations. Reforming the social safety net system will directly contribute to the Government's long-term social agenda. The new targeting tool and the information system will tighten the SEED program's focus on poor and vulnerable households and facilitate improvements in the implementation of other social programs.

The effect of the reforms supported under Pillar 3 is expected to be neutral in the short term, but to have a positive poverty and social impact over the long term. Enforcement of the building code and safer construction practices will make roads, bridges and buildings more resilient to natural disasters, not only preventing the loss of life and destruction of property, but also reducing economic exposure to shocks. Better construction along with appropriate site selection could also potentially reduce post disaster resettlement and economic displacement impacts. As poor households are systematically more vulnerable to the physical and economic impacts of natural disasters, disaster preparedness has inherently positive equity implications.

Environmental Aspects

The reforms supported under this DPC/DPL series are expected to have a negligible or modestly positive environmental impact. The commercialization of government estates will bring mostly idle government-owned land under professional management. These estates are already cultivated areas, and the commercialization agreements will not extend to protected areas. The private firms managing the estates are prohibited to engage in any practices known to have a harmful effect on soil quality and are required to meet locally and internationally acceptable legal and environmental standards in all operations relevant to agricultural exports. Potential PPP projects will comply with Grenada's environmental legislation, which mandates that environmental impact assessments be conducted before work commences. Efforts to strengthen the management and oversight of PPP projects are expected to have a positive environmental impact over the long run. The legislation for the energy sector will facilitate policies that incentivize renewable energy, which is expected to have a positive impact on the environment by reducing air pollution and carbon emissions. Improved 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 that an adequate environmental legislation framework is in place.

V. Tentative financing

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

VI. Contact point

World Bank
Contact: Rei Odawara

Title: Senior Economist
Tel: (202) 458-9356
Email: rodawara@worldbank.org

Borrower

Contact: Mr. Mike Silvester
Title: Permanent Secretary, Ministry of Finance
Tel: (473) 440-2928
Email: james.mike.sylvester@gmail.com

VII. For more information contact:

The Info Shop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop