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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A

PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR6.8 MILLION
(US\$9.34 MILLION EQUIVALENT)

TO

GRENADA

FOR THE

THIRD PROGRAMMATIC RESILIENCE-BUILDING
DEVELOPMENT POLICY CREDIT

November 15, 2016

Caribbean Countries Management Unit
Macroeconomics and Fiscal Management Global Practice
Latin America and the Caribbean Region

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GRENADA - GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 31, 2016)

Currency Unit: East Caribbean Dollar (EC\$)

US\$1.00 = EC\$2.70

ABBREVIATIONS AND ACRONYMS

ASYCUDA	Automated System for Customs Data
AMC	Asset Management Company
BMIS	Beneficiary Management Information System
CAROSAI	Caribbean Organization of Supreme Audit Institutions
CBI	Citizenship by Investment
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CCT	Conditional Cash Transfer
CDB	Caribbean Development Bank
CDF	Comprehensive Debt Framework
CONCACAF	Confederation of North, Central America and Caribbean Association Football
COA	Chart of Accounts
COS	Central Office of Statistics
CPI	Consumer Price Index
DeMPA	Debt Management and Performance Assessment
DfID	Department for International Development
DMU	Debt Management Unit
DPA	Department of Public Administration
DPC	Development Policy Credit
DPF	Development Policy Financing
DPC-1	First Programmatic Development Policy Credit
DPF-2	Second Programmatic Development Policy Financing
DPC-3	Third Programmatic Development Policy Credit
DSA	Debt Sustainability Analysis
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECERA	Eastern Caribbean Energy Regulatory Authority
ECF	Extended Credit Facility
EFI	Equitable Growth, Finance, and Institutions (Practice Group)
EIA	Environmental Impact Assessment
EMIS	Education Management Information System
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FRA	Fiscal Responsibility Act
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GFSM	Government Finance Statistics Manual

GIPE	Grenada Institute of Professional Engineers
GLCI	Grenadian Living Conditions Indicator
GoG	Government of Grenada
GPRS	Growth and Poverty Reduction Strategy
GTA	Grenada Tourism Authority
HR	Human Resources
ICRR	Implementation Completion and Results Report
IDA	International Development Association
IDB	Inter-American Development Bank
IDF	Institutional Development Fund
IMF	International Monetary Fund
IRD	Inland Revenue Department
LAC	Latin American and the Caribbean
LHS	Left Hand Side
MNIB	Marketing and National Importing Board
MoAFF	Ministry of Agriculture, Forestry and Fisheries
MoFE	Ministry of Finance and Energy
MoSD	Ministry of Social Development
MoTCACC	Ministry of Tourism, Civil Aviation, Culture and Cooperatives
MTDS	Medium-Term Debt Management Strategy
MW	Megawatt
NEP	New Economy Plan
NPL	Nonperforming Loan
OECS	Organisation of Eastern Caribbean States
ODA	Official Development Assistance
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPP	Public-Private Partnership
PURC	Public Utilities Regulatory Commission
RDVRP	Regional Disaster Vulnerability Reduction Project
REER	Real Effective Exchange Rate
RHS	Right Hand Side
RPS	Regional Partnership Strategy
SDR	Special Drawing Rights
SEED	Support for Education, Empowerment, and Development
SME	Small and Medium Enterprise
SNAP	Safety Nets Advancement Project
SOA	Statements of Account
SOE	State-owned enterprise
SORT	Systematic Operations Risk-Rating Tool
SSNA	Social Safety Nets Assessment
WDI	World Development Indicators
WEO	World Economic Outlook

Vice President:	Jorge Familiar
Acting Country Director:	Sabine Hader
Global Practice Senior Director:	C. Felipe Jaramillo
Practice Manager:	Miria Pigato
Task Team Leader:	Annette I. De Kleine Feige

GRENADA

THIRD PROGRAMMATIC RESILIENCE-BUILDING DEVELOPMENT POLICY CREDIT

TABLE OF CONTENTS

SUMMARY OF PROPOSED CREDIT AND PROGRAM.....	vii
1. INTRODUCTION AND COUNTRY CONTEXT	1
2. MACROECONOMIC POLICY FRAMEWORK.....	2
2.1 RECENT ECONOMIC DEVELOPMENTS	2
2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY	8
2.3 IMF RELATIONS.....	10
3. THE GOVERNMENT’S PROGRAM	11
4. THE PROPOSED OPERATION	11
4.1 LINKS TO THE GOVERNMENT’S PROGRAM AND OPERATION DESCRIPTION	11
4.2 PRIOR ACTIONS, RESULTS, AND ANALYTICAL UNDERPINNINGS	12
4.3 LINKS TO THE REGIONAL PARTNERSHIP STRATEGY (RPS), OTHER BANK OPERATIONS, AND WORLD BANK STRATEGY.....	25
4.4 CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS.....	26
5. OTHER DESIGN AND APPRAISAL ISSUES.....	27
5.1 POVERTY AND SOCIAL IMPACTS.....	27
5.2 ENVIRONMENTAL ASPECTS.....	28
5.3 PUBLIC FINANCE MANAGEMENT, DISBURSEMENT, AND AUDITING ASPECTS	29
5.4 MONITORING, EVALUATION, AND ACCOUNTABILITY	31
6. SUMMARY OF RISKS AND RISK MITIGATION	31
ANNEX 1: POLICY AND RESULTS MATRIX	34
ANNEX 2: LETTER OF DEVELOPMENT POLICY.....	39
ANNEX 3: FUND RELATIONS ANNEX	46
ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE.....	49
ANNEX 5: COMPARISON OF DPC SERIES INDICATORS	54
ANNEX 6: STRUCTURAL CONDITIONALITY UNDER IMF PROGRAM.....	58
ANNEX 7: DEBT SUSTAINABILITY ANALYSIS	59

This Development Policy Credit was prepared by a multisector team led by Annette I. De Kleine Feige (Task Team Leader, Sr. Country Economist, GMF09). The team included Rei Odawara (Previous Task Team Leader, Sr. Country Economist, GMF05), Kirsten McLeod (Research Analyst, GMF09), Snjezana Plevko (Sr. Economist, GSP04), Svetlana Proskurovska (Sr. Public Sector Specialist, GGO15), David I (Public Financial Management Specialist, GGO22), Mark Lambrides (Sr. Energy Specialist, GEE04), Rui Monteiro (Sr. Public Private Partnerships Specialist, GCPDR), Raha Shahidsaless (Sr. Private Sector Specialist, GTC04), Rashmin Gunasekera (Disaster Risk Management Specialist, GSU10), Shaun Moss (Lead Procurement Specialist, GGO04), Nadeem Karmali (Finance Economist, GFM04), Richard Sutherland (Research Analyst-Public Sector Management, GGO16), Isabella Micali Drossos (Senior Counsel, LEGLE), Yevgeniya Savchenko (Poverty Economist, GPV04), Fernando Loayza (Senior Environmental Economist, GEN04), Joao N. Veiga Malta (Practice Manager, GGO04), Mike J. Darr (Environmental Specialist, Consultant), Robert Montgomery (Lead Environment Specialist, GEN04), Yaa Pokua Afriyie Oppong (Senior Social Development Specialist, GSU04), Ursula Blotte (Private Sector Specialist, GTCLA), and Juan Albarracín (Environmental Specialist, Consultant). The peer reviewers were Alberto Leyton (Lead Public Sector Specialist, GGO16), Damien Shiels (Program Leader, GTCCS), and Milagros Deza Delgado (Economist, DFIRM). The team gratefully acknowledges the support and guidance provided by Sabine Hader (Acting Country Director, LCC3C), Paloma Anós Casero (Director, GMFD1), Sophie Sirtaine (Director, Strategy and Operations, IEGDG), Miria Pigato (Practice Manager, GMFD1), Francisco Galrao Carneiro (Program Leader, LCC3C), Juan Diego Alonso (Senior Country Officer, LCC3C), and Oscar Apodaca (Operations Officer, LCC3C). The team would also like to express its gratitude to the Government of Grenada for its active collaboration in the preparation of this Development Policy Credit operation series. Additionally, the team would like to express its gratitude to our Caribbean Development Bank (CDB) counterparts, in particular Kari Grenade (Sr. Country Economist, CDB), for their close collaboration in preparing the Development Policy Financing series and matching CDB operations.

SUMMARY OF PROPOSED DEVELOPMENT POLICY CREDIT AND PROGRAM
GRENADA
THIRD PROGRAMMATIC RESILIENCE-BUILDING
DEVELOPMENT POLICY CREDIT (DPC)

Borrower	Grenada
Implementation Agency	Ministry of Finance and Energy (MoFE)
Financing Data	<p>International Development Association (IDA) Credit</p> <p>Terms: Standard IDA terms (40-year maturity; 10-year grace period). The service charge payable by the Government is equal to three-fourths of one percent (0.75%) of the credit. The maximum commitment charge rate is one-half of one percent (0.5%) per year. The credit amount is denominated in Special Drawing Rights (SDR) and is payable in United States dollars (US\$).</p> <p>Amount: SDR6.8 million (US\$9.34 million equivalent)</p>
Operation Type	Programmatic (3 rd of 3 operations); single-tranche disbursement
Pillars of the Operation And Program Development Objective(s)	The Program Development Objective of the proposed third and final DPC operation in the programmatic series is to support Grenada in implementing a program of policy and institutional reforms to: (i) improve the investment climate and competitiveness; (ii) improve public resource management; and (iii) enhance resilience against natural disasters.
Result Indicators	<p><u>Pillar 1: Improve the investment climate and competitiveness</u></p> <ul style="list-style-type: none"> • Tourist receipts. Baseline 2013 = EC\$307 million; Target 2018 = EC\$332 million (8 percent increase) • Leasing out of Government-owned agricultural estates to private entities. Baseline 2013 = none; Target 2018 = at least 3 Government-owned estates leased • Area cultivated at leased Government-owned agricultural estates. <i>Baseline 2013 = 0 acres (out of a total of 379 cultivatable acres of Government-owned land selected for public-private partnerships (PPPs); Target 2018 = 186 acres</i> • Number of farmers served by Marketing and National Importing Board. <i>Baseline 2013 = 1,623; Target 2018 = at least 2,500.</i> • Percentage of licensed food premises and street food premises in Grenada that have been inspected by the Food Safety Authority under the Food Safety Act. <i>2013 Baseline = 0; 2018 Target 2018 = 75 percent (share of food premises and street food premises licensed by the Food Safety Authority)</i> • The number of border control agencies processing trade transactions through Automated System for Customs Data (ASYCUDA) World. Baseline 2013 = 2 agencies; Target 2018 = at least 6 agencies • Number of agencies sharing trade and taxation related information through ASYCUDA World. <i>Baseline 2013 = 0; Target 2018 = at least 2</i> • Share of PPP projects under development that conform to the processes and requirements defined in the PPP policy. <i>Baseline 2013 = 0 percent; Target 2018 = 100 percent</i> • Share of renewable energy in total installed power-generation capacity. <i>Baseline 2013 = 1 percent; Target 2018 = 3 percent</i> • The Public Utilities Regulatory Commission (PURC) is fully operational. <i>2013 Baseline = no; 2018 target = yes, with evidence from the Government that PURC has (i) issued a</i>

	<p>three-year business plan, (ii) a dedicated place of work, (iii) hired staff, and (iv) an operating budget.</p> <p>Pillar 2: Improve public resource management</p> <ul style="list-style-type: none"> • Development of job descriptions. <i>Baseline 2013 = none; Target 2018 = The Ministry of Education, Human Resource Development and the Environment has formally established job descriptions with clearly defined competencies and responsibilities for the key task areas of public administration, including planning, monitoring results, and strategic personnel management</i> • Publication of contract awards. <i>Baseline 2013 = 0; Target 2018 = All contract awards are published, in conformity with the new procurement law</i> • Share of Support for Education, Empowerment, and Development (SEED) program beneficiary households identified in the Phase-Out Plan as ineligible and non-vulnerable that have been transitioned out of the program. <i>Baseline 2013 = 0; Target 2018 = 95 percent</i> • Share of public and publicly-guaranteed debt with a maturity of less than 90 days. <i>Baseline 2013 = 17 percent; Target 2018 = 10 percent</i> <p>Pillar 3: Enhance resilience against natural disasters</p> <ul style="list-style-type: none"> • Share of membership of the Grenada Institute of Professional Engineers (GIPE) registered in accordance with the 2015 Engineering Act. <i>Baseline 2015 = 0 percent; Target 2018 = 40 percent</i> • Establishment of the Building Inspection Unit at the Ministry of Communication, Works, Physical Development, Public Utilities, ICT and Community Development. <i>Baseline 2013 = none; Target 2018 = unit established</i> • Provisions for loan losses to nonperforming loans (NPLs) for the banking sector. <i>Baseline 2013 = 30 percent of NPLs; Target 2018 = 60 percent of NPLs</i>
Overall risk rating	Moderate
Climate and disaster risks	<p>(i) Are there short and long-term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)? Yes No</p> <p style="text-align: right;"> <input checked="" type="checkbox"/> <input type="checkbox"/> </p>
Operation ID	P156761

**INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) PROGRAM DOCUMENT FOR A
THIRD PROGRAMMATIC RESILIENCE-BUILDING
DEVELOPMENT POLICY CREDIT (DPC)
TO GRENADA**

1. INTRODUCTION AND COUNTRY CONTEXT

1. This program document presents the third and final operation in a programmatic series initiated in 2013 of three development policy financing (DPF) operations for Grenada. The proposed operation is comprised of a credit in the amount of SDR6.8 million, equivalent to US\$9.34 million, from the International Development Association (IDA). Building upon the series' first two operations – the First Development Policy Credit (DPC-1) granted in 2014, and the Second Development Financing Operation (DPF-2) granted in 2015), the Third Resilience-Building Development Policy Credit (DPC-3) would support the implementation of policy and institutional reforms set out in the Government's long-term development strategy; the New Economy Plan (NEP); and the Growth and Poverty Reduction Strategy (GPRS) for 2014-18. The Government's program focuses on establishing the institutional framework and policy environment necessary for achieving sustainable economic growth and poverty reduction by improving the investment climate, restoring fiscal sustainability, accelerating social development, and building resilience against natural disasters.

2. The combination of high exposure to natural disasters and a small economy has resulted in systemic vulnerabilities and structural challenges. As a small, open, 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). Striking examples of this include the devastation of Hurricane Ivan in 2004, Hurricane Emily in 2005, and the recession that took hold following the onset of the global financial crisis in 2008. Hurricane Ivan and Hurricane Emily caused damages equivalent to an estimated 150 percent and 30 percent, respectively, of the Gross Domestic Product (GDP). The collapse in external demand in the wake of the global financial crisis contributed to a protracted recession in Grenada from 2009 through 2012, during which real GDP contracted by an average of 1.9 percent per year.¹ Weak institutional capacity and limited fiscal space due to persistent large fiscal deficits have hindered the Government's efforts to counter these external shocks and protect poor and vulnerable households. The combination of slow growth, limited private sector dynamism, and a sustained pro-cyclical fiscal policy stance led to rising public sector debt and expanding fiscal deficit over the past decade. The deterioration in public sector finances and poor growth outturns led to an economic crisis by 2011-12. A new Government was elected in February 2013, and it set out to pursue a comprehensive set of reforms to tackle the country's long-standing development challenges. Real GDP strengthened markedly to an average growth rate of 5.3 percent from 2013 through 2015, with a revival in growth across the key sectors of agriculture, construction, and tourism.

3. There are no recent data to assess shifts in poverty alleviation and shared prosperity: however, social indicators point to some gains in social development over the past 15 years. The poverty rate was 37.7 percent in 2008, the latest year for which figures are available, at which time 2.4 percent of the population lived in extreme poverty.² As indicated below, more recent data are available for some social

¹ Grenada's real GDP contracted by more than 8 percent between 2009 and 2012, while the fiscal deficit more than doubled as a share of GDP, reaching 7.3 percent in 2013: and the public debt climbed above 100 percent of GDP (IMF's World Economic Outlook, or WEO).

² The Caribbean Development Bank (CDB, 2007/2008) "Country Poverty Assessment - Grenada, Carriacou, and Petit Martinique."

indicators, and they show that Grenada has made progress on a number of its Millennium Development Goals over the past 15 years.³ For example, the under-5 mortality rate decreased from 15.9 per 1,000 live births in 2000 to 11.8 in 2013, and the maternal mortality ratio per 100,000 live births declined from 29 in 1990 to 27 in 2015. Grenada's population has near-universal access to drinking water (97 percent in 2015) and sanitation (98 percent in 2015), as well as high rates of net primary school enrollment rate (98.4 percent in 2013), access to electricity (90.9 percent in 2012), and mobile phone service (100 percent in 2014). Nevertheless, gender disparities remain significant, especially in terms of education and employment. Similarly, based on the latest available data, inequality is relatively high in Grenada, with a Gini coefficient of 0.45 in 2006, compared to other members of the Organisation of Eastern Caribbean States (OECS). However, inequality in Grenada is below the average Gini coefficient for the Latin America and the Caribbean (LAC) region (0.529 in 2009).⁴

4. Budget support financing through this programmatic series and related technical assistance have supported the implementation of the Government's ambitious reform program for 2013 through 2016.

The program development objective (PDO) of this DPF series is to support Grenada in implementing a program of policy and institutional reforms to: (i) improve the investment climate and competitiveness; (ii) improve public resource management; and (iii) enhance resilience against natural disasters. The DPF series is also aligned with the regional Comprehensive Debt Framework (CDF), which is designed to achieve debt sustainability in Caribbean countries by: (i) improving the investment climate and competitiveness; (ii) improving public resource management; and (iii) enhancing resilience against natural disasters.

5. The DPF series is part of a broader effort to support Grenada's reform agenda, which includes the World Bank, the International Monetary Fund (IMF), and the Caribbean Development Bank (CDB). The Government has demonstrated a credible commitment to restoring fiscal discipline as part of its structural reform program. This DPF 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. The series also complements concurrent operations by the International Monetary Fund (IMF) and the Caribbean Development Bank (CDB). The IMF program, anchored by a 36-month IMF Extended Credit Facility (ECF), focuses on improving Grenada's medium-term growth prospects, restoring fiscal sustainability, and strengthening the financial sector. The CDB is currently implementing the last of three operations in a programmatic lending series aligned with the World Bank's DPF series.

2. MACROECONOMIC POLICY FRAMEWORK⁵

2.1 RECENT ECONOMIC DEVELOPMENTS

6. Real GDP growth posted a robust recovery, with an average 5.3 percent rate of growth from 2013 through 2015, fueled by strong growth in agriculture, tourism, and construction (Table 1). GDP growth peaked at a vibrant rate of 7.3 percent in 2014, in part reflecting an upswing in tourist arrivals and visitor expenditures. In 2015, real GDP growth moderated to a still-strong pace of 6.2 percent, primarily due to moderation in agricultural production. Tourist arrivals increased by a buoyant 13.0 percent in 2015, tied to an upsurge in cruise-ship passengers of 19.3 percent (Figure 1), which helped to partially offset the

³ Millennium Development Goal Global Database: <http://mdgs.un.org/unsd/mdg/Data.aspx>.

⁴ The Latin America and the Caribbean (LAC) region's Gini coefficient declined from 0.549 in 2005 to 0.529 in 2009.

⁵ All macroeconomic data used in this section are obtained from IMF Staff Reports, unless otherwise noted.

decline in agricultural output. Similarly, major hotel construction projects facilitated continued expansion in construction.

7. Preliminary figures for the first half of 2016 indicate a deceleration in economic activity, due to the negative impacts associated with drought conditions in agriculture during the first half of the year. In contrast, tourism activity remained robust, reflecting increased airlift from the United States; the first staging of the Pure Grenada Music festival; and Grenada's hosting of the 2016 Games of the Confederation of North, Central America and Caribbean Association Football (CONCACAF). Construction activity was buoyed by heightened private tourism-related construction.

8. Despite recent strong growth outturns, unemployment remains sharply elevated, and the weak labor market has contributed to subdued domestic demand, and contractions in credit growth. While the unemployment rate has declined from 32.2 percent in 2013 to 29.0 percent in 2015, almost one-third of the labor force remains unemployed. Unemployment rates are particularly high among youth (42 percent), women (32 percent), and less-educated workers. Credit to the private sector has contracted by an average rate of 4.9 percent from 2013 through 2015.

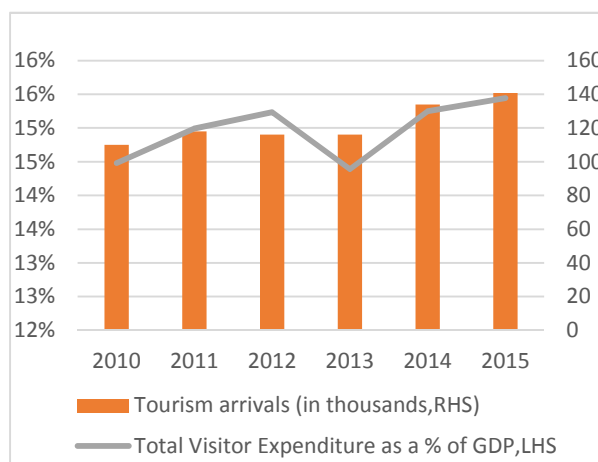
9. Low global oil prices and weak domestic demand contributed to moderate deflation in 2013 through 2015, while the real effective exchange rate (REER) appreciated as the U.S. dollar strengthened. The consumer price index (CPI) posted an average deflation rate of 0.6 percent in 2015. However, in December 2015, the CPI had reverted to a positive rate of 1 percent, year-on-year, in the context of elevated communication prices (Figure 2). Higher household furnishings, supplies and maintenance, and transportation prices led to inflation. The REER fell by 3 percent between mid-2013 and mid-2014, then rose due to the appreciation of the U.S. dollar, to which the East Caribbean dollar is pegged. In 2015, deflation, combined with a stronger U.S. dollar, caused the REER to appreciate by around 0.3 percent, year-on-year, partially offsetting Grenada's previous competitiveness gains.

10. The external accounts have improved significantly over the past two years. The impact of dampened imports, resulting from fiscal consolidation, weak private consumption, and lower fuel prices, drove marked improvement in the current account deficit to 16.5 percent of GDP in 2015, compared with a deficit of 23.2 percent of GDP in 2013. The deficit was adequately financed by tourism-related FDI and private capital inflows. FDI inflows rose by 5.5 percentage points to 9.9 percent in 2015, as a share of GDP (Figure 3). Consequently, international reserves increased to 5.4 months of imports in 2015 from 4.6 months in 2014.

11. The Government has achieved marked fiscal consolidation from 2014, through strong economic growth, revenue-generating measures, and expenditure controls and rationalization. Robust economic activity and comprehensive tax reforms boosted tax revenues. Correspondingly, the Government made significant cuts in current expenditures, especially the wage bill, which declined from 10.7 percent of GDP in 2013 to 8.1 percent in 2015. The strong performance enabled the authorities to boost capital spending from 7.1 percent of GDP in 2013 to an average of 8.8 percent in 2014 and 2015. The fiscal consolidation program launched in 2014 with IMF support targeted a fiscal adjustment of 7.5 percentage points of GDP from 2014 through 2016. The overall deficit (cash basis) narrowed by 3.5 percentage points in 2015 to a deficit of 1.2 percent. Excluding interest payments equivalent to 3.4 percent of GDP, the primary balance improved to a surplus of 2.0 percent in 2015 from a deficit of 1.2 percent of GDP in 2014 (Figure 4). By 2015, the Government had achieved cumulative fiscal consolidation of 6.1 percentage points of GDP, more than 80 percent of the 2016 target. In addition, between September 2014 and December 2015 the Government cleared all expenditure arrears over 60 days.

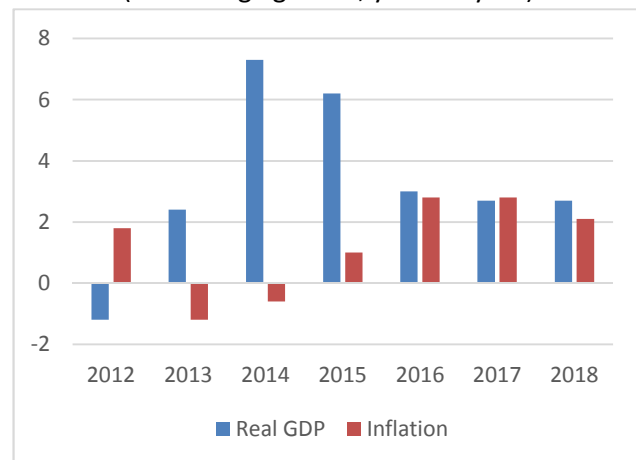
12. In June 2015 Grenada’s Parliament was the first country in the OECS to approve the landmark Fiscal Responsibility Act (FRA) to maintain fiscal discipline. The FRA establishes a rules-based fiscal framework to lock in gains and achieve fiscal discipline over the long term, starting with targets for 2016. The FRA aims to restore and maintain debt sustainability, and establishes a 2 percent cap on real expenditure growth, and a debt ceiling of 55 percent of GDP, to be achieved in 2022. By law, the annual budget must target a primary balance surplus of 3.5 percent of GDP in 2016, and over the medium term until the debt-to-GDP ratio is reduced to 55 percent (Table 2). To ensure adherence to the rules, the FRA also sets a public wage-bill target of 9 percent of GDP, establishes a cap on public-private partnership (PPP)-related contingent liabilities at 5 percent of GDP, and provides for a share of monthly Citizenship by Investment (CBI) inflows to be saved and used to finance future budgetary contingencies, or natural-disaster response efforts. The framework has broad coverage, and includes the central Government, statutory bodies, and state-owned enterprises (SOEs). Further, the framework includes escape clauses in the event of unpredictable shocks, such as natural disasters, public health epidemics, and economic and financial crises.⁶

Figure 1. Tourism Receipts and Arrivals
(In thousands and as percentage of GDP)



Sources: WDI and World Bank Staff Estimates

Figure 2. Real GDP and Inflation
(Percentage growth, year-on-year)



Source: IMF Staff Reports

13. The Government’s restructuring of all public and publicly-guaranteed debt is nearing completion.⁷ The debt exchange with holders of international bonds due in 2025, including a 50 percent principal reduction, was concluded in November 2015. The exchange represents the first stage of restructuring, and the second stage will follow the successful completion of the sixth review under the ECF supported program, expected in 2017.⁸ An agreement to reschedule outstanding Paris Club debts and arrears was reached in November 2015. While there was no principal reduction, 50 percent of existing arrears is expected to be repaid in cash in two installments, in 2016 and 2020. The remaining arrears, along with the principal and interest due during the consolidation period from November 2015 to June 2017, are to

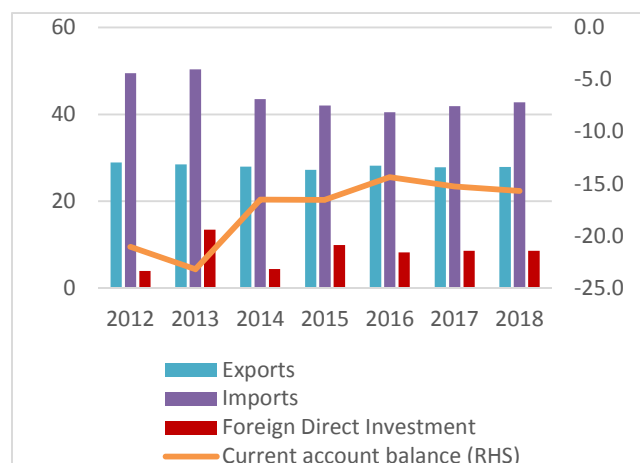
⁶ Sources: Carneiro, Francisco Galrao and Rei Odawara (2016). *Taming Volatility: Fiscal Policy and Financial Development for Growth in the Eastern Caribbean States*, and IMF Grenada-Second Review under the Extended Credit Facility (June 2015).

⁷ The Government has been involved in debt-restructuring negotiations since March 2013.

⁸ The financial terms include a coupon of 7 percent per year with a maturity of 15 years; revenue sharing from the CBI program; and a clause allowing a delay in debt service in the event of a natural disaster.

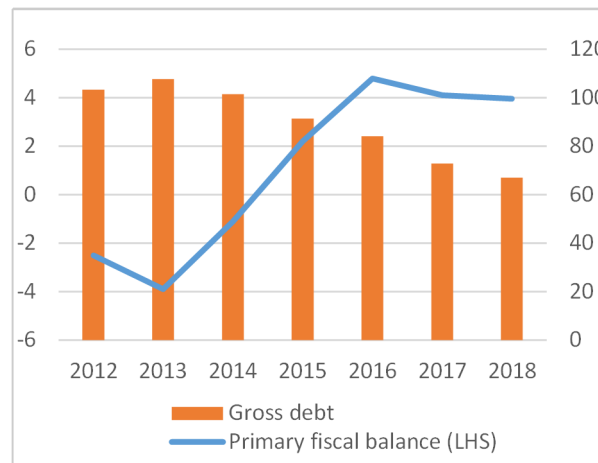
be rescheduled over 20 years.⁹ The agreements reached to date, including agreements to restructure publicly- guaranteed debt owned by Grenada's Marketing and National Importing Board (MNIB),¹⁰ domestic debt owed to the National Insurance Scheme¹¹ and to the Grenada Ports Authority, and bilateral debts to Taiwan,¹² have reduced the public debt stock from a peak of 107.8 percent of GDP in 2013 to 91.6 percent at end-2015. Debt restructuring, along with the ongoing fiscal consolidation, is expected to reduce the public debt stock to 72.8 percent of GDP by 2017, helping to restore debt sustainability over the medium term.

Figure 3. Selected Components of the External Accounts (Percent share of GDP)



Sources: WDI and World Bank Staff Estimates

Figure 4. Public Debt and the Primary Fiscal Balance (Percent share of GDP)



Source: IMF Staff Reports

14. Negotiations with other creditors to restructure remaining public debt continue. Restructuring agreements, representing 64 percent of the total debt under negotiation, have been reached with creditors, and are equivalent to 34 percent of GDP. Negotiations with remaining creditors, including non-Paris Club bilateral official creditors and domestic creditors, are ongoing. Completion of debt restructuring with all remaining creditors and sustained fiscal consolidation efforts will be critical in order to meet the debt ceiling target of 55 percent of GDP required by the FRA, and to attain a sustainable debt trajectory.

15. The banking sector is slowly improving, but the share of nonperforming loans (NPLs) remains high. The share of NPLs in the banks' total loan portfolio increased from 9.4 percent in 2011 to a peak of 14.6 percent in 2014, before declining to 10 percent at end-2015. After two consecutive years of negative returns, banks reported profits, supported by the lowering of the regional interest rate floor on savings

⁹ The term includes a 7-year grace period for official development assistance (ODA) claims, an 8-year grace period for non-ODA claims, and a hurricane clause permitting creditors to allow further consideration for natural-disaster relief.

¹⁰ MNIB has reached a financial agreement with a private creditor to restructure US\$5.7 million in publicly-guaranteed debt. The outstanding principal will be reduced by 47 percent with a haircut of US\$2.6 million. A down payment of US\$1.5 million has been made on the remaining amount, while the remaining US\$1.5 million will be repaid over 10 years at a rate of 6 percent for the first 5 years, and 7 percent for years 6-10.

¹¹ The National Insurance Scheme owns 82 percent of Grenada's domestic debt.

¹² In December 2014 the Government reached an agreement with the Export-Import Bank of Taiwan, Province of China, which included a 50 percent principal haircut—equivalent to 2 percent of GDP and 5.3 percent of the total debt stock. Under the terms of the agreement the post-haircut balance on the loan will be repayable over 15 years at an interest rate of 7 percent, including a grace period of 3.5 years.

deposits in May 2015, which widened net interest-rate margins. However, the average return on assets was low, at 1.5 percent in 2015. Private credit growth remains fragile, due to weak balance sheets, anemic domestic demand, and tighter loan conditions. Credit to the private sector contracted by 5.1 percent in 2014 and by 3.8 percent in 2015. Liquidity increased further, as the loan-to-deposit ratio fell. Capital-adequacy ratios declined slightly, to 12.2 percent in 2015, down 0.8 percentage points from the previous year, but still above the regulatory minimum of 8 percent.

Table 1. Grenada: Key Macroeconomic Indicators
(Annual percentage change, unless otherwise specified)

	2013	2014	2015	2016	2017	2018	2019
	Actual		Estimated	Projected			
Real Economy							
Real GDP	2.4	7.3	6.2	3.1	2.7	2.7	2.7
CPI (end-of-period)	-1.2	-0.6	1.0	2.1	2.6	2.0	2.0
Fiscal Accounts							
Revenue	20.9	24.5	24.8	25.2	24.7	24.5	24.4
Expenditure	28.1	29.2	26.0	23.5	23.4	22.7	22.6
Current primary	17.8	16.4	14.2	17.0	17.2	16.7	16.7
Interest	3.3	3.5	3.4	3.1	2.8	2.2	2.0
Capital	7.1	9.2	8.4	3.4	3.3	3.8	3.9
General Government Balance	-7.3	-4.7	-1.2	1.7	1.3	1.8	1.8
Primary balance	-3.9	-1.1	2.2	4.8	4.1	4.0	3.8
Selected Monetary Accounts							
Broad money (M2)	4.1	4.1	5.2	4.7
Credit to private sector	-5.7	-5.1	-3.8	3.3
Balance of payments							
Current account balance, o/w:	-23.2	-16.5	-16.5	-14.5	-15.3	-15.7	-16.2
Exports	28.5	28.0	27.2	28.2	27.8	27.9	28.0
Imports	50.4	43.6	42.0	40.7	41.9	42.9	43.7
Foreign Direct Investment	13.4	4.4	9.9	8.3	8.6	8.6	9.1
Gross International Reserves (in months of imports)	2.9	4.1	4.8	5.8	5.4	5.1	5
Public debt (incl. guaranteed)	107.6	101.5	91.6	84.1	72.8	67.0	62.0
Terms of Trade	6.7	-2.5	15	3.6	-4.8	-2.8	...
Exchange Rate	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Memorandum items:							
Nominal GDP (EC\$ million)	2,275	2,461	2, 657	2,780	2,947	3,097	3, 251
Nominal GDP (US\$ million)	843	912	984	1030	1092	1147	1204

Sources: Fund staff estimates and projections, Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2008; World Bank World Development Indicators(WDI).

Table 2. Grenada: Key Fiscal Indicators
(Percentage share of GDP)

						Proj.	Proj.	Proj.
	2012	2013	2014	2015	2016	2017	2018	2019
Overall balance	-5.9	-7.3	-4.7	-1.2	1.7	1.3	1.8	1.7
Primary balance	-2.5	-3.9	-1.1	2.2	4.8	4.1	4.0	3.8
Total Revenue and Grants	20.8	20.9	24.5	24.8	25.2	24.6	24.5	24.4
Tax Revenue	18.0	16.6	18.2	19.3	20.5	20.0	19.9	19.8
Taxes on goods and services	8.1	7.5	7.9	8.0	8.5	8.4	8.4	8.4
Taxes on income and profits	3.5	2.9	3.7	3.8	4.1	3.8	3.8	3.8
Taxes on property	0.8	0.7	0.9	0.9	0.8	0.8	0.8	0.8
Taxes on international trade	5.6	5.5	5.8	6.5	7.0	7.0	6.9	6.9
Non-Tax Revenue	1.7	2.9	2.2	2.2	1.7	1.8	1.8	1.8
Grants	1.1	1.4	4.1	3.3	3.0	2.9	2.8	2.7
Total Expenditure and Net Lending	26.7	28.1	29.2	26.0	23.5	23.4	22.7	22.6
Current expenditure	21.7	21.1	19.9	17.6	20.2	20.1	19.0	18.8
Wages and salaries	10.5	10.7	9.9	8.1	8.5	8.8	8.6	8.5
Pensions and NIS contributions	2.0	2.1	2.1	1.8	1.8	1.9	1.8	1.8
Goods and services	4.0	3.3	2.9	2.9	4.1	4.1	4.1	4.1
Transfers	1.7	1.7	1.5	1.4	2.6	2.5	2.3	2.3
Interest Payments	3.4	3.3	3.5	3.4	3.1	2.8	2.2	2.0
Capital expenditure and net lending	5.0	7.1	9.2	8.4	3.3	3.8	3.7	3.8
Grant-financed	1.1	1.4	3.7	3.3	2.5	2.4	2.4	2.3
Non-grant-financed	4.0	5.7	5.5	5.1	0.8	0.8	1.4	1.5
Public Debt	103.3	107.8	101.5	91.6	84.1	72.7	67.0	62.0
External	67.6	70.4	67.3	62.3	59.6	51.7	47.2	43.7
Domestic	35.8	37.4	34.3	29.3	24.5	21.1	19.7	18.4

Sources: Country authorities and IMF Staff Calculations.

1/ The fiscal accounts for 2016 have been revised in accordance with the new Chart of Accounts (COA) standards, where many expenditure items classified as recurrent expenditures instead of capital expenditures. This has created a structural break in the series starting in 2016.

Table 3. Grenada: 2015 Actuals and Medium-Term Central Government Financing Projections
(EC\$ millions)

	2015	2016	2017	2018	2019
Stock of deposits at beginning of the period	94.0	142.1	112.0	148.0	151.0
Inflows	1501.5	553.3	708.9	515.9	509.3
Primary surplus	57.5	133.2	120.7	122.5	123.0
Debt placement	493.2	367.1	431.7	378.2	386.3
External	116.7	34.7	120.9	53.9	53.9
Domestic	376.5	332.4	310.8	324.3	332.4
Arrears accumulation	8.7				
Debt stock reduction from restructuring 1/	153.6	27.8	156.5	15.1	
New debt issued under restructuring 2/	788.6	25.3			
Transfer from the National Transformation Fund for arrears repayment					
Outflows	1,460.3	583.4	673.0	512.8	505.7
Primary deficit					
Interest bill	89.9	87.1	82.9	68.2	65.2
Scheduled Amortization	425.5	456.2	430.4	426.4	433.1
External	53.6	90.6	85.4	96.2	89.4
Domestic	371.9	365.5	345.0	330.2	343.7
Arrears clearance 3/	167.0	17.8	3.1	18.3	
o/w/ Regularization of arrears	105.6	17.8		15.1	
Debt restructuring 1/	777.9	22.3	156.5		
Net cash flow (+surplus/-deficit) / Available Financing	41.2	-30.1	35.9	3.0	
Stock of deposits at end of period	142.1	112.0	148.0	151.0	154.6
Memorandum:					
Overall balance	-32.4	46.1	37.8	54.4	57.8
Central Government Debt	2432.6	2338.6	2144.3	2074.8	2017.0
Stock of arrears	146.6	128.8	125.7	107.4	100.0

Sources: Country authorities and IMF staff estimates.

1/ Includes debt stock reduction from the debt exchange for the 2025 bonds, the Export-Import Bank of Taiwan, other external commercial debt, and restructured domestic debt.

2/ Includes new debt issued under restructuring agreements executed with the Export-Import Bank of Taiwan Province of China, holders of Grenada's 2025 international bonds, Paris Club creditors, the National Insurance Scheme, and other domestic creditors.

3/ Remaining stock of arrears in 2016 is comprised of bilateral debt, contribution arrears to organizations, and domestic debt.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

16. The overall outlook remains positive, with growth projected to moderate to a more sustainable pace over the medium term as the recovery matures. Real GDP growth is projected to slow to 3.1 percent in 2016, as agricultural production approaches capacity and the recent surge in tourist arrivals subsides. Real GDP growth is projected to average 2.7 percent over the medium term thereafter, coming into

alignment with estimated potential output. Ongoing tourism-related construction, particularly the construction of Mt. Hartmann resorts that are worth nearly US\$1 billion, are projected to support steady growth over the medium term, as are projected positive impacts from the structural reforms introduced since 2013. Low oil prices and solid growth in key tourism markets, such as in the United States, the United Kingdom, and Canada, should bolster aggregate demand. Grenada's citizenship-by-investment (CBI) program¹³ that was established in 2014 is showing signs of gaining traction, with reported budgetary revenue equal to 0.5 percent of GDP in 2015.

17. Rising imports tied to tourism-related construction projects are expected to weaken the external accounts over the medium term. Notwithstanding the recent appreciation of the U.S. dollar, the current-account deficit is projected to narrow further to 14.5 percent of GDP in 2016, driven by robust tourism receipts and lower imports, particularly fuel. Rising capital-goods imports are expected to keep the deficit elevated at around 16 percent of GDP over the medium term as tourism-related FDI and domestic investment gradually recover. However, further appreciation of the U.S. dollar could negatively impact Grenada's competitiveness and undermine its external balances.

18. While continued growth has brought about an end to the recent trend of low-level deflation as of end-2015, inflation is projected to resume and subsequently remain at a moderate pace over the medium term. An inflation rate of 2.1 percent is projected for 2016, reflecting higher transportation and communication prices. Moderate imported inflation is projected to sustain the annual inflation rate at 2 percent during the medium term.

19. The medium-term fiscal and debt outlook remains positive, supported by revenue-enhancing measures and cuts to expenditures. In 2016 there were a number of structural reforms on both the revenue and expenditure sides. These include measures to streamline tax incentives and strengthen tax administration; the revision of the labor code; and the completion of debt restructuring (See Annex 7). Increased revenue collection through new tax measures, such as the value-added tax (VAT) on fee-based banking services,¹⁴ are supporting consolidation efforts. Consequently, the Government is expected to achieve its primary surplus target of 3.5 percent of GDP legislated by the FRA. The Government is expected to have adequate financing through 2017, due in part to support from its development partners and further debt restructuring (Table 3). These projections are predicated on the full implementation of the fiscal consolidation program through 2017, as well as the full execution of the debt-restructuring agreement reached with Grenada's private bondholders.

20. The public sector modernization program has aimed to reduce the size of the public sector by freezing public sector salaries (in real terms), as well as through a staff attrition program. Nevertheless, the wage bill is on track to rise in 2016 and 2017 with the implementation of outstanding automatic grade increments for the period of 2014 through 2016. The Government aims to maintain the sustainability of the wage bill over the medium term by strengthening personnel management, and is projected to contain coming increases in the wage bill to below the 9 percent share of GDP ceiling mandated by the FRA.

21. Grenada's medium-term debt outlook is positive. As debt restructuring nears completion and fiscal consolidation continues, the public debt stock is expected to decline further. According to the May 2016

¹³ The CBI program grants citizenship to applicants willing to (i) donate at least US\$150,000 for an individual or at least US\$200,000 for a family of four to the National Transformation Fund, or (ii) invest at least US\$2,450,000 in real estate or in a government-approved project.

¹⁴ The VAT on fee-based banking services was approved in 2015 and is expected to begin generating revenues by April 2016.

joint World Bank-IMF Data Sustainability Analysis (DSA), the debt-to-GDP ratio under the baseline scenario, which began to decline in 2014, is projected to fall to 73 percent by 2018 (Annex 7). Nevertheless, Grenada's external debt remains in distress, reflecting the country's vulnerability to external shocks. Under the baseline scenario, the present value of the debt-to-GDP, debt-to-exports, and debt-service-to-revenue ratios are expected to remain close to their indicative thresholds until 2018, and slight temporary breaches are expected to contribute to a moderate-to-high risk of debt distress (Figures 7.2 and 7.3). Restoring debt sustainability in Grenada requires the completion of the debt-restructuring process and the clearance of arrears to all official creditors. This would contribute to the achievement of the Eastern Caribbean Currency Union (ECCU) target of reducing the public debt stock to 60 percent of GDP by 2030, as well as the FRA target to 55 percent of GDP by 2022.¹⁵

22. 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 are 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. Sustained implementation of the new rules-based fiscal framework is expected to support achievement of long-term fiscal and debt sustainability. The completion of the debt-restructuring process should open new fiscal space for social spending and growth-enhancing investments over the medium term. Notwithstanding, given its small size, Grenada remains susceptible to economic activity in major growth poles, particularly the United States, for tourism and FDI, as well as terms of trade shocks, given its reliance on international commodities. The risks to the forecasts are skewed to the downside in light of external debt vulnerabilities, the spread of the Zika virus in the region, a delayed impact from BREXIT, and implementation risk.

2.3 IMF RELATIONS

23. The IMF Executive Board approved the fourth review under a 36-month ECF arrangement in May 2016. The ECF arrangement, which is in the amount of SDR14.04 million (US\$21.7 million), or 120 percent of its quota, was approved by the IMF Board in June 2014. All four reviews concluded that Grenada has been making steady progress on its structural reform program, and that fiscal consolidation is on track. To date, disbursements under the arrangement have totaled SDR8.04 million (US\$11.5 million). The IMF press release for the September 2016 mission for the fifth review reported continued steady progress.¹⁶ The fifth review is expected to be discussed by the IMF Executive Board in December 2016. This DPF series complements the ECF program, and focuses on improving medium-term growth prospects, restoring fiscal sustainability, and strengthening the financial sector. In addition, it supports the Government's long-term efforts to address systemic vulnerabilities, through targeted structural reforms in the areas of private sector development, fiscal management, and disaster preparedness.

¹⁵ Under the current macroeconomic framework, the total public debt stock is projected to fall to 63.6 percent of GDP by 2020. However, this does not include the restructuring of the remaining domestic debt, and debt to other official creditors. When these measures are included, the public debt stock is expected to reach 60 percent of GDP by 2020. In February 2015 the ECCB extended the timeline for reaching debt targets from 2020 to 2030.

¹⁶ <http://www.imf.org/en/News/Articles/2016/09/14/pr16408-Grenada-IMF-Staff-Concludes-Visit>

3. THE GOVERNMENT'S PROGRAM

24. The Government's broad-based economic reform program, guided by its 2014-2018 Growth and Poverty Reduction Strategy (GPRS) and New Economic Program (NEP), aims to achieve a more rapid, sustainable, and equitable growth trajectory. The GPRS is the country's first comprehensive economic growth and poverty reduction strategy, which focuses on establishing the institutional framework and policy conditions necessary for achieving sustainable economic growth and poverty reduction by improving the investment climate, restoring fiscal sustainability, accelerating social development, and building resilience against natural disasters. The GPRS is aligned with the country's NEP, a long-term development agenda targeting accelerated economic growth, fiscal sustainability, social development, and debt management. The NEP identifies responsible fiscal and debt policies, public administrative reforms, environmental sustainability, and private-sector development as vital to promoting robust and inclusive growth. The Government has made significant progress in facilitating growth in the tourism, agribusiness, and energy sectors; modernizing the public procurement system; establishing a policy framework for public-private partnerships (PPPs); and enhancing debt management.

25. Social development, including human-capital formation and social inclusion, is a critical part of the Government's strategy. The NEP includes provisions to facilitate job creation, with a focus on youth employment; improve educational access and quality; expand access to health care services; and provide affordable housing to low-income families. The NEP also calls for measures to further strengthen the Support for Education, Empowerment and Development (SEED) program, the country's flagship social safety-net program, to ensure that it reaches the poorest and most vulnerable households. To this end, the Government is enhancing the effectiveness of the SEED program by developing a beneficiary information management system, and adopting a new targeting instrument.

4. THE PROPOSED OPERATION

4.1 LINKS TO THE GOVERNMENT'S PROGRAM AND OPERATION DESCRIPTION

26. The Program Development Objective of the DPC-3 operation is to support Grenada in implementing a program of policy and institutional reforms to: (i) improve the investment climate and competitiveness; (ii) improve public resource management; and (iii) enhance resilience against natural disasters. These three pillars complement each other in a number of ways. Improved investment climate and competitiveness support stronger growth outturns, which in turn also support higher tax revenue generation and facilitate improved public resource management. Improved public resource management reduces crowding out of private sector investment through reduced Government borrowing. Enhanced resilience against natural disasters supports stronger growth outturns by mitigating against potential negative impacts of disasters on growth and/or on potential unbudgeted fiscal spending.

27. The proposed DPC-3 operation is aligned with key policy and institutional reforms defined in the Government's development strategy, the 2014-2018 GPRS, and is aligned with the World Bank's OECS Regional Partnership Strategy (RPS). The proposed operation targets measures designed to: i) promoting the continued growth of the tourism and agribusiness sectors, and deepening their links with other economic sectors; (ii) enhancing the overall quality of the business environment; and (iii) improving public resource management through more efficient procurement, better-targeted social spending, and enhanced debt management. The operation is fully consistent with the GPRS 2014-18 and the NEP, and supports its objectives of accelerating economic growth, restoring fiscal and debt sustainability, and

improving social development indicators. The operation forms part of a comprehensive World Bank engagement strategy with Grenada, and complements the efforts of other development partners.

28. The design of the programmatic series, including the proposed operation, incorporates lessons learned from previous World Bank operations. The 2011 Implementation Completion and Results Report (ICRR) for the Economic and Social Development Policy Loan and Credit (P117000) that was approved by the Executive Directors on June 8, 2010, determined that a programmatic approach supporting a multi-year program could have a stronger development impact than a one-year stand-alone program. The 2011 ICRR also found that limited implementation capacity in small states requires that program design be simple and selective, and that programs should be augmented by intensive technical assistance and support during the implementation phase. Furthermore, the policy matrix should be concise, with a small number of clearly specified indicators that are both critical to the program's performance and within the Government's ability to control. Based on these lessons, the programmatic DPF series focuses on a range of precisely defined reforms in critical policy areas, and is being complemented by technical assistance supported by related IDA investment projects.

4.2 PRIOR ACTIONS, RESULTS, AND ANALYTICAL UNDERPINNINGS

29. This DPC3 supports the Government's key reform agenda with strong policy and institutional measures. The proposed operation supports a total of ten policy reforms or prior actions. These prior actions, and how they build upon prior actions achieved under the first and second operations in the series, are described below and are organized under the pillars they support. Annex 1 and Annex 5 provide summaries and comparisons of the policy actions and results indicators for all three operations in the series. Some of the indicative triggers that had been originally envisioned proposed in earlier operations on policy measures that are related to tourism and the financial sector have been dropped to reflect changes in the Government's strategy. Other originally envisioned measures, notably those related to trade logistics, PPPs, and social safety nets have been modified to reflect the evolution and current status of the reform process. The result indicators for the proposed operation have been updated to reflect changes in the program's prior actions (see Annex 6). These changes to the prior actions and the results indicators do not detract from achieving the overall objectives supported by the proposed operation.

PILLAR 1: IMPROVED INVESTMENT CLIMATE AND COMPETITIVENESS

30. The private sector is crucial to economic growth and job creation in Grenada, and the Government is pursuing reforms across five strategic areas for an improved investment climate and competitiveness. As in other small island countries, the Government of Grenada (GoG) is striving to promote an attractive business and investment climate, and move away from subsidy-driven policies. To this end, the authorities have been pursuing a mix of economy-wide regulatory reforms and targeted policy interventions, which include ambitious measures to: (i) increase competitiveness in the tourism industry (supported by DPC-1); (ii) boost productivity in agribusiness (supported by all three operations); (iii) minimize the administrative costs of international trade (supported by DPC-1 and DPC-3); and (iv) create a more enabling legal and institutional climate for private-sector growth, including for renewable energy production (supported by DPF-2 and DPC-3).

(i) The Agribusiness Sector

31. The Government aims to increase value added in the agribusiness sector by encouraging technological upgrading and increased private investment. The Government's plan to boost the productivity and export competitiveness of key agricultural products, such as nutmeg and cocoa, is based

on three strategic areas: (i) commercializing inefficient Government-owned agricultural estates; (ii) strengthening agricultural extension and marketing services; and, (iii) establishing an appropriate regulatory framework for food safety and product quality.

32. The authorities have made steady progress in the commercialization of state-owned agricultural estates. Prior Action 1 of the proposed DPC-3 supports the commercialization process for the two estates by ensuring that two commercial agribusiness lease agreements with separate private entities are signed (a prior action under the DPF-2). As of June 2015 these agreements were in effect, and appropriate worker safeguards had been put in place. The signing of the lease agreements for these two estates (a prior action under the proposed operation), had been pending determination of the value of the land through a detailed assessment¹⁷, which was completed by the Ministry of Agriculture, Forestry and Fisheries (MoAFF) in mid-2016. The two lease agreements were signed in August 2016 and September 2016.

DPC-3 Prior Action #1: The Government has advanced the commercialization of selected Government-owned estates by signing two agribusiness lease agreements with separate private entities for a duration of at least 20 years.

33. Expected Results. The commercialization of state-owned agricultural estates is expected to contribute to the modernization of the agribusiness sector through the integration of technological advancements and increased private investment in the agriculture sector. The number of commercialized estates is expected to increase to at least three by 2018, from zero in 2015. Consequently, the area cultivated at leased Government-owned agricultural estates is expected to increase from zero in 2013 to 186 acres in 2018.

34. Establishing a regulatory framework to enforce standards for the quality and safety of agricultural products is vital in order to expand access to export markets and improve links between the agricultural and tourism sectors. The Government is committed to harmonizing the regulatory framework for agricultural product safety and quality with international best practices. In 2015 the Parliament approved a new Food Safety Act, which is a prior action for the proposed DPC-3. The adoption of international standards is also expected to strengthen links between the agricultural and tourism sectors by enabling producers to meet the hospitality industry's quality and safety requirements. The Food and Safety Act was passed in July 2015.

35. The Marketing and National Importing Board (MNIB) has expanded its role to include the provision of information on markets, product quality, and standards, as well as marketing services, in order to facilitate economic links between the tourism and agribusiness sectors. However, at present few local farmers are able to meet the hospitality industry's demands in terms of volume, quality consistency, and safety verification.¹⁸ This is partly due to their lack of access to adequate information. Following the launch of its strategic plan in April 2014, which was a prior action under the DPF-2, the MNIB increased its range of services to include providing farmers, including the Bureau of Women Farmers, with information on a range of issues, including markets, product quality, and standards.

¹⁷ This assessment is a so-called "survey of the project land," which assesses the inventory, maturity of the crops, and land extension.

¹⁸ It is estimated that an average of just 58 percent of tourism expenditures reach local economies in the Organization of Eastern Caribbean States (OECS). The exception is the service sector, as 90 percent of services are provided by local workers. However, a large share of tourism spending finances the consumption of imported food and manufactured goods.

DPC-3 Prior Action #2: The Government has, through the Parliament, enacted the Food Safety Act, which establishes standards for food quality and prevention of food safety risks.

36. Expected Results. These measures are expected to contribute to the commercialization and modernization of Grenada's agribusiness sector by: (i) attracting private investment and encouraging the use of improved technologies in Government-owned agricultural estates; (ii) harmonizing the regulatory framework for food safety and quality with international standards; and (iii) expanding the MNIB's role as a service provider. The number of farmers receiving MNIB services has already increased, from a baseline of 1,623 in 2013 to 2,098 in 2015, and is expected to rise to at least 2,500 by 2018.

(ii) The Business Environment

37. Improving the business environment remains a priority policy area for the Government. In an effort to facilitate cross-border trade, the Government passed a new Customs Bill in 2014, which was supported under the DPC-1 and World Bank Group advisory operations.¹⁹ As part of its trade-logistics reform agenda, the Government has been working toward ensuring that as many trade transactions as possible are processed through Automated System for Customs Data (ASYCUDA) World.²⁰ These efforts are supported as a part of the third prior action for the proposed DPC-3. To this end, the Government has been working on improving inter-agency coordination to provide statistical data from ASYCUDA World to relevant agencies (the Central Office of Statistics of Grenada and the Inland Revenue Department, both under the MoFE for trade monitoring and tax compliance. In addition, the Government has been able to successfully connect the Bureau of Standards to ASYCUDA World, which is also supported as part of the third prior action in DPC-3.

38. Software, budgetary, and professional-skills constraints have slowed implementation of the full range of reform, although the Government is fully committed to supporting the implementation of trade-logistics reform. Linking the trade transactions of all border control agencies that process trade transactions through ASYCUDA World requires extensive coordination and negotiation, major inter-agency agreements, and sufficient funds to finance the necessary technical assistance. Two key ministries, the Ministry of Agriculture, Forestry and Fisheries (MoAFF) and the Ministry of Health (MoH), are not yet connected to ASYCUDA World, and there is no e-payment, nor is there a single-payment point for trade duties and taxes. In addition, establishing a single-payment point is particularly challenging, due to the difficulty in securing buy-in from other agencies, which are often concerned that fees collected in a consolidated fund may not be correctly identified and remitted to the appropriate agency. Therefore, the scope and scale of this prior action for the proposed operation have been narrowed in agreement with the Government (see Annexes 5 and 6). The prior action in the proposed operation calls for the Government to enhance border-agency coordination and monitoring capacity by connecting the Bureau of Standards (MoFE) to ASYCUDA World to process trade transactions; and to improve interagency coordination by providing the Inland Revenue Department (IRD) and the Central Office of Statistics (COS),

¹⁹ The new Customs Act aligns Grenada's legislation with international good practices, and enables the establishment of a modern customs administration with sophisticated risk management, electronic processing, recordkeeping and auditing, and self-assessment capacity, as well as clear accountability and an adequate delegation of authority.

²⁰ ASYCUDA World allows traders to submit declarations through a web-enabled processing system, limiting the need to physically visit customs facilities and reducing the overall time and cost of trade-transaction processing. Because ASYCUDA World is expected to process transactions more efficiently than the current system, an increase in the volume of transactions processed through ASYCUDA World should reduce clearance times. The customs administration is also expected to benefit from increased border control capabilities, which in the long run should lead to increased compliance and greater revenue collection.

both under MoFE, access to statistical data from ASYCUDA World for improved tax compliance and trade monitoring.

DPC-3 Prior Action #3: The Government has, through the Ministry of Finance and Energy (MoFE), connected the Bureau of Standards (MoFE) to ASYCUDA World to process trade transactions; and provided the Inland Revenue Department (MoFE) and the Central Office of Statistics (MoFE) with statistical data access to ASYCUDA World.

39. Expected Results. By the end of this DPF series, these measures are expected to be adopted by additional border-control agencies, reducing the time and cost involved in complying with import and export procedures. ASYCUDA World allows traders to submit declarations, and to pay duties and taxes through a web-enabled processing system, reducing the need to physically visit customs facilities. The number of border-control agencies processing trade transactions through ASYCUDA World is expected to increase from two agencies in 2013 to at least six agencies in 2018. Additionally, the number of agencies sharing trade and taxation related information through ASYCUDA World is expected to have increased to at least two from zero in 2013.

40. The Government is committed to setting up a well-defined regulatory and institutional framework for PPPs in order to mobilize private investment in infrastructure and public services. The Government has identified a number of PPP opportunities in key sectors, and has introduced a PPP policy framework based on international best practices. The approval of the PPP policy by the Cabinet in February 2015 was a prior action under the DPF-2. This policy framework sets out clear guiding principles and processes for identifying PPPs, and it defines institutional responsibilities for developing a PPP pipeline and implementing PPP projects. The Government has already approved measures to establish the necessary institutional arrangements within the MoFE to ensure that PPPs are prepared and managed according to the approved guidelines. A PPP Policy Steering Committee has been established under the MoFE and is receiving capacity-building support from the Caribbean Regional Technical Assistance Centre and the World Bank's regional PPP support program. The Government also intends to set up a PPP unit in the MoFE, to support the steering committee in managing the fiscal risks associated with PPP projects through improved monitoring, reporting, and analysis, which is a prior action for the proposed operation. Fiscal risks include contingent liabilities, exchange-rate risks, and higher private sector borrowing costs. At this early stage in the PPP reform process, the Government and the World Bank have agreed that a new PPP law in Grenada is not necessary, as the PPP policy has already been put in place. Therefore, the prior action is expected focus on the institutional framework—i.e. the creation of a PPP Unit—rather than the passage of new legislation (see Annex 5).

DPC-3 Prior Action #4: The Government has established a PPP Unit in the Ministry of Finance and Energy, as evidenced by a Cabinet conclusion.

41. Expected Results. These measures are expected to create an enabling environment for PPPs, supporting increased private investment in infrastructure by ensuring that these arrangements generate adequate value for money for both the Government and its private partners. One hundred percent of investment projects are expected to follow the processes and requirements defined in the PPP policy by 2018, compared to zero percent in 2013. A number of PPP projects are already currently under consideration: for example, Geothermal Energy, the Grenada Postal Corporation, the Fort George tourist facility, and the Waste-to-Energy program.

42. The Government is committed to reducing high costs in the electricity sector, and alleviating its

dependence on imported fossil fuels. Electricity production in Grenada is limited and expensive, and generation depends heavily on imported diesel fuel. High electricity costs reduce firm competitiveness and represent a large share of consumption among poor households. An overdependence on diesel fuel also exposes Grenada to oil-price volatility and contributes to carbon emissions. Moving to a more diverse power generation portfolio is critical to ensuring a reliable power supply and lowering energy costs. The establishment of an independent energy regulator, and the adoption of a policy and regulatory framework for the development and use of renewable energy alternatives are expected to constitute important milestones toward this objective. Promoting renewable energy is expected to help diversify the country's energy-generation mix, reduce exposure to volatile oil prices, potentially improve the reliability and climate resilience of the power sector, and support the transition toward a greener economy. The Government's energy policy objectives are to: (i) reduce electricity tariffs in the medium term; (ii) incentivize investment in renewable energy; and (iii) make progress toward a low-carbon economy. The Government has set a goal of generating 20 percent of total power from renewable sources by 2020, and is developing a commercial and legislative framework based on international best practices for promoting operational efficiency, enhancing consumer protections, expanding renewable energy, and improving efficiency, competitiveness, and investment in the energy sector.

43. The Government recognizes the need to establish new electricity sector regulations in order to achieve its objectives. The Government is participating in the Eastern Caribbean Energy Regulatory Agency (ECERA) project, with the support of an IDA credit. ECERA is assisting OECS countries in establishing independent energy regulatory bodies and enhanced regulatory procedures. In Grenada, ECERA has helped the Government establish the legislative groundwork for a new Public Utilities Regulatory Commission (PURC). The legislative framework for PURC was reviewed by energy sector stakeholders, and was approved and published in the *Government Gazette* on July 15, 2016. ECERA is expected to support PURC and other independent energy sector regulators in the OECS in order to improve the regional electricity sector's investment climate, increase the financial and technical efficiency of utilities, facilitate renewable energy projects, and expand possibilities for cross-border electricity exchanges and inter-island connections.

44. The Government has adopted primary legislation for the energy sector and amendments to the Public Utilities Commission Act, which is expected to pave the way for the establishment of an energy regulatory and advisory committee. This legislation also formally establishes the PURC and facilitates its engagement with ECERA. The new Electricity Supply Act aligns the legal framework with Grenada's energy sector strategy, ensuring that key policies are given legal force, specifically with regard to the promotion of renewable energy and future participation in ECERA, and is a prior action supported under the proposed operation. The Public Utilities Regulatory Commission Act has been passed, and the Government has endorsed the Ministry of Finance and Energy's participation in ECERA.

45. In parallel with these legislative developments, the Government is pursuing renewable energy initiatives with the national electric utility and other stakeholders. This process includes assessing the potential for geothermal energy, building a wind farm, and facilitating the installation of additional distributed photovoltaic systems on public, commercial, and residential buildings.

<p>DPC-3 Prior Action #5: The Government has enacted the Public Utilities Regulatory Commission Act to establish a national independent energy regulator; and has endorsed the Ministry of Finance and Energy's participation in the regional energy advisory body, the Eastern Caribbean Energy Regulatory Agency (ECERA).</p>
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46. Expected Results. The new regulatory framework establishes policies and regulations that is expected to help create the market conditions that encourage increased development and use of renewable energy technologies, including solar, wind, and geothermal energy. Policy reforms are expected to stimulate investments in, and expand the share of renewables in, total installed generation capacity. In 2013 approximately 0.3 MW of photovoltaic solar was installed in Grenada, or 1 percent of total generation capacity. By end-2015, a combination of solar and wind energy had doubled the share of renewables to approximately 2 percent of total capacity. By 2018 at least 3.0 MW of installed renewable capacity, representing 3 percent of total capacity, is expected to be on-grid. Additionally, the national independent energy regulator, the Public Utilities Regulatory Commission, is expected to be fully operational, and to have issued a three-year business plan by mid-2018.

PILLAR 2: IMPROVED PUBLIC RESOURCE MANAGEMENT

47. Enhancing the efficiency and effectiveness of public resource management is expected to facilitate the achievement of the Government's development objectives to restore fiscal and debt sustainability. The programmatic series supports public sector modernization reforms designed to (i) improve performance management (supported by DPC-1 and DPC-3); (ii) strengthen public procurement systems (supported by DPF-2 and DPC-3); (iii) improve the targeting of social safety-net programs (supported by all three operations in the series); and (iv) strengthen debt-management capacity (supported by the proposed operation). These reforms are intended to advance the Government's broader fiscal consolidation program.

(i) Public Sector Personnel Management for Education

48. The Government's public sector modernization program promotes the sustainable management of personnel expenditures and overall public sector efficiency. The program calls for: (i) a reduction in the share of personnel costs to GDP to less than 10 percent, and (ii) improvements in performance management. In the previous phases of the program the Government froze public sector salaries from 2013 to 2017 and introduced a staff-attrition program. This enabled the authorities to reassert control over the size of the public sector workforce and reduce the wage bill as a share of public spending. Between December 2014 and June 2015 the public service had shed 287 workers, with a remaining total of 5,879. In 2015 spending on public sector wages, salaries, and pensions fell from 70 percent of total revenue to 48 percent. This DPF series supports the Government's efforts to improve the management of public employees and to introduce formal accountability for results in public administration.

49. The Ministry of Education, Human Resource Development and the Environment (MoE) has the largest number of employees of any public agency, so high priority is placed on facilitating workforce planning, starting with the education sector. Following the introduction of policy-establishing procedures for strategically realigning public employment, which was supported as a prior action under the DPC-1, the MoE has introduced an Education Management Information System (EMIS) to handle human resources (HR) data. In addition, solid progress has been made with computerizing personnel records for teachers and ministry employees, as well as for student enrollment. The system is expected to enable the MoE to optimize the total number and allocation of teachers, both regionally and by school. The EMIS is expected to facilitate workforce planning in the public sector by enabling the MoE to readily access reliable data on public employees, which it could analyze to optimize the total number and allocation of teachers and ministry personnel, both regionally and by school. The launch of the EMIS in September 2016 is a prior action for the proposed DPC-3.

50. The DPF series also supports the Government's efforts to improve its strategic planning capacity and strengthen accountability. During 2014-15 the Government piloted strategic planning techniques in three ministries and the Department of Public Administration (DPA), then scaled them up to include all ministries and departments. These techniques included the development of a three-year corporate plan and an annual action plan. Combined with the recommendations from HR audits in selected ministries,²¹ the action plans support results-based management according to the objectives and expected results set for each ministry. The Cabinet Office is overseeing the introduction of strategic planning, while the DPA is taking the lead on personnel management and the development of job descriptions.

51. In tandem with strategic planning, the authorities are introducing mechanisms to hold public agencies accountable for results. The Cabinet Office is developing a performance framework for all sectors based on the corporate plans described above.²² The 2014 Public Financial Management Act mandated that all ministries, departments, and statutory bodies submit quarterly and annual performance reports. The first quarterly reports were prepared in 2015, and the first annual performance report is expected to be presented to the Parliament in 2016. To strengthen compliance with reporting requirements, a procedure for ministerial reporting to the Prime Minister has been established. Given a weak accountability culture in much of the public sector, these first steps are critical to assert the oversight role of the Cabinet Office.

52. The DPA is leading the Government-wide effort to revise and update job descriptions. The DPA has developed generic job descriptions for key areas of public administration, such as planning and results monitoring, organizational management, and HR. These generic descriptions are expected to be adapted by line ministries and departments; then new descriptions are expected to be prepared for more specific functions and technical areas. The result indicator for this reform area has been revised to reflect the development of new job descriptions, which is being facilitated by the achievement of the prior action for this operation for the MoE (see Annex 6). The MoE is expected to be one of the first public entities to adopt the new job descriptions, and by so doing is expected to be able to strategically reorient employees as needed in order to enhance administrative efficiency and institutional performance. All ministries and departments are expected to use the new descriptions to align job placement, performance monitoring, professional development, and career progression.

DPC-3 Prior Action #6: The Government has, through the Ministry of Education, Human Resource Development and the Environment, established computerized personnel records for teachers and ministry personnel, and has produced a report of personnel records to increase monitoring, reporting and analysis of human resource management, as evidenced by a letter from the Ministry of Finance and Energy.

53. Expected Results. These measures are expected to improve performance management in the MoE, thereby contributing to the strategic orientation of resources in the MoE, one of the largest employers in the public sector, and to enhance the efficiency of HR management by realigning the structure of the MoE with its core functions. The MoE is expected to establish official job descriptions with clearly defined

²¹ With assistance from a World Bank IDF grant (TF#95433), which closed in 2012, the Government conducted HR audits in pilot ministries and departments, including the Ministries of Health, Agriculture, and Legal Affairs, and the Supreme Court Registry. Audit recommendations included strengthening strategic planning, human resources, and performance-management systems.

²² The Cabinet Office is receiving support from an international consultant financed by the Commonwealth Secretariat.

responsibilities for the key task areas of public administration, including planning and monitoring results, administration, and strategic personnel management by 2018.²³

(ii) Public Sector Procurement System

54. Grenada continues to make solid progress in developing the legislative and regulatory aspects of its national public procurement system. Following the passage of the 2014 Public Procurement and Disposal of Public Property Act,²⁴ which aligned Grenada's legal framework for procurement with international best practices, the Government has continued to elaborate the regulations necessary to implement the new law. In June 2015 the Cabinet approved regulations governing: (i) public procurement and the disposal of public property; (ii) the activities of the Review Commission; and (iii) the activities of the Disposal Committee. The first set of regulations underpins the 2014 law by, *inter alia*, setting monetary thresholds for the application of the various procurement methods defined in the law, and providing detailed procedural rules for the operation of the various institutions set up under the law. The Review Commission regulations define the roles and responsibilities of the Commission, as well as procedural rules for the submission and handling of appeals by bidders. The Disposal Committee regulations define the role of the Committee, and procedures for disposing of state-owned assets.

55. The next step is to fully operationalize the law's institutional framework. The Government has already taken the important step of appointing a Chief Procurement Officer in the Ministry of Finance and Energy, and is in the process of staffing the Procurement Unit and other entities. Recommendations for appointments to the Public Procurement Board, the Review Commission, and the Disposal Committee have been submitted to the Cabinet. The appointment of all members to these three important bodies represents a critical step in the operationalization of the new procurement system, and is supported as a prior action under the proposed operation.²⁵ In addition, the Government has implemented a comprehensive series of training events at ministries and other public agencies in order to ensure that staff have the necessary technical skills to properly discharge their functions under the new law. Each of these measures marks an important step in the alignment of the public procurement system with the new 2014 law. Looking ahead, the Government is continuing its efforts to strengthen the underlying regulations associated with the Procurement Law that govern the three entities with support by World Bank technical assistance.

DPC-3 Prior Action #7: The Government, through the Ministry of Finance and Energy, has: (i) appointed the Chief Procurement Officer, and (ii) fully staffed and operationalized (a) the Public Procurement Board, (b) the Public Procurement Review Commission, and (c) the Public Procurement Disposal Committee, as evidenced by the Cabinet Conclusion No. 734 dated May 23, 2016, the MoFE Letter of Appointment for the Disposal Committee dated July 18, 2016, and the MoFE Letter of Appointment for the Chief Procurement Officer dated 20 June, 2016.

²³ The DPA, which is in charge of the planning exercise, has selected itself, as well as the Ministries of Agriculture and Labor, to serve as pilot agencies.

²⁴ The new law expands upon the 2007 Public Procurement and Contract Administration Act. Its purpose is to increase efficiency by centralizing procurement in select government agencies, leveraging economies of scale, reducing transaction costs, and alleviating capacity constraints at the decentralized level. The law also provides for electronic and regional procurement in accordance with Grenada's regional agreements, and includes provisions related to conflicts of interest, debarment, whistle-blower protections, and due process for bidders.

²⁵ The Public Procurement Board is responsible for policy advice and operational oversight, while the Review Commission is tasked with addressing bidder complaints.

56. Expected Results. Increasing the transparency of procurement processes is vital to the Government's procurement reform. The Government is planning to proceed with the launch of a public procurement webpage on its web portal, which will greatly increase the transparency of public procurement operations, while promoting increased competition and lower costs. This is also a critical step toward the achievement of the agreed-upon outcome indicator that all contract awards are expected to be published in conformity with the new procurement law by 2018.

(iii) Public Sector Social Safety-Net Programs

57. Grenada is reforming its social safety-net system in an effort to expand its coverage and enhance its impact on the poorest and most vulnerable households. The Government has adopted a policy framework for strengthening the design and programming of its social safety nets, which was supported as a prior action under DPC-1. The Ministry of Social Development (MoSD) subsequently developed a robust targeting mechanism and established a Beneficiary Management Information System (BMIS) to support the implementation of the SEED program, a conditional cash transfer (CCT) program that constitutes the core of the country's social safety net. A new targeting tool, the Grenadian Living Conditions Indicator (GLCI),²⁶ has been finalized, and the BMIS has been deployed in the MoSD. To facilitate the transition to the use and application of the new targeting instrument, the Government has developed and approved a plan to phase out ineligible beneficiaries from the SEED program, and to ensure that the safety net program's equity objectives are achieved. As part of the Phase-Out (PO) Plan, the authorities have also developed an action plan for managing the attrition of ineligible households and the enrollment of new households.

58. While the Phase-Out (PO) Plan was approved by the Cabinet in August 2015—a measure supported by DPF-2—it came into effect with some delay in 2016, as it needed to be updated. An estimated 1,500 new beneficiaries had been accepted into the SEED program in late-2015, based on the arbitrary assessments of social workers, without applying the new targeting tool. Since extending coverage to the new beneficiaries might have had significant implications for the Government's efforts to improve beneficiary targeting, the plan needed to be updated. Accordingly, the MoSD has agreed that no further beneficiaries are expected to be enrolled until the new targeting tool is in place, and can be applied in order to assess eligibility. The MoSD has revised the beneficiary categories and updated the plan to reflect the new beneficiaries categories in mid-2016. Further, the MoSD has subsequently commenced with phasing out households that have been identified as ineligible and non-vulnerable using the targeting tool. DPC-3 Prior Action 8 has also been modified to reflect the current status of the implementation process (see Annex 5). Substantial progress with implementation of the transitioning out of the ineligible and non-vulnerable households is a prior action for the proposed operation.

59. Implementing the targeting tool and phase-out plan for the SEED program is the first step towards improving the targeting of SEED towards the poorest Grenadians. It is expected that the same platform will in the future also support the implementation of other social programs.²⁷ Ensuring that both SEED beneficiaries and the general public have a basic understanding of the ongoing reform is critical to its success. To this end, the MoSD has already launched various awareness-raising activities. With ongoing support through the World Bank's Safety Nets Advancement Project (SNAP), the MoSD is also expected

²⁶ Over the past two years, the MoSD has been working on the development of a robust targeting mechanism to recertify existing beneficiary households and identify potential new beneficiary households. The targeting instrument, GLCI, has been designed, and is currently being piloted.

²⁷ Over time the Government intends to use the new targeting tool and the BMIS for other safety-net programs, and to facilitate rapid-response emergency interventions to poor and vulnerable households following a disaster.

to undertake a more comprehensive awareness campaign.

DPC-3 Prior Action #8: The Government has, through the Ministry of Social Development (MoSD), institutionalized the implementation of the Phase Out (PO) Plan for the SEED program by notifying all ineligible beneficiary households of their status, and completing the transitioning out of the program for the first two of three groups (at least 70%) of beneficiary households identified in the PO Plan as ineligible and non-vulnerable.

60. Expected Results. By the end of the DPF series, the SEED program is expected to have substantially improved its beneficiary targeting. The share of ineligible SEED program beneficiary households identified in the PO Plan that have been transitioned out of the program is expected to increase from zero percent in 2013 to 95 percent by 2018. Over time, the targeting instrument is expected to be expanded to other social programs. The removal of ineligible beneficiary households is expected to allow the SEED program to increase coverage of the poorest Grenadian households (their share is currently about 65 percent).

(iv) Public Sector Debt Management

61. This DPF series complements the Government's debt-restructuring efforts and supports improvements in debt-management capacity and other measures to promote medium-term debt sustainability (MTDS). Consistent with the 2015 Public Debt Management Act, the MoFE's Debt Management Unit (DMU) developed an MTDS, which was submitted to the Cabinet in October 2015. The DMU subsequently prepared a revised MTDS, to include the progress achieved in the debt-restructuring process as of end-2015. The MTDS is expected to allow the Government to analyze how debt composition affects relative costs and risks by using scenario analysis to achieve a desired composition that captures the Government's tradeoff preferences. The revised MTDS for the 2016-18 period was considered and approved by Cabinet in June 2016. Going forward, it should be aligned with the budget-preparation process in order to clearly signal the country's medium-term debt and fiscal management strategies to markets and creditors.

62. The Government is currently implementing the recommendations of a recent Debt Management and Performance Assessment (DeMPA) in an effort to address identified gaps in the debt-management system. The DMU continues to implement the recommendations of the joint World Bank-ECCB technical assistance mission that developed the DeMPA in July 2015. A statistical bulletin is being prepared for publication as part of the debt-management framework, and will be incorporated into the Debt Sustainability Analysis (DSA), the MTDS, and the debt portfolio review. In addition, an annual borrowing plan consistent with the MTDS is expected to be completed in 2016. The DMU's procedural manual is currently being developed with assistance from the ECCB. The prior action for the proposed operation has been modified to the adoption of the revised MTDS to reflect the current status of the procedural manual, and progress in preparing the revised MTDS (see Annex 5). This modification, however, is not expected to adversely affect the operation's expected results. The DMU plans to carry out a new DeMPA in 2017 to gauge progress on the implementation of reforms.

DPC-3 Prior Action #9: The Government has approved the MTDS for the 2016-2018 period, as evidenced by Cabinet Conclusion No. 935 dated June 27, 2016.

63. Expected Results. By the end of the DPF series these measures are expected to improve the composition of the debt portfolio and contribute to long-term debt sustainability. The Government has already made steady progress in improving its debt profile, and the share of public and publicly

guaranteed debt with a maturity of less than 90 days is expected to fall from 17 percent in 2013 to 10 percent in 2018. As of end-2015, this share had been reduced to 14.4 percent.

PILLAR 3: ENHANCED RESILIENCE AGAINST NATURAL DISASTERS

(i) Physical Planning Regulatory System

64. Grenada is highly vulnerable to a range of natural disasters, and building resilience requires a robust strategy for managing disaster risks.²⁸ The fiscal and physical risk due to uncertainty generated by Grenada's exposure to natural disasters undermines economic stability and slows growth. Between 1992 and 2011 Grenada's annual weather-related shocks were equivalent to 9.5 percent of GDP on average.²⁹ The significant capital expenditures required to repair and rebuild damaged infrastructure have a deeply negative impact on public finances. The Government needs to develop a comprehensive strategy for managing disaster risks, integrating disaster planning into the national investment portfolio, and adopting risk-reduction and risk-financing measures. Properly assessing and mitigating potential risks through the development of emergency response systems, and the adoption of appropriate zoning and engineering requirements is necessary in order to protect the public and limit the impact of natural disasters on economic growth. Some basic financial-protection instruments are already in place, such as the pooled-insurance mechanism offered through the Caribbean Catastrophic Risk Insurance Facility, as well as private insurance coverage for selected public buildings. However, no comprehensive disaster-risk assessment of all public infrastructure has been conducted, and existing financial-protection instruments have not been integrated into a comprehensive strategy.

65. This DPF series supports policy measures designed to strengthen the physical planning regulatory system. The DPC-1 promoted improved building standards, better zoning processes and planning, and the professionalization of engineers and architects by supporting the approval of the Grenada Building Code and Guidelines by the Cabinet, and the passage of the Physical Planning and Development Control Bill by the Parliament in 2014. The DPC-3 has advanced the reforms supported under the DPC-1, and supported the enactment of the approved measures to strengthen the physical planning regulatory system of the construction sector. The authorities have held public consultations regarding the Building Code Act and the revised Physical Planning and Development Control Bill. Once enacted as legislation through Parliament, policies and practices listed in the code and bill will become binding law, which is the prior action for the proposed operation.³⁰ The implementation of these measures is expected to significantly improve the quality of new construction and reduce the risks associated with natural disasters.

66. The status of these reforms is reflected in changes in three indicators. The first is the share of new public, commercial, and residential buildings constructed in safe and regulated areas. This indicator has been dropped, as no building inspection unit has yet been established at the Ministry of Communication, Works, Physical Development, Public Utilities, ICT and Community Development, while delays in obtaining information and the absence of risk zoning would impact the measurement of the indicator. As the Government is still working toward establishment of the inspection unit, it has been agreed that this be the revised result indicator. A second indicator is the share of members of the Grenada Institute of

²⁸ Global Facility for Disaster Reduction and Recovery (GFDRR), Grenada: Country Note, 2010.

²⁹ Global Climate Risk Index, 2013. Germanwatch, November 2012.

<http://germanwatch.org/en/download/7170.pdf>.

³⁰ The Grenada Building Guidelines will be promulgated by the executive branch and do not require parliamentary approval, while the Building Code Act does require approval by Parliament, and speaks to both the building code and guidelines.

Professional Engineers (GIPE) that have been registered as professional engineers in accordance with the 2015 Engineering Act. The target for this indicator has been modified to 40 percent (see Annex 6). The Ministry of Planning is currently appointing the Board of the GIPE. With respect to the indicator related to banking sector resilience, amid delays caused by the resolution of problem banks in the region, limited time has been devoted to developing the comprehensive sectoral strategy or incorporating the findings of the independent valuation of bank assets. Consequently, the adoption of the sectoral strategy was eliminated as a trigger under DPF-2.

DPC-3 Prior Action #10: The Government has, through the Parliament, (i) enacted the Physical Planning and Development Control Bill and (ii) approved the Grenada Building Code and Guidelines.

67. Expected Results. By the end of this DPF series these measures are expected to promote the construction of buildings that are more resilient to natural disasters. To this end, the Government is expected to establish the Building Inspection Unit at the Ministry of Communication, Works, Physical Development, Public Utilities, ICT and Community Development. Additionally, the share of GIPE members registered as professional engineers in accordance with the 2015 Engineering Act is expected to increase from zero in 2013 to 40 percent in 2018.³¹

Analytical Underpinnings

68. The World Bank has engaged in extensive policy dialogue with the Government and completed a number of analytical studies that underpin the reforms supported by this operation. Table 4 presents selected findings from relevant analytical work.

³¹ There are currently about 50 registered engineers in Grenada.

Table 4: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings and Selected Findings
Pillar 1: Improved investment climate and competitiveness	
<i>Tourism Development</i>	World Bank “Logistics Connectivity in the Caribbean: Current Challenges and Future Prospects” (2012); OECS-World Bank, “Improving the OECS’s Regional Competitiveness through Tourism: the importance of a regional approach and the means to implement it”, Caribbean Growth Forum (August, 2014); Report No. 44060-LAC, OECS, “Increasing Linkages of Tourism with Agriculture, Manufacturing and Service Sectors” (2008). <i>Findings:</i> The Caribbean region still lags behind in developing a comprehensive and effective logistics framework, which has hindered the region's global competitiveness. Additionally, there are clear opportunities to increase links between tourism and the other sectors of the OECS islands.
<i>Agribusiness Development</i>	“Food Safety Standards. Economic and Market Impacts in Developing Countries,” World Bank, Viewpoint Note 341, July 2014; Report No. 31863-LAC, OECS, “Towards a New Agenda for Growth” (2005); Report No. 31725-LAC, “A Time to Choose: Caribbean Development in the 21 st Century” (2005); Caribbean Growth Forum, Grenada Chapter, Investment Climate Working Group (March, 2013). <i>Findings:</i> Reduced protectionism of traditional domestic agriculture in the Caribbean has encouraged the need for diversification into fresh fruits, vegetables, meat, or dairy products for the tourist industry.
<i>Trade Logistics</i>	Report No. 31725-LAC, “A Time to Choose: Caribbean Development in the 21 st Century” (2005). <i>Findings:</i> Addressing problems of high taxes and inefficient customs procedures would help improve the quality of private investment and maintain the high levels of FDI.
<i>Public-Private Partnerships</i>	Report No: ACS7995-LAC Caribbean Infrastructure PPP Roadmap (2014) PPP Policy for Grenada (2014), prepared under a technical mission to Grenada under DPC-1. <i>Findings:</i> There is growing interest in the Caribbean in using PPPs to provide infrastructure, in part driven by a combination of tight fiscal constraints, and growing appreciation of the role of the private sector in delivering public services. Many countries have found that PPPs can help make the best use of public and private sector financial and technical resources to provide improved infrastructure assets and services.
Pillar 2: Improved public resource management	
<i>Public Employment Management</i>	HR audits, World Bank staff analyses, and agreements reached between the Department of Public Administration and World Bank staff; Report No. 31863-LAC, OECS, Towards a New Agenda for Growth (2005). <i>Findings:</i> Making the public sector more cost-effective and delivering services more efficiently would be necessary to reduce crowding out of private sector employment and investment by Government. Improving the quality and effectiveness of human resources would enable diversification into knowledge-based activities including services, and would increase exports, and improve productivity in existing activities.
<i>Procurement</i>	Country Procurement Report on OECS (2003); Policy Note on Project Fiduciary Management in OECS (2007). <i>Findings:</i> Most donor-financed projects are subject to national procurement procedures in addition to the donors' required procedures. Outdated legal frameworks for procurement with low thresholds and restrictive and nontransparent procurement methods often contribute to project implementation delays. Deficiencies also include a lack of procurement planning, inappropriate criteria for evaluating bids and bidder qualifications, and limited capacity for contract administration.
<i>Social Safety Nets</i>	Social Safety Net Assessment (2009); Tailoring Social Protection to Small Island Developing States, Lessons Learned from the Caribbean (2013). <i>Findings:</i> While Caribbean countries have made a significant commitment to addressing the needs of the vulnerable (reflected by social protection spending, numerous safety-net programs, labor market interventions, and insurance schemes), gaps remain, as many vulnerable groups are underserved.
Pillar 3: Enhanced resilience against natural disasters	
<i>Natural Disasters</i>	WPS5429 – Financial protection of the state against natural disasters (Ghesquierre and Mahul, 2010); Global Facility for Disaster Reduction & Recovery (GFDRR), Grenada Country Note (2010); WPS5232 –IMF WP/09/159 – “Macroeconomic Fluctuations in the Caribbean: the Role of Climatic and External Shocks” (Sosa and Cashin, 2009); Global Facility for Disaster Reduction and Recovery (GFDRR) Understanding Risk - the evolution of disaster risk assessment (2014); GFDRR Building regulation for resilience - Managing Risks for Safer Cities (2015). <i>Findings:</i> Building and land use regulation, the most effective tool for reducing disaster and chronic risk in the developed world, needs to be employed in disaster-prone countries, with focused attention on building and land use regulatory capacity of municipalities to ensure positive outcomes.

4.3 LINKS TO THE REGIONAL PARTNERSHIP STRATEGY, OTHER BANK OPERATIONS, AND WORLD BANK STRATEGY

69. This DPF series is envisaged in the OECS Regional Partnership Strategy (RPS) for the Organization of Eastern Caribbean States (OECS), as discussed by the executive directors on November 13, 2014, and is being complemented by other World Bank operations. The DPF series contributes to the following RPS (Report No. 85156-LAC) objectives: (i) improved investment climate; (ii) increased tourism benefits with stronger links to agribusiness; (iii) improved budget management and transparency; (iv) strengthened capacity to manage PPPs; (v) improved targeting and reduced fragmentation of the social protection system; and (vi) increased capacity to manage natural hazards. The RPS is aligned with the Government's objectives, and is designed to provide focused, demand-driven support to advance its development goals. Moreover, the pillars of the DPF series are consistent with the World Bank's own twin goals of ending extreme poverty and sustainably increasing shared prosperity. The reforms to facilitate cross-border trade supported by the series complement the "Trade Logistics in the Caribbean" technical assistance project (Project ID No. 591347), which focuses on harmonizing regulatory, procedural, and operational requirements, and promoting regional integration of border processes and customs regimes.³² The social safety-net component of the series is closely linked to the Safety Nets Advancement Project (SNAP) (P123128), which aims to strengthen the basic architecture of the SEED program and build the MoSD's capacity to implement it. The energy sector reforms supported by the series are aligned with the ECERA project (P101414) through an IDA credit, which includes policy support to create the legislative framework for the establishment of an independent regulatory authority, the PURC. The Grenada DPF series directly complements the ongoing Regional Disaster Vulnerability Reduction Project (RDVRP) (P149259), which aims to mitigate Grenada's physical vulnerability to disasters through risk reduction efforts and climate-change adaptation.

70. Reforms supported under the DPF series are also being complemented by technical assistance supported by other donors, including the Caribbean Development Bank (CDB), and Department for International Development (DfID). Reforms supported under the PPP component of this DPF series are complemented by the Caribbean Regional PPP Support Project (P150569), which is a technical assistance program undertaken in coordination with the CDB and the Inter-American Development Bank. Among other activities, the regional support project is evaluating the prospect of establishing a lasting support mechanism to provide technical and financial resources for preparing and implementing PPP projects. The financial sector reforms supported by the DPF series are complemented by support from the U.K.'s DfID, the Financial Sector Reform and Strengthening (FIRST) Initiative,³³ and the Canadian Department of Foreign Affairs, Trade and Development, which have provided about US\$7 million to the World Bank to support the regional strategy over the past three years. This assistance has focused on completing a comprehensive diagnostic, including an asset-quality review and dynamic modeling, as well as on the drafting of legal reforms and the operationalization of the regional AMC.

³² Countries receiving technical assistance under this project include Jamaica, Grenada, St. Lucia, Dominica, St. Kitts and Nevis, Antigua and Barbuda, Suriname, and Guyana.

³³ This program promotes robust and diverse financial sectors in developing countries by providing rapid, targeted support. It leverages the technical expertise of the World Bank Group and the International Monetary Fund (IMF) to implement technical assistance projects. The World Bank Group manages its work program on behalf of donors.

4.4 CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

Consultations

71. The DPF series supports the Government's reform agenda, which was developed in consultation with a wide range of stakeholders. As with all legislative measures and reforms in Grenada, the Government's program was subject to a thorough consultative process involving the private sector, civil society, and groups likely to be impacted by policy changes. The consultative process is an important institutional feature of Grenada's Government. The Prime Minister chairs a monthly meeting of the Committee of Social Partners, which includes the private sector, labor unions, entrepreneurs, Government officials, churches, and nongovernmental organizations. The Committee discusses issues affecting the economy and assesses possible solutions. When viable, these suggestions are incorporated in policies, laws, and strategies. Other consultative methods include public hearings, *ad-hoc* meetings on specific topics, citizen panels, surveys, Internet forums, and media outlets.

72. The authorities consulted a wide variety of stakeholders on the specific measures supported by this DPF series. For example, the DPF actions related to improving the investment climate and competitiveness are informed by the consultative process launched by the national chapter of the Caribbean Growth Forum, which took place in June 2014. This process included stakeholders from all branches of Government, as well as the private sector and civil society.³⁴

Collaboration with Other Development Partners

73. The content of this DPF series is aligned with the programs of the country's active development partners. Grenada collaborates with several bilateral and multilateral agencies, including the European Union, the Canadian International Development Agency, the United Kingdom's Department for International Development, the U.S. Agency for International Development, the Pan-American Health Organization, and the CDB, which lends Inter-American Development Bank (IDB) funds in addition to its own resources. These agencies and the World Bank are active participants in the Eastern Caribbean Donor Group. The World Bank and the Government work to promote donor coordination and to exploit programmatic synergies. The World Bank and the IMF collaborated closely in the preparation of this operation, and the proposed prior actions complement the policy measures supported by the IMF program. The World Bank has also collaborated with the CDB in defining certain elements of the series.

74. Technical assistance (TA) in various areas has been provided to support the reforms supported by the programmatic series, and is available to support implementation going forward. Ongoing TA and lending programs encompass public accountability mechanisms, capital audits, the public procurement process, investment policy, tourism/agriculture competitiveness, PPPs, the financial sector, debt management, social safety nets, disaster risk management, and the energy sector. A US\$402,000 grant (Trust Fund # 16564) from the World Bank's Institutional Development Fund (IDF) supports the development of accountability mechanisms for capital projects, including oversight by the Public Accounts Committees of Parliament and audits by the Audit Directorates of selected Caribbean countries. This IDF grant was provided to the Caribbean Organization of Supreme Audit Institutions (CAROSAI), and Grenada is one of the program's pilot countries. Meanwhile, the CDB is developing a regional center of excellence in public procurement financed by a US\$320,000 IDF grant. Additional TA has been provided by the IMF in the areas of public financial management, tax reform, and the reform of state-owned enterprises.

³⁴ The concluding recommendations are available online: <http://caribgrowth.competecaribbean.org/>.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACTS

75. The poverty and social impact of the policy measures supported by this DPF series is expected to be positive or neutral, and some reforms are expected to have a direct positive impact on poor and vulnerable households. The most recent Country Poverty Assessment was conducted in 2008, and a lack of updated poverty data limits the quantitative accuracy of impact projections. As a result, a qualitative analysis has been used as the basis for the Poverty and Social Impact Assessment. A more detailed analysis is expected to be carried out if and when new poverty data become available.³⁵ The policy measures supported by the series are designed to mitigate economic vulnerabilities, contribute to poverty reduction, and promote shared prosperity.

76. The policy measures supported under Pillar 1 of the proposed operation are expected to have a positive poverty and social impact. International evidence suggests that the commercialization of state-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. If employment losses result from the commercialization process, severance payments are to be made in accordance with the relevant union agreements.³⁶ A Board of Assessment is appointed to award compensation in each case. The estimated cost of severance payments are to be deposited in advance by the lessee into a Government account. The risk of possible displacement of illegal occupants, i.e., squatters, being displaced through the leasing of these estates is assessed as low. There is no incidence of squatting on the estates, and in the event a person is found as an illegal occupant of the Government lands (Crown lands), then they are provided the opportunity to regularize their tenure, once the land is not identified for national projects, as stipulated in the Crown Lands Act. 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, increasing 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.

77. 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.³⁷ An updated public procurement system is a prerequisite for a well-functioning public sector, and will become increasingly critical in accommodating a rising flow of funds resulting from this DPF series and other donor support operations. Ongoing reforms to Grenada's public procurement system will have a direct positive impact on the fiduciary aspects of World Bank investment operations in Grenada. Modernizing the country's procurement legislation and aligning it with international good practices facilitates the use of national procurement arrangements and competitive bidding. The establishment of strong accountability institutions, such as the Public Procurement Board and the Procurement Review Commission, will

³⁵ The next Country Poverty Assessment is expected to be conducted in 2017-18 under the CDB's Enhanced Country Poverty Assessment Project.

³⁶ Grenada Constitution Order 1973, Land Acquisition Act of 1945, and Land Settlement Act of 1993.

³⁷ The pension system will provide income for retiring public servants.

strengthen fiduciary oversight of the World Bank's investment portfolio. Enhanced debt-management capacity is expected to improve the debt profile, reducing interest payments and easing fiscal pressure on the Government budget. Reforming the social safety-net system will directly contribute to the Government's long-term social agenda. The new targeting tool and the Beneficiary Management Information System (BMIS) will tighten the SEED program's focus on poor and vulnerable households, and facilitate improvements in the implementation of other social programs. The application of the Grenadian Living Conditions Indicator (GLCI) will contribute to the Government's equity objectives by more accurately identifying poor households, many of which are not currently receiving social support.

78. The implementation of the phase-out plan for ineligible SEED beneficiaries will allow resulting available program resources to be redirected to eligible beneficiaries, and therewith improve targeting.

More comprehensive and accurate household poverty data will allow policy makers to better analyze the impact of programs, including any possible gender implications.³⁸ The Government has prepared a Gender Equality Policy and Action Plan based on the Grenada Country Gender Assessment,³⁹ which will enable policy makers to analyze gender dynamics and mainstream gender issues in national economic, social, and governance policies.

79. 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. While building code compliance may add to initial construction costs, the reduction in loss of life and property in future hazardous events will more than compensate for this increase. There is a likelihood that poor households often invest their savings in incremental housing construction. Thus, a single structural failure or natural disaster can destroy not only a building, but also a household's entire savings. Therefore, 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 potential financial losses from disasters. 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.

5.2 ENVIRONMENTAL ASPECTS

80. In line with OP 8.6, the World Bank conducted a policy Strategic Environmental Analysis as part of the preparation of the proposed operation. This analysis considered whether specific country policies supported by the DPC are likely to cause significant effects on Grenada's environment, forests, and natural resources. For those policies deemed to have possible negative effects, the Bank assessed Grenada's systems for mitigating the negative effects and enhancing positive effects. It also assessed if there were significant gaps or shortcomings in these systems.

81. Based on the Bank's assessment, all of the prior actions of the proposed operation will have positive or neutral effects on the environment, except for the first one, which poses uncertain effects. This prior action provides for leasing of Government estates in order to bring mostly idle Government-owned land under commercial management. These estates are already cultivated areas, and the commercialization

³⁸ The 2009 Social Safety Net Assessment identified significant errors of exclusion and indicated that a large share of the target groups for key programs were not covered. Errors of exclusion were especially severe in certain parishes, including St. Patrick's and St. Andrew's.

³⁹ The assessment was prepared with the support of the Caribbean Development Bank (CDB) in 2014, in partnership with the Ministry of Social Development, the private sector, and civil society.

agreements will not extend to protected areas, such as forest reserves or designated watersheds. Possible negative risks include increased generation of solid waste, constrained water availability, and misuse of pesticides. These negative risks are deemed low or unlikely for a number of reasons, including the governing legal framework, such as the Waste Management Act of 2001, that provide for the following: (i) the private firms managing the estates are prohibited from engaging 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; and, (ii) the Government has the right to inspect the estates, and the lessees are required to submit written yearly reports on health, safety, and environmental matters. Additionally, because the GoG has a policy and strategy to reduce solid waste disposal through diversion activities, including reduction, reuse, recycling, composting, and recovery (waste-to-energy), the Bank assesses negative effects stemming from the possible increased generation of solid waste from agribusiness processing plants as unlikely to materialize. More broadly, 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.⁴⁰ Regarding the mitigation measures, the Bank assesses the risk of constrained water availability as low, given that the GoG is carrying out recommendations of the Water Resources Assessment and Management Study.⁴¹ The study will strengthen the Government's water-data collection and management system to support identifying best adaptation options for managing surface water and groundwater demand, supply, and storage, and thereby strengthen its capacity to manage water scarcity risks. Additionally, the Government prepared an Earth System Modeling Framework, which includes pesticide best management practice and integrated pest management guidelines, along with preparation of Pest Management Plans where there are significant pest management issues. The OECS Agricultural Competitiveness Project of the World Bank, which includes Grenada, is supporting these efforts. (See Annex 4).

5.3 PUBLIC FINANCE MANAGEMENT, DISBURSEMENT, AND AUDITING ASPECTS

82. Grenada's Public Financial Management (PFM) systems, which have been strengthened in recent years, are adequate to support the proposed operation. Grenada has made positive strides in improving their PFM systems since the 2010 Public Expenditure and Financial Accountability (PEFA) assessment. A comprehensive Home Grown Reform Program (the Program) was developed after the 2010 PEFA assessment, and is progressively being implemented. Fundamental to this Program was the enactment of new acts, regulations, and orders in 2015 (the PFM Act, PFM Regulation, PFM Statutory Rules and Order, the Fiscal Responsibility Bill, Public Procurement and Disposal of Public Property Regulations, the Public Debt Management Act, and Tax Administration Acts) to support the ongoing PFM reforms. These acts and regulations were designed to ensure the implementation of medium-term, results-oriented, budget planning and preparation processes, and to strengthen the authorities' ability to establish, and manage within, multi-year fiscal targets.

83. The latest 2015 PEFA assessment concluded that PFM in Grenada has improved, and recommends a continuation of ongoing efforts to strengthen PFM in Grenada. The GoG has developed a time-bound PFM Action Plan (2016-2018) to address the weaknesses noted in the 2015 PEFA. Formal Cabinet approval

⁴⁰ Relevant legislation includes the Physical Planning and Development Control Act No 25 of 2012, the Public Health Act of 1958, the Litter Abatement Act of 1973, the Waste Management Act of 2001, the 1986 Fisheries Act, and the 1990 National Parks and Protected Areas Act.

⁴¹ This study is the technical assistance component of the Pilot Programme for Climate Resilience (PPCR), supported by the World Bank (CIF 2011).

of the PFM Action Plan is being sought to strengthen its implementation mandate. The PFM Action Plan focuses on specific actions to improve PFM performance in the seven pillar areas of the PEFA: (i) Credibility of Fiscal Strategy and Budget, (ii) Comprehensiveness and Transparency, (iii) Asset and Liability Management, (iv) Policy-Based Planning and Budgeting, (v) Predictability and Control in Budget Execution, (vi) Accounting, Recording, and Reporting, and (vii) External Scrutiny and Audit. Though there is still much work to be done on the PFM Action Plan, some PFM actions have already been implemented by the GoG. For instance, the new Government Finance Statistics Manual (GFSM) 2014 chart of accounts was implemented for the 2016 budget, to support the proper classification of recurrent and capital spending. Government budgets have been published and are available on the GoG website.

84. Grenada has an adequate external scrutiny and audit mechanism; however, it needs improvement in some areas. The areas of external audit, coverage, auditing standards, and timeliness of audits of central Government entities are broadly appropriate. The Director of Audit (DoA) carries out annual audits of the Government's statements of account (SOA), but audit reports are not issued in a timely fashion. The GoG is working hard to improve the timeliness of producing its SOA in order to enable the DoA to carry out annual audits. The most recent audited annual SOA is for the financial year ended December 31, 2012. The GoG has only recently finalized its SOAs for the financial years 2014 and 2013, and has submitted them to the DoA for audit. To ensure accountability and promote positive change in PFM in response to external audit findings, timeliness and the issuance of recommendations and follow-up on implementation should be strengthened. Finally, the Public Accounts Committee was reconvened in 2014 and has commenced examination of the SOAs. However, their tasks are made difficult given the outdated SOAs provided to them.

85. As a member of the Eastern Caribbean Currency Union (ECCU), Grenada uses the East Caribbean dollar (EC\$) as its national currency. The currency is managed by the Eastern Caribbean Central Bank (ECCB), which also holds the foreign-exchange reserves of its member states. The ECCB operates a currency board that maintains 100 percent foreign-exchange backing for all issued currency. In April 2016, the IMF completed a Safeguards Assessment of the ECCB that did not identify any significant safeguards risks. The ECCB has well-established procedures to ensure the integrity of its operations. It also has a well-functioning internal audit department in place, and its accounts are audited by an independent external auditor. The ECCB Board of Directors has an audit sub-committee, which provides additional oversight.

86. Disbursement and Auditing Arrangements. The proposed credit will follow the World Bank's standard disbursement procedures for development policy support for disbursement and auditing arrangements. The proceeds of the credit will be disbursed against satisfactory implementation of the program (specified prior actions achieved) and maintenance of an adequate macroeconomic policy framework. The World Bank will disburse the credit proceeds, denominated in U.S. dollars, into the Government's foreign exchange account at the ECCB: this account forms part of the country's foreign exchange reserves at the ECCB. The ECCB will then immediately ensure that, upon deposit in said account, an equivalent amount will be credited into the Government's account, which will become available to finance budgeted expenditures. Within 30 days of the funds transfer, the GoG, through its Ministry of Finance and Energy (MoFE), will provide the World Bank with written confirmation of the amount deposited into the foreign currency account at the ECCB, and that the equivalent amount has been credited in the Government's accounting system, to an account that finances budget expenditures. The ECCB financial management risk is assessed as moderate and no specific audit of the deposit of the credit proceeds will be required.

5.4 MONITORING, EVALUATION, AND ACCOUNTABILITY

87. The monitoring, evaluation, and results framework is being supported by the Ministry of Finance and Energy (MoFE), which is responsible for coordinating actions by other relevant ministries and agencies for the programmatic series. A number of other agencies are involved in implementing the reform program supported by this DPF series, including the Ministry of Social Development (MoSD), the Ministry of Agriculture, Forestry and Fisheries (MoAFF), the Ministry of Tourism, Civil Aviation, Culture and Cooperatives (MoTCACC), the Department of Public Administration (DPA), and the Ministry of Works (MoW). The World Bank has discussed the importance of developing a monitoring and evaluation process with the relevant institutions to ensure adequate feedback to policy makers. Monitoring and evaluation capacity is traditionally weak in Grenada, and the Government recognizes the need to strengthen these mechanisms. The results framework agreed to by the Government and the World Bank is presented in Annex 1. It includes indicators to be assessed at the end of the DPF series in 2018. These indicators represent agreed-upon benchmarks for evaluating the program supported by this DPF series. The World Bank will maintain an ongoing dialogue with counterparts in the MoFE regarding the monitoring and evaluation of reforms supported by the DPC series.

88. Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche-release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaints to the World Bank's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention and World Bank management has been given an opportunity to respond. For information on how to submit complaints to the GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND RISK MITIGATION

89. There are moderate risks to the achievement of the objectives of this DPC operation. While most of the risks are rated as moderate, there are concerns in some areas, in particular, institutional-capacity risks, and to a lesser extent macroeconomic risks, and environmental risks (Table 5).

90. While Grenada's macroeconomic outlook is generally positive, and the Government has adopted strong mitigation measures, downside risks remain, and the macroeconomic risk rating for this operation is moderate. Exogenous macroeconomic risks to the outcomes of the operation are tied to Grenada's small economy, which is vulnerable to shifts in external demand, given the lack of diversification. Worsening global economic conditions, or a faltering recovery in the United States, could negatively affect tourism exports, remittances, and foreign direct investment (FDI) inflows, potentially slowing economic growth and causing the external accounts to deteriorate, which could disrupt achievement of the proposed operations' results through a potential deterioration in Government finances. Similarly, the continued appreciation of the U.S. dollar, due to the further tightening of U.S. monetary policy, or the regional outbreak of the Zika virus, could erode competitiveness and reduce tourism arrivals, respectively, and widen the current account deficit and impact growth outturns. A significant delay in completing the ongoing debt-restructuring process could undermine fiscal and debt

sustainability. These risks, however, are being mitigated by the Government's reforms aimed at supporting strong private sector growth, and by the broad political support and strong consensus in favor of its reform agenda. In particular, these reforms include the June 2015 Fiscal Responsibility Act (FRA), which establishes a fiscal rules-based policy framework to restore and maintain debt sustainability, and is expected to enhance macroeconomic management going forward. The framework covers the central Government, statutory bodies, and state-owned enterprises (SOEs), and to ensure adherence to the rules, the FRA restricts expenditures on the wage bill. Ongoing structural reforms will further mitigate these risks.

91. Implementation-capacity risks are substantial, given the small pool of technical experts in the country. While Grenada has made improvements in institutional and technical capacity, some concerns remain. In particular, a limited number of technical experts in core ministries, and scarce fiscal resources remain a key concern, and may pose important risks to implementing the reforms supported by the DPF series. Grenada's development partners have been attempting to focus their support on a narrow range of policy areas in order to minimize the administrative burden and to provide effective technical assistance to support capacity building. In this context, the Government has carefully prioritized a limited number of critical reform measures. Implementation risks related to procurement reform, in particular, are being mitigated by careful sequencing of reforms, and a gradual approach to implementation, as well as World Bank technical assistance.

92. While Grenada is highly vulnerable to natural disasters that could affect multiple dimensions of the proposed operation, and delay achievement of associated results, given a number of mitigation efforts the environmental risks are rated as moderate. As a small-island developing country, Grenada is inherently vulnerable to climate change and natural disasters, the latter of which are both more frequent and more damaging than in other countries. A study shows an annual average loss from all natural disasters of 10.8 percent of the country's GDP for the period 1994-2013.⁴² The high costs of disaster mitigation and response could strain the public resource envelope, which could delay the country's progress toward renewed fiscal sustainability and divert scarce financing away from long-term development objectives, or increasing indebtedness. Natural disasters could also seriously impact the DPF series results by disrupting operation-specific economic sectors, such as agriculture and tourism. To mitigate against these risks, the government is strengthening its capacity to manage disasters and evaluate environmental risks in collaboration with its development partners. In particular, this operation, complemented by support provided under the World Bank-financed Regional Disaster Vulnerability Reduction Project (RDVRP) and ongoing UN programs,⁴³ will help strengthen the Government's capacity to manage disasters and mitigate environmental risks. In contrast, there is a low likelihood that the achievement of the operation's outcomes would be affected by exogenous social risk factors, and indeed the policy measures supported under the operation are expected to have positive poverty and social impacts. For example, through greater efficiency in public resource management leading to improved public service delivery. Additionally, reforming the social safety net system is expected to directly contribute to the government's long-term social agenda. While social risks are assessed as low, given high risks associated with the environment, the overall environmental and social risks are deemed to be moderate.

⁴² Kreft, S. et al, "Global Climate Risk Index 2015", Germanwatch, November 2014.

⁴³ In collaboration with various development partners the Food and Agriculture Organization (FAO) is providing technical assistance in the development of disaster-risk management plans for agricultural sectors throughout the Caribbean, including in Grenada.

Table 5: Systematic Operations Risk-Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholder	Low
9. Other	Not applicable
OVERALL	Moderate

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Triggers			Results (June 2018)
Prior Actions under DPC-1	Prior Actions for DPF-2	Prior Actions for DPC-3	
Pillar 1: Improved investment climate and competitiveness			
Prior action #1: Parliament has enacted the Grenada Tourism Authority Act, establishing the institutional framework for governance of the tourism sector.	Prior action #1: The Grenada Tourism Authority (GTA) has instituted a new regulatory framework for the tourism sector in accordance with the 2013 Tourism Authority Act.		Indicator: Tourist receipts. <i>Baseline 2013 = EC\$307 million; Target 2018 = EC\$332 million (8 percent increase)</i>
Prior action #2: The Government has (i) appointed a committee for the commercialization of selected Government-owned estates and (ii) approved the criteria for the commercialization of such estates.	Prior action #2: The Government has commenced commercialization of selected Government-owned estates by entering into two commercial agreements with private entities for commercial use in the agribusiness sector.	Prior action #1: The Government has advanced the commercialization of selected state-owned estates by signing two agribusiness lease agreements with separate private entities for a duration of at least 20 years.	Indicator: Leasing out of Government-owned agricultural estates to private entities. <i>Baseline 2013 = none; Target 2018 = at least 3 Government-owned estates leased</i> Indicator: Area cultivated at leased Government-owned agricultural estates. <i>Baseline 2013 = zero acres (out of a total of 379 cultivatable acres of Government-owned land selected for public-private partnerships (PPPs); Target 2018 = 186 acres</i>
[no prior action]	Prior action #3: The Government has approved a strategic plan to strengthen tourism and agribusiness linkages by transforming the Marketing and National Importing Board (MNIB) into a service provider of information	Prior action #2: The Government has, through the Parliament, enacted the Food Safety Act, which establishes standards for food quality and prevention of food safety risks.	Indicator: Number of farmers served by MNIB. <i>Baseline 2013 = 1,623; Target 2018 = at least 2,500.</i> Indicator: Percentage of licensed food premises and street food premises in Grenada that have been inspected by the Food Safety Authority under the Food Safety Act. <i>2013 Baseline = zero;</i>

	on markets, product quality, and standards.		<i>2018 Target 2018 = 75 percent (share of food premises and street food premises licensed by the Food Safety Authority)</i>
Prior action #3: The Government's Customs Bill has been submitted to Parliament on May 9, 2014, establishing (i) procedures for electronic processing of trade transactions, (ii) procedures for record keeping and audit powers by the Customs and Excise Division of the Ministry of Finance and Energy, and (iii) accountability procedures and delegation of authority in decision-making.		Prior action #3: The Government has, through the Ministry of Finance and Energy (MoFE), connected the Bureau of Standards (MoFE) to ASYCUDA World to process trade transactions; and provided the Inland Revenue Department (MoFE) and the Central Office of Statistics (MoFE) with statistical data access to ASYCUDA World.	Indicator: The number of border control agencies processing trade transactions through ASYCUDA World. <i>Baseline 2013 = 2 agencies; Target 2018 = at least 6 agencies</i> Indicator: Number of agencies sharing trade and taxation related information through ASYCUDA World. <i>Baseline 2013 = zero; Target 2018 = at least 2</i>
[no prior action]	Prior action #4: The Government has approved a policy framework with clear guiding principles and processes for identifying PPPs, and set out institutional responsibilities for developing a PPP pipeline and implementing PPP projects.	Prior action #4: The Government has established a PPP Unit in the Ministry of Finance and Energy, as evidenced by a Cabinet conclusion.	Indicator: Share of PPP projects under development that conform to the processes and requirements defined in the PPP policy. <i>Baseline 2013 = zero percent; Target 2018 = 100 percent</i>
[no prior action]		Prior action #5: The Government has enacted the Public Utilities Regulatory Commission Act to establish a national independent energy regulator; and has endorsed the Ministry of Finance and Energy's	Indicator: Share of renewable energy in total installed power-generation capacity. <i>Baseline 2013 = 1 percent; Target 2018 = 3 percent</i> Indicator: The Public Utilities Regulatory Commission is fully

		participation in the regional energy advisory body, the Eastern Caribbean Energy Regulatory Agency (ECERA).	operational. <i>2013 Baseline = no; 2018 target = yes, with evidence from the Government that PURC has (i) issued a three-year business plan, (ii) a dedicated place of work, (iii) hired staff, and (iv) an operating budget</i>
Pillar 2: Supporting Improved Public Resource Management			
Prior action #4: The Government has endorsed a public sector modernization policy, establishing procedures for: (i) strategically realigning public employment; (ii) strengthening management of selected agencies; and (iii) developing a results focus in planning and budgeting.		Prior action #6: The Government has, through the Ministry of Education, Human Resource Development and the Environment, established computerized personnel records for teachers and ministry personnel, and has produced a report of personnel records to increase monitoring, reporting and analysis of human resource management, as evidenced by a letter from the Ministry of Finance and Energy.	Indicator: Development of job descriptions. <i>Baseline 2013 = none; Target 2018 = The Ministry of Education, Human Resource Development and the Environment has formally established job descriptions with clearly defined competencies and responsibilities for the key task areas of public administration, including planning, monitoring results, and strategic personnel management</i>
[no prior action]	Prior action #5: Parliament has approved a new public procurement law, the Public Procurement and Disposal of Public Property Act of 2014, consistent with international best practices.	Prior action #7: The Government, through the Ministry of Finance and Energy, has: (i) appointed the Chief Procurement Officer, and (ii) fully staffed and operationalized (a) the Public Procurement Board, (b) the Public Procurement Review Commission, and (c) the Public Procurement Disposal Committee, as evidenced by the	Indicator: Publication of contract awards. <i>Baseline 2013 = zero; Target 2018 = All contract awards are published, in conformity with the new procurement law</i>

		Cabinet Conclusion No. 734 dated May 23, 2016, the MoFE Letter of Appointment for the Disposal Committee dated July 18, 2016, and the MoFE Letter of Appointment for the Chief Procurement Officer dated 20 June, 2016.	
Prior action #5: The Government has adopted a policy framework for strengthening the design and programming of its social safety nets.	Prior action #6: The Government has approved a phase-out plan to improve the targeting of beneficiaries of the Support for Education, Empowerment, and Development (SEED) program.	Prior action #8: The Government has, through the Ministry of Social Development (MoSD), institutionalized the implementation of the Phase Out (PO) Plan for the SEED program by notifying all ineligible beneficiary households of their status, and completing the transitioning out of the program for the first two of three groups (at least 70%) of beneficiary households identified in the PO Plan as ineligible and non-vulnerable.	Indicator: Share of SEED program beneficiary households identified in the PO Plan as ineligible and non-vulnerable that have been transitioned out of the program. <i>Baseline 2013 = zero; Target 2018 = 95 percent</i>
[no prior action]		Prior action #9: The Government has approved the MTDS for the 2016-2018 period, as evidenced by Cabinet Conclusion No. 935 dated June 27, 2016.	Indicator: Share of public and publicly guaranteed debt with a maturity of less than 90 days. <i>Baseline 2013 = 17 percent; Target 2018 = 10 percent</i>
Pillar 3: Enhancing resilience against natural disasters			
Prior action #6: The Government has approved (i) the Grenada Building Code		Prior action #10: The Government has, through the Parliament, (i) enacted the	Indicator: Share of membership of the Grenada Institute of Professional Engineers (GIPE) registered in

<p>and the Grenada Building Guidelines; and (ii) the Physical Planning and Development Control Bill, 2014, for submission to Parliament.</p> <p>Prior action #7: The Government's Architects (Registration) Bill and the Engineers Registration Bill, establishing procedures for the professional practice of architects and engineers in the Government's territory have been submitted to Parliament.</p>		<p>Physical Planning and Development Control Bill and (ii) approved the Grenada Building Code and Guidelines.</p>	<p>accordance with the 2015 Engineering Act. <i>Baseline 2015 = zero percent; Target 2018 = 40 percent</i></p> <p>Indicator: Establishment of the Building Inspection Unit at the Ministry of Communication, Works, Physical Development, Public Utilities, ICT and Community Development. <i>Baseline 2013 = none; Target 2018 = unit established</i></p>
<p>[no prior action]</p>	<p>Prior action #7: Parliament has approved a new Banking Act to strengthen bank regulation, supervision, and resolution.</p>		<p>Indicator: Provisions for loan losses to nonperforming loans (NPLs) for the banking sector. <i>Baseline 2013 = 30 percent of NPLs; Target 2018 = 60 percent of NPLs</i></p>

ANNEX 2: LETTER OF DEVELOPMENT POLICY - DRAFT

Letter of Development Policy
Third Programmatic Resilience-Building Development Policy
Credit

Ref. No. MF 75-09
In replying the above
Number and date of this
letter should be quoted.



MINISTRY OF FINANCE
AND ENERGY
FINANCIAL COMPLEX,
THE CARENAGE,
ST. GEORGE'S,
GRENADA, W.I.

Letter of Development Policy
Third Programmatic Resilience Building Development Policy
Credit and Loan

November 10th, 2016

Dr. Jim Yong Kim

President

World Bank

Washington DC 20433

UNITED STATES OF AMERICA

Dear Dr. Kim

The Government of Grenada is in the final year of implementation of its Home Grown Structural Adjustment Programme supported by the World Bank and other partners.

We have continued to make significant progress towards achieving our objectives of restoring macroeconomic stability in the short term and promoting strong sustainable and inclusive growth in the medium to long term. Specifically, we are well on our way to restoring fiscal and debt sustainability; building a durable and fortified fiscal framework, including through the passage of fiscal responsibility legislation; strengthening the foundations of the economy to support stronger growth and safeguarding financial safety & stability.

These achievements would not have been possible without the generous financial and technical support from the World Bank since the commencement of the Programme in 2014.

We are continuing to implement our Growth and Poverty Reduction Strategy 2014 - 2018 while at the same time working towards the development of a long term development strategy - the National Sustainable Development Plan (NSDP) 2030.

The Government of Grenada would like to sincerely thank the World Bank for the support thus far and look forward to even stronger collaboration going forward in the development of our people.

Background

Successive macroeconomic shocks to our economy culminated in a full blown crisis in 2012-2013 as evidenced by years of little or no growth, high unemployment, huge fiscal imbalances and spiraling debt and debt service payments.

In the five year preceding the Home Grown Structural Adjustment Programme, the economy declined on average by 1.3%. Grenada's economy was among the hardest-hit by the global financial crisis, with Gross Domestic Product (GDP) contracting by 6.7 percent in 2009 with further contractions for most of the period 2010 - 2013.

In 2013, the unemployment rate stood at 32.2%. Unemployment among the younger persons was particularly acute, with more than half of our youth of working age unemployed.

Our fiscal and debt situation were unsustainable. Grenada's debt to GDP ratio was among the highest in the Eastern Caribbean Currency Union (ECCU) at 110% of GDP. Interest payments accounted for 3.5% of GDP and around 17% of current revenues. Government also faced payment difficulties and accumulated significant arrears.

When my Government took Office in February 2013, decisive response was needed to tackle the challenges faced by the economy.

We embarked on an ambitious reform programme aimed at supporting sustained and inclusive growth and achieving fiscal and debt sustainability.

The main pillars of the Programme could be broadly categorized as follows:

- Structural reforms to promote a business friendly environment, growth and job creation
- Ambitious fiscal adjustment supported by a new improved fiscal framework, including the enactment of fiscal rules and better social safety net targeting.
- Debt restructuring
- Building resilience to natural disasters and financial system safety and stability.

(1) Improved Conditions for Private Investment

Since 2014, the Government has taken deliberate steps to support competitiveness, growth and employment creation.

We continue to put systems in place to ensure the successful implementation of the Growth and Poverty Reduction Strategy (GPRS) 2014 – 2018. The GPRS will be the cornerstone for the NSDP 2030 which is expected to be finalized by the third quarter of next year.

Actions taken to improve the business environment and enhance Grenada's investment readiness include the enactment of a new Investment Promotion Act and reforms at the investment promotion agency (the Grenada Industrial Development Corporation) including the tabling of a new Act in Parliament and the introduction of a rules based incentives regime to support investment in priority sectors such as tourism, agriculture and energy. A new Labour Code was also introduced in Parliament and will be enacted into law shortly to support labour mobility and remove existing bottlenecks to employment.

Other important reforms include:

- The completion of the commercialization of the three Government run estates through long term lease arrangements;
- The enactment of a new legal framework to govern the electricity sector to achieve lower prices and facilitate the transition toward renewable energy;
- The establishment of a framework to facilitate PPP development to support infrastructure development and reduce the risk to public sector;

- The continued implementation of the Marketing and National Importing Board (MNIB) Strategic Plan 2020 to drive exports and value added production
- The institutional strengthening of the Grenada Bureau of Standards to improve quality standards in products and services.
- The enactment and implementation of a Food Safety Act
- The enactment of a Bankruptcy and Insolvency Act.

While these reforms have started to bear fruits, we expect to see their full impact on growth and employment in the coming years.

(2) Enhancing public resource management

To correct the fiscal imbalances existing at the time, Government introduced a number of fiscal measures to stabilize the fiscal position and to put Government finances on a firm track going forward.

Two key elements of Bank's support in this regard include the better targeting of social safety net spending and the reform of statutory bodies and state owned enterprises to improve financial and operational performance. With respect to the former, the proxy means testing of all beneficiaries is perhaps the single most important achievement in this reform. This will play an important role in improving the efficiency of spending while at the same time ensuring that Government is able to satisfy the unmet needs of the poor and vulnerable.

Furthermore, the Government put in place a new fiscal framework aimed at building a robust and durable architecture for public finance management. These include the passage of a new Public Finance Management Legislation, a new Procurement Law, Fiscal Responsibility Legislation and a new Public Debt Management Act, among others.

The Government of Grenada remains fully committed to modernizing its public procurement systems and has recently appointed a Chief Procurement Officer, operationalized the Public Procurement Board, the Public Procurement Review Commission, and the Public Procurement Disposal Committee. These actions build upon the reforms the Government introduced earlier,

with the passage of the 2014 Public Procurement and Disposal of Public Property Act, which aligned Grenada's legal framework for procurement with international best practices. The Government continued its reform efforts for the sector in 2015 with the elaboration of regulations necessary to implement the new Public Procurement Act. In an effort to continue making progress on this important reform area, the Government of Grenada is committed to addressing any inconsistencies in the regulations associated with the 2014 Public Procurement Act by June 2017.

(3) Debt Restructuring

In March of 2013, we announced a comprehensive and collaborative restructuring of our debts. This was seen as a critical pillar in our efforts to restore fiscal and debt sustainability.

(4) Enhancing Preparedness Against Natural Disasters and Stability of the Financial Sector

Building resilience to natural disasters

With support from the World Bank, Grenada is implementing a Regional Disaster and Vulnerability Reduction Programme aimed at improving resilience through critical infrastructure and enhanced disaster management capacity.

Further, we have enacted (i) the Grenada Building Code and (ii) the Physical Planning and Development Control Legislation to ensure greater resilience to natural disasters. We continue to participate in regional insurance facility (CCRIF) to support immediate cash flow requirement in the immediate aftermath of a disaster.

Financial Sector Stability

Our Government is committed to the stability of the financial system, and supports ongoing regional efforts to strengthen financial regulation and supervision. In this regard, a new Banking law was approved in Parliament in April 2015, and amendments to the ECCB and Asset Management Company legislation will soon be passed. An Asset Quality Review of all banks was completed by end April 2015. This has been followed by a Dynamic Modeling exercise to ascertain capitalization needs and guide the bank resolution strategy in the Eastern Caribbean

Currency Union. The ECCB has undertaken an assessment of the debt restructuring on the banks and we are guided by these findings.

Key results and Challenges

Thanks to the sacrifice and resilience of our people and the support of the World Bank and other partners, we have been able to weather the storm and improve the lives of ordinary Grenadians.

Our economy has rebounded strongly since 2014 and is on track to record positive growth for the third consecutive year under the Programme averaging in excess of 5%. The main drivers of growth have been tourism, agriculture, education and more recently, construction. Over the medium term, growth is expected to average 3% per annum. Government will continue to undertake reforms to boost growth and competitiveness.

Despite some layoffs in some sectors including the banking sector, more jobs were created during the period than were lost. Unemployment fell from 32.2% in 2013 to 29% at the end of 2015. Youth unemployment fell by 11% from 53% to 42% during the same period. I wish to sincerely thank the World Bank for its support in validating the Labour Force results and the capacity building support in this regard. A new Labour Force Survey is underway and the preliminary results should be available before the end of this year. Notwithstanding this, unemployment is unacceptably high and remains a key challenge for Government going forward.

Government's fiscal situation has shown significant improvement although challenges remain. The first primary balance in more than a decade was recorded in 2015. This year, we are on track to record a primary surplus of at least 3.5 % of GDP. Interest payments as a percentage of GDP and Government revenues will fall from 3.5% of GDP and 17% in 2013 to under 3.0% and 14% respectively by the end of this year. Our Debt to GDP ratio has fallen from its high of over 100% of GDP to 94% by the end of 2015. This ratio is expected to fall further to 85% by the end

of this year. We remain committed to maintaining fiscal discipline while at the same time undertaking critical investments to support strong, sustainable and job rich growth.

Government's Commitment

The Government of Grenada continues to work steadfastly to implement the Homegrown Programme. We have successfully completed four of the six reviews and the results are very positive. We remain committed to successfully completing the Programme

Once again, Grenada sincerely appreciates the partnership of the World Bank Group in the growth and development of our people and look forward to our continued collaboration.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Keith C. Mitchell', is written over a horizontal dotted line.

Dr. The Right Honourable Keith C. Mitchell
PRIME MINISTER AND MINISTER OF FINANCE

ANNEX 3: FUND RELATIONS ANNEX

Grenada—Assessment Letter for the World Bank October 25, 2016

1. **Last Article IV consultation.**¹ The most recent Article IV consultation was concluded in May 2016, with Directors commending important progress made by the Grenadian authorities in reviving economic growth, strengthening the external position, and moving toward debt sustainability. Going forward, Directors emphasized the importance of lowering unemployment, promoting broad-based growth, and maintaining fiscal discipline in the context of the strengthened fiscal policy framework against rising spending pressures. Directors also stressed the need to protect the most vulnerable and improve the targeting and effectiveness of social spending.
2. **Fund engagement.** On June 26, 2014, the Executive Board of the International Monetary Fund approved a three-year SDR 14.04 million (about US\$21.7 million, 120 percent of quota) arrangement under the Extended Credit Facility (ECF) for Grenada. The main objectives of the authorities' home grown economic program are to improve competitiveness and medium-term growth prospects, restore fiscal and debt sustainability and strengthen financial stability. Most recently, the fourth review of the ECF-supported program was completed in May 2016, which enabled the disbursement of the equivalent of SDR 2 million (about US\$2.8 million), bringing total resources made available to Grenada under the ECF arrangement to the equivalent of SDR 10.04 million (about US\$14.1 million). The Executive Board discussion for the fifth review of the ECF-supported program is tentatively scheduled for December 14, 2016.
3. **Recent developments.** Since the 2016 Article IV Consultation, Grenada has continued to build on the sound foundation developed under the ECF-supported program. After two years of strong growth, real GDP is expected to moderate to a more sustainable growth rate of 3 percent in 2016 and 2.7 percent in 2017. Activity this year has been driven by tourism and construction (in part supported by investments under the Citizens-by-Investment program), and some pick up in domestic demand, while agriculture output is experiencing the negative impact of drought effects. CPI inflation is picking up and projected at 2 percent in 2016 after deflation during 2013–15. The external current account deficit is forecast to narrow to 14.4 percent of GDP in 2016 due to lower oil prices and a continued recovery in tourism. Grenada's continued efforts toward completing a comprehensive debt restructuring, supported by stronger than expected economic recovery and fiscal consolidation, helped to lower public debt from a peak of 108.1 percent of GDP in 2013 to 84.3 percent of GDP at end-June 2016. The strong fiscal performance has also contributed to an increase in government deposits to 4.9 percent of GDP at end-August 2016.²
4. **Risks to macroeconomic outlook.** Downside risks have increased slightly since the 2016 Article IV Consultation. A further depreciation of the U.K. pound or slower growth in the U.K. related to "Brexit" could affect tourist arrivals in Grenada, of which British

¹ <http://www.imf.org/external/np/sec/pr/2016/pr16233.htm>

² About half of these deposits represents disbursements of grants earmarked for specific capital projects or is set aside for debt service due in November.

visitors account for one-fifth. Fiscal risks caused by spending pressures could arise from ongoing wage negotiations and the approach of the election cycle. On a positive note, neither the spread of the Zika virus nor the opening of U.S.-Cuba tourism has had any material impact on tourist arrivals yet.

5. Policy implementation under the Fifth Review of the ECF-supported program.

- **Performance.** Performance under the program remains satisfactory. Staff assessed that the Grenadian authorities met all performance criteria (PC) at end-June 2016. The authorities met all of the program indicative targets, including for the first time the floor on social spending under the World Bank-supported SEED program. The government achieved a primary surplus in the first half of 2016 of 3.0 percent of GDP compared with the target of 3.5 percent of GDP by end-2016 stipulated in the Fiscal Responsibility Act (FRA). The structural reform agenda is currently focused on strengthening public wage bill management and reforms to improve labor relations and support investment promotion.
- **Structural reforms.** There are some delays in implementing three structural benchmarks under the Fifth Review related to a revised labor code, a new Act for the Grenada Industrial Development Corporation, and a plan to manage the public sector wage bill. These were due by end-September, 2016. Significant progress is expected before concluding the Fifth Review.
- **Policy priorities.**
 - Policy resolve will need to safeguard fiscal progress to date and achieve the country's medium term debt reduction goals, and to complete the ECF-supported program by mid-2017. The authorities agreed with IMF staff that the 2017 budget should adhere to the parameters set in the FRA, including the ceiling on the public wage bill. In support of this goal, the authorities are discussing a strategy to ensure sustainable management of the public wage expenditure, including by keeping the public wage bill within the limit set by law.
 - In addition, as government deposits are accumulating, it will be important to more actively and effectively manage liabilities with assets and to renew efforts to regularize the remaining debts and arrears and complete the country's comprehensive debt restructuring.
 - With unemployment still high, particularly among the youth, reforms are needed to address underlying structural unemployment by improving skills, addressing skills mismatch, and strengthening job search services.

Table 1. Grenada: Selected Economic and Financial Indicators, 2009–21

Rank in UNDP Human Development Index out of 179 countries (2012)	63	Infant mortality rate per 1000 births (2011)		10.3									
Life expectancy at birth in years (2011)	76	Adult literacy rate in percent (2004)		4									
GDP per capita in US\$ (2011)	9,185	Poverty headcount index (2008)		38									
Population in millions (2011)	0.11	Unemployment rate (2014)		29.5									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
								4th review					
								1/	Projections				
(Annual percentage change, unless otherwise specified)													
Output and prices													
Real GDP	-6.6	-0.5	0.8	-1.2	2.4	7.3	6.2	3.0	3.1	2.7	2.7	2.7	2.7
Nominal GDP	-6.6	0.0	1.0	2.7	5.3	8.2	8.0	4.6	4.6	6.0	5.1	5.0	5.0
Consumer prices, end of period	-2.3	4.2	3.5	1.8	-1.2	-0.6	1.0	-0.2	2.1	2.6	2.0	2.0	2.1
Consumer prices, period average	-0.3	3.4	3.0	2.4	0.0	-0.8	-0.6	-0.9	2.0	2.9	2.1	2.0	2.1
Output gap (percent of potential GDP)	-1.8	-3.5	-4.2	-6.9	-6.7	-2.2	1.3	0.5	1.6	1.6	1.5	1.5	1.4
Real effective exchange rate (annual average, depreciation -)	-8.8	1.0	1.1	-1.0	-1.9	-0.3	0.3	—	—	—	—	—	—
(In percent of GDP, unless otherwise specified)													
Central government balances (accrual)													
Revenue	22.8	24.6	23.6	20.8	20.9	24.5	24.8	24.6	25.2	24.7	24.5	24.4	24.3
Taxes	17.5	18.7	18.4	18.0	16.6	18.2	19.3	20.0	20.5	20.0	19.9	19.8	19.8
Non-tax revenue 2/	2.0	1.9	1.8	1.7	2.9	2.2	2.2	1.5	1.7	1.8	1.8	1.8	1.8
Grants	3.3	4.0	3.4	1.1	1.4	4.1	3.3	3.1	3.0	2.9	2.8	2.7	2.6
Expenditure	28.0	28.2	28.8	26.7	28.1	29.2	26.0	24.8	23.5	23.4	22.7	22.6	23.5
Current primary expenditure	18.2	18.8	18.6	18.3	17.8	16.4	14.2	14.9	17.0	17.2	16.7	16.6	16.6
Interest payments	2.2	2.2	2.5	3.4	3.3	3.5	3.4	3.3	3.1	2.8	2.2	2.0	1.8
Capital expenditure	7.6	7.3	7.8	5.0	7.1	9.2	8.4	6.6	3.4	3.3	3.8	3.9	4.1
Primary balance 2/	-3.0	-1.5	-2.7	-2.5	-3.9	-1.1	2.2	3.1	4.8	4.1	4.0	3.8	3.5
Underlying primary balance (excl. one-off rev. and exp.)	—	—	—	—	-4.5	-1.2	1.7	3.5	5.0	4.6	4.0	3.8	3.5
Overall balance	-5.2	-3.6	-5.2	-5.9	-7.3	-4.7	-1.2	-0.2	1.7	1.3	1.8	1.8	1.7
Public debt (incl. guaranteed) 3/	91.1	96.9	100.7	103.3	107.8	101.5	91.6	89.2	84.1	72.7	66.9	62.0	57.3
Domestic	27.2	28.0	31.7	35.8	37.4	34.3	29.3	27.3	24.5	21.1	19.7	18.4	17.5
External	63.9	68.9	69.0	67.6	70.4	67.3	62.3	61.9	59.6	51.7	47.2	43.6	39.9
Money and credit, end of period (annual percent change)													
Broad money (M2)	3.0	1.0	0.7	0.7	4.1	4.1	5.2	4.6	4.7	6.0	5.1	5.0	5.0
Credit to private sector	4.5	5.6	2.2	0.2	-5.7	-5.1	-3.8	0.1	3.3	3.5	5.1	5.0	5.0
Balance of payments													
Current account balance, o/w:	-24.3	-23.7	-23.6	-21.1	-23.2	-16.5	-16.5	-12.1	-14.5	-15.3	-15.7	-16.2	-16.4
Exports of goods and services	25.5	26.6	28.2	28.9	28.5	28.0	27.2	28.8	28.2	27.8	27.9	28.0	28.1
Imports of goods and services	46.8	49.2	50.8	49.5	50.4	43.6	42.0	39.3	40.7	41.9	42.9	43.7	44.4
Capital and financial account balances	34.0	25.2	24.4	17.4	24.3	18.3	18.9	11.3	15.1	13.9	16.9	17.2	17.3
FDI	13.3	7.8	5.5	3.9	13.4	4.4	9.9	6.4	8.3	8.6	8.6	9.1	9.1
Public sector borrowing (identified financing only)	3.4	5.0	0.8	0.4	6.3	4.4	-3.9	-1.1	-2.8	-5.2	-1.2	-1.1	-1.5
Banking system	-0.6	0.7	3.9	2.3	-6.8	-6.8	-7.1	-3.2	-3.1	-1.6	-0.8	-0.8	-0.8
Other (incl. errors and omissions)	17.9	11.6	14.2	10.7	11.3	16.4	20.0	9.1	12.6	12.1	10.2	9.9	10.4
Overall balance	-0.2	-1.2	0.1	-1.0	1.1	4.3	2.4	-0.8	0.5	-1.4	1.2	1.0	0.8
Overall financing	0.2	1.2	-0.1	1.0	-1.1	-4.3	-5.5	-1.8	-1.1	-0.7	-1.2	-1.0	-0.8
Financing gap 4/	—	—	—	—	—	0.0	3.1	2.6	0.5	2.1	0.0	0.0	0.0
External debt (gross)	113.5	123.4	136.3	141.0	144.3	144.4	136.7	136.2	132.5	122.3	116.6	112.0	103.5
Savings-investment balance	-24.3	-23.7	-23.6	-21.1	-23.2	-16.5	-16.5	-12.1	-14.5	-15.3	-15.7	-16.2	-16.4
Savings	-0.4	-1.7	-3.7	-4.7	-3.2	1.8	1.4	4.4	-3.1	-3.7	-3.6	-3.5	-3.3
Investment	23.9	22.0	19.9	16.3	20.0	18.3	18.0	16.4	11.4	11.6	12.1	12.7	12.9
Memorandum items:													
Nominal GDP (EC\$ million)	2,062	2,062	2,102	2,160	2,275	2,461	2,657	2,692.3	2,780	2,947	3,097	3,251	3,434
Net imputed international reserves													
Months of imports of goods and services	3.6	3.1	3.2	2.9	4.1	4.6	5.4	5.4	5.0	4.7	4.6	4.6	4.5
Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2008; World Bank WDI 2007; and Fund staff estimates and projections.													
1/ Program forecast from IMF Country Report No. 16/333.													
2/ Includes 0.7% of GDP CBI-related non-tax revenue in 2015.													
3/ Includes the impact of the in principle debt restructuring agreement reached with the creditor committee for the 2015 bonds.													
4/ To be closed through IMF and other IDIs financing and debt restructuring.													

Source: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2008;

World Bank WDI 2007; and Fund staff estimates and projections.

1/ Program forecast from IMF Country Report No. 16/333.

2/ Includes 0.7% of GDP CB-related non-tax revenue in 2015.

3/ Includes the impact of the in principle debt restructuring agreement reached with the creditor committee for the 2025 bonds.

4/ To be closed through IMF and other IFIs financing and debt restructuring.

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior action – DPC-3	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social, or distributional effects positive or negative (yes/no/to be determined)
<i>Pillar 1: Improved Investment Climate and Competitiveness</i>		
<p>Prior action 1: The Government has completed the commercialization of selected Government-owned estates by signing agribusiness lease agreements with private firms for a duration of at least 20 years.</p>	<p>No significant negative or positive effects on the environment. Potential negative effects.</p> <p>This prior action could have negative effects on water resources and solid waste management. However, the World Bank assessed the risk of constrained water availability as low, given that the Government of Grenada (GoG) is carrying out a study to strengthen its water-data collection and management system that will support identifying best adaptation options for managing surface water and groundwater demand, supply to strengthen the GoG's capacity to manage water scarcity risks. Given that the GoG has a policy and a strategy to reduce solid waste disposal through conversion mechanisms, such as the generation of composting, recycling, and waste-to-energy, the Bank assessed this as unlikely to manifest. With respect to the use of pesticides, Grenada's existing regulatory framework excludes WHO pesticides Class IA, IB and II, in accordance with World Bank guidelines, and new products must be approved by the Board before they are licensed for import. Gaps include the enactment of more detailed and</p>	<p>Potential positive effect and potential negative effect, for which a mitigation measure is in place.</p> <p>International evidence suggests that the commercialization of Government-owned agricultural estates may increase employment and modestly boost income levels among estate workers.</p> <p>If involuntary resettlement results from the leasing 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. For example, if employment losses result from the commercialization process, severance payments will be made in accordance with the relevant union agreements. The estimated cost of severance payments will be deposited in advance by the lessee into a Government account.⁴⁴ The risk of possible squatters being displaced through the leasing of these estates is also assessed as low. There is no incidence of squatting on the estates,</p>

⁴⁴ Grenada Constitution Order 1973, Land Acquisition Act of 1945, and Land Settlement Act of 1993. A Board of Assessment is appointed to award compensation in each case.

	specific regulations, for which the World Bank OECS Agricultural Competitiveness Program will provide training through capacity building with the Agricultural Ministry and Extension Officers, supported by an international consultant or NGO (e.g. FAO). Additionally, the Government prepared an Earth System Modeling Framework, which includes pesticide best management practice and integrated pest management guidelines, along with preparation of Pest Management Plans where there are significant pest management issues. The OECS Agricultural Competitiveness Project of the World Bank, which includes Grenada, is supporting these efforts.	and in the event a person is found as an illegal occupant of the Government lands (Crown lands), then they are provided the opportunity to regularize their tenure, once the land is not identified for national projects, as stipulated in the Crown Lands Act.
Prior action 2: The Government has, through the Parliament, enacted the Food Safety Act, which establishes standards for food quality and prevention of food safety risks.	<p>No significant negative or positive effects on the environment. Potential positive effects.</p> <p>The policy action provides for the establishment of a Food Safety Authority to control food safety and quality of food, which would lead to a reduction in infectious diseases and the improvement of health conditions. The expected effects are positive.</p>	<p>No significant negative effects, potential positive effects.</p> <p>In the short term, the enactment of the act is not expected to affect the population. In the medium to long term, it could enable complying farmers to sell their agricultural products to hotels, restaurants, and resorts, which could boost their revenues by an estimated 22 percent over the current average farm-gate price.</p>
Prior action 3: The Government has, through the Ministry of Finance and Energy (MoFE), connected the Bureau of Standards (MoFE) to ASYCUDA World to process trade transactions; and provided the Inland Revenue Department (MoFE) and the Central Office of Statistics (MoFE) with statistical data access to ASYCUDA World.	No significant negative or positive effects on the environment.	<p>No significant negative effects, potential positive effects.</p> <p>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.</p>

<p>Prior action 4: The Government has established a PPP Unit in the Ministry of Finance and Energy, as evidenced by a Cabinet conclusion.</p>	<p>No significant negative or positive effects on the environment.</p> <p>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.</p>	<p>No significant positive or negative effects.</p>
<p>Prior action 5: The Government has enacted the Public Utilities Regulatory Commission Act to establish a national independent energy regulator; and has endorsed the Ministry of Finance and Energy's participation in the regional energy advisory body, the Eastern Caribbean Energy Regulatory Agency (ECERA).</p>	<p>No significant negative effects on the environment. Potential positive effects.</p> <p>The National Energy Policy Act (2011) outlines the key challenges and opportunities for the diversification of energy production in Grenada, so as to offset the current high dependence on imported fossil fuels. The proposed policy action would lead to the materialization of the policy and its main goals, which consist of the production of 20% of all electricity and transportation energy from renewable sources (wind, solar, and geothermal), and the reduction by 20% of the emission of greenhouse gases by 2020. The proposed policy actions will consolidate the legal and organizational framework of the policy, and are expected to have a net positive effect, reinforced by the environmental assessment framework to be established by prior action 10.</p>	<p>No significant negative effects, potential positive effects.</p> <p>Strengthening energy regulation and promoting investment in renewable energy will help diversify electricity generation, increasing the reliability and resilience of the power supply.</p>

Pillar 2: Improved Public Resource Management		
Prior action 6: The Government has, through the Ministry of Education, Human Resource Development and the Environment, established computerized personnel records for teachers and ministry personnel, and has produced a report of personnel records, as evidenced by a letter from the Ministry of Finance and Energy.	No significant negative or positive effects on the environment.	No significant negative effects, potential positive effects. Greater efficiency in public resource management will promote improved service delivery, provided that the growth of the civil service can be contained. ⁴⁵
Prior action 7: The Government, through the Ministry of Finance and Energy, has: (i) appointed the Chief Procurement Officer, and (ii) fully staffed and operationalized (a) the Public Procurement Board, (b) the Public Procurement Review Commission, and (c) the Public Procurement Disposal Committee, as evidenced by the Cabinet Conclusion No. 734 dated May 23, 2016, the MoFE Letter of Appointment for the Disposal Committee dated July 18, 2016, and the MoFE Letter of Appointment for the Chief Procurement Officer dated 20 June, 2016.	No significant negative or positive effects on the environment. The regulations specify the contents of tenders and the main evaluation criteria for tenders, which are based on (i) price; (ii) the cost of operating, maintaining, and repairing goods or works; (iii) the time for delivery of goods, completion of works, or provision of services; (iv) the characteristics of the subject of procurement; (v) the terms of payment and of guarantees; (vi) where relevant, quality-based criteria, such as the experience, reliability, and professional and technical competence of the tenderer, and of the personnel to be involved. No effects are expected from this prior action.	No significant positive or negative effects. Modernizing the country's procurement legislation and aligning it with international good practices facilitates the use of national procurement arrangements and competitive bidding, which in its turn may lower costs of doing business.
Prior action 8: The Government has, through the Ministry of Social Development (MoSD), institutionalized the implementation of the Phase Out (PO) Plan by notifying all ineligible beneficiary households of their status,	No significant negative or positive effects on the environment. The Support for Education, Empowerment, and Development (SEED) Program is an income support program that targets the poorest and most	Positive effects for the poor and vulnerable. The new targeting tool and the Beneficiary Management Information System (BMIS) will tighten the SEED program's focus on poor and vulnerable households, and facilitate

⁴⁵ The pension system will provide income for retiring public servants.

and completing the transitioning out of the program for the first two of three groups (at least 70%) of ineligible beneficiary households identified in the PO Plan as ineligible and non-vulnerable..	vulnerable citizens in Grenada and provides them with a Conditional Cash Transfers (CCT) to facilitate improved development outcomes among households. No effects are expected.	improvements in the implementation of other social programs. The application of the Grenada Living Conditions Indicator (GLCI) will contribute to the Government's equity objectives by more accurately identifying poor households, many of which are not currently receiving social support.
Prior action 9: The Government has approved the MTDS for the 2016-2018 period, as evidenced by Cabinet Conclusion No. 935 dated June 27, 2016.	No significant negative or positive effects on the environment.	No significant positive or negative effects. While no direct poverty or social effects are expected, enhanced debt management is contributing to improved fiscal performance and macroeconomic stability, which are important foundations for sustained growth and poverty reduction.
<i>Pillar 3: Enhancing Resilience Against Natural Disasters</i>		
Prior action 10: The Government has, through the Parliament, (i) enacted the Physical Planning and Development Control Bill and (ii) approved the Grenada Building Code and Guidelines.	No significant negative effects on the environment. Potential positive effects. This prior action will result in positive environmental effects. It is the most comprehensive legal instrument for environmental protection in Grenada, including provisions for the Environmental Impact Assessment (EIA), which certain categories of projects will have to carry out, as well as provisions for the identification, preservation, and conservation of the natural and cultural heritage of Grenada.	No significant negative effects, potential positive effects. While building code compliance may add to initial construction costs, 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 potential financial losses from disasters. As poor households are systematically more vulnerable to the physical and economic impacts of natural disasters, disaster preparedness has inherently positive equity implications.

ANNEX 5: COMPARISON OF DPC SERIES INDICATORS

First DPC (Indicators as envisaged at the time of the first operation)	Second DPF (Indicators as envisaged at the time of the second operation)	Third DPC Indicators
Tourism Development		
Increase in tourist receipts. <i>Baseline (2013): EC\$307 million; Target (2016): 8 percent increase.</i>	Tourist receipts. <i>Baseline 2013 = EC\$307 million; Target 2017 = EC\$332 million (8 percent increase).</i> Renegotiation of airlift agreements by the Airlift Committee. <i>Baseline 2013 = 0; Target 2017 = at least 2 contracts renegotiated.</i>	Tourist receipts. <i>Baseline 2013 = EC\$307 million; Target 2018 = EC\$332 million (8 percent increase)</i>
Agribusiness Development		
Increase in total output of commercialized agricultural estates. <i>Baseline (2013): 350 tons; Target (2016): 100 percent increase.</i>	Total output of commercialized agricultural estates. <i>Baseline 2013 = 350 tons; Target 2017 = at least 500 tons.</i>	Leasing out of Government-owned agricultural estates to private entities. <i>Baseline 2013 = none; Target 2018 = at least 3 Government-owned estates leased</i>
Increase in the number of farmers served by the Marketing and National Importing Board (MNIB). <i>Baseline (2013): 1,623; Target (2016): 3,000.</i>	Commercialization of Government-owned agricultural estates. <i>Baseline 2013 = 0; Target 2017 = at least 3 Government-owned estates commercialized.</i> Number of farmers served by MNIB. <i>Baseline 2013 = 1,623; Target 2017 = at least 2,500.</i>	Area cultivated at leased Government-owned agricultural estates. <i>Baseline 2013 = zero acres (out of a total of 379 cultivatable acres of Government-owned land selected for public-private partnerships (PPPs); Target 2018 = 186 acres</i> Number of farmers served by MNIB. <i>Baseline 2013 = 1,623; Target 2018 = at least 2,500</i> Percentage of licensed food premises and street food premises in Grenada that have

		been inspected by the Food Safety Authority under the Food Safety Act. <i>2013 Baseline = zero; 2018 Target 2018 = 75 percent (share of food premises and street food premises licensed by the Food Safety Authority)</i>
Trade Logistics		
Reduction of the clearance time of border control procedures by half. <i>Baseline (2013): approximately 6 working days; Target (2016): approximately 3 working days.</i>	Average clearance time for border control procedures. <i>Baseline 2013 = approximately 6 working days; Target 2017 = approximately 3 working days.</i>	<p>The number of border control agencies processing trade transactions through ASYCUDA World. <i>Baseline 2013 = 2 agencies; Target 2018 = at least 6 agencies</i></p> <p>Number of agencies sharing trade and taxation related information through ASYCUDA World. <i>Baseline 2013 = zero; Target 2018 = at least 2</i></p>
Public Private Partnerships (PPP)		
Increase in the share of PPP projects under development that are proceeding according to the processes and requirements defined in the PPP policy. <i>Baseline (2013): 0 percent; Target (2016): 100 percent.</i>	Share of PPP projects under development that conform to the processes and requirements defined in the PPP policy. <i>Baseline 2013 = 0 percent; Target 2017 = 100 percent.</i>	Share of PPP projects under development that conform to the processes and requirements defined in the PPP policy. <i>Baseline 2013 = zero percent; Target 2018 = 100 percent</i>
The Energy Sector		
Implementation of a new mechanism for electricity tariff setting. <i>Baseline (2013): There is no existing electricity tariff setting mechanism; Target (2016): New electricity tariff setting mechanism is implemented.</i>	Share of installed power generation capacity from renewable energy technologies. <i>Baseline 2013 = 1 percent; Target 2017 = 3 percent.</i>	<p>Share of renewable energy in total installed power-generation capacity. <i>Baseline 2013 = 1 percent; Target 2018 = 3 percent</i></p> <p>The Public Utilities Regulatory Commission is fully operational. <i>2013 Baseline = no; 2018 target = yes, with evidence from the Government that PURC has (i) issued a three-year business plan,</i></p>

		(ii) a dedicated place of work, (iii) hired staff, and (iv) an operating budget
Public Employment Management		
Better alignment of the Government employment structure with the recommendations of the HR audits. <i>Baseline (2013): Functions and tasks in Government entities are not aligned with the recommendations of the HR audits; Target (2016): Functions and tasks in Government entities that employ at least 70 percent of the total Government workforce as well as HR and payroll information are aligned with the recommendations of the HR audits.</i>	<i>Establishment of the Government employment structure based on the recommendations of recent human resources audits. Baseline 2013 = 0; Target 2017 = At least 4 ministries and 1 department have established official job descriptions with clearly defined responsibilities, including the Ministry of Agriculture, Forestry and Fisheries, Ministry of Labor, Ministry of Legal Affairs, Ministry of Education, Human Resource Development and the Environment, and Department of Public Administration.</i>	Development of job descriptions. <i>Baseline 2013 = none; Target 2018 = The Ministry of Education, Human Resource Development and the Environment has formally established job descriptions with clearly defined competencies and responsibilities for the key task areas of public administration, including planning, monitoring results, and strategic personnel management</i>
Accountability for Results in Public Administration		
Increase in the number of public entities that publish annual performance reports. <i>Baseline (2013): No public entity publishes annual performance reports; Target (2016): At least three ministries publish annual performance reports.</i>	Dropped.	
Procurement		
Increased transparency of public procurement and confidence of the private sector in the system. <i>Baseline (2013): Contract awards are not published; Target (2016): Contract awards consistent with the new procurement law are published.</i>	Publication of contract awards. <i>Baseline 2013 = 0; Target 2017 = All contract awards are published in conformity with the new procurement law.</i>	Publication of contract awards. <i>Baseline 2013 = zero; Target 2018 = All contract awards are published, in conformity with the new procurement law</i>
Social Safety Nets		

Increase in the number of social programs using the targeting tool to identify beneficiaries. <i>Baseline (2013): zero; Target (2016): 3.</i>	Share of SEED program beneficiaries that are identified by using a targeting tool. <i>Baseline 2013 = 0; Target 2017 = 80 percent.</i>	Share of SEED program beneficiary households identified in the PO Plan as ineligible and non-vulnerable that have been transitioned out of the program. <i>Baseline 2013 = zero; Target 2018 = 95 percent</i>
Debt Management		
Decrease of the share of debt with a maturity of less than 90 days. <i>Baseline (2013): 17 percent; Target (2016): 10 percent.</i>	Share of debt (public and publically-guaranteed) with a maturity of less than 90 days. <i>Baseline 2013 = 17 percent; Target 2017 = 10 percent.</i>	Share of public and publicly guaranteed debt with a maturity of less than 90 days. <i>Baseline 2013 = 17 percent; Target 2018 = 10 percent</i>
Natural Disasters		
Increase in the proportion of new public/commercial buildings and private housing built in safe and regulated areas in accordance with regulatory acts. <i>Baseline (2013): zero percent; Target (2016): 50 percent.</i> Increase in the percentage of engineers registered. <i>Baseline (2013): zero percent; Target (2016): 40 percent.</i>	Share of new public/commercial buildings and private housing built in safe and regulated areas, in accordance with regulatory acts. <i>Baseline 2013 = zero percent; Target 2017 = 50 percent.</i> Share of engineers registered. <i>Baseline 2013 = 0 percent; Target 2017 = 40 percent.</i>	Share of membership of the Grenada Institute of Professional Engineers (GIPE) registered in accordance with the 2015 Engineering Act. <i>Baseline 2015 = zero percent; Target 2018 = 40 percent</i> Establishment of the Building Inspection Unit at the Ministry of Communication, Works, Physical Development, Public Utilities, ICT and Community Development. <i>Baseline 2013 = none; Target 2018 = unit established</i>
The Banking Sector		
Reduction of the share of NPLs in the total loan portfolio of banks. <i>Baseline (2013): 9 percent; Target (2016): 5 percent.</i>	Provisions for loan losses to NPLs for the banking sector. <i>Baseline 2013 = 30 percent of NPLs; Target 2017 = 60 percent of NPLs.</i>	Provisions for loan losses to nonperforming loans (NPLs) for the banking sector. <i>Baseline 2013 = 30 percent of NPLs; Target 2018 = 60 percent of NPLs</i>

ANNEX 6: STRUCTURAL CONDITIONALITY UNDER IMF PROGRAM

Table A6.1: Structural Conditionality Under the 2014-16 IMF Extended Credit Facility (ECF)

Structural Benchmarks

1. Parliamentary approval of the revised Investment Promotion Act - November 30, 2014
2. Parliamentary approval of the 2015 budget, consistent with program commitments* - December 31, 2014
3. Parliamentary approval of the 2016 budget, consistent with program commitments and fiscal responsibility legislation - December 31, 2015
4. Parliamentary approval of fiscal adjustment measures for 2016 - December 31, 2015
5. Parliamentary approval of the revised Public Finance Management (PFM) legislation - August 31, 2014
6. Cabinet approval of a strategic plan for the statutory bodies - October 31, 2014
7. Parliamentary approval of the revised legislation on tax incentive regime - November 30, 2014
8. Parliamentary approval of the legislation for the fiscal policy framework - December 31, 2014
9. Minister of Finance approval of regulations for the National Transformation Fund - February 28, 2015
10. Parliamentary approval of a public debt management law - March 31, 2015
11. Minister of Finance approval of regulations for the revised PFM legislation - June 30, 2015
12. Publication of all citizenship-by-investment statistics on a quarterly basis - July 31, 2015
13. Parliamentary approval of a tax administration act - November 30, 2015
14. Implementation of the new Chart of Accounts for the 2016 budget - December 31, 2015
15. Establishment and operationalization of the Large and Medium Taxpayer Service (LMTS) and Small Taxpayers Service - December 31, 2015
16. Signing into force of the new tax incentive regime and the 2014 Investment Act - December 31, 2015
17. Cabinet approval of a strategic plan to modernize the public sector** - March 31, 2016
18. Parliamentary approval of the revised Grenada Industrial Development Corporation (GIDC) Act June 30, 2016
19. Parliamentary approval of a new Grenada Labor Code - August 31, 2016
20. Cabinet approval of a focused reform strategy to manage the public sector wage bill*** - September 30, 2016

Source: IMF

*Not met, corrective action taken

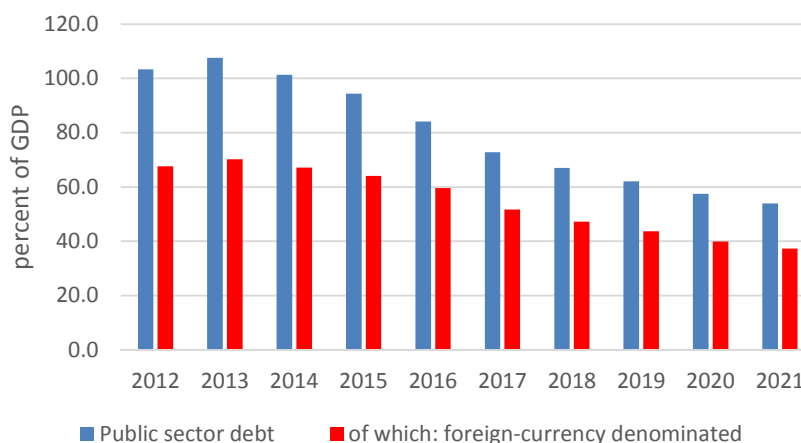
**Not met, proposed to be rephrased/revised

***Newly proposed

ANNEX 7: DEBT SUSTAINABILITY ANALYSIS

The latest debt sustainability analysis (DSA)⁴⁶ indicates that, following significant gains in debt restructuring and fiscal consolidation, Grenada is gradually progressing towards debt sustainability. In 2016, total public sector debt as a share of GDP is projected to decline to 89.2 percent, of which external public debt is projected to decline to 61.9 percent of GDP (Figure A7.1). Ongoing fiscal consolidation is projected to result in significantly lower external public debt-to-GDP of 41.3 percent of GDP in 2021, providing for a decline of about 20 percentage points from the projected 2016 ratio. While the baseline scenario indicates total public debt, and external debt will decline below thresholds of 60 percent and 40 percent respectively as a share of GDP starting from 2022, the external debt measure breaches the threshold, albeit marginally, by 2035. In contrast, following a slight breach in 2016, total public debt remains below the threshold towards the end of the period, declining to 51.0 percent of GDP in 2036.

Figure A7.1: Debt-to-GDP ratio (nominal) for public and external debt under the baseline scenario



Source: IMF

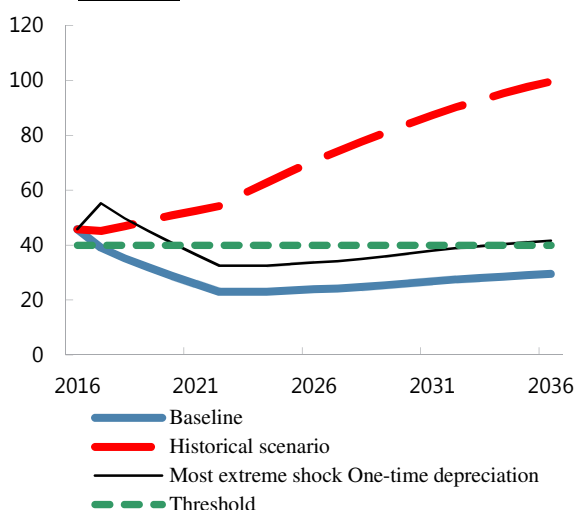
The DSA incorporates macroeconomic assumptions to evaluate the progression of Grenada's debt burden indicators and the manner in which the probability of debt distress may evolve over a 20-year period. The medium-term macroeconomic framework in Table 1 was used to generate the projected debt-to-GDP ratio under the baseline. The main assumptions underpinning the baseline scenario include average annual real GDP growth of 2.7 percent, and average annual inflation of 1.7 percent from 2016 to 2021. Over the same period, the projected primary budget surplus is an average of 3.1 percent of GDP, with the interest rate on public debt averaging approximately 3.2 percent. For the remainder of the DSA period (between 2022 and 2036), annual growth is assumed to remain at an average of 2.7 percent, while inflation is projected at an annual average of 2.5 percent. The DSA factors in debt restructuring with external and domestic creditors, including the agreement reached in principle with the Paris Club as well as fiscal consolidation executed by the authorities.⁴⁷

⁴⁶ The DSA was conducted by the IMF and IDA in early 2016 for the May 2016 Article IV.

⁴⁷ The agreement reached in principle entails an adjustment in the scheduling of balances on debt and arrears owing to the Paris Club creditors.

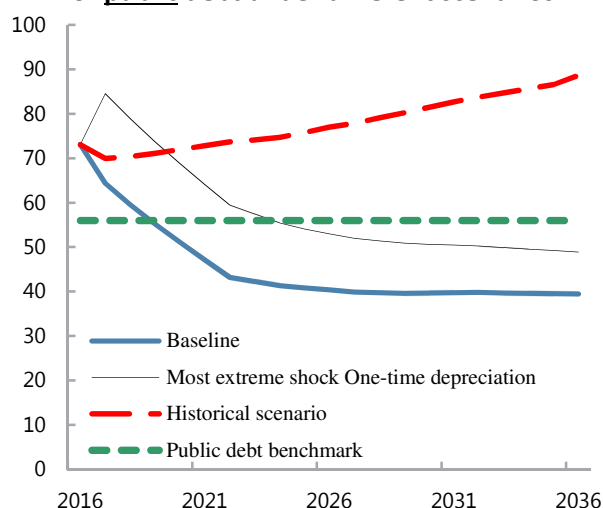
Underscoring the need to maintain fiscal restraint and pursue its stated reform objectives, the DSA indicates that Grenada's external debt remains in distress, based on the results of a sensitivity analysis. A one-time 30 percent real depreciation in 2017 is denoted as the most extreme shock to debt levels. The shock results in a generally downward trend in debt indicators, with external debt as a share of GDP and public debt-to-GDP peaking at present value in 2016, at 55.3 percent and 73.1 percent respectively (Figures A7.2 and A7.3).

**Figure A7.2: Debt-to-GDP ratio (present value)
for external debt under different scenarios**



Source: IMF

**Figure A7.3: Debt-to-GDP ratio (present value)
for public debt under different scenarios**



Source: IMF