

Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 15-Feb-2018 | Report No: PIDC23747



BASIC INFORMATION

A. Basic Project Data

Country Grenada	Project ID P164289	Project Name Grenada Blue Growth Development Policy Credit (P164289)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Jun 22, 2018	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The Development Objective the proposed Blue Growth Development Policy Credit is to support the Government of Grenada's program of policy and institutional reforms to bolster macro-economic, fiscal and environmental resilience in support of sustainable development and blue growth.

Financing (in US\$, Millions)

SUMMARY

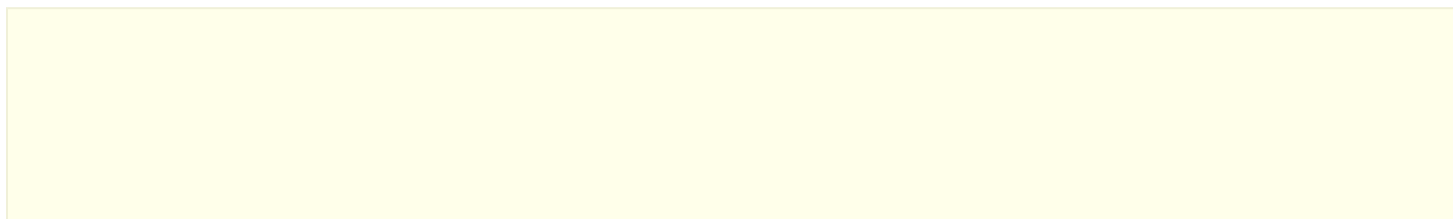
Total Financing	35.00
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DETAILS

Total World Bank Group Financing	35.00
World Bank Lending	35.00

Decision

The review did authorize the preparation to continue





B. Introduction and Context

Country Context

Grenada is a small state facing structural challenges, high volatility, and significant exposure to natural disasters. 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). 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. After a strong recovery in 2014-5, GDP growth decelerated to 3.9 percent in 2016 and is expected to moderate further to around 2.4 percent in 2017. Welfare indicators point to some gains in social development over the past 15 years. However, despite recent strong growth outturns, gaps remain in unemployment equality. While the unemployment rate declined from 32.2 percent in 2013 to 28.6 percent in 2016, almost one-third of the labor force remains unemployed. Unemployment rates are particularly high among youth, women, and less-educated workers. Similarly, inequality is relatively high in Grenada, with a Gini coefficient of 0.45 in 2006, compared to other members of the Organization of Eastern Caribbean States (OECS). 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.

Sound macroeconomic and structural policies have helped Grenada strengthen fiscal discipline. In 2013, with the support of the WB, IMF and CDB, the Government of Grenada (GoG) developed a Homegrown Structural Adjustment Program (HSAP) that put the country back on a path of recovery from the 2011-12 crisis. Real GDP posted a robust recovery with an average 5.3 percent rate of growth from 2013 through 2015, fueled by strong growth in agriculture (including fisheries), tourism, and construction. Grenada is witnessing a rise in the total contribution of coastal tourism to GDP – from less than 15 percent of GDP in 2005 to 25 percent in 2015. Public finances have been put on a stable path, supported by increased economic activity, improved tax administration and sustained fiscal discipline. The overall fiscal balance achieved a surplus of 2.4 percent in 2016, the first surplus in a decade. An essential element of underpinning fiscal consolidation and sustainability is a new rules-based fiscal framework established by the 2015 Fiscal Responsibility Act. This DPF series supports the next stage of policies required to operationalize Grenada’s new fiscal framework, which is a critical anchor for macroeconomic sustainability. While maintaining economic growth and macroeconomic stability, the GoG aims to consolidate its pathway towards blue growth –that is, promoting economic growth, social inclusion, and the improvement of livelihoods while at the same time ensuring environmental sustainability of the oceans and coastal areas. This is essential to balance economic growth with improved quality of life and reduced vulnerability to disasters and climate change. Through a “blue growth” approach, the GoG will promote the blue economy in a manner that is cleaner, more resource-efficient, more resilient, and inclusive.



Relationship to CPF

This DPF series is consistent with the OECS Regional Partnership Strategy (RPS). The DPF series contributes to the following RPS objectives: (i) improved budget management and transparency; (ii) strengthened capacity to manage PPPs; and (iii) increased capacity to manage natural hazards. 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. Reforms under pillar 1 are partly supported under the Support for Economic Management in Caribbean the (SEMCAR) Program. Under SEMCAR Phase I, support has been provided in the region more broadly and particularly in Grenada to advance SOE, tax and customs reforms, on which the DPC policy matrix is building on. In addition, Phase II of the Program will focus on building resilience to natural disasters by strengthening PFM capacity through custom-made tools and technical assistance, aligned with best practices. Reforms supported under pillar 2 of the DPF series are complemented by different instruments. The Caribbean Regional Oceanscape Project (CROP) provides support to strengthen the capacity needed by the GoG to establish a coordinated and integrated policy framework in support of the country's blue growth vision. CROP will build the region's and Grenada's capacity to develop, implement, monitor, and adjust marine/coastal policies in line with the Blue Growth and Coastal Master Plan. A related non-lending technical assistance program has supported Grenada in the development of the *Blue Growth Vision and Coastal Master Plan*. In addition, Grenada will benefit from the Caribbean Oceans and Aquaculture Sustainability Facility (COAST) which is being designed as a climate risk parametric insurance product specifically for vulnerable fishing communities.

C. Proposed Development Objective(s)

The proposed operation aims to support the Government of Grenada in achieving fiscal sustainability and consolidating Grenada's transition to a blue economy. The term "blue economy" describes the range of economic sectors and related policies that together determine whether the use of oceanic resources is sustainable. The operation supports reforms in two main areas (i) supporting fiscal measures and compliance with the Fiscal Responsibility Law; and (ii) supporting Grenada's transition to a blue economy by strengthening marine and coastal management, marine ecosystem health, and climate resilience.

Key Results

Fiscal responsibility: The combination of the Fiscal Responsibility Oversight Committee (FROC) and new compensation management policy are expected to ensure that fiscal rules established in the FRL are implemented in line with identified targets. **Revenue administration:** The Customs Appeal Commission is expected to contribute to improved service delivery while increased autonomy will enable the administration to more effectively exercise its powers and responsibilities set out in the revenue laws. With these reforms, the GoG expects to attain improved effectiveness in revenue management and improved compliance. **SOE Reform:** The proposed measures will enhance the operational performance of SOEs as well as their compliance with mandatory monitoring and reporting requirements. **Marine environment protection:** The gazettement of the Grand Anse MPA combined with the long-term financing mechanism for protected areas and other blue growth-enabling policy actions will help restore the health and management of the marine and coastal areas, avoid further degradation, and offer sites for income generation through tourism, biotechnology, and sustainable fisheries. **Climate Resilience:** The measures supported by the DPC will contribute to the development of ocean solutions that reduce climate change risks; and improve resilience of housing infrastructure.



D. Concept Description

The proposed operation supports the second stage of policy and institutional reforms set out in the Government's long-term development strategy – the New Economy Plan (NEP); the Growth and Poverty Reduction Strategy (GPRS) for 2014-18 and Grenada's Blue Growth and Coastal Master Plan. The Government's program focuses on establishing the policy and institutional framework necessary for the envisaged sustainable economic growth and poverty reduction. It sets the course on fiscal sustainability, strengthening resilience against natural disasters, and harnessing the blue economy. This DPF series focuses on fiscal measures and compliance with the Fiscal Responsibility Law; and Grenada's transition to a blue economy by strengthening marine and coastal management, marine ecosystem health, and climate resilience.

Pillar 1: Support Fiscal Measures and Compliance with the Fiscal Responsibility Law (FRL)

The FRL aims to restore and maintain debt sustainability, and establishes a 2 percent cap on real expenditure growth, and a public debt ceiling of 55 percent of GDP, to be achieved in 2022. To ensure adherence to the rules, the FRL 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. This fiscal rules framework was approved in 2015 and is under implementation. International experience shows that establishing fiscal rules is important, but not sufficient. Adequate monitoring institutions and mechanisms are critical to successful implementation and compliance with the fiscal rules established over the medium and long terms. Moreover, fiscal measures to underpin compliance are essential. The first pillar of this DPF focuses on these critical implementation and compliance aspects by, inter alia, supporting the establishment of a Fiscal Responsibility Oversight Committee (FROC) and the approval of a Compensation Management Policy for the public sector.

Pillar 2: Support Grenada's transition to a Blue Economy by strengthening marine and coastal management, marine ecosystem health, and climate resilience

The GoG aims to consolidate its pathway towards blue growth, which is essential to balance economic growth with improved quality of life and reduced vulnerability to disasters and climate change. Through a blue growth approach, the GoG will promote the blue economy in a manner that is cleaner, more resource-efficient, more resilient, and inclusive. Blue growth policies, such as pollution control and coastal zone management policies address the lack of integrated coastal land use planning and generate opportunities for sustaining economic benefits in the long term by more efficiently managing the resources that the marine-related economic sectors depend on. A long-term financing mechanism for the protection of marine and coastal assets is also an essential element that addresses the low percentage of marine protected areas and optimizes the use of these resources for the sustainable growth of the tourism and fisheries sectors. The proposed DPF supports Grenada's transition to blue growth by supporting selected measures geared to strengthen marine and coastal management, marine ecosystem health, and climate resilience. Measures supported include the gazettelement of the Grand Anse MPA, the establishment of the Blue Innovation Institute, the updating of the National Climate Change policy and improving building codes.



E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

The poverty and social impact of the policy measures supported by this DPC series is expected to be neutral in the short term and positive in the medium term. The policy measures are designed to build resilience and improve sustainability contributing to sustainable growth and poverty reduction. Prior actions under Pillar 1 are not expected to have significant direct impacts on poverty in the short term, but to have positive effects on poverty and distribution in the medium term through labor market mechanisms. Payroll management and wage negotiation for the public sector are expected to reduce the overall unemployment rate and increase employment in the private sector by lowering high reservation wages in the labor markets. Prior actions under Pillar 2 are expected to have positive effects on the poor and the vulnerable by promoting resilience to natural disasters and sustainability of marine ecosystem. Promoting sustainable use of marine and coastal resources is expected to benefit fishing and aquaculture over the medium term, as loss of biodiversity and marine ecosystem leads to a decline of fishery. While building code compliance may add to initial construction costs, safe construction practices, which makes infrastructure and housing more resilient to natural disasters, are expected to have positive impacts on the poor over the medium term.

Environmental Impact

The World Bank intends to conduct a policy Strategic Environmental Analysis (policy SEA) as part of the preparation of the proposed operation.

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APPROVAL

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Approved By

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