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Grenada COVID-19 Crisis Response and Fiscal Management DPC (P174527)

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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF US\$25 MILLION TO

GRENADA

FOR THE

COVID-19 CRISIS RESPONSE AND FISCAL MANAGEMENT
DEVELOPMENT POLICY CREDIT

November 18, 2020

Macroeconomics, Trade And Investment Global Practice
Latin America and Caribbean Region

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Grenada

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of November 15, 2020)

Currency Unit: Eastern Caribbean dollar (EC\$)

(EC\$2.70 = US\$1.00)

ABBREVIATIONS AND ACRONYMS

B40	Bottom 40 percent of the income distribution
CAD	Current Account Deficit
CBI	Citizenship by Investment
CDB	Caribbean Development Bank
CEIP	Community Economic Infrastructure Program
CESS	COVID Economic Support Secretariat
CG	Central Government
CPF	Country Partnership Framework
DPC	Development Policy Credit
DRF	Disaster Risk Financing
DRM	Disaster Risk Management
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECF	Extended Credit Facility
FDI	Foreign Direct Investment
FRL	Fiscal Responsibility Law
GCA	Grenada Cocoa Association
GCNA	Grenada Cooperative Nutmeg Association
GDB	Grenada Development Bank
GDP	Gross Domestic Product
GIZ	German International Development Agency
GoG	Government of Grenada
GRS	Grievance Redress Service
HBS	Harvard Business School
ICR	Implementation Completion and Results Report
IDA	International Development Association
IDF	Institutional Development Fund
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
IPF	Investment Project Financing
IPSAS	International Public Sector Accounting Standards
MoF	Ministry of Finance
MSME	Micro, small and medium-sized enterprise

NIS	National Insurance Scheme
NPL	Non-performing Loan
NSDP	National Sustainable Development Plan
OECS	Organization of Eastern Caribbean States
PA	Prior Action
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFM Act	Public Finance Management Act
PIAM	Public Investment and Asset Management
PLR	Performance and Learning Review
PPA	Performance and Policy Actions
PPE	Personal protective equipment
RCF	Rapid Credit Facility
RPS	Regional Partnership Strategy
SCD	Systematic Country Diagnostic
SDFP	Sustainable Development Financing Policy
SIDS	Small Island Developing States
SMEs	Small and medium enterprises
SOE	State-Owned Enterprises
SRD	Systematic Regional Diagnosis
TA	Technical Assistance
TSA	Treasury Single Account
U.S.	United States
WB	World Bank
WBG	World Bank Group
WTTC	World Travel & Tourism Council

Regional Vice President:	Carlos Felipe Jaramillo
Country Director:	Tahseen Sayed Khan
Regional Director:	Robert R. Taliercio
Practice Manager:	Jorge A. de Thompson R. Araujo
Task Team Leaders:	Tamoya Annika Lois Christie, Ran Li



GRENADA

GRENADA COVID-19 CRISIS RESPONSE AND FISCAL MANAGEMENT DPC

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Preparation of the Grenada COVID-19 Crisis Response and Fiscal Management DPC Credit has been supported by an IDA team led by Tamoya Christie (Economist, ELCMU) and Ran Li (Young Professional, ELCMU). The team comprises Leah April (Senior Public Sector Specialist, ELCG2), Lilia Razlog (Senior Debt Specialist, EMFMD), Kirsten McLeod (Consultant, ELCMU), Tumurdavaa Bayarsaihan (Senior Agriculture Economist, SLCAG), Fadwa Bennani (Senior Financial Sector Economist, ELCFN), Matias Jose Arnal (Consultant, ELCMU), Pilar Gonzalez (Senior Counsel, LEGLE), Carolyn J. Shelton (Senior Health Specialist, HLCHN), Arun Manuja (Senior Financial Management Specialist, ELCG1), Alejandro Espinosa-Wang (Senior Private Sector Specialist, ELCFN), Clemente Avila Parra (Social Protection Economist, HLCSPE), Maria Gabriela Farfan Betran (Economist, EAEPV), Katie O'Gara (Natural Resources Management Specialist, SLCEN), Gustavo Javier Canavire Bacarreza (Economist, ELCPV), Behnaz Bonyadian (Operations Officer, OPSSR), Lyliana Gayoso (Consultant, ELCPV), and Miriam Beatriz Villarroel (Program Assistant, ELCMU). The peer reviewers are Tehmina Khan (Senior Economist, EECM2) and Richard Sutherland (Public Sector Specialist, EPSPF). The team gratefully acknowledges the support and guidance provided by Tahseen Sayed (Country Director, LCC3C), Robert R. Taliercio (Regional Director, ELCDR), Marcello Estevao (Global Director, EMFDR), Jorge Araujo (Practice Manager, ELCMU), Abha Prasad (Program Leader, ELCDR) and Denis Boskovski (Senior Country Officer, LCC3C). The team would like to express its gratitude to the Government of Grenada for its strong collaboration in the preparation of this DPC operation.



SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic
P174527	No

Proposed Development Objective(s)

The development objective of this operation is to support Grenada's response to the COVID-19 crisis in the short term and also enhance long-term sustainability and resilience through (i) strengthening the Government's health and social protection responses to COVID-19; (ii) saving jobs and protecting livelihoods of households and firms; and (iii) strengthening fiscal management and transparency.

Organizations

Borrower:	GRENADA
Implementing Agency:	MINISTRY OF FINANCE

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing	25.00
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DETAILS

International Development Association (IDA)	25.00
IDA Credit	25.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Moderate



Results

Indicator Name	Baseline	Target
Results Indicator #1a: Equipped health facilities with isolation capacity	2019: 0	2020: 1
Results Indicator #1b: Number of environmental health officers in place	2019: 0	2020: 38
Results Indicator #2: Number of persons receiving temporary unemployment benefits.	2019:0	2020: 4,000 (of which 56% are women)
Results Indicator #3: Number of beneficiaries under each program		
Income support program	2019: 0	2020: 1800
Payroll support program	2019: 0	2020: 140 (firms); 3100 (individuals)
Results Indicator #4a: Number of farmers and back-yard gardeners receiving benefits through agricultural inputs and farm investment support program	2019: 0	2020: 300 (of which 30% are women)
Results Indicator #4b: Number of member farmers and agro-processors benefiting from grants and credits to GNCA and GCA.	2019: 0	2020: 5,000 (of which 25% are women)
Results Indicator #4c: Number of jobs created under the Farm Labor Program	2019: 0	2020: 480 (of which 25% are women)
Results Indicator #5a: Number of small hoteliers receiving credits under the facilities	2019: 0	2020: 14 (20% of eligible hotels)
Results Indicator #5b: Number of small and medium enterprises (SMEs) receiving credits under the facilities	2019: 972	2020: 1300 (33% increase)
Results Indicator #6a: Number of Annual Debt Management Reports published	2019: 0	2021: 2
Results Indicator #6b: Average lag time to publish Quarterly Debt Bulletin	2019: 3 months	2021: 2 months
Results Indicator #7a: Registration in centralized database of inventoried Government current assets (including vehicles, furniture, equipment)	2019: 0%	2021: 90%
Results Indicator #7b: Registration in centralized database of inventoried Government fixed assets (roads, buildings, major infrastructure)	2019: 0%	2021: 80%
Results Indicator #8: 2017, 2018, 2019 and 2020 Financial Statements published and available on Ministry of Finance (MoF) website	2019: No	2021: Yes
Results Indicator #9: Internal audit conducted for highest risk function/activities and report produced.	2019: No	2021: Yes



IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO GRENADA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed COVID-19 Crisis Response and Fiscal Management Development Policy Credit (DPC), for an amount of US\$25 million, is an emergency response standalone operation.** Grenada – a small island developing state (SIDS) – is highly vulnerable to external shocks, especially from natural disasters. This vulnerability and lack of economic diversification constrain economic growth and the Government’s ability to respond to shocks. The COVID-19 outbreak hit Grenada hard: although infections have been low and contained, the economic contraction is severe, with Gross Domestic Product (GDP) projected to contract by 12 percent in 2020 due to the standstill in tourism.

2. **The proposed operation aims at helping mitigate the health, social, and economic impacts of the coronavirus pandemic in the short term, while supporting the Government of Grenada (GoG) to advance the recovery and build resilience over the medium term.** The DPC program reflects the critical policy actions taken by the Government to strengthen the health and social systems in response to the COVID-19 pandemic, including enhancing the institutional capacity of the health ministry to strategically manage the response and recovery processes, and establishing unemployment benefits for workers losing jobs due to the pandemic. To save jobs, protect workers’ livelihoods, and bolster firms’ ability to weather the crisis, the operation supports the GoG in providing wage subsidies and income support to workers in the most affected sectors; provide financial assistance to the agriculture sector; and alleviate the liquidity challenges for small businesses. The DPC further supports the GoG in important structural reforms in fiscal management and transparency, including improvements to debt transparency, the adoption of a public investment and asset management policy framework to enhance climate resilience and disaster risk management, as well as the adoption of international standards for public sector accounting and internal auditing to strengthen public accountability. The operation is also built on and continues the development strategy implemented by the Government and supported by the World Bank (WB), including building the Blue Economy, strengthening resilience to natural disasters, and further enhancing fiscal sustainability.

3. **Preceding the pandemic, Grenada stood out among the small-island Caribbean states and other SIDS with its steadfast reform path to build economic resilience.** The GoG has made significant progress and has a proven track record under its economic reform program. Following the global financial crisis, the Government implemented an economic adjustment program with a focus on fiscal consolidation, supported by the World Bank Group (WBG), the International Monetary Fund, and the Caribbean Development Bank. Supported by sustained demand for tourism and strong reforms, real output growth averaged 4.7 percent annually between 2014 and 2019, leading the Organization of Eastern Caribbean States (OECS) region, which grew at 2.8 percent on average. Prudent fiscal management anchored by the Fiscal Responsibility Law (FRL), as well as strategic debt restructuring, led the public debt stock to drop from 108 percent of GDP in 2013 to an estimated 59.6 percent in 2019. Robust growth was supported by expansion in the tourism sector thanks to greater marketing efforts and increased airlift.

4. **Grenada has maintained strong collaboration with the World Bank over the past decade.** Since 2015, Grenada has successfully completed two programmatic DPC series¹ (latest approved in December

¹ Grenada Programmatic Fiscal Resilience and Blue Growth Development Policy Credit Series (P164289, P167748), approved in May 2018 and December 2019 and Grenada Programmatic Resilience Building Development Policy Credit Series (P147152, P151821, P156761), approved in June 2014, October 2015, and December 2016, respectively.



2019) and one DPC with a Catastrophe Deferred Drawdown Option² (approved in January 2020). These have fostered reforms to support fiscal sustainability, strengthened marine and coastal management, and built climate resilience. In particular, the Second Fiscal Resilience and Blue Growth DPC deepens support for Grenada's policy and institutional measures to maintain fiscal discipline and diversify the economy towards a blue growth model that is based on sustainable and well-governed use of ocean resources. It includes fiscal reform measures, such as building fiscal buffers, improving public expenditure management, instituting customs and excise reforms, and improving transparency of public enterprises.

5. **However, Grenada's economy is undergoing a massive recession despite containment of the spread of the coronavirus on the island.** As of November 8, 2020, Grenada had only 32 infections and zero deaths from COVID-19. However, the island-wide lockdown and closure of international borders that helped contain the outbreak on the island and prevent imported COVID-19 cases precipitated a tremendous economic contraction as Grenada's main growth sectors came to a halt. The fallout in tourism (which accounts for about 40.5 percent of GDP), temporary halt in construction activities, and the exit of students from the private international university (about 20 percent of GDP) are expected to drive a massive contraction in real GDP of about 12-15 percent, the first recession in eight years and the largest since 2009. In this context, the GoG announced a series of fiscal stimulus measures costing about 2.4 percent of GDP (Annex Table 1), to ramp up health spending and current transfers to affected sectors. In mid-March 2020, the Government declared a State of Emergency. Strict social distancing measures were imposed, including school closures, curfews, shutdown of nonessential services, residential confinement, and closure of all ports of entry to non-citizens. In addition, the GoG strengthened the response capacity of the health sector through increased laboratory testing, treatment and isolation, and public education campaigns to raise awareness. With no community spread of COVID-19 within Grenada as of November 5, the authorities are now focused on safely reactivating the economy, stimulating recovery and building resilience.

6. **As with other SIDS, Grenada's ability to address external shocks and capacity to implement comprehensive long-term reforms is further constrained by its heavy dependence on a single industry (tourism).** Tourism contributes 42.9 percent of employment directly and indirectly (World Travel and Tourism Council, 2019), which corresponds to 9,700 jobs in tourism and 24,300 jobs in all tourism-related sectors. The share of tourism-related jobs has increased from 26 percent in 2005 to 42.9 percent in 2019 (equivalent to an additional 12,100 jobs). The demand for tourism in the region is also highly correlated with the business cycle in advanced countries, especially the United States (U.S.) and Europe, Grenada's main tourist source countries. At the same time, the sector is highly vulnerable to natural disasters and other climate change impacts, which includes rising sea levels, drought, and changing weather patterns posing an acute risk to the population and livelihoods. These effects exacerbate Grenada's development challenges and call for a strengthened institutional approach to disaster risk management and protection of natural resources.

7. **Poverty is expected to increase sharply in 2020 as a result of income and job losses, though partially mitigated by the measures implemented by the Government.** Historically, Grenada's labor market has been hampered by problems associated with structural unemployment, primarily tied to skills mismatches, high reservation wages due to remittances, and widespread unionization of workers. The pandemic is expected to have severe negative impacts on the job market and workers' livelihoods,

² Disaster Risk Management Development Policy Credit with a Catastrophe Deferred Drawdown Option - (P171465), approved in January 2020.



disproportionately affecting vulnerable groups. In particular, the most affected sectors, including hospitality, retail, and other service-oriented sectors are dominated by female workers. The longer recovery time in the tourism sector is expected to further widen the unemployment gap between men and women.

8. **The proposed operation supports Grenada’s response to the COVID-19 crisis in the short term and enhances long-term economic management and resilience through three pillars.** The objective of the prior actions (PAs) under Pillar 1 is to strengthen the capacity of the health and social protection systems to respond to the health threat posed by COVID-19, and provide a safety net for workers and their families who have been displaced by the economic fallout of the crisis. Pillar 2 aims to mitigate the economic effects of the crisis on households and firms by saving jobs, through wage subsidies to vulnerable workers in the tourism and agricultural sectors, and boosting the viability of micro, small and medium-sized enterprises (MSMEs) through subsidized credit lines to help them weather the crisis and build resilience for a stronger recovery. Pillar 3 looks beyond the immediate crisis and supports the GoG’s structural reform measures to strengthen public financial management, governance, and transparency to help Grenada stay the course of fiscal responsibility that it had already embarked upon. Actions include enhancing debt transparency through the regular publishing of debt reports, strengthening public investment and asset management, and improving financing reporting and auditing standards. Such reforms are consistent with the capacity limitations of the country made worse by the crisis. These structural measures in the proposed standalone operation build on over a decade of reform engagement in Grenada (see paragraphs 33 and 36 for more details on the rationale for a standalone operation).

9. **The three pillars under the operation aim to support the Government’s actions to protect lives, livelihoods, and facilitate business continuity and structural transformation both in the short and long term.** The pillars are aligned with the World Bank’s *COVID-19 Crisis Response Approach Paper*. The operation aims to mitigate the negative impacts of the pandemic in the short term by protecting lives, livelihoods, and jobs. The operation also addresses key structural constraints and long-term opportunities as needed to allow the country to incrementally improve fiscal management and transparency, fostering conditions for growth and competitiveness, and enhancing resilience from a cross-cutting 360-degree perspective.

10. **This operation, along with the World Bank’s Fast Track Facility, is aligned with the collaborative efforts across different areas and by other International Financial Institutions to close Grenada’s gross financing gap.** It builds on the recent Fiscal Resilience and Blue Growth DPC series (approved in May 2018 and December 2019) that supported substantive structural measures to strengthen fiscal and debt sustainability and improve environmental resilience, especially risks from natural disasters. The International Monetary Fund (IMF) approved emergency financing under the US\$22.4 million Rapid Credit Facility (RCF) and Grenada is also participating in the Debt Service Suspension Initiative (DSSI), which is expected to release additional fiscal space (US\$4 million in savings or 0.4 percent of GDP for 2020). Key structural reform measures supported through the DPC are consistent with the Performance and Policy Actions (PPAs) being discussed under the IDA19 Sustainable Development Financing Policy (SDFP) (Annex Table 2). The measures also align with the DSSI strategic objective to reduce debt vulnerabilities by strengthening debt management and improving debt transparency.

11. **The DPC is also expected to support the GoG in meeting its climate change adaptation and mitigation objectives.** Sea level rise and storm surge impacts constitute the highest economic risks for Grenada from climate change impacts. A one-meter sea level rise would place 73 percent of Grenada’s



major tourism resorts at risk, threatening the livelihoods of those working in this industry.³ In addition, Grenada has suffered significant losses from hurricanes. In 2004, Hurricane Ivan struck Grenada causing damages of approximately 148 percent of GDP. In 2017, it was estimated that the annual average loss from hurricanes totaled US\$8.2 million and from earthquakes US\$1.8 million.⁴ These losses are expected to increase as climate change impacts become exacerbated and directly impact critical industries such as tourism and fisheries. Furthermore, the potential impact of climate change will include the intensification of droughts, soil erosion, and land degradation from flooding and salt-water intrusion due to sea-level rise leading to loss of crops and threats to food security in Grenada.⁵ On average, disadvantaged groups experience disproportionate impacts from climate change given that they are more physically and economically exposed and their ability to recover from shocks is significantly lower than the average. The COVID-19 pandemic has shown the importance of preventing and increasing preparedness to deal with pandemics and other natural disasters. Therefore, this operation also aims to improve Grenada's ability to mitigate and respond to climate change impacts, in particular through adaptation measures to strengthen public investment and asset management and strengthen social safety nets to support vulnerable groups.

12. **The measures supported under the operation are also expected to narrow economic disparities between men and women that may have been aggravated as a result of the crisis.** Historically in Grenada, labor force participation rates have been lower and unemployment rates higher for women than men. While the official unemployment rate declined to 15.7 percent in 2019, the respective rates for men and women were 12 percent and 20 percent.⁶ The growth in tourism and related sectors, as a share of GDP, created significant employment opportunities for women. However, these are the very areas which have been hit the hardest by the crisis, with women accounting for about 70 percent of workers employed in hard hit sectors (LFS, 2019). The DPC supports Government transfers to save jobs in these sectors through wage subsidies and income support mechanisms to targeted occupations, including hospitality workers, market vendors and agro-processors who tend to be predominantly women.

13. **Despite the unprecedented shock due to COVID-19 pandemic, the macroeconomic framework of Grenada is deemed adequate,** given its strong institutional policy frameworks (anchored by the FRL), solid track record of economic management, and credible commitment to continued fiscal discipline even in wake of the current crisis. Nevertheless, the macroeconomic risks are substantial. Besides downside risks arising from uncertainties around the pandemic itself, there are additional exogenous macroeconomic risks to the outcomes of the operation associated with Grenada's small economy, making it highly vulnerable to shifts in external demand, and exposing it to very high risks of extreme climate and weather-related shocks. The measures implemented by the Government are expected to mitigate some of these risks and reignite the growth engine of the economy over the medium term.

2. MACROECONOMIC POLICY FRAMEWORK

³ The Economic Effects of Climate Change in Grenada, Integrated Climate Change Adaptation Strategies (2013). http://www.iccas.gd/sites/default/files/resources/ICCAS%20Brief_EconomicImpact_Key%20sectors_NF.pdf

⁴ Disaster Risk Profile: Grenada, Global Facility for Disaster Reduction and Recovery (2017). <https://www.gfdrr.org/en/publication/disaster-risk-profile-grenada>

⁵ The Economic Effects of Climate Change in Grenada, Integrated Climate Change Adaptation Strategies (2013). http://www.iccas.gd/sites/default/files/resources/ICCAS%20Brief_EconomicImpact_Key%20sectors_NF.pdf

⁶ Grenada Labor Force Survey (LFS) 2019.



2.1. RECENT ECONOMIC DEVELOPMENTS

14. **The Grenadian economy is experiencing its most severe economic recession in almost a decade owing to the COVID-19 pandemic.** Prior to the onset of COVID-19, Grenada was on track to retain the strongest pace of economic growth among OECS countries. Real output growth averaged 4.7 percent annually between 2013 and 2018, driven by expansion in the tourism and construction sectors. In 2019, growth moderated to 2.0 percent (from 4.1 percent in 2018), as the economy closed positive output gaps and expansion in manufacturing, tourism, and transport decelerated, while the agriculture and construction sectors contracted. An uptick in enrollment at the private international St. George’s University spurred growth in the services sector. Prior to the pandemic, another year of solid growth had been expected in 2020. Stayover tourist arrivals from the U.S., Grenada’s largest tourism source country, grew by 15.3 percent year-on-year (y/y) in January-February 2020.⁷ The construction sector expanded by 8 percent in the first quarter, while the domestic economy was performing well overall, as indicated by a 4.5 percent increase in electricity usage compared to Q1 2019.⁸ However, in the wake of the pandemic, international tourist arrivals halted and tourism expenditure plummeted by 55 percent y/y in March 2020 (Figure 1), completely drying up in the second quarter as the Government closed the country’s international borders to contain the spread of COVID-19. Between January and August 2020, stayover visitors dropped 67 percent compared to the same period in 2019. Since May 2020, with the relaxation of domestic quarantine measures, local economic activity has resumed gradually, led by construction, agriculture, and business services. Monthly commercial electricity consumption, which bottomed out in May 2020 at 32.5 percent lower than a year before, increased 8.7 percent (m/m) in June-July (MoF, 2020).

15. **The labor market showed gradual signs of improvement preceding the COVID-19 outbreak.** Increased job creation in recent years was generated by considerable public and private sector investment, especially in the tourism-related investment projects. While remaining elevated, the unemployment rate declined markedly to 15.7 percent in 2019, down from 21.7 percent in 2018 (Figure 2). Following a decline in the overall labor force participation rate from 68.2 percent in 2016 to 65.8 percent in 2017, the labor force participation rate ticked back up to 68.9 percent in 2018, prompted by an increase in the participation of younger workers. However, due to the COVID-19 pandemic, the unemployment rate almost doubled from 15.7 percent in the second quarter of 2019 to 28.4 percent in the corresponding period of 2020, while the labor force participation rate plummeted to 54.9 percent over the same period. The pandemic triggered further deterioration in the labor market following the imposition of lockdown measures of nonessential services and the closure of international borders, which resulted in widespread job loss in a largely tourism-oriented economy (Figure 2). Since 2013, tourism’s overall contribution to employment increased by 4.4 percentage points to 42.9 percent in 2019,⁹ led by employment indirectly related to the sector. The pandemic also compounded gender disparities in the labor market with women accounting for about 70 percent of the employed in occupations most adversely impacted by COVID-19, particularly tourism and tourism-related sectors (LFS, 2019).

16. **The pandemic caused a severe blow to the external sector, significantly deteriorating the current account deficit.** The current account deficit (CAD) stabilized at 15.8 percent of GDP in 2019, after a gradual deterioration in the preceding years.¹⁰ Lower receipts from both tourism and the international

⁷ Grenada Tourism Association (GTA), 2020.

⁸ World Travel and Tourism Council (WTTC), 2019.

⁹ World Travel & Tourism Council (WTTC), 2019.

¹⁰ While relatively high current account deficits are a somewhat common occurrence in highly import-dependent small island



university caused exports of goods and services to decline from 53.2 percent of GDP in 2018 to an estimated 51.9 percent in 2019. The slight drop in the relative share of exports was mostly offset by a 1.0 percentage point moderation in imports of goods and services to 57.6 percent of GDP, particularly associated with mineral fuel imports. The CAD in 2019 was chiefly financed by foreign direct investment (FDI) of 10.6 percent of GDP and capital grants amounting to 2.8 percent of GDP. International reserves grew to an estimated 5.5 months of imports at end 2019, relative to 3.9 months of imports the previous year, providing an additional cushion for financing the CAD. Net remittance inflows (4.1 percent of GDP in 2019) increased by 7.4 percent (y/y) for the period January-June 2020 amid a strong uptick since May (MoF, 2020). Additionally, citizenship by investment (CBI) inflows remained buoyant, increasing by EC\$20.9 million (US\$7.7 million) or 0.7 percent of GDP up to June 2020. In effect, the March 2020 quarter showed a 25 percent (y/y) increase in CBI flows over the corresponding period of 2019 (MoF, 2020).

17. **Inflation has remained subdued due to weak economic activity during the crisis.** Consumer prices eased slightly, on average, to an estimated 0.6 percent in 2019, down from 0.8 percent in 2018. The deceleration in Grenada's inflation rate was owing to declines in international commodity prices, especially oil, along with a moderation in U.S. inflation. For the first six months of 2020, average consumer prices contracted by 0.5 percent (y/y), largely reflecting a decline in the sub-categories of transport along with the housing, utilities, gas & fuels, consistent with movements in international oil prices.

18. **The financial sector continues to strengthen amid supportive capital and liquidity buffers, coupled with regionally low non-performing loans (NPLs).** Despite a slight decline, the capital adequacy of Grenada's banking system is comfortably above the regulatory minimum at approximately 12 percent in 2019. Bank profitability increased marginally in indigenous banks, reflecting return on assets of about 1.5 percent in 2019. The banking sector's loan portfolio performance remained robust, with the NPL ratio reaching 2.2 percent in 2019 from 2.4 percent in 2018, representing the lowest in the OECS. Loan loss provisions were adequate as evidenced in a coverage ratio of about 80 percent, on average, in 2019. In response to the COVID-19 outbreak, the Monetary Council of the Eastern Caribbean Central Bank (ECCB) approved grant funding of EC\$500,000 (US\$185,185) for each ECCB member government, including Grenada. In April 2020, the ECCB also reduced its discount rate from 6.5 percent to 2.0 percent, which is on par with the interbank lending rate. Additionally, the ECCB offered support for the Eastern Caribbean Currency Union (ECCU) Bankers' Association program, which entailed a loan repayment moratorium for customers and residents with an initial period of up to six months beginning in March 2020. The ECCB subsequently provided an extension of the moratorium up to 12 months commencing in October 2020, with further adjustments being contingent upon an assessment of the financial condition of customers.

19. **Grenada's record of sound fiscal policy has helped it to weather the COVID-19 crisis.** Grenada entered the crisis with a strong fiscal position owing to its continued commitment to fiscal responsibility, anchored by the 2015 FRL.¹¹ Solid tax revenues combined with a mandated expenditure restraint facilitated an overall fiscal surplus of 4.9 percent in 2019 (Table 1 and 2) – the fourth consecutive year of positive overall fiscal balances. The primary surplus increased to 6.7 percent of GDP in 2019 from 5.2 percent in 2016, consistently outperforming the FRL target of 3.5 percent of GDP. Tax reforms generated a 2.9 percentage-point increase in tax revenues as a share of GDP over the period 2015 to 2019.¹²

states, the IMF 2019 External Sector and Competitiveness Assessment for Grenada suggests that the current account deficit is higher than what would be implied by medium-term fundamentals and desirable policies.

¹¹ Fiscal Responsibility Act No. 29 of 2015, August 25, 2015.

¹² Tax measures since 2014 have included a broadening of the VAT base, lowering personal income tax thresholds and improving tax administration.



Meanwhile, the Government managed to contain public expenditure within the limits defined by the FRL. In response to the social and economic fallout from the pandemic, the Government invoked the FRL's "Escape Clause" in March 2020, temporarily allowing more fiscal flexibility.¹³ The GoG has indicated its intention to extend the invocation of the Escape Clause to December 2021 to stimulate additional recovery spending and has reaffirmed its commitment to return to the rules and targets under the FRL once the recovery is underway. A supplementary budget of EC\$50 million (US\$18.5 million or 1.7 percent of GDP) was passed by the Parliament in April 2020 to partially fund COVID-related spending in health and economic transfers to various affected sectors (Annex Table 1). As of August 2020, about 56 percent of the supplementary budget had been spent. Falling tax revenues due to economic inactivity resulting from strict containment measures, plus the surge in COVID-related expenditures have caused the fiscal position to weaken. For the period January-August 2020, the overall balance registered a deficit of EC\$29.60 million (1.0 percent of GDP), while the primary surplus moderated to EC\$1.30 million (0.04 percent of GDP) (MoF 2020).

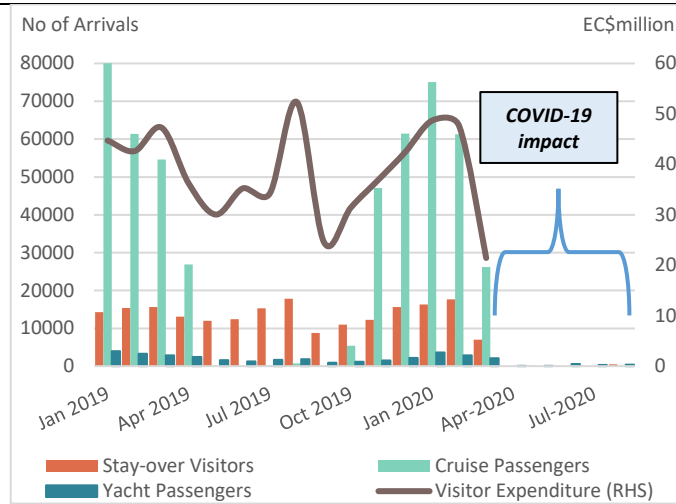
20. **General Government debt declined and had been on track to reach the debt anchor of 55 percent of GDP by 2020 before COVID-19 struck.** Grenada's public debt fell from 81.6 percent of GDP in 2016 to 59.6 percent in 2019, amid sustained economic expansion and substantial fiscal restraint. The Government lowered its debt obligations to major creditors via an extensive debt restructuring exercise, commencing in 2013.¹⁴ Total debt service also declined, falling by an estimated 14.0 percent in 2019, with Grenada's participation in the DSSI having freed up US\$4 million (0.4 percent of GDP) in 2020 to boost the fiscal response to mitigate the crisis.

¹³ The Escape Clause allows the suspension of fiscal rules, targets and corrective measures for a maximum of one fiscal year in the event of, inter alia, a natural disaster, public health epidemic, or war as a result of which a state of emergency has been declared by the Governor-General pursuant to section 17 (1) of the Constitution.

¹⁴ Debt restructuring agreements included principal reductions of 50 percent of the nominal face value of the debt, the insertion of hurricane clauses (for Paris Club debt), and lengthening of maturities.

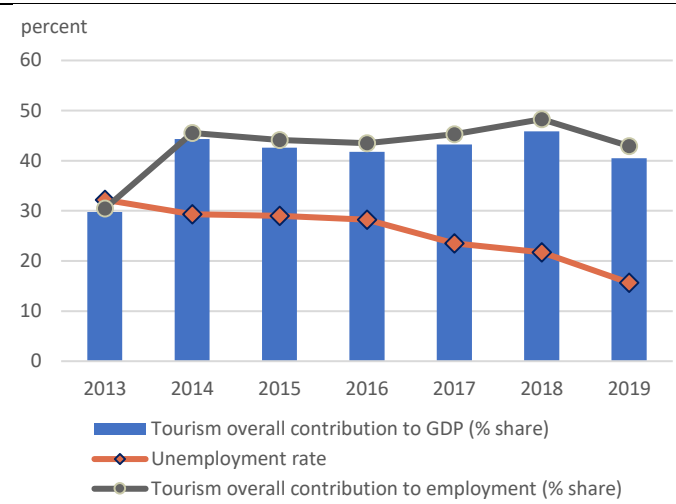


Figure 1. Tourism Arrivals and Receipts: pre-COVID-19 relative to post-COVID-19



Sources: ECCB; Grenada Tourism Authority

Figure 2. Official Unemployment Rate and Tourism Contribution to GDP and Employment



Sources: LFS 2013-2019, Central Statistical Office; WTTC.
 Note: Unemployment rate is calculated in Q3 for 2013-2019, while in Q2 for 2020.



Table 1. Grenada: Key Macroeconomic Indicators (2016-2023)

	2016	2017	2018	2019 ^a	2020 ^b	2021 ^b	2022 ^b	2023 ^b
Real Sector	<i>Annual percentage change, unless otherwise specified</i>							
Real GDP	3.7	4.4	4.1	2.0	-12.0	3.0	5.0	5.0
CPI (average)	1.7	0.9	0.8	0.6	0.8	1.2	1.7	1.9
Unemployment Rate ^c (percent)	28.2	23.5	21.7	15.7	28.4
Fiscal Accounts	<i>Percent of GDP, unless otherwise indicated</i>							
Revenue	26.2	25.6	26.9	26.5	25.9	25.3	25.6	26.0
Expenditure	23.9	22.6	22.3	21.6	27.8	24.0	23.3	23.3
General Government Balance	2.3	3.0	4.6	4.9	-1.9	1.3	2.3	2.7
Primary balance	5.2	5.7	6.6	6.7	0.4	3.6	4.6	5.2
Public Debt	81.6	70.1	64.4	59.6	70.5	72.5	70.8	64.4
Selected Monetary Accounts	<i>Annual percentage change, unless otherwise indicated</i>							
Broad money (M2)	1.3	4.0	5.9	2.9	-11.1	4.4	7.0	7.1
Credit to private sector	-0.2	0.6	2.8	1.4	-15.3	-1.6	1.9	1.9
External Sector	<i>Percent of GDP, unless otherwise indicated</i>							
Current account balance, o/w:	-11.0	-14.4	-15.9	-15.8	-27.4	-26.7	-22.0	-14.3
Exports	49.4	51.4	53.2	51.9	29.7	33.9	40.5	48.1
Imports	49.9	54.7	58.6	57.6	46.8	50.4	52.0	52.0
Foreign Direct Investment	8.8	13.5	14.2	10.6	7.1	10.6	11.6	12.6
Net imputed international reserves (months of Imports)	3.9	3.4	3.9	5.5	3.7	3.7	3.8	4.0
External debt (PPG)	56.6	47.5	45.1	41.6	52.4	55.7	55.8	51.7
REER	2.2	-1.4	-2.4					
Memorandum items								
Nominal GDP (EC\$ million)	2866	3039	3155	3288	2922	3050	3262	3495
Nominal GDP (US\$ million)	1061.6	1125.7	1168.7	1217.8	1082.2	1129.6	1208.3	1294.4
	Downside Scenario ^{1/}							
Real GDP (at market prices)	3.7	4.4	4.2	2.0	-14.3	-0.6	1.3	5.0
Primary balance	5.2	5.7	6.5	6.8	-1.5	0.2	2.9	5.0
Public sector debt	81.6	70.1	63.5	60.2	77.8	81.9	82.0	64.4
Current account balance	-11.0	-14.4	-15.9	-15.6	-30.5	-30.1	-26.2	-14.3

Sources and Notes: GoG, IMF, World Bank. ^a Preliminary ^b Projected

^{1/} The downside scenario assumes continued fallout in the tourism sector until the end of 2020 and slower recovery in the sector over the medium term.



Table 2. Grenada: Key Fiscal Indicators for the Central Government, 2016-2023 (Percent of GDP)

	2016	2017	2018	2019 ^a	2020	2021 ^b	2022 ^b	2023 ^b
Total Revenue and Grants	26.2	25.6	26.9	26.5	25.9	25.3	25.6	26.0
Tax Revenue	20.9	21.4	22.3	21.9	19.0	20.8	21.3	21.9
Taxes on goods and services	8.5	8.7	8.8	8.6	7.4	8.1	8.5	8.6
Taxes on income and profits	4.4	4.6	4.9	4.6	4.1	4.3	4.5	4.5
Taxes on property	0.8	0.8	0.9	1.2	1.0	1.1	1.1	1.1
Taxes on international trade	7.1	7.3	7.7	7.5	6.4	7.4	7.3	7.7
Non-Tax Revenue	1.8	1.6	1.6	1.8	1.7	1.7	1.7	1.7
Grants	3.5	2.6	3	2.8	5.3	2.8	2.6	2.5
Total Expenditures	23.9	22.6	22.3	21.6	27.8	24.0	23.3	23.3
Current expenditure	19.7	19.9	19.6	19.0	23.5	20.9	20.5	20.6
Wages and salaries	8.4	8.1	8.0	7.7	9.1	9.1	9.0	8.8
Goods and services	4.1	4.2	4.1	4.0	5.5	4.1	3.8	3.6
Interest	2.9	2.7	2.0	1.8	2.1	2.3	2.3	2.5
Transfers	2.5	2.9	3.2	3.3	4.8	3.5	3.3	3.2
Pensions and NIS contributions	1.8	2.0	2.3	2.1	2.0	2.0	2.2	2.5
Capital expenditures	4.2	2.7	2.8	2.6	4.3	3.1	2.8	2.7
Grant-financed	2.6	2.1	2.4	2.3	3.4	2.8	2.6	2.5
Non-grant-financed	1.6	0.5	0.4	0.3	0.9	0.4	0.2	0.1
Primary balance	5.2	5.7	6.6	6.7	0.4	3.6	4.6	5.2
Overall fiscal balance	2.3	3.0	4.6	4.9	-1.9	1.3	2.3	2.7
Public Debt	81.6	70.1	64.4	59.6	70.5	72.5	70.8	64.4
External	56.6	47.5	45.1	41.6	52.4	55.6	55.8	51.7
Domestic	25.0	22.6	19.3	17.5	18.1	16.9	15.0	12.7

Sources and Notes: GoG, IMF, World Bank. a/ Preliminary; b/ Projected



Table 3. Grenada: Balance of Payments Financing Requirements and Sources, 2016-2023
(US\$ million)

	2016	2017	2018	2019 ^e	2020 ^f	2021 ^f	2022 ^f	2023 ^f
Financing requirements	150.9	204.9	237.6	227.2	329.1	341.5	307.9	232.9
Current Account Deficit	117.3	162.5	186.1	192.5	294.9	302.0	265.8	188.9
Amortization medium and long term (MLT) debt	33.6	42.4	51.5	34.7	34.2	39.5	42.2	44.0
public sector	33.6	42.4	51.5	34.7	34.2	39.5	42.2	44.0
Financing Sources	150.9	204.9	237.6	227.2	329.1	341.5	307.9	232.9
FDI	93.2	152.2	165.7	129.3	76.9	119.8	140.2	163.1
Capital Grants	49.7	66.9	69.0	62.3	68.2	63.4	65.7	68.1
Public sector MLT debt disbursements	82.4	85.1	87.5	96.7	54.3	87.8	70.1	16.1
IMF					22.3			
WBG					27.5			
CDB					4.5	1.4		
Other financing incl. Drawdown of FX Reserves	-74.4	-99.3	-84.5	-61.1	129.7	70.5	32.0	-14.4

Sources: World Bank Staff Estimates based on the ECCB; IMF.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

21. **The COVID-19 shock, while of uncertain magnitude and duration, is currently viewed as a singular event that will produce temporary, though sizable, deviations in macroeconomic aggregates.** The fluidity of the crisis creates heightened uncertainty around the outlook. In a baseline scenario,¹⁵ the economy is expected to contract by 12 percent in 2020, with a gradual recovery over the subsequent three years. The sharp contraction in baseline economic output is primarily tied to the complete halt of the tourism sector (Figure 1), which is expected to only gradually rebound in the last quarter of 2020, contracting by 60 percent for the whole year. Additionally, the absence of international students from St. George's University campus since March is expected to contribute to significant reduction in domestic demand. The postponement of major construction projects by several weeks is expected to moderate economic activity in the near-term. However, this should be tempered by the gradual continuation of special tourism-related and key public sector projects.

22. **Against this background, the economy is projected to slowly recover to 2019 levels by 2023, primarily driven by a gradual resumption in tourism, private education, and construction.** Significant investments in public sector infrastructure projects along with new tourism-related construction including the Agriculture Feeder Roads project, which is estimated to generate 200 jobs, and the Community Economic Infrastructure Program (CEIP) with over 300 new jobs projected, are likely to buoy activity in the construction sector. In addition, major private sector projects are underway, including the Kawana Bay Resort and Six Senses Resort. The implementation of stimulus measures in the agriculture sector aimed at promoting food security should also aid in bolstering the recovery, with an estimated contribution to GDP of 0.2 percent. Enrollment in the St. Georges University, which generates an average contribution of 20 percent to GDP, continues with virtual classes underway and students are expected to return to on-site classes as soon as conditions allow. The University continues to receive tuition and other

¹⁵ The baseline scenario assumes a total fallout in tourism and construction for the second and third quarters of 2020 as the Government maintains strict lockdown measures for at least three months.



applicable fees from students despite the pandemic, with continued buoyancy in enrollment expected for the 2020/2021 academic year (Table 2 and Box 1).

23. **The current account deficit is anticipated to be significantly affected by the pandemic, thereby creating a short-term BOP need.** The CAD is expected to deteriorate to 27.4 percent of GDP in 2020 in the baseline scenario compared to forecasts of 9.9 percent before the crisis (Table 2 and Box 1). The fallout in tourism is expected to translate into a substantial cut in export earnings, which will be partially offset by a drop in tourism-related imports. Remittances, which have been an important source of income at an average of 4 percent of GDP, are projected to lose US\$10 million, or 0.9 percent of GDP in 2020. External financing needs of about 30.4 percent of GDP are expected to be met by FDI flows of around 8 percent of GDP, external official loans and a drawdown on international reserves (Table 4). Lower international oil prices are expected to drive down inflation over the medium term. Additionally, under the currency board arrangement by the ECCB, inflation is projected to remain constrained below 2 percent over the medium term.

24. **The fiscal accounts are expected to deteriorate due to lower revenues from tourism, trade and domestic consumption as well as increased public spending on mitigation measures.** Despite the high dependence of output on tourism, tax revenues are relatively less affected by the shutdown of tourism and have shown a degree of resilience to the external shocks. It is reflected in a small primary surplus in 2020. In this context, a fiscal deficit of 1.9 percent is expected for 2020 in the baseline scenario, compared to a pre-crisis budgeted fiscal surplus of 3.3 percent of GDP. The fiscal savings from planned delays in some current expenditure contractual increases, together with the Government's commitment to expenditure containment measures in sectors besides health, should temper further deterioration in the fiscal position, notwithstanding the likelihood of extending the escape clause of the FRL to the end of 2021. The debt-to-GDP ratio is expected to reach 70.5 percent of GDP in 2020, from 59.6 percent in 2019. Going forward, the Government has committed to return to the core parameters of the FRL once the crisis abates and the debt trajectory is expected to resume the downward trend after peaking at 72.5 percent in 2021.

25. **The World Bank Debt Sustainability Analysis (DSA) conducted in October 2020¹⁶ concluded that the external debt risk is high and the public debt remains sustainable, despite the “in debt distress” rating.**¹⁷ The assessment is consistent with the DSA conducted under the IMF RCF in April 2020. The total public and publicly guaranteed (PPG) debt is estimated to increase from 59.6 percent of GDP in 2019 to 70.5 percent in 2020 and peak at 72.5 percent in 2021 under the WB baseline DSA. The surge in debt-to-GDP ratio is mainly driven by the sharp economic contraction of 12 percent, while an uptick in the fiscal balance also contributed to the increase. Under a downside scenario whereby the economy experiences a more severe recession and slower recovery, it is anticipated that the PPG debt will peak at 85.4 percent of GDP in 2022. Under both scenarios, the debt would resume a downward trend by 2022/23 as anchored by the FRL and decrease to below 55 percent by 2030 (Figure 3), although a stronger fiscal adjustment would be required in the downside scenario. The risk rating of the external debt was downgraded from “moderate” in 2019 to “high” in light of the large external balance of payment deficit due to the sharp drop in tourism receipts. Moreover, stress tests indicate the highest risks arise from a shock to exports via the tourism sector, natural disasters and contingent liabilities. Some bilateral arrears are yet to be

¹⁶ This updates the latest publicly available Low-Income Country DSA published jointly by the IMF and WB in April 2020 to accompany Grenada's Request for Disbursement under the IMF's Rapid Credit Facility.

¹⁷ The “in debt distress” rating reflects unresolved arrears to official bilateral creditors and is unrelated to the underlying debt dynamics.



regularized including approximately 1.8 percent of GDP in arrears to non-Paris Club official bilateral creditors. However, the risks are mitigated by the Government's Medium-Term Debt Management Strategy primarily seeking to replace short term borrowing with concessionary financing, particularly from development partners. Also under the SDFP, the PPAs that are being considered would aim to support the Government in reducing debt vulnerability over the medium term, including through reforms to enhance debt transparency and the timeliness of debt reporting and a strategy to address the external debt arrears.

26. **Grenada's macroeconomic policy framework is deemed adequate for the proposed operation, despite substantial macroeconomic risks.** Given its strong institutional policy frameworks (anchored by the FRL), solid track record of economic management and credible commitment to continued fiscal discipline even in wake of the current crisis, Grenada is relatively well prepared to face the current shock. Additionally, the long-standing fixed exchange rate regime keeps inflation in check. While the COVID-19 pandemic has caused significant damage to the economy, it is expected to be temporary. The strong prior fiscal position and significant fiscal reserve buffers help to cushion the shock. The timely response measures implemented by the Government have partially mitigated the negative impacts on the domestic economy, protecting jobs and livelihoods, and are expected to reignite the growth engine of the economy over the medium term as economic activities resume and tourism rebounds. Additionally, the Government has a good record of policy implementation and has committed to return to the core parameters of the FRL once the crisis abates. Over the longer-term, the new 2020-35 National Sustainable Development Plan serves as a strategic document laying the basis for sustained, resilient, and inclusive growth including continuing efforts in building a comprehensive disaster resilience strategy.

27. **Despite the Government's early actions to mitigate the spread of the outbreak and timely fiscal policy responses, risks to the outlook are tilted downwards.** There is still significant uncertainty around the duration of the pandemic, with possibilities existing for multiple waves of outbreaks globally. The rate of infection remains high in the US, Grenada's main tourist source market. Slow economic recovery in advanced economies, continued disruptions to international travel and natural disasters create ongoing risks to Grenada through threats to tourism, remittances and FDI. Risks to debt dynamics include the possibility of a more severe-than-expected fallout from COVID-19 and natural disasters, in addition to a potential one-off increase in debt associated with payment obligations to the electricity company, Grenlec¹⁸. Fiscal risks may emerge in response to the failure of state-owned enterprises (SOEs) to remain within their funding constraints or to service their obligations if there are calls on the Central Government's resources. In this regard, this DPC supports the strengthening of fiscal management and transparency, promoting the use of international reporting and auditing standards in public financial management. Meanwhile, the combination of risks threatens to push the most vulnerable groups such as the youth and those living in rural areas further into poverty.

¹⁸ The recently announced judgement by the World Bank's International Center for Settlement of Investment Disputes requires the government to pay a foreign investor US\$71.5 million or 6 percent of 2019 GDP for a 50 percent stake in Grenlec, although the timeframe and modality of payments would depend on several factors, including possible appeals or agreement between the parties.



Figure 3. Debt Sustainability Analysis under Alternative Scenarios

Chart A: Public and public-guaranteed debt (% of GDP)

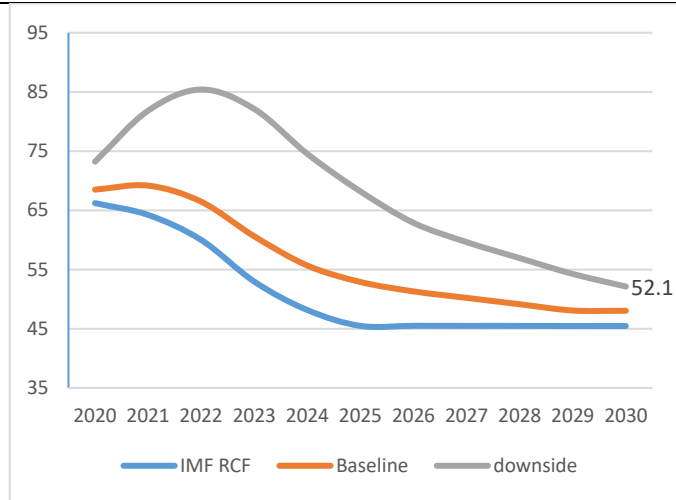
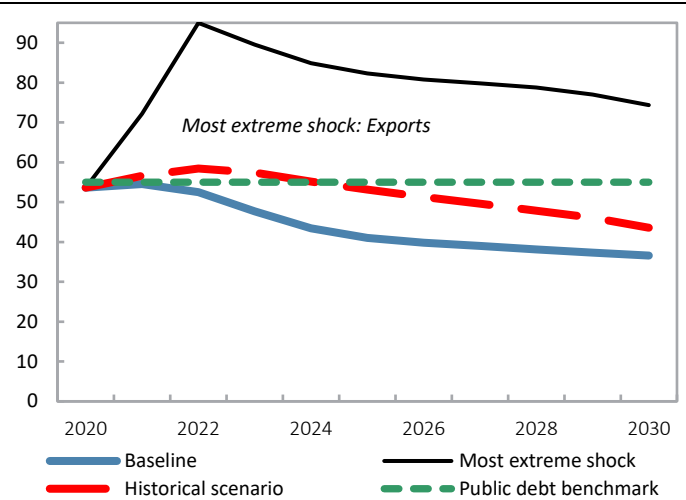


Chart B: Stress test of present value (PV) of debt-to-GDP under baseline scenario



Sources: IMF RCF DSA; World Bank DSA, Oct 2020.

Notes: The most extreme stress test is the test that yields the highest ratio in or before 2030. This scenario assumes that the currently projected effects of COVID-19 for 2020 remain similarly strong throughout 2021. Specifically, it assumes 5 percentage points lower real GDP growth in 2021 compared to the baseline and a one-year delay in recovery afterwards, while total public expenditure-to-GDP in 2021 remains equal to its 2020 value.

**Box 1. Macroeconomic Impact of the COVID-19 Crisis**

The COVID-19 pandemic has adversely impacted Grenada's macroeconomic aggregates, surpassing the downturn encountered during the 2008 global financial crisis. The projected macroeconomic impact for the baseline and downside scenarios, relative to the pre-crisis projections, are explored in the following analysis.

	Macroeconomic Impact of the COVID-19 Crisis								
	Pre-Covid			Baseline			Downside		
	2020 ^b	2021 ^b	2022 ^b	2020 ^b	2021 ^b	2022 ^b	2020 ^b	2021 ^b	2022 ^b
Real Sector (% change)									
Real GDP	3.1	2.9	3.2	-12.0	3.0	5.0	-14.3	-0.6	1.3
Agriculture	4.1	2.7	3.2	15.4	4.9	5.1	2.7	2.3	3.1
Industry	5.8	3.3	3.4	-9.8	7.2	4.0	-16.2	0.9	1.4
Services	2.3	2.9	3.1	-14.9	1.7	5.3	-15.4	-1.2	1.1
Fiscal Accounts (CG) (%GDP)									
Revenue	25.8	25.8	25.3	25.9	25.3	25.6	24.9	23.6	24.6
Expenditure	21.5	21.2	22.5	27.8	24.0	23.3	28.7	25.8	24.4
General Government Balance	4.3	4.6	2.8	-1.9	1.3	2.3	-3.7	-2.2	0.2
Primary balance	6.3	6.4	4.5	0.4	3.6	4.6	-1.5	0.2	2.9
Public debt	54.9	52.3	49.6	70.5	72.5	70.8	77.8	81.9	82.0
External Sector (%GDP)									
Current account balance, o/w:									
Exports	51.2	50.7	49.7	29.7	33.9	40.5	17.9	24.9	32.2
Imports	55.9	54.1	52.2	46.8	50.4	52.0	37.8	43.2	47.0
Financing needs^c (%GDP)									
Fiscal	-1.6	-2.1	-0.4	5.1	2.2	1.2	7.0	5.9	3.5
External	13.4	12.2	12.6	30.4	30.2	25.5	33.7	33.7	32.3

Sources and Notes: GoG, IMF, World Bank.

^b Projected

^c Defined as overall fiscal/current account balance plus amortization of debt payments.

Under the new baseline scenario, real GDP is expected to contract by 12 percent in 2020, compared to a projected expansion of 3.1 percent pre-COVID-19. In the downside scenario, which assumes an extended crisis would lead to further loss of the tourism season between end-November 2020 and early 2021, real GDP could decline as much as 14.3 percent in 2020 and the recovery delayed for another year. Thus, under the downside scenario, further contraction in GDP of 0.6 percent is expected in 2021, while under the baseline scenario, the economy would be expected to start recovering in 2021, rebounding by 3 percent. The economy is projected to recover slowly to 2019 levels in 2023 (baseline) and by 2024-25 (downside).

The COVID-19 crisis is expected to substantially weigh on the external accounts, the main transmission channel for the economic impact of the pandemic. Given the severe fallout to the tourism sector, and the uncertainties around how quickly the sector can rebound, even after the country reopens its borders, under the downside scenario, the current account deficit is projected to deteriorate dramatically, possibly reaching 30.5 percent of GDP and 30.1 percent of GDP, respectively, in 2020 and 2021, reflecting the anticipation of a substantial reduction in tourism receipts associated with travel restrictions, which should significantly curtail overall exports. This pessimistic outlook compares to pre-COVID projections for a CAD of 9.9 percent of GDP in 2020. Moreover, the CAD could



deteriorate to 27.4 percent of GDP in 2020 under the baseline scenario in the context of more marginal projected declines in services exports. The financing gap is expected to be met with financing resources from international donors including the Caribbean Development Bank (CDB). Furthermore, Grenada has access to bond issuances in the Regional Government Securities Market.

The impact of the crisis on external accounts would also generate spillovers to the fiscal accounts due to lower revenues from tourism, trade and domestic consumption as well as increased public spending on mitigation measures to alleviate the impact of the crisis. In this context, the fiscal balance is expected to turn negative in 2020, declining to a deficit of 3.7 percent of GDP in the downside scenario, compared to a pre-crisis projection for a fiscal surplus of 4.3 percent of GDP, and moderately below a smaller projected deficit of 1.9 percent of GDP in the baseline. For 2021, a marginal easing of the fiscal deficit to 2.2 percent of GDP is projected in the downside scenario relative to a recovery in the fiscal balance to a surplus of 1.3 percent of GDP in the baseline scenario. The pandemic is projected to place upward pressures on debt levels in 2020, spurring the debt-to-GDP ratio to as high as 77.8 percent of GDP should the downside scenario materialize or to 70.5 percent of GDP under the baseline scenario. This contrasts strongly with the pre-crisis public debt projection of 54.9 percent of GDP, in which the FRL debt target would have been achieved. Furthermore, the downside debt levels are expected to peak at 81.9 percent of GDP in 2021, with a comparatively milder uptick to 72.5 percent of GDP anticipated in 2021 for the baseline scenario.

Central Government gross financing requirements for 2020 (baseline scenario) are estimated at 5.1 percent of GDP, compared to 7.0 percent of GDP in the downside scenario and a surplus of 1.6 percent in the absence of the crisis. External financing requirements of US\$329.1 million (30.4 percent of GDP) are estimated to be only partially met through FDI flows and external official loans, including from the WBG and IMF, necessitating the Government to drawdown on international reserves to fill the gap. In the event that the downside scenario materializes, external financing needs would increase to about US\$358.6 million (33.7 percent of GDP), reflecting the possibility of an even larger financing gap.

2.3. IMF RELATIONS

28. **On April 28, 2020, the IMF Board approved disbursements of SDR 16.4 million (US\$22.4 million) to Grenada under the RCF mechanism, to help cover their balance of payment needs stemming from the outbreak of the COVID-19 pandemic.** The IMF Board noted that Grenada meets the eligibility requirements for support under the RCF and is assessed as having sustainable debt and capacity to repay the Fund. It was noted that the country had an urgent balance of payments need, which could lead to severe economic disruption. The October 2020 IMF World Economic Outlook (WEO) projected a contraction of 11.8 percent in real GDP in 2020, with a moderate rebound of 3.0 percent in 2021. The IMF Executive Board concluded Grenada's 36-month Extended Credit Facility (ECF) arrangement in May 2017. The final review of Grenada's performance under the ECF concluded that Grenada had achieved the core objectives of the economic adjustment program of restoring fiscal sustainability, strengthening the financial sector and creating conditions for sustainable growth. In addition to satisfactorily meeting all performance criteria and structural benchmarks, the GoG also accomplished important legislative reforms to strengthen the fiscal policy framework. Following the conclusion of the ECF arrangement, the GoG moved to a surveillance-only engagement with the IMF on a standard 12-month cycle. The July 2019 Article IV concluded that Grenada continues to exhibit strong economic and fiscal performance and sustained debt reduction, underpinned by sound policies. The World Bank and the IMF continue to collaborate closely on Grenada.



3. GOVERNMENT PROGRAM

29. **Since the COVID-19 outbreak, the GoG implemented an array of mitigation measures geared towards containment of the pandemic and stimulation of Grenada's economic recovery.** In March 2020, Grenada declared a State of Emergency, which facilitated the imposition of school closures, curfews, the shutdown of nonessential services, and the closure of all ports of entry to non-citizens. The GoG also mandated increased laboratory testing and treatment and isolation of infected patients. With respect to fiscal policy, the GoG implemented a package of fiscal stimulus measures, including increased health spending, liquidity support for small businesses and tax payment deferrals coupled with income and payroll support programs to workers especially in the tourism sector, and electricity bill subsidies for three months (see Annex Table 1). Measures including the expansion of jobs under the public sector investment program (PSIP) and establishing the CEIP, were also executed. Additionally, the authorities provided financial support to the agricultural sector, including the Grenada Cooperative Nutmeg Association (GCNA) and the Grenada Cocoa Association (GCA), with a view to ensuring food security, while securing market access and payroll support to farmers and agro-processors, respectively. In May 2020, the Prime Minister announced a plan for a gradual reopening of the economy subject to certain COVID-19 protocols. Additionally, a task force for rebuilding the economy post COVID-19 was appointed to formulate ideas to stimulate economic recovery in key productive sectors. Moreover, the Cabinet approved the implementation of a temporary unemployment assistance benefit program to protect workers affected by the COVID-19 crisis and has taken steps to establish a permanent unemployment assistance program as a means of income protection for the unemployed to safeguard against future shocks.

30. **The Government's broad-based economic reform program, which is underpinned by its National Sustainable Development Plan (NSDP) 2020-2035, seeks to achieve sustainable, resilient, and inclusive growth through the anchoring of its development agenda over the period 2020-2035.** The NSDP is framed by three national development goals: i) the promotion of high quality human and social development; ii) the establishment of an institutional framework necessary for a vibrant, dynamic, competitive economy with supporting climate-and-disaster-resilient infrastructure; and iii) the achievement of environmental sustainability and security. The NSDP hinges on three development pillars namely society, economy, and environment. It replaces the three-year Homegrown Structural Adjustment Program (HSAP), which commenced in January 2014 whereby the GoG committed to an ambitious fiscal and structural reform program encompassing the boosting of inclusive growth and job creation in addition to the restoration of fiscal and debt sustainability.

31. **The GoG initiated a national strategy for implementing its vision of blue growth aimed at fostering inclusive growth and job creation.** The Grenada Blue Growth Coastal Master Plan outlines avenues through which ocean resources can generate economic growth such as fisheries and aquaculture, blue biotechnology, renewable energy, research, and innovation. In addition, the National Adaptation Plan (NAP) 2017-2021 provides a strategic, coordinating framework for building climate resilience in Grenada, recognizing the need to develop the enabling environment for climate change adaptation as well as programmatic priorities.

4. PROPOSED OPERATION

32. **This DPC aims to support the GoG in protecting lives and livelihoods and in facilitating business**



continuity and structural transformation both in the short term in response to COVID-19 crisis and over the longer term to build economic sustainability and resilience, including to climate change impacts. The proposed operation is aligned with the *WB's COVID-19 Crisis Response Approach Paper* and with the Government's strategies to respond to the crisis. It builds on the WB's strong technical engagement with Grenada on fiscal reforms,¹⁹ which will be critical to support macro-sustainability post-crisis. Extensive Technical Assistance (TA) and Investment Project Financing (IPF), including on Disaster Risk Management (DRM), Public Financial Management (PFM), agriculture, health and private sector competitiveness, will continue the reform agenda provided under this DPC and provide support for implementation.

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

33. **The proposed standalone operation continues the close collaboration between the GoG and the World Bank aimed at responding to the health, social, and economic crisis created by the COVID-19 pandemic, while maintaining sound public financial management and fiscal discipline.** The operation builds on the World Bank's immediate response to the health crisis which mobilized the existing Regional Health Sector IPF and the COVID-19 Fast Track Facility. It also builds on the previous Development Policy Credit (DPC) series including the Fiscal Resilience and Blue Growth DPC series, the Disaster Risk Management DPC with a Catastrophe Deferred Drawdown Option, as well as the Programmatic Resilience Building DPC. As such, the reforms foreseen in this standalone DPC continue to build on the fiscal reform agenda, strengthening institutional frameworks' resilience in times of crises – be they related to pandemics, natural disasters, climate change or external economic shocks.

34. **The development objective of this operation is to support Grenada's response to the COVID-19 crisis in the short-term and also enhance long-term sustainability and resilience through: (i) strengthening the Government's health and social protection responses to COVID-19; (ii) saving jobs and protecting livelihoods of households and firms; and (iii) strengthening fiscal management and transparency.** The DPC has a mix of COVID-19 response measures and medium-term structural measures critical for Grenada to stay the course on a strong resilience program and weather the crisis impacts. It will help Grenada to preserve the gains from fiscal consolidation, build social inclusion and foster a resilient recovery. The proposed operation is aligned with the WBG's COVID-19 Crisis Response Approach and the Government's strategies to respond to the crisis. It builds on the WB's technical engagement with Grenada on debt management and public financial management, which will be critical to support macro-sustainability post-crisis. The structural reforms in the operation also contribute to the Grenada National Sustainable Development Plan 2020-2035, which aims to promote human dignity and realize the full potential through sustainable economic, social and environmental progress for all.

35. **Grenada is particularly vulnerable to climate change as a small island within the Atlantic hurricane belt.** This operation continues collaboration with the World Bank on climate adaptation, diversifying to a blue economy growth model and sustainable development to improve Grenada's ability to mitigate and respond to climate change impacts. In particular, this operation will support Grenada's resilience to natural disasters and ability to deliver services to beneficiaries during these events through a policy framework on public investment and asset management that includes a comprehensive public (physical) assets registry, and with links to climate change and disaster risk management (PA7). In

¹⁹ Grenada Programmatic Resilience Building Development Policy Credit (P156761); Grenada Second Fiscal Resilience and Blue Growth Development Policy Credit (P167748)



addition, this operation will benefit populations that are particularly vulnerable to climate change impacts from hurricanes, floods, droughts, and sea level rise, including farmers, fisherfolk, and those engaged in the tourism industry (PAs 2, 3, 4, and 5). Social safety net and direct benefits will be delivered to these populations that have been significantly impacted economically by the COVID-19 pandemic; this support will increase their resilience to additional shocks that may result from climate change impacts such as hurricanes, floods, and sea level rise.

36. **The design of the proposed operation and rationale for a standalone operation incorporates lessons learned from previous World Bank engagement, the specific reform context of Grenada, while taking into account the unique challenges presented by the COVID-19 crisis.** Significant consideration was given to the choice between a programmatic series or a standalone operation. In responding to the Government's request for a standalone operation and urgency of timely liquidity support, the Bank was guided by Grenada's strong track record and dedicated commitment to stay the reform course (as demonstrated in two programmatic DPC series in the last seven years), and desire for continued support during the implementation phase. Given the urgent financing needs of the Government to respond to the immediate health costs arising from the pandemic, as well as the severe social and economic impact on households and firms as a result of lockdown measures to contain the spread of the virus, a standalone operation was deemed an appropriate and optimal option. The 2011 Implementation Completion and Results Report (ICR) highlighted that a programmatic approach can have deeper development impacts and noted that limited implementation capacity in small states requires that program design be simple and selective. It also called for intensive technical assistance and support during the implementation phase. The 2019 ICR from the Programmatic Resilience-Building Development Policy Program reiterated these lessons and highlighted the need to ensure realistic policy objectives and an incremental approach to difficult reform agendas, especially in light of capacity limitations. The DPC design benefited from these lessons, while recognizing the strong progress already demonstrated by Grenada during the past decade underpinned by its solid fiscal and structural reform commitment. In light of the highly unusual circumstances occasioned by the pandemic, the current emergency response standalone DPC focuses on both a range of precisely defined short-term measures critical for alleviating the direct health, social, and economic impacts of the crisis and a set of carefully crafted structural public financial management reforms, designed to be implemented on an incremental basis and complemented by technical assistance, to ensure implementation support. The reform package aims to selectively respond to the immediate emergency in the short term, strengthen institutional resilience in the recovery phase in the medium term, and ensure stronger systems to weather future crises over the longer term. The standalone operation is anchored on the longstanding engagement between the WB and GoG and has built in substantial technical assistance during the preparation and implementation of the operation to support sustainability of reforms. In particular, financing from the Canadian Resilience Trust Fund will allow for ongoing TA and implementation support during the life of the operation.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Strengthening the Government's Health and Social Protection Responses to COVID-19

37. **Pillar 1 contains two critical prior actions which seek to support the GoG in: (i) building the capacity of the health and social protection systems to respond to the health threat posed by COVID-19; and (ii) protecting workers and their families from the economic and social shocks of the crisis.** As a small island with high dependence on tourism and vulnerability to external shocks, it is important to implement mitigation measures to avoid more long-lasting impacts and aggravating the susceptibility to



other potential shocks. The actions focus on both short-term relief for immediate response to the crisis, as well as longer-term measures to support a resilient recovery and lay the institutional foundation to strengthen the country's capacity to respond to future shocks, including those induced by climate change, disease, or economic triggers. Pillar 1 supports strengthening the health sector to manage the response to COVID-19 and ensure appropriate health protocols in preparation for reopening the economy. Given the severity of the pandemic globally, the health measures are important both to avoid new outbreaks locally and to assure a safe reopening of the economy and international borders. In light of the significant numbers of workers who are anticipated to become unemployed as a result of lockdown measures and severe impact to the tourism sector, the operation supports the Government's efforts to provide temporary unemployment benefits to affected workers, in the short-term, while advancing the institutional framework to implement a formal contributory unemployment benefit program, over the longer-term. Additionally, the GoG temporarily suspended the two percentage-point increase in National Insurance Scheme (NIS) contributions that had been introduced in January 2020 to temporarily reduce labor cost to firms and increase disposable income for workers. This support provides critical resources to a population that is also vulnerable to climate change given that the tourism industry, and the people reliant on it for income, are directly impacted by sea-level rise and hurricanes.

Prior Action 1: *The Recipient has adopted new public health regulations that govern the national response to the COVID-19 pandemic and outline appropriate health protocols to support a safe reopening of the economy.*

38. **Rationale.** In response to the COVID-19 pandemic, Grenada has been strengthening its health sector and managed to limit the spread of the virus. Since the World Health Organization declared a global pandemic on March 11, 2020, Grenada has imposed strict social distancing measures, school closures, curfews, shutdown of nonessential services, residential confinement, and closure of all ports of entry to non-citizens. In addition, Grenada has been working to strengthen its health sector preparedness and response efforts through investments in laboratory testing, treatment and isolation capacities and public education campaigns to raise awareness. Aspects of the National Influenza Pandemic Preparedness Plan (prepared in 2006 in response to the outbreak of the avian flu) that relate to COVID-19 have been operationalized and in March 2020, a Cabinet COVID-19 Subcommittee was appointed to coordinate the national response during the early stages of the pandemic. Since March 2020, Grenada, with a population of 112,000, has maintained the number of confirmed COVID-19 cases to a minimum, with a total of 32 cases with no deaths (as of November 8, 2020), and has avoided widespread community transmission.²⁰ A phased reopening of businesses, schools and international borders has been in progress since early August. As of August 2020, the Cabinet COVID-19 Subcommittee was replaced with the establishment of five committees²¹ to manage the reopening process and develop sector specific protocols. As Grenada works to strengthen the overall capacity of the health sector to cope with the pandemic, it is important to prevent any further transmission in light of the reopening process. The country's ability to successfully

²⁰ <https://covid19.gov.gd/>

²¹ The five subcommittees are: (i) health; (ii) education; (iii) procurement; (iv) tourism and border reopening; and (v) public relations.



do so will depend on ensuring that adequate capacity to detect and respond to any potential outbreaks are in place and risks of imported cases are well managed.²²

39. **Substance of Prior Action. This action supports adoption of the regulations that govern the national response to the COVID-19 pandemic.** In September 2020, the GoG approved new regulations which define and govern the national response to the COVID-19 pandemic. With the implementation of these measures formalized by the Public Health (COVID-19) Regulations, 2020 and related protocols, Grenada aims to continue to minimize the number of COVID-19 cases as the country continues to reopen businesses, schools and borders. The Public Health (COVID-19) Regulations, 2020 outline: (i) requirements for mask wearing in public; (ii) physical distancing and sanitation protocols for businesses; (iii) restrictions on events and community gatherings; (iv) guidelines for operating businesses and institutions; (v) imposed restrictions for non-compliance; and (vi) functions and powers of public health officers and environmental health officers for screening and assessment, and of healthcare professionals. On April 17, 2020, a Supplementary Budget was approved which allocated EC\$ 10 million (US\$3.7 million) to the Ministry of Health. The health sector related activities financed by the Supplementary Budget include the purchase of essential medical equipment and supplies, laboratory supplies to increase testing capacity, initial retrofitting for an isolation facility, support for isolation and quarantine related activities, and personal protective equipment for health care facilities.²³ Going forward, the Ministry of Health is focusing on sustained contact tracing with increased trained personnel across the country (e.g. public health officers and environmental health officers functions defined in regulations), including a contact tracing application, continued public education campaigns, and coordination of travel requests and monitoring of quarantine sites.

40. Since measures to ensure the legitimate, appropriate and proportionate use and processing of personal data are not guaranteed under domestic law or managed in health information systems, the GoG has committed to addressing data protection issues through new legislation expected to be enacted in 2021.

41. **Expected Results. The Public Health (COVID-19) Regulations, 2020 adopted to manage the national COVID-19 response is expected to strengthen the implementation of public health protocols related to safe reopening measures.** Furthermore, the measures defined in the regulations have been financed by the Supplemental Budget not only to prepare for reopening but also to support the financing of the health sector's preparedness to adequately detect (testing and contact tracing) and respond to potential outbreaks (treatment and isolation). The impact of the prior action will be measured by number of environmental health officers in place and the number of facilities with isolation capacity. Both indicators are the most critical steps. The target of 38 for environmental health officers, who also have responsibility to carry out contact tracing, is approximately double the number recommended (15 contact tracers per 100,000 population) during non-emergency situations. The capacity of the health sector in Grenada has benefitted from the OECS Regional Health Project (P168539) which complements the reforms under this DPC.

²² World Health Organization, COVID-19 Strategy Update, April 2020: <https://assets.documentcloud.org/documents/6838637/COVID-19-Strategy-Update-14April2020.pdf>

²³ IMF Grenada Rapid Credit Facility. <https://www.imf.org/en/Publications/CR/Issues/2020/05/13/Grenada-Request-for-Disbursement-Under-the-Rapid-Credit-Facility-Press-Release-Staff-Report-49412>



Prior Action 2: *The Recipient has: (a) approved a temporary unemployment benefit program through the National Insurance Scheme (NIS) to cushion the effect on workers who have been laid off as a direct result of the COVID-19 pandemic; and (b) temporarily suspended the two percent increase in NIS contributions that had been introduced in January 2020 to temporarily reduce labor cost to firms and increase disposable income for workers.*

42. **Rationale.** The COVID-19 crisis has significant negative impacts on labor market outcomes, welfare and poverty, especially given the lack of an unemployment benefit program in Grenada. Currently, benefits under the NIS include old age, sickness, maternity, employment injury benefits and others, but exclude unemployment benefits. Preliminary estimates from the Labor Force Survey from the second quarter of 2020 suggest that the unemployment rate almost doubled relative to the second quarter of 2019, going from 15.7 percent to 28.4 percent. In the same period, data from the Central Statistical Office (CSO) show that around 5,700 formal jobs were lost, representing nearly 20 percent of the total formal workers employed. Female workers were likely to be more affected than men, primarily explained by the larger share of women in client-facing sectors and occupations, such as food services, retail, and hotels sectors, which were among the most affected (CSO, 2019; De Paz et al, 2020). Most of the occupations in these sectors are not suitable to be performed from home and earn, on average, less than occupations that can be performed from home (Dingel and Neiman, 2020). Workers in occupations that cannot be performed from home tend to be less educated, have fewer assets and are more economically vulnerable (Mongey et al, 2020). Moreover, these individuals tend to be more exposed and vulnerable to climate change impacts and to have lower ability to cope with shocks, including natural disasters (Hallegate et al, 2017). The lack of an unemployment benefit program leaves workers and their families mostly unprotected during the COVID-19 crisis. Severance payment is mandated by law, yet this measure has often failed to protect workers, mainly because it is unfunded (World Bank, 2012). This is especially worrisome when the shock is widespread, and firms are experiencing liquidity constraints.

43. **The supported measures under this prior action are part of a broader set of actions that the Government is implementing to respond to and recover from the crisis.** Some of the interventions that may reach other vulnerable groups are supported under this program such as the income support to public bus operators, taxi drivers, tourist vendors, and other such identified hospitality-based businesses; and support for farmers (including small scale and backyard farmers) through the provision of key agricultural inputs and financial assistance such as grants and concessional credit. Other complementary measures and existing programs not supported under this DPC will also provide livelihood protection to vulnerable groups such as the cash transfer program, Support for Education, Empowerment and Development (SEED), and the establishment of the CEIP to boost employment. Moreover, as a longer-term complementary measure to this prior action, the GoG has approved and directed the NIS to develop a framework for a funded and permanent unemployment assistance program, aiming to provide income protection for the unemployed in the event of future shocks. This framework is being developed based on international best practices, with advice from technical experts, and in close consultation with representatives of key sectors such as workers and employers to ensure that the program will be supported by stakeholders, technically sound and financially sustainable. The changes to the legislation to establish the contributory unemployment insurance program are expected in 2021. Both the temporary and the permanent unemployment insurance programs increase resilience to shocks, including climate-induced shocks.

44. **Substance of the prior action.** As part of the overall measures to mitigate the negative impacts of the COVID-19 crisis on the most affected and vulnerable, the Government has approved temporary



measures to protect workers. Prior to the pandemic, a two-percentage-point increase in NIS contributions paid by employers and employees came into force in January 2020 to support the long-term sustainability of the NIS. Given the unprecedented impacts from the COVID-19 crisis and liquidity constraints of employers and employees, the Government has approved the temporary suspension of this increase. This measure is estimated to cost EC\$4.5 million (US\$1.7 million, nearly 0.15 percent of GDP). Additionally, in the absence of a permanent unemployment insurance program, the Government has approved measures to provide temporary income support to formal workers who have lost their jobs due to the pandemic. A worker is eligible for the unemployment assistance benefit program if s/he is involuntarily unemployed as a direct result of the pandemic, that is, the unemployed was insured with the NIS immediately prior to April 2020; has been unemployed for at least two weeks; and is ineligible to receive other publicly financed support related to the effects of the COVID-19 pandemic; among others. The benefit amount is EC\$330 per month (approximately US\$120) for up to six months or until the resources assigned to this program are exhausted, whichever happens first. The total resources assigned are EC\$10 million (US\$3.7 million), estimated at 0.3 percent of GDP. The Government is in the process of extending the temporary unemployment benefits program until January 2021, given the continued impact of the pandemic on economic activity and unemployment.

45. ***Expected results.*** **The temporary unemployment assistance program is expected to benefit at least 4,000 formal workers and their families, with at least 56 percent of them being women.** The Government is expecting women to be a large share of the beneficiaries of the temporary unemployment benefit program. The temporary suspension of the NIS contribution increase will benefit at least 2,500 employers and 34,000 employees. Beyond the timeframe for the evaluation of this DPC, these actions are expected to have medium and long-term positive consequences on multiple human capital and welfare dimensions, by reducing the likelihood of adoption of negative coping strategies such as cutting down consumption to unhealthy levels, increasing child labor, or selling productive assets, among others. Moreover, these measures are expected to increase the country's resilience to shocks, including the resilience of beneficiaries who are likely to be additionally impacted by climate change due to observed effects on tourism and food production, which underpin the food service, retail, and hotel industries.

Pillar 2: Saving Jobs and Protecting Livelihoods of Households and Firms

46. **The supply and demand shocks associated with COVID-19 have threatened the livelihoods of households and the viability of businesses.** The COVID-19 crisis could permanently damage the economy, through destruction of otherwise viable businesses and jobs. These risks are particularly heightened for certain firms, including those in the tourism sector, which is already vulnerable to economic impacts from climate change, facing a near-complete shutdown, and MSMEs with limited cashflow which tend to be more vulnerable to crises. Businesses affected by the crisis will likely lay off workers. The second pillar of the operation aims to support the GoG in saving jobs by providing wage subsidies to vulnerable workers in tourism and tourism-related sectors, as well as transport and agriculture; protecting the livelihoods of individuals through income support to self-employed workers in these sectors; and creating economic opportunities, especially for the most vulnerable, through small, community-level infrastructure projects. This pillar also supports the GoG's actions to protect the viability of firms by providing liquidity to help them weather the crisis and build resilience for a stronger recovery. This support provides critical resources to a population that is also vulnerable to climate change given that the tourism, fishery, and agricultural sectors, and the people reliant on them for income, are directly impacted by sea-level rise, hurricanes, droughts, and other climate change impacts.



Prior Action 3: *The Recipient has approved funding for temporary payroll support to hoteliers, restaurants, bars, and small travel agents in the tourism sector, and income support to public bus operators, taxi drivers, tourist vendors, and other such identified hospitality-based businesses.*

47. **Rationale. Jobs are significantly affected by the pandemic, especially in the tourism and tourism-related sectors.** Tourism is the single most important economic activity in Grenada, with approximately 42.9 percent of total employment (Figure 2; WTTC 2019). Travel restrictions and pandemic-related fears keeping tourists at home have severely impacted the economy, threatening businesses and jobs, with potentially long-lasting consequences. Tourism businesses closures and the risk of layoffs in the tourism sector put at risk the livelihood of a large number of workers, potentially slowing down the recovery phase. Women are particularly affected as they are overrepresented in tourism-related activities, although with higher formality rates than men.²⁴ The impacts on tourism due to the COVID-19 pandemic further compound the risks to the industry due to climate change – especially given that the majority of tourism infrastructure would be directly impacted due to sea-level rise and that hurricanes have historically negatively impacted this sector. In this context, the Government of Grenada approved policy reforms and established the COVID Economic Support Secretariat (CESS) to implement an economic stimulus package that includes wage subsidies and income support to self-employed formal workers in tourism-related sectors. Recent evidence finds that wage subsidies can be effective interventions to boost employment. Bruhn (2016) specifically finds that wage subsidies during a crisis can help to speed up employment recovery.²⁵

48. **Substance of the prior action. The proposed action supports the Government’s efforts to protect jobs and ensure business continuity.** To help businesses survive and retain workers while ensuring business continuity in the key economic sectors in Grenada, the Government has established a temporary payroll support program targeting tourism-related businesses such as hoteliers, restaurants, bars, and travel agents, among others. The payroll support program covers 40 percent of the monthly payroll of businesses that meet the eligibility criteria in this sector. The main eligibility requirements include that businesses: (i) have to be registered with the Inland Revenue Division (IRD) and the NIS; and (ii) have been in operation prior to March 2020. The program is only applicable for workers who were on the payroll in February 2020 or before, among others. Businesses had to apply each month for up to four months, from April to July 2020. Grants were disbursed to businesses on a monthly basis. To increase the likelihood of workers and jobs retention, employee verification forms were required with the applications, starting with the second monthly application. Management and high-level jobs were excluded from this intervention. Exclusion was based on pre-crisis NIS registered salaries (e.g. support is not provided to the workers of firms with salaries over EC\$5,000 per month). Applications were systematically cross-checked against administrative records from IRD and NIS.

49. **Moreover, the GoG has approved a temporary income support program for the self-employed workers in the tourism-related sector (including transportation) such as taxi and bus drivers, tourist vendors, and tour guides, among others.** The benefit amount of this program ranges from EC\$300 to

²⁴ Female workers account for 68 percent of the workers employed in the tourism-related jobs targeted by these policies in 2019 (LFS Q3 2019). While the overall NIS enrollment rate in 2019 was 66 percent, it was at 64 percent among women and 59 percent among men (LFS Q3 2019).

²⁵ Bruhn (2016) finds that wage subsidies during the crisis are effective for tackling unemployment and boost employment recovery, Betcherman et al (2008) finds that employment subsidies lead to significant increases in registered jobs and Girma (2007) finds that government grants to support labor demand generated additional employment.



EC\$800 per month for three months, requested through a one-time application, reducing administrative cost for both applicants and Government. The applicant requirements included registration with NIS and the Grenada Tourism Authority (where applicable). The benefit amount was determined by the Ministry of Finance based on previous income records of workers in specific occupations to partially compensate the loss of income. This benefit amount was fixed across eligible occupations. The total resources executed for the payroll support and the income support program are EC\$20 million, approximately 0.6 percent of GDP.

50. **The supported measures are complementary to others measures to boost employment.** To provide alternative employment opportunities for those out of work and to complement other interventions, the Government approved the establishment of the CEIP 2020-2022 and intends to accelerate its implementation. On April 27, 2020, the Cabinet approved a pipeline of projects under the CEIP 2020-2022 with the objective of supporting public infrastructure, mostly small-scale infrastructure; supporting livelihoods through labor-intensive public works; and involving local communities while incentivizing economic activity for an inclusive recovery. The criteria to select the infrastructure projects included economic, social, geographic, and resilience-building factors, among others. For instance, the approved small-scale infrastructure projects have been proposed by community-based organizations and are closely linked to Grenada's National Sustainable Development Plan 2020-2035. The procurement process will be based on the Procurement Act and Regulations, enabling broad and competitive participation. The hiring guidelines for staff working in projects include hiring workers from the community where the work is taking place and that at least 10 percent of the workers must be women, contributing to closing the gender gap in a male-dominated sector.²⁶ While the risk of implementation delay exists, the Government has expressed its highest commitment to accelerate the implementation of the program and avoid such delays through establishment of facilitation groups with technical and administrative experts assigned to each infrastructure project aiming to prevent or remove obstacles that could cause delays.

51. **Expected results. The measures considered in this prior action are expected to benefit around 5,000 workers (about 37 percent of tourism jobs).** The payroll support program will benefit at least 140 businesses and 3,100 workers, while the income support program will reach at least 1,800. Altogether, the measures under PA3 are expected to attenuate the short-term negative economic impacts of the COVID-19 crisis, while setting the foundation for a more expeditious recovery than what would have been observed in their absence. In addition, this prior action will benefit stakeholders that are vulnerable to climate change given the observed impacts on the tourism industry from sea-level rise, hurricanes, and floods. By providing income support to these stakeholders, the operation is providing critical assistance during a time when COVID-19 and climate change impacts are compounded.

Prior Action 4: *The Recipient has bolstered farming communities and supported incomes of workers in the agro-processing and food exporting industry by providing them with key agricultural inputs, including labor, capital, and financial assistance (price support, grant and concessional credit).*

52. **Rationale: Agriculture is a key economic sector in Grenada contributing around 54 percent of export earnings, 10 percent of employment (the second largest employer on the island) and 6 percent**

²⁶ According to the Labor Force Survey, women working in the construction sector represent 0.85% of all women employed and approximately 3 percent of all workers in the construction sector.



of GDP in 2019. The agriculture sector constitutes a major source of employment among workers in the Bottom 40 percent of the income distribution (B40). About 30 and 15 percent of workers in the first and second quintiles, respectively, are employed in agriculture. Moreover, the main export destinations of agricultural products are the USA, Europe, and South America, which have been heavily impacted by the COVID-19 pandemic. The key agricultural export commodities are fish (41%), nutmeg, mace and spices (24%), fruits and vegetables (18%), and cocoa and cocoa products (16%), which are exported. The agricultural sector is particularly vulnerable to climate change, including observed impacts from droughts, floods, temperature changes, and hurricanes in Grenada. Furthermore, the COVID-19 pandemic has generated major disruptions in agriculture supply and value chains. Domestic demand of agricultural produce has dropped dramatically due to the halted business of hotels and restaurants, as well as the reduced demand from international medical students who have left the island. Disruptions to international trade have reduced external demand for Grenada's main agricultural exports, adversely impacting the operations of the commodity and export organizations and the livelihood of persons dependent on their activities, including farmers and workers in agro-processing firms, many of whom tend to be women.²⁷ According to Government projections, without taking mitigating measures, in 2020, the fish export would decline by 50 percent of 2019 levels, nutmeg export by about 35 percent, and cocoa export by about 25-30 percent. As a result of the disruptions caused by the pandemic, cashflow of the island's marketing associations has been negatively affected, impacting their ability to purchase from farmers and maintain regular business functions. This includes the two major agro-processing and marketing organizations on the island, GCNA and GCA, which jointly have 6,000 registered famers. The GCA and GCNA are experiencing difficulties in procuring their raw materials (nutmeg, cocoa, and other agricultural produce) from farmers and in paying salaries to workers of processing plants and export handling. Such disruptions in agriculture production and exports have negative impacts on jobs and income of farmers, agro-processors, and traders, and foreign exchange earnings of the island. Moreover, agriculture, as one of the most susceptible sectors to climate change and natural disasters, has become more vulnerable without sufficient financial cushion, which threatens to make recovery more challenging. These factors combined, on top of labor and transport disruptions and hoarding of food items, have further aggravated food security concerns.

53. ***Substance of the prior action: To mitigate these negative impacts on affected farming communities in the short term, and foster greater growth and development in the agricultural sector over the medium and long term, the operation supports elements of the Government's COVID-19 National Food Security Mitigation and Response Plan***, which among other things, aims to sustain the viability of the agricultural sector by providing key agricultural inputs, including labor, capital, and financial assistance through grants and concessional credit. The Government has taken a series of measures, including the implementation of production and livelihood support programs for farmers, backyard gardeners, fisherfolks, aggregators, and agro-processors through the provision of agricultural inputs, and compensation of labor cost.²⁸ Under the Farm Labor Support Program, the aim is to supplement

²⁷ In Grenada, while men dominate farming activities, workers in agro-processing factories tend to be predominantly women. The 2012 agricultural census showed that of 9,375 registered farmers, only 2,719 (29 percent) were women. However, in the artisanal agro-processing factories for chocolate, packaged spices and foodstuff, 240 out of 450 workers were women in 2019. Furthermore, data from the Bureau of Standards and the Produce Chemist Lab show that there are approximately 300 agro-processing businesses, with many of them either making cocoa and nutmeg products or using cocoa and nutmeg as minor ingredients in their products. The percentage of these businesses that were female-led is approximately 75-80 percent.

²⁸ The Government approved the Ministry of Agriculture's COVID-19 Emergency Response Plan, with a total budget of EC\$3.5



commercial farmers with farm labor and other input supplies, creating some 300 new jobs through the assignment of farm gangs. The livelihoods of more vulnerable segments of the farming community are protected through the Backyard Garden Program aimed at small-scale and backyard farmers. The program provides input supplies, such as planting materials and fertilizer, to increase production. The measures supported under the DPC also include provision of financial assistance to the Marketing and National Importing Board (MNIB), GCNA, and GCA in the form of grants and concessional credits to provide market access to member farmers and price support for their produce, and in the case of GCNA and GCA, to provide payroll support to alleviate potential layoffs in agro-processing firms. The measures are also part of Grenada's response plan to ensure a more secure domestic food supply, and a food supply chain that is less reliant on imported food. Besides the measures supported under this operation, the plan provides relief to establish 200 acres of staple food crops and vegetables. These activities are not expected to lead to any significant negative environmental impacts since they are aimed at reversing the production decline caused by the pandemic. Furthermore, the implementation of the actions is guided under the regulatory framework²⁹ in Grenada of possible environmental effects.

54. ***Expected Results: The Government's production and livelihood support programs will help sustain business continuity in the farming community, protect livelihoods of small-scale farmers, create short-term employment for displaced workers, and save jobs of agro-processors who tend to be predominantly women.*** Up to 5,000 farmers (approximately 50 percent of registered farmers), fisherfolks, agro-processors, and members of agricultural cooperative associations are expected to benefit from the program, with at least 20 percent women. The measures are expected not only to save and create jobs in the agriculture sector during the implementation period, but also to provide a sustainable supply of fresh produce and agro-products and reduce the importation bill. Furthermore, this prior action will benefit stakeholders that are vulnerable to climate change given the observed impacts on the agricultural sector from sea-level rise, hurricanes, droughts, temperature changes, and floods. By providing income support to these stakeholders, the operation is providing critical assistance during a time when COVID-19 and climate change impacts are compounded.

Prior Action 5: The Recipient has taken the following measures to support access to finance and operational continuity for MSMEs in the face of COVID-19 in critical sectors: (a) provided additional funding for the small hoteliers facility and the small business soft lending facility managed by the Grenada Development Bank; and (b) temporarily deferred the monthly advance payment on income tax and the instalment payments on the annual stamp tax.

million, of which EC\$1.35 million is allocated to the Farm Labor Program, EC\$1.0 million to the Marketing and National Importing Board (MNIB) and EC\$76,500 to the Back Yard Garden Program (Cabinet Conclusion #455 [May 5, 2020]). The Government also approved financial support totaling EC\$5 million to the GCA and GCNA in concessional loans and grants (Cabinet Conclusion # 517 [June 08, 2020] and #469 [May 25, 2020]).

²⁹ Grenada has the regulatory framework and capacity to manage the possible environmental effects from the program, such as indirect land use changes and pollution from use of pesticides and fertilizers. Key policies in place include the Pesticides Control (Approval of Pesticides) Regulations, 1979 (S.R.O. No. 10 of 1979), Pesticides and Toxic Chemicals Control Act 2014, the National Land Policy, the Physical Planning, and Development Control Act No 25, of 2002; the Public Health Act of 1958 and Waste Management Act 2001, Land Development and Utilization (Amendment) Law, 1981 (No. 33 of 1981). The Ministry of Agriculture and Lands responsible for implementing the production and livelihood support programs has benefited from capacity building initiatives through the ongoing Bank operations "OECS Agriculture Competitiveness Project". The Project promotes the safe pesticide handling and use of Integrated Pest Management to enhance sustainability and reduce harm to people and human and environment.



55. **Rationale: The crisis arising from the pandemic has aggravated the liquidity difficulties faced by firms, especially MSMEs and those in the tourism sector.** The adoption of a new Banking Act and its implementing regulations in the OECS member countries has contributed to improve the liquidity profile of banks in the region including in Grenada. However, commercial banks appear to be reluctant to engage in new lending, particularly towards riskier enterprise segments such as small businesses or sectors mostly affected by the pandemic, given the uncertainty surrounding the economic outlook. Additional financial institutions serving small businesses in the island include the credit unions. However, most of them entered the crisis with lower liquidity levels and weaker asset quality than banks and are likely to be strongly affected by the COVID-19 crisis and unable to meet increasing demand for financing from small businesses. The pandemic hit hard the largely dominant tourism sector, with ripple effects across other sectors such as agriculture, fisheries and retail sectors and affecting especially small businesses. Due to a lack of fixed assets as collateral and significant drop in income, the financing challenges faced by MSMEs have been aggravated. The impacts on tourism due to the COVID-19 pandemic further compound the risks to the industry due to climate change – especially given that the majority of tourism infrastructure would be directly impacted due to sea-level rise and that hurricanes have historically negatively impacted this sector.

56. **Substance of the prior action: In this context, emergency credit lines provided by the GoG, managed by the Grenada Development Bank (GDB), can be a useful tool to address the liquidity needs of firms, as well as other tax measures to relieve short-term liquidity constraints.** The Government announced additional funding allocations and reviewed terms and eligibility criteria for two financial facilities: the Grenada Small Hoteliers Facility and the Small Business Development Fund (SBDF) managed by the GDB as follows:

- I. *Grenada's Small Hoteliers Facility.* The Government announced in March 2020 an additional EC\$7 million in funding for the Grenada's Small Hoteliers Facility and reviewed the terms and eligibility criteria for emergency financing to small hoteliers. Under this measure, the facility would provide loans to licensed and registered small hotels (defined as hotel facilities with less than 50 rooms) operating in Grenada. Several modifications were introduced to make this facility more attractive to small hotels including an increase in the repayment term from 7 years to 10 years, comprising a grace period of up to one year; and loan application fees waived. The loan facility now allows each applicant to qualify for a maximum of EC\$300,000 (up from EC\$200,000), which can be used for COVID-19 adaptation measures, operational expenses including payroll support, undertaking upgrades and/or minor refurbishment of existing properties, marketing and staff training. Refurbishments and upgrades to facilities include those that can improve the climate resilience of hotel properties, including storm- or flood-proofing buildings, improving stormwater drainage, and increasing vegetation (which reduces run-off, flooding, and erosion as well as helps regulate temperature on a local scale) amongst others. All refurbishments and upgrades will be consistent with Grenada's building codes³⁰, which integrate climate resilient and energy efficient measures. Finally, the GDB has adopted measures to ensure that the loan applications review and appraisal process requires adequate level of security and collateral on the loan to reduce the risk of non-repayment.

³⁰ The amendments to the building codes were supported under the Grenada First Fiscal Resilience and Blue Growth Development Policy Credit (P164289). The GoG modified its building codes with a view to improve resilience of housing infrastructure through the enactment of Act No. 23 of 2017 dated September 29, 2017 amending the Physical Planning and Development Control Act No. 23 of 2016, published in the Government Gazette on October 6, 2017.



- ii. *Small Business Development Fund.* The Government announced in March 2020 an additional EC\$5 million funding and revised terms and criteria for the SBDF managed by the GDP, as part of the COVID-19 Economic Stimulus Package. Under this measure, the facility would provide loans to registered businesses having less than 25 employees and total annual turnover of up to EC\$337,500 and operating in priority sectors (such as agriculture, agribusiness and fishing, information technology services, light manufacturing, tourism; and retail trade). Funds could be utilized for all aspects of business including, start-up, expansion and working capital. The Government also increased the maximum loan amount available to small businesses under the fund from EC\$25,000 to EC\$40,000. Loans can be provided with a grace period not exceeding 1 year for principal and 3 months for interest. In order to mitigate the non-repayment risk, collateral is required on the loans and 10 percent of minimum equity is required for each financing.

57. **As additional relief to businesses, the Government has taken several temporary measures of a countercyclical nature in response to the COVID-19 shock**, including deferment of corporate income tax and the instalment payments on the annual stamp tax for three months over the period April to June 2020 to help alleviate cashflow constraints of firms during the lowest quarter of economic activity during the crisis.

58. **Expected Results: The prior action is expected to support continued access to finance, liquidity, and working capital for small hoteliers and SMEs across sectors despite heightened market risks as a result of COVID-19.** Specifically, it is expected that an additional 320 SMEs (33 percent greater than in 2019) and 14 small hotel units (20 percent of eligible small hotels) would benefit from the measures. The total volume of new financing facilitated as a result of the facilities is expected to reach EC\$12 million. This financing would help ensure that viable firms survive and protect employment. Furthermore, this prior action will benefit stakeholders that are vulnerable to climate change given the observed impacts on the tourism and agricultural sectors from sea-level rise, hurricanes, droughts, temperature changes, and floods – this is accomplished not only through financial support to the tourism sector but also by providing resources to increase the climate resilience of infrastructure. By providing income support to these stakeholders, the operation is providing critical assistance during a time when COVID-19 and climate change impacts are compounded. Specifically, as of October 2020, EC\$1.8 million had been approved under the Small Hoteliers Facility with EC\$1.5 million (87 percent) going towards physical improvements, which include climate resilient measures for stormwater management, flood- and storm-proofing buildings, and regulating erosion, flooding, and local temperatures with vegetation.

Pillar 3: Strengthening Fiscal Management and Transparency

59. **Despite the uncertainties and negative impacts from COVID-19, it is critical to plan forward towards the post-crisis recovery and maintain focus on long-term development objectives.** Significant progress has been made in Grenada to reduce macroeconomic vulnerabilities, especially in the area of fiscal sustainability through the fiscal rule and debt target, as well as in public governance by incorporating climate resilience aspects. However, weaknesses remain in certain areas of debt transparency and reporting, public financial management and auditing. It is critical to enhance those areas, in particular under the context of surging public expenditures and increasing international borrowing. Pillar 3 supports GoG's structural reform measures to facilitate a resilient, inclusive and sustainable recovery by strengthening policies and institutions aligned with sound practices on public financial management, governance and transparency. In this context, strong governance and institutions ensure appropriate



(re)prioritization of government interventions and actions including enhancing efficiency of spending through better design and implementation of projects.

Prior Action 6: *The Recipient has taken steps to improve debt transparency and the timeliness of debt reporting by: (a) approving the annual preparation and publication of the government debt management report; and (b) publishing the quarterly debt statistical bulletin, including government debt, government guarantees, and SOEs' debt in the website of the MoF.*

60. **Rationale:** **Enhancing public debt data quality and transparency of debt management operations is very important for an accurate assessment of the fiscal position of the Government, as well as long-term effects of debt sustainability.** It is particularly important in the context of the COVID-19 crisis, given the surge in funding needs and increase in debt levels in 2020. Improved transparency will provide reliable information to make informed borrowing decisions. Debt transparency will help creditors to assess creditworthiness, and price debt instruments appropriately. Over the past decade, the GoG has taken several measures to improve debt transparency and management. The Debt Management Unit at the MoF has been preparing quarterly debt bulletins with updates on debt dynamics. However, areas for improvement remain. SOE debt, which is critical to assess possible contingencies in the event of exogenous shocks or natural disasters, is not included in the coverage of public debt. Publication of accurate debt statistics covering SOEs' debt records would demonstrate government's ability to maintain comprehensive and correct records of government debt and guarantees. A Medium-term Debt Management strategy has been developed and the annual debt management reports, which are legislated in the Public Debt Management Act (PDMA), is expected to discuss the implementation of the debt management strategy. Furthermore, the debt bulletin and the debt reports have not been available in the public domain in a timely fashion.

61. **Substance of the prior action:** **The proposed operation supports the preparation and publication of the quarterly debt bulletin and annual debt management report, including government debt, government guarantees, and SOEs' debt.** It represents a significant step towards an enhanced analysis of government's debt management strategy implementation and any significant challenges in conducting debt management operations. Such reports should consist of comprehensive analysis of annual debt management operations, assessment of their impact on reaching medium-term debt management targets, facilitate formulation of corrective measures for the following debt management strategy and highlight the risks imbedded in the Government debt portfolio. As such, it also guides necessary adjustments to the medium-term fiscal policy and borrowing plans of the Government. The action is also consistent with the proposed PPAs being considered under the SDFP for FY2021, to reduce debt vulnerabilities and ensure a full IDA allocation for Grenada.

62. **Expected results:** **In this context, the GoG is quite advanced in preparation of such information for an annual report and quarterly bulletin and is expected to publish such reports regularly on the MoF website, in line with legal requirements under PDMA 2015.** The annual debt management report will strengthen the format and analytical content, and will be made public on the Government website, which would substantially improve transparency, and support market development. The first of such reports will be the Annual Debt Management Report of FY2019 which is expected to be published on the website by 30 November 2020 and the quarterly debt bulletin will continue to be published within two months of the end of each quarter.



Prior Action 7: *The Recipient has adopted a policy framework on investment and asset management (PIAM) providing an overarching governance framework for public assets in Grenada, involving a comprehensive (physical) assets registry, and with links to climate change and disaster risk management.*

63. **Rationale: Sound public investment and asset management policies help governments to build resilience, whether as a fiscal response to a natural disaster or for the purpose of economic planning and development.** Given the vulnerability of Grenada to natural disasters and climate change, public investment and assets are often the most exposed parts of a country in the event of a climate- or disaster-related event because public safety is usually the priority. Public investment needs to incorporate climate change adaptation and disaster risk considerations to reflect the true cost and risks associated with a project. It was estimated that annual average fiscal costs of natural disasters are in the range of 0.3-0.5 percent of GDP for Grenada (Climate Change Policy Assessment, 2019). When climate change considerations are not included, public investment and public assets, in the case of physical assets such as roads, buildings, etc., have no recourse but the national budget to finance recovery or rehabilitation expenditure. It adds to the fiscal risks and increases fiscal vulnerabilities, which will in turn limit the Government's capacity to address natural disasters and social challenges. As part of risk transfer strategies, governments need to ensure that public investment and public assets incorporate some of the fiscal risk or potential contingent liabilities associated with climate change. This mitigation measure ensures that in the event of a disaster, there is already a mechanism in place to assist in financing damages. In the aftermath of a disaster, resources are already scarce, and the budget can never fully provide for the fiscal cost of a disaster.

64. **There are both policy and legislative authorities for climate change and disaster risk informed public investment planning and these are integrated into the GoG's national plans and strategies.** GoG uses standardized appraisal methodologies that incorporate climate change adaptation elements and regulations prescribe requirements to register physical assets by accountable officers. Nonetheless, several deficiencies in the PIAM processes exist. At present, established or documented mechanisms are not in place for fast-tracking the appraisal, selection and approval of urgent disaster recovery public investments and ex-post evaluations of projects are not part of the process. The GoG does not have a Climate Responsive Asset Management Policy, which is expected to be a consolidated registry of physical assets, or an established methodology to value physical assets and determine the useful life of physical assets or a schedule for replacement. As this methodology does not exist, routine valuation to estimate the level of exposure of physical assets to natural disasters, for example, cannot be undertaken. Hence it impedes a comprehensive fiscal risk analysis which incorporates the macroeconomic analysis of natural disasters and climate change.

65. **Substance of the prior action: The policy action supports the GoG's efforts to develop a comprehensive PIAM framework which is expected to address climate change and risk mitigation at all cycles of public investment.** It also aims to incorporate a corresponding asset management framework and registry addressing how physical assets are to be valued, insured, secured, and if and when they should be disposed. Specifically, the PIAM framework will address key challenges identified through (i) aiding in both pre-disaster planning and mitigation and post-disaster recovery effort; (ii) helping the GoG to identify its true exposure and vulnerability to climate change and disaster risks events; and (iii) facilitating the implementation of the disaster risk financing (DRF) strategy adopted in September 2019.

66. **Expected results: The proposed action is expected to strengthen the PIAM through the registration of both current assets and fixed assets.** Under the broad guidelines of the PIAM policy framework, the GoG, with WB technical support provided under the Canada Caribbean Resilience Facility,



will work to develop various policies and procedures that incorporate mainstream gender, climate change and disaster-risk considerations into various aspects of the Public Investment Management (PIM) cycle. These include project identification, appraisal, prioritization, selection, and monitoring and evaluation. Further it will design an effective asset management framework that establishes formal policies and plans for evaluating and improving asset management practices, maximizes an asset portfolio's value, uses quality data, and promotes a collaborative organizational culture. Registration in a centralized database of inventoried Government current and fixed assets is a critical step to accelerate the recovery process post-crisis and identify the fiscal risk exposure to natural disasters. Hence, this PA will directly contribute to Grenada's climate resilience.

Prior Action 8: *The Recipient has adopted the cash basis international public sector accounting standards (IPSAS) for the preparation of its public accounts in compliance with Section 64 of the Public Finance Management (PFM) Act, to enhance its financial reporting standards.*

67. **Rationale: Applying international accounting standards to the financial statements is an important step to ensure that the public accounts are fairly and consistently presented, and that the Government's performance can be compared with other governments using the same standard.** IPSAS not only aims to improve the quality of information reported by the public sector, but also promotes transparency, consistency and comparability across jurisdictions. The Accountant General is responsible for preparation of the financial statements for the GoG on a modified cash basis of accounting in a consistent format that is easily understood. However, an internationally accepted accounting standard is not used in the preparation and presentation of the Public Accounts. This is a challenge for GoG as the budgeting and financial reporting formats are not consistent. Moreover, due to previous restructurings in the Accountant General's office, there are substantial delays in the presentation of financial statements. Only financial statements up to 2016 have been prepared and submitted to the Director of Audit. This is not in compliance with the Public Finance Management Act of 2015, which requires that financial statements be published within 6 months after the close of each financial year. The deficiencies compromise the transparency and accountability in the public sector and the understanding of government's financial performance. This also discourages accountable and informed decisions about resource utilization and asset management. Bringing the GoG accounts up to date will be a step towards better governance.

68. **Substance of the prior action: Working with the Office of the Accountant General, the prior action is supporting the GoG in adopting and applying IPSAS for the presentation and publication of government public accounts.** Adoption and presentation of financial statements by the GoG in accordance with IPSAS cash will ensure that the accounting rules and standards for the Public Accounts adhere to internationally accepted principles and it will enhance transparency and accountability in the public sector, providing a better understanding of government's financial performance. As the quality of information improves, it will enable the Government to make informed decisions about resource utilization; and support governance, management of assets, and decision-making. Post restructuring in 2019, the Accountant General's department is fully established and has the knowledge and capacity to prepare public accounts based on the proposed standards. In addition, the Government has committed to a detailed process and timeline with the Office of the Accountant General for the preparation of financial statements following the approved IPSAS Cash.³¹ Draft public accounts for 2017 were prepared

³¹ As Grenada has not yet transitioned to an accrual system, IPSAS has been adopted on a cash basis.



in September 2020 and a plan to prepare the most updated financial statements in accordance with IPSAS Cash has been agreed, which would enable the preparation and presentation to Parliament of all currently outstanding audit reports by end 2021.

69. **Expected results: Following the adoption of IPSAS, the financial statements compliant with the Standards will be prepared, strengthening the transparency and accountability of the Government.** The financial statements for 2017, 2018 and 2019 are expected to be finalized and submitted to the Director of Audit by December 2020 and the Director of Audit will submit them to Parliament by end of March 2021. The financial statements for 2020 will be finalized and submitted to the Director of Audit by June 2021 with a request to complete the audit and present the audit report to the Parliament by October 2021.

Prior Action 9: *The Recipient has reformed its internal audit function by adopting the code of ethics and audit standards promulgated by the Institute of Internal Auditors (IIA), to enhance and protect the value of the public sector.*

70. **Rationale: An effective internal audit function is important to enhance and protect organizational value of the public sector by providing risk-based and objective assurance, advice, and insight.** Section 63 (3) of the Public Finance Management Act (PFM Act, 2015) prescribed that “the internal audit of Departments and Statutory Corporations and other public bodies provided for by this Act shall be conducted in accordance with any Regulations or other enactment for the time being regulating internal auditing of Departments, Statutory Corporations and public institutions.” According to the PFM Act, the Internal audit function is responsible for examining accounting systems, internal controls, risk management and governance processes to promote compliance with the provisions of the PFM Act and regulations, directives and other relevant laws. The GoG in 2018 moved to formalize its internal audit function aiming to enhance its mandate and improve service delivery. The Internal Audit Unit at the MoF now operates in compliance with the PFM Regulations and a Centralized Internal Audit system is maintained at the MoF. However, given the importance of the internal audit function and its expanded scope, it is necessary to establish mandatory requirements and principles to ensure the value and effectiveness of internal auditing activities; as otherwise, it may compromise stakeholders’ credibility in the audits and their results.

71. **Substance of the prior action: To enhance the quality of work conducted under the internal audit function and enhance reliance on its outputs, GoG has adopted the international auditing standard promulgated by the IIA.** GoG acknowledges that an effective internal audit function enhances and protects the value of the public sector by providing risk-based and objective assurance, advice and insight. The international standards will help the GoG in accomplishing its objectives by bringing a systematic, disciplined approach for evaluating and improving the effectiveness of risk management, control, and governance processes. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, an improved internal auditor function will help public sector achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. The actions supported by this prior action are crucial for promoting credibility of the PFM system as well as promoting appropriate behavior of public sector officials, while reducing the risk of public corruption, irregularities and fraud. For early implementation of the internal audit standards in the public sector audits, the GoG has established an independent Internal Audit Council. The Council would (a) prepare guidelines on principles, processes, and the structure of



internal audits as well as an internal control framework; (b) draft regulation on the Public Internal Financial Control System including governance structures and ethical standards for internal auditors; (c) commence annual risk assessments and undertake internal audit to evaluate efficiency and effectiveness in the important high risk functions and activities; and (d) produce a report by December 2021 on the results of the internal audit conducted for the highest risk functions and activities of the Ministry of Health. The action is particularly important under the context of COVID-19 crisis, where the improved PFM will also benefit the management crisis-related expenditure.

72. **Expected results: The proposed action is expected to strengthen the effectiveness of internal auditing**, the first phase of which will be applying the Standards to the auditing report of highest risk function/activities. The Internal Audit Council is expected to produce a report by December 2021 on the results of the internal audit conducted for the highest risk functions and activities of the Ministry of Health, following the risk-based approach.

Table 4: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar 1: Strengthening the Government’s Health and Social Protection Responses to COVID-19	
<p>Prior Action #1: The Recipient has adopted new public health regulations that govern the national response to the COVID-19 pandemic and outline appropriate health protocols to support a safe reopening of the economy.</p>	<ul style="list-style-type: none"> • World Health Organization, COVID-19 Strategy Update, April 2020: https://assets.documentcloud.org/documents/6838637/COVID-19-Strategy-Update-14April2020.pdf. • WHO (2017) A Strategic Framework for Emergency Preparedness. This document provides the principles and elements of effective country health emergency preparedness. • https://www.who.int/ihr/publications/9789241511827/en/
<p>Prior Action #2: The Recipient has: (a) approved a temporary unemployment benefit program through the National Insurance Scheme (“NIS”) to cushion the effect on workers who have been laid off as a direct result of the COVID-19 pandemic; and (b) temporarily suspended the two percent increase in NIS contributions that had been introduced in January 2020 to temporarily reduce labor cost to firms and increase disposable income for workers.</p>	<ul style="list-style-type: none"> • Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures – A “Living Paper,” World Bank Social Protection and Jobs Global Practice, v.6 May 15th, 2020. • World Bank, 2012. Reforming Severance Pay, An international perspective. World Bank, Washington, D.C. • World Bank, 2020. Protecting the poor and vulnerable: social response framework for COVID19. Washington, D.C. • World Bank, 2020. Managing the Employment impacts of the COVID-19 crisis: Policy options for relief and restructuring. Washington, D.C. • Subbarao et al, 2013. Public works as a safety net. World Bank. Washington, .D.C. • Saving Lives, Scaling-up Impact and Getting Back on Track, World Bank Group • COVID-19 Crisis Response Approach Paper, 2020.De Paz, C., Muller, Munoz, and Gaddis (2020). Policy Note: Gender dimensions of the COVID-19 pandemic. World Bank. Washington, D.C.



	<ul style="list-style-type: none"> • Dingel and Neiman, 2020. How many jobs can be done at home? NBER Working Paper No. 26948. • Mongey, Pilossoph and Weinberg, 2020. Which Workers Bear the Burden of Social Distancing Policies? NBER Working Paper No. 27085. • Hallegatte, S., Vogt-Schilb, Bangalore, and Rozenberg. 2017. Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters. Climate Change and Development Series. Washington, DC: World Bank.
Pillar 2: Saving Jobs and Protecting Livelihoods of Households and Firms	
<p>Prior Action #3: The Recipient has approved funding for temporary payroll support to hoteliers, restaurants, bars, and small travel agents in the tourism sector, and income support to public bus operators, taxi drivers, tourist vendors, and other such identified hospitality-based businesses.</p>	<ul style="list-style-type: none"> • Bruhn, Miriam, Can Wage Subsidies Boost Employment in the Wake of an Economic Crisis? Evidence from Mexico (March 17, 2016). World Bank Policy Research Working Paper No. 7607, Available at SSRN: https://ssrn.com/abstract=2749433 • Betcherman, Gordon, 2014. "Labor market regulations: what do we know about their impacts in developing countries?" Policy Research Working Paper Series 6819, The World Bank. • Girma, Sourafel and Gorg, Holger and Strobl, Eric and Walsh, Frank, Creating Jobs Through Public Subsidies: An Empirical Analysis (November 2007). IZA Discussion Paper No. 3168, Available at SSRN: https://ssrn.com/abstract=1038342. • World Bank, 2020. Supporting Firm Resilience: A firm support program for WBG COVID Phase 2 Response. • World Bank, 2020. Protecting the poor and vulnerable: social response framework for COVID19. Washington, D.C.
<p>Prior action #4: The Recipient has bolstered farming communities and supported incomes of workers in the agro-processing and food exporting industry by providing them with key agricultural inputs, including labor, capital, and financial assistance (price support, grant and concessional credit).</p>	<ul style="list-style-type: none"> • Grenada Small Farmers Vulnerability Reduction Project (P124107), world Bank, 2010. • Linking Farmers and Agro-processors to the Tourism Industry in the Eastern Caribbean, World Bank, 2015.
<p>Prior action #5: The Recipient has taken the following measures to support access to finance and operational continuity for MSMEs in the face of COVID-19 in critical sectors: (a) provided additional funding for the small hoteliers facility and the small business soft lending facility managed by the Grenada Development Bank; and (b) temporarily deferred the monthly advance payment on income tax and the instalment payments on the annual stamp tax.</p>	<ul style="list-style-type: none"> • Saving Lives, Scaling-up Impact and Getting Back on Track, World Bank Group • COVID-19 Crisis Response Approach Paper, 2020. • World Bank Group Support for Small and Medium Enterprises, World Bank, 2019.
Pillar 3: Strengthening Fiscal Management and Transparency	
<p>Prior Action #6: The Recipient has taken steps to improve debt transparency and the timeliness of debt reporting by: (a) approving the annual preparation and publication of the government debt</p>	<ul style="list-style-type: none"> • Saving Lives, Scaling-up Impact and Getting Back on Track, World Bank Group • COVID-19 Crisis Response Approach Paper, 2020. • Grenada: Request for Disbursement Under the Rapid Credit



<p>management report; and (b) publishing the quarterly debt statistical bulletin, including government debt, government guarantees, and SOEs’ debt in the website of the MoF.</p>	<p>Facility, IMF, 2020.</p> <ul style="list-style-type: none"> • Technical Assistance: Presentation of the Toolkit and Guidelines for Contingent Liabilities (World Bank, March 2019). • SOE Sector Assessment Policy Note, WB, 2018. • CARTAC Annual Report 2020. • Review of the Financial Performance of SOEs and Analysis of Restructuring Options, CARTAC, 2014. • Grenada Debt Management Performance Assessment (DeMPA) June 2018, World Bank Group.
<p>Prior action #7: The Recipient has adopted a policy framework on investment and asset management (PIAM) providing an overarching governance framework for public assets in Grenada, involving a comprehensive (physical) assets registry, and with links to climate change and disaster risk management.</p>	<ul style="list-style-type: none"> • Grenada: Climate Change Policy Assessment, IMF, 2019. • Post-Disaster Public Financial Management Review. Supporting Economic Management in the Caribbean Region Externally Financed Output - (P160774), World Bank,2020
<p>Prior Action #8: The Recipient has adopted the cash basis international public sector accounting standards (IPSAS) for the preparation of its public accounts in compliance with Section 64 of the PFM Act, to enhance its financial reporting standards.</p>	<ul style="list-style-type: none"> • Post-Disaster Public Financial Management Review. Supporting Economic Management in the Caribbean Region Externally Financed Output (P160774), World Bank,2020. • CARTAC Annual Report 2020, IMF, 2020.
<p>Prior action #9: The Recipient has reformed its internal audit function by adopting the code of ethics and audit standards promulgated by the Institute of Internal Auditors (IIA), to enhance and protect the value of the public sector.</p>	<ul style="list-style-type: none"> • Post-Disaster Public Financial Management Review. Supporting Economic Management in the Caribbean Region Externally Financed Output (P160774), World Bank,2020. • CARTAC Annual Report 2020, IMF, 2020.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

73. **Bank programming in Grenada is guided by the WBG Regional Partnership Strategy (RPS) for the OECS for FY15-19 discussed by the Executive Directors on November 13, 2014 (Report No. 85156-LAC).** A Performance and Learning Review (PLR) of the RPS, which was considered by the Executive Directors on May 23, 2018 (Report No. 118511-LAC), extended the RPS to FY20 and validated its strategic objectives: to lay the foundations for sustainable inclusive growth through (i) Fostering Conditions for Growth and Competitiveness; and (ii) Enhancing Resilience with a broader resilience agenda. The Systematic Regional Diagnostic (SRD) for the OECS completed in FY19 identified the priorities for inclusive and sustainable growth: build cross-cutting resilience to external shocks; embed growth in the blue economy; strengthen and harness human capital; embrace new technologies; and strengthen regional integration. This proposed budget support operation thus directly addresses the constraints noted in the RPS, PLR, and SRD, while taking account of the extraordinary situation with COVID-19. In particular, this operation aims to improve access to finance and market liquidity over the medium term and builds resilience in both strengthening social protection system and public finance management.

74. **The WB has quickly adapted its program in Grenada to respond to the COVID-19 crisis.** Activation



of the Contingent Emergency Response Component under the OECS Regional Health Project (P174096) helped finance the country's health response to the pandemic, including the procurement of medical supplies and equipment and minor civil works to refurbish the isolation ward and oxygen plant. This DPC addresses the second, equally important pillar of the WB COVID-19 crisis response approach framework as it focuses on the socioeconomic consequences of the crisis, as well as on fostering growth and competitiveness and enhancing resilience. Support under IDA19 will also accelerate the GoG's plans for economic diversification through the Blue Economy growth model.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

Consultations:

75. **The DPC 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 on the COVID-19 response measures and the reforms on public governance 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. Specifically, with regard to the policies supported by this DPC, the design and implementation of the COVID-related stimulus plan involved consultations with the key stakeholders, and various committees at the sector level have been established with a broad range of stakeholders to oversee the implementation. The adoption of the IPSAS and the international standards of IIA was consulted with key implementation agencies to ensure the suitability in the context of Grenada.

Collaboration with Other Development Partners:

76. **The content of this DPC is aligned with the programs of the country's development partners.** Grenada collaborates with several bilateral and multilateral agencies, including the European Union, Global Affairs Canada, the United Kingdom's Department for International Development, the U.S. Agency for International Development, the German International Development Agency (GIZ), and the Caribbean Development Bank. These agencies and the World Bank are active participants in the Eastern Caribbean Donors and Partners 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 associated with the third pillar represent the continued commitment of the GoG to strengthen debt transparency and public governance which have been the areas of focus of past World Bank and IMF programs.

77. **Technical assistance (TA) in various areas has been (and will continue to be) provided to sustain the reforms supported by this operation.** A US\$402,000 grant from the World Bank's Institutional Development Fund (IDF) supported 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.³² This IDF grant was provided to the Caribbean Organization of Supreme

³² Strengthening Country Systems for better Investment Results- Caribbean (P149007).



Audit Institutions (CAROSAI), and Grenada is one of the program's pilot countries. Additional TA has been provided by the IMF in the areas of public financial management, tax reform, and SOE reform. The GIZ is also financing the Climate Resilient Water Sector in Grenada (G-CREWS) Project which will entail a tariff review of the water utility. Training and capacity building are provided by the Bank under the Canada-Caribbean Resilience Facility in achieving more effective and coordinated gender-informed climate-resilient preparedness, recovery, and public financial management practices. Technical assistance will continue to be provided under this facility to support the implementation of the DPC.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

78. **The poverty and social impacts of the policies supported by this operation are expected to be positive, though benefits are mostly channeled through the formal sector.** Poor households rely almost exclusively on labor income, are employed in occupations that are expected to be hardest hit by the crisis, are less likely to be able to work from home, and have limited means to manage negative shocks. In this context, policies under Pillar 1 benefit the poor and vulnerable by facilitating a safe reopening of the economy, minimizing the likelihood of a negative health shock, and cushioning the impact of an employment shock. Similarly, policies under Pillar 2 aim to protect employment and earnings in the sectors that are more vulnerable to the crisis and that employ the majority of the workers in the B40. Lastly, policies supported under Pillar 3 are expected to have a positive indirect effect in the medium term, if increased transparency and accountability in the use of public resources translate into better services for the poor and vulnerable.

79. **The policies supported under Pillar 1 are expected to have a positive impact on poor and vulnerable households by supporting a safe reopening of the economy and by cushioning the impact of negative employment shocks for the formal segment of the population.** The strengthening of the health system to cope with the pandemic and support a safe reopening process is expected to have a positive impact on the poor and vulnerable. Workers in poor households are less likely to hold occupations that can be done from home and less likely to have access to the necessary technologies to do so. While every household in the top quintile of the distribution has a mobile phone, internet, and a computer, only 49, 19, and 6 percent of households at the bottom quintiles have access to those services, respectively (Harvard Business School, HBS 2018). Additionally, the financial consequences of an infection would be significant as only 5 percent of households in the B40 have access to health insurance (HBS 2018), and out-of-pocket expenditures are significant (OECS Systematic Country Diagnostic (SCD) 2018). The creation of a temporary unemployment benefits program is also expected to benefit some workers at the bottom of the distribution, though access is limited to formal workers. About 30 percent of workers in the bottom quintile of the distribution are not enrolled with the NIS and about 20 percent of households do not have any worker registered with the NIS. Complementary indicators of job quality and job stability, such as having a written contract, a pay slip, or access to annual leave, suggest that barriers to access may be even more pronounced. While preliminary estimates suggest that the program may have reached in May 2020 about 50 percent of the new unemployed, the concentration of beneficiaries in St. George's confirms the potential exclusion of poorer segments of the population. St. George's accounts for over 70 percent of recipients, but only represents 37 percent of the population and its poverty rate is below the median of the distribution.



80. **The policies supported under Pillar 2 are expected to have a positive – though limited – impact on the poor and vulnerable by cushioning the impact of the crisis on the sectors that are expected to be hit the hardest and that employ most of the workers in the B40 of the distribution.** Taken together, the two industries targeted by the sectoral policies – tourism and agriculture – employ close to 50 percent of the population in the B40. Within the tourism sector, the impact on the poor is expected to be modest despite the wide reach of the policies (they target about 2/3 of the occupations in the sector and are estimated to have reached about 50 percent of the workers in those occupations). Workers employed in the targeted occupations are more likely to belong to the middle of the wealth distribution, and this selectivity is expected to be further reinforced by the various registration requirements to access the payroll and income support programs that are likely to exclude a large share of the vulnerable population. According to the latest Labor Force Survey, as many as 60 percent of workers in the bottom quintile of the distribution are not enrolled with the NIS compared to 30 percent in the top quintile. Finally, these policies were designed to provide a short-term support and were in place only for three to four months. In turn, the policies supporting the agriculture sector are expected to have a positive direct impact on the poor and vulnerable provided appropriate targeting policies are put in place to reach a significant share of small scale and backyard farmers. The B40 accounts for over 50 percent of employment in agriculture. Support through the marketing board and the cocoa and nutmeg associations are more likely to reach workers towards the middle of the wealth distribution, though information is not available to confirm this. The other three components – farm labor support, protected agriculture, and backyard garden projects – are designed to reach small scale farmers. However, they have either reached too few households or are still in the process of identifying potential beneficiaries. Overall, women are more likely to benefit from the policies in the tourism sector relative to men (they account for about 70 percent of the employed in targeted occupations and are more likely to be enrolled with the NIS). However, the agriculture sector is highly dominated by men (except for agro-processing firms), and therefore specific targeting strategies need to be put in place to reach female workers.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

81. **The proposed DPC is not expected to have significant negative impacts on Grenada's environment, forests, and natural resources.** PA1 supports regulations which entail the provision of personal protective equipment (PPE), medical equipment, and retrofitting isolation facilities in accordance with national standards. While these activities under the regulations supported by this operation could result in increased solid waste (from PPE) and small investments in retrofitting facilities, increases in solid waste are not anticipated to be significant and Grenada's regulatory framework for solid waste management is considered sufficient to manage any potential impacts, especially the Waste Management Act No. 16 of 2001 that stipulates the management of waste in conformity with best environmental practices and related matters. Retrofitting isolation facilities will most likely be relatively minor, with no negative, significant or irreversible environmental impacts expected, consistent with findings for retrofitting isolation facilities under the OECS Regional Health Project (P174096) which includes Grenada. This operation will benefit from the frameworks developed by the regional OECS project³³, specific to health aspects including during the COVID-19 pandemic. Furthermore, the new health regulations will support environmental sustainability in the health sector by supporting efforts to build/renovate better and more climate smart health facilities. Furthermore, the Waste Management Act No. 16 (2001) includes provisions for Environmental Impact Assessment (EIA) at the discretion of the Minister of Health.

³³ OECS Regional Health Project - (P168539).



Therefore, this PA is not expected to result in significant negative environmental impacts.

82. **PA4 supports the provision of agricultural inputs, including planting materials and fertilizer to farmers, backyard gardeners, fisherfolks, aggregators, and agro-processors, in accordance with national standards.** This PA is expected to provide income support and agricultural inputs to farmers given the decrease in production during the COVID-19 pandemic. Therefore, it is not expected to contribute to significant increases in agricultural production, run-off, and land-use change. In addition, the planting materials provided under this PA will be suitable to Grenada and will not promote invasion of non-native species. However, if there were potential for these impacts, Grenada has the regulatory framework and capacity to manage the possible environmental effects from this PA, such as indirect land use changes and pollution from use of pesticides and fertilizers. Key policies in place include the Pesticides Control (Approval of Pesticides) Regulations 1979 (S.R.O. No. 10 of 1979); Pesticides and Toxic Chemicals Control Act 2014; the National Land Policy; the Physical Planning and Development Control Act No 25 of 2002; the Public Health Act of 1958; the Waste Management Act of 2001; the Fisheries Act of 1986; and the Land Development and Utilization (Amendment) Law of 1981. The Ministry of Agriculture and Lands responsible for implementing the production and livelihood support programs has benefited from capacity building initiatives through the ongoing Bank-financed operations such as the “OECS Agriculture Competitiveness Project”. The Project promotes the safe pesticide handling and use of Integrated Pest Management to enhance sustainability and reduce harm to people and human and environment, which will be leveraged for this operation. Therefore, this PA is not expected to result in significant negative environmental impacts.

83. **Furthermore, this operation is expected to positively contribute to climate resilience in Grenada.** PA7 aims to develop a comprehensive PIAM framework that incorporates climate change risks and mitigation measures to improve pre-disaster planning, mitigation, and post-disaster recovery efforts and facilitate the implementation of a DRF strategy. Related to this, PAs 2, 3, 4, and 5 will benefit poor and disadvantaged groups that are traditionally vulnerable to climate change impacts from hurricanes, floods, droughts, and sea level rise. For example, measures benefitting farmers, fisherfolk, and people employed in the tourism industry who rely on natural resources for their livelihoods will increase their resilience, both economically and physically, to climate change. Social safety net and direct benefits will be delivered to these populations that have been significantly impacted economically by the COVID-19 pandemic. This support will increase their resilience to additional shocks that may result from climate change impacts.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

84. **Grenada’s Public Financial Management (PFM) systems have been strengthened but continued focus and emphasis is needed to address the remaining challenges.** The 2015 Public Expenditure and Financial Accountability (PEFA) assessment indicated that Grenada’s PFM environment has improved in many areas. A comprehensive Home-Grown Reform Program (HGRP) was developed in 2014 and is progressively being implemented and the full impact of this reform program will be realized in the coming years. Many PFM reform actions have been completed to address some of the weaknesses identified in the 2015 PEFA. The GoG has committed that it will refocus its attention on the PFM Reform Action Plan and that representatives from Department of Economic Management and Planning (Budget, Debt and Policy units), Accountant General’s Department, Administration Department (Internal Audit Unit) and Audit Department periodically meet with the focal points of the PFM Reform program to discuss reform progress and the timeline for completion of their respective areas. Currently, the budget preparation and monitoring process may be considered appropriate and there are continued improvements in the external



oversight mechanisms. Some important PFM reforms, including, agreeing on a framework for PIAM, adopting International IPSAS Cash for preparation of public accounts; and enhancing internal audit standards have been agreed as prior actions for the current operation.

85. **Continued emphasis on operationalizing the enacted legislation and improving PFM processes and procedures are needed to mitigate residual PFM risks.** Grenada's PFM system still needs further improvements to address the residual weaknesses noted in public sector investment management and related provisions for recurrent costs needed for these investments, and quality and efficiency of public expenditures. Under Prior Action 7 of Pillar 3, the Bank is assisting GoG in development of a comprehensive PIAM policy framework, which would also address climate change and risk mitigation levels of all cycles of the public investment cycle. Budget execution is yet to reflect many of the reforms that have yet to be implemented particularly in cash management and the eventual reduction on the number of bank accounts and the eventual roll out of a Treasury Single Account (TSA). While the authorities are contemplating a PEFA assessment in 2021 to update and evaluate the effectiveness of the various PFM reforms and initiatives and reassess its current PFM environment, under Prior Action 8 of Pillar 3, the GoG has agreed to adopt IPSAS on cash basis for preparation of public accounts.

86. **PFM reforms and initiatives since mid-2015 are ongoing.** The PFM reforms are supported by four key legislations³⁴ and other regulations and manuals, which strengthen the authorities' ability to establish, and manage within, multi-year fiscal targets. Fiscal discipline has been improved through a fiscal risk framework for quantifying contingent liabilities in SOEs and monthly cash forecasting, though not based on the use of a TSA. Strategic allocation of resources has been strengthened with expenditure reclassification and a Medium-term Fiscal Framework document. The newly implemented Chart of Accounts in 2016 has facilitated improved budget formulation and reporting. However, it needs to be more comprehensive to tag disaster-related expenditures incurred by individual line ministries. PA8 and PA9 under this operation will support the Government's efficient use of resources for service delivery by presenting the backlog of financial statements and adopting international standards of internal auditing. Furthermore, the GoG intends to implement key recommendations from the 2020 Public Expenditure Review (PER)³⁵ to strengthen the PFM system and practices. Among those of high priority are (i) training programs for managers at all levels on the PFM framework and their roles and responsibilities; (ii) a special task force with clear terms of reference to steer the development and implementation of a PFM improvements initiative; (iii) enhancing capacity in order to meet the requirements set out in the Public Management Finance Act 2015 (PMFA); (iv) an action plan to address significant deficiencies in the procurement function and management of government supplies and inventories; and (v) increasing capacity in the Audit Department.

87. **Grenada publishes an annual budget.** MoF publishes the annual Estimates of Revenue and Expenditure on its website and makes them available in print form. A smaller user-friendly version is also available for the public. MoF provides in-year budget execution reports to Parliament. Monthly bulletin board publications and budget speech with annexes are posted on the GoG website. In addition, Fiscal Responsibility Oversight Committee (FROC) reports are published with a press conference. Year-end financial statements and audit reports are also accessible, but only after they have been submitted to Parliament. However, as reported above, there is a considerable delay in their finalization and the financial

³⁴ Including (i) PFM Act 17/2015; (ii) Fiscal Responsibility Act 29/2015; (iii) Public Procurement and Disposal of Property Act 39/2014; and (iv) Public Debt Management Act 28/2015.

³⁵ GoG (2020) Technical Assistance Project to undertake a Public Expenditure Review to contribute to the Strengthening of the Fiscal Responsibility Regime. Identification Number: EDF11-TCF/NAO-PE1-2019- 11



statements have been currently audited until 2016.

88. **The foreign exchange control environment of the ECCB, which manages the foreign exchange reserves of the ECCU, including Grenada, is adequate.** The IMF completed a Safeguards Assessment of the ECCB in April 2016. In response to the assessment, a time bound action plan was agreed and has been satisfactorily implemented. The ECCB operates a currency board that maintains 100 percent foreign-exchange backing for all issued currency. The ECCB has well-established procedures to ensure the integrity of its operations. It also has a well-functioning internal audit department, and its accounts are audited by an independent external auditor. The ECCB Board of Directors has an audit sub-committee, which provides additional oversight.

89. **Disbursement and Auditing Arrangements.** The proposed credit will follow the World Bank's standard disbursement procedures for development policy support. The proceeds of the credit will be disbursed upon Grenada's withdrawal request after effectiveness of the Financing Agreement, 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 USD, into Grenada's foreign-exchange account at the ECCB. The ECCB will then ensure that, upon deposit in said account, an equivalent amount in Eastern Caribbean Dollars will immediately be credited to Grenada's account, which will become available to finance budgeted expenditures. Within 30 days of the funds transfer, the GoG, through its MoF, will provide the World Bank with written confirmation of the amount deposited into Grenada's foreign-currency account at the ECCB and that the equivalent Eastern Caribbean Dollars amount has been accounted for in the country's budget management system in an account used to finance budgeted expenditures. If the proceeds of the credit or any part thereof are used for ineligible purposes, as defined in the General Conditions applicable to the Financing Agreement, the World Bank will require Grenada to promptly return such amount to the World Bank. The amount refunded shall be cancelled from the credit. No specific audit of the deposit of the credit proceeds will be required. However, the World Bank reserves the right to request such an audit at its discretion.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

90. **The monitoring, evaluation, and results framework is being supported by the Ministry of Finance, which is responsible for coordinating actions by other relevant ministries and agencies for the operation.** A number of other agencies are involved in implementing the reform program supported by this DPC, including the Ministry of Agriculture, Ministry of Health, and the Ministry of Infrastructure Development, Public Utilities, Energy, Transport & Implementation. The World Bank has discussed the importance of developing a monitoring and evaluation process and stock takes with the relevant institutions and stakeholders to ensure adequate feedback to policy makers. Monitoring and evaluation capacity are traditionally weak in Grenada, and the Government recognizes the need to strengthen these mechanisms. 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 DPC in 2021. These indicators represent agreed-upon benchmarks for evaluating the program supported by this DPC. The World Bank will maintain an ongoing dialogue with counterparts in the MoF regarding the monitoring and evaluation of reforms supported by the operation.

91. **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 WB'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 complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB 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 Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

92. **Risks to achieving the program objectives are considered Moderate.** The GoG's rapid and comprehensive response to mitigate the effects of the COVID-19 outbreak in Grenada have facilitated likely favorable outcomes of the short-term objectives of the operation, while timely WB support will assist the Government to responsibly extend the short-term emergency response measures to more strategic structural reforms to aid the recovery and promote resilient growth. Nevertheless, risks associated with the uncertainty and severity of the pandemic, indirect impacts of the crisis on the macroeconomy, institutional-capacity constraints, and Grenada's vulnerability to extreme weather events remain of concern (Table 5).

93. **While Grenada's macroeconomic framework is sound, the shock to economic activity as a result of COVID-19 has turned the economic outlook negative for 2020, with the projected rebound over the medium term highly dependent on the evolution of the pandemic and the widespread availability of a vaccine.** Despite the mitigation measures implemented by the Government and supported by this operation, residual downside risks lead to a macroeconomic risk rating of Substantial for this operation. In addition to uncertainty around the evolution of the pandemic, the severe toll that it has had on international travel and trade puts at risk the timely recovery of Grenada's external sector, threatening tourism, export earnings, remittances, and FDI inflows, potentially delaying economic recovery, and causing the fiscal and current account balances to deteriorate further. Additional exogenous macroeconomic risks to the outcomes of the operation are associated with Grenada's small economy, making it highly vulnerable to shifts in external demand, and exposing it to very high risks of extreme climate and weather-related shocks. Further shocks to the economy could constrain GoG's ability to responsibly implement countercyclical fiscal policy and could jeopardize adherence to the fiscal rule and Grenada's ability to maintain fiscal sustainability. Fiscal sustainability could also be affected if large domestic fiscal contingencies associated with long-standing public pensions issues or the monopoly energy provider are realized. Moreover, despite the low NPL rate in Grenada, financial risks may arise with businesses going to bankruptcy and defaulting on loans should the crisis be prolonged. Risks are mitigated by the GoG's reforms supporting the implementation of the rules-based policy framework by enshrining it in law and establishing a fiscal council for further oversight. Ex ante disaster risk financing through a Contingency Fund and arrangements for the Bank's contingent credit line provide a fiscal buffer, while the inclusion of natural disaster clauses in the debt restructuring agreements should help mitigate the risk to fiscal stability in the event of natural disasters. To help cope with fiscal risks associated with COVID-19, the GoG has accessed the IMF's Rapid Credit Facility and subscribed to the DSSI. Measures supported by this DPC will also help promote resilience and sustainability, while enhancing public financial management



in the post-crisis context. The ECCB initiative of the loan repayment deferral program (moratorium) is under consideration to be extended up to a maximum period of 12 months from October 1, 2020, which will help mitigate the financial risks.

94. **Implementation capacity risks are rated Substantial, given the small pool of technical experts in the country.** While Grenada’s institutional and technical capacity is relatively robust by regional standards, a limited number of technical experts in core ministries, and scarce fiscal resources may pose risks to implementing the reforms supported by the DPC. This risk is mitigated by efforts to provide ongoing technical assistance to support capacity building and program implementation. In this context, the Government, in agreement with the WB, has carefully prioritized a limited number of reform measures critical to the recovery process and practical capacity support through parallel technical engagements with key development partners, such as the Canada-Caribbean Resilience Facility (P171256).

95. **Other risks arising from the direct impacts of the ongoing pandemic and Grenada’s inherent vulnerability to natural disasters are rated as Substantial.** Grenada has so far been able to limit the local outbreak of the pandemic with appropriate protocols in place. However, there are risks if multiple waves of infection materialize in the main tourist-source countries. That could threaten lives and trigger another round of lockdowns in Grenada, which would directly delay achieving the outcomes of reforms supported by the operation. Moreover, Grenada remains vulnerable to natural disasters and climate change, which could deepen the current crisis and derail the aspects of the program dealing with recovery. The materialization of the two risks could incur high costs of mitigation and response and further strain the public resource envelope, forcing another round of emergency response spending and diverting scarce financing away from long-term development objectives, or increasing indebtedness. To mitigate against these risks, the Government is strengthening its capacity in the health sector and disaster risk management, as well as evaluating environmental risks in collaboration with its development partners. Measures supported in this operation such as the strengthening of the health sector and the PIAM policy framework, with the development of a physical assets registry will help build institutional capacity to strengthen disaster risk management. In addition, the GoG has underway the World Bank-financed Regional Disaster Vulnerability Reduction Project and ongoing United Nations programs, which also enhance the Government’s capacity to manage disasters and mitigate environmental risks. The implementation of the Disaster Risk Financing Strategy and the approval of the contingent credit line from the WB provide policy flexibility to address extreme events to help mitigate natural disasters and climate change risk, as do the inclusion of natural disaster clauses for restructured debt.

Table 5: Summary Risk Ratings



Risk Categories	Rating
1. Political and Governance	● Moderate
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Moderate
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	● Substantial
Overall	● Moderate



ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers	Results		
Prior Actions	Indicator Name	Baseline	Target
<i>Pillar 1 - Strengthening the Government’s Health and Social Protection Responses to COVID-19</i>			
<p>Prior Action #1: The Recipient has adopted new public health regulations that govern the national response to the COVID-19 pandemic and outline appropriate health protocols to support a safe reopening of the economy.</p>	<p>Result Indicator #1a: Equipped health facilities with isolation capacity</p>	0 (2019)	1 (2020)
	<p>Result Indicator #1b: Number of environmental health officers in place</p>	0 (2019)	38 (2020)
<p>Prior Action #2: The Recipient has: (a) approved a temporary unemployment benefit program through the National Insurance Scheme (NIS) to cushion the effect on workers who have been laid off as a direct result of the COVID-19 pandemic; and (b) temporarily suspended the two percent increase in NIS contributions that had been introduced in January 2020 to temporarily reduce labor cost to firms and increase disposable income for workers.</p>	<p>Result Indicator #2: Number of persons receiving temporary unemployment benefits</p>	0 (2019)	4000 (of which 56% are women) (2020)
<i>Pillar 2 – Saving Jobs and Protecting Livelihoods of Households and Firms</i>			
<p>Prior Action #3: The Recipient has approved funding for temporary payroll support to hoteliers, restaurants, bars, and small travel agents in the tourism sector, and income support to public bus operators, taxi drivers, tourist vendors, and other such identified hospitality-based businesses.</p>	<p>Result Indicator #3: Number of beneficiaries under each program</p>		
	Income support program	0 (2019)	1800 (2020)
	Payroll support program	0 (2019)	140 (firms); 3100 (individuals) (2020)



Prior actions and Triggers	Results	
<p>Prior Action #4: The Recipient has bolstered farming communities and supported incomes of workers in the agro-processing and food exporting industry by providing them with key agricultural inputs, including labor, capital, and financial assistance (price support, grant and concessional credit).</p>	<p>Result Indicator #4a: Number of farmers and back-yard gardeners receiving benefits through agricultural inputs and farm investment support program</p>	<p>0 (2019) 300 (of which 30% are women) (2020)</p>
	<p>Result Indicator #4b: Number of member farmers and agro-processors benefiting from grants to GNCA and GCA</p>	<p>0 (2019) 5000 (of which 25% are women) (2020)</p>
	<p>Result Indicator #4c: Number of jobs created under the Farm Labor Program</p>	<p>0 (2019) 480 (of which 25% are women) (2020)</p>
<p>Prior Action #5: The Recipient has taken the following measures to support access to finance and operational continuity for MSMEs in the face of COVID-19 in critical sectors: (a) provided additional funding for the small hoteliers facility and the small business soft lending facility managed by the Grenada Development Bank; and (b) temporarily deferred the monthly advance payment on income tax and the instalment payments on the annual stamp tax.</p>	<p>Result Indicator #5a: Number of small hoteliers receiving credits under the facilities</p>	<p>0 (2019) 14 (2020) (20% of eligible hotels)</p>
	<p>Result Indicator #5b: Number of SMEs receiving credits under the facilities</p>	<p>972 (2019) 1300 (2020) (33% increase)</p>
Pillar 3 – Strengthening Fiscal Management and Transparency		
<p>Prior Action #6: The Recipient has taken steps to improve debt transparency and the timeliness of debt reporting by: (a) approving the annual preparation and publication of the government debt management report; and (b) publishing the quarterly debt statistical bulletin, including government debt, government guarantees, and SOEs’ debt in the website of the MoF.</p>	<p>Result Indicator #6a: Number of Annual Debt Management Reports published</p>	<p>0 (2019) 2 (2021)</p>
	<p>Result Indicator #6b: Average lag time to publish Quarterly Debt Bulletin</p>	<p>3 months (2019) 2 months (2021)</p>



Prior actions and Triggers	Results	
<p>Prior Action #7: The Recipient has adopted a policy framework on investment and asset management (PIAM) providing an overarching governance framework for public assets in Grenada, involving a comprehensive (physical) assets registry, and with links to climate change and disaster risk management.</p>	<p>Result Indicator #7a: Registration in centralized database of inventoried Government current assets (including vehicles, furniture, equipment)</p>	<p>0% (2019) 90% (2021)</p>
	<p>Result Indicator #7b: Registration in centralized database of inventoried Government fixed assets (roads, buildings, major infrastructure)</p>	<p>0% (2019) 80% (2021)</p>
<p>Prior Action #8: The Recipient has adopted the cash basis international public sector accounting standards (IPSAS) for the preparation of its public accounts in compliance with Section 64 of the PFM Act, to enhance its financial reporting standards.</p>	<p>Result Indicator #8: 2017, 2018, 2019 and 2020 Financial Statements published and available on MoF website</p>	<p>No (2019) Yes (2021)</p>
<p>Prior Action #9: The Recipient has reformed its internal audit function by adopting the code of ethics and audit standards promulgated by the Institute of Internal Auditors (IIA), to enhance and protect the value of the public sector.</p>	<p>Result Indicator #9: Internal audit conducted for highest risk function/activities and report produced.</p>	<p>No (2019) Yes (2021)</p>



ANNEX 2: SUPPORTING TABLES

Annex Table 1. Fiscal Costs of COVID-19 Mitigation Measures (2020)

	Millions of EC\$	% of GDP
Measure	72.8	2.4
Income and payroll support program (CESS)	20.0	0.7
Temporary unemployment benefits (NIS)*	10.0	0.3
Expansion in Small Hoteliers' Facility (GDB)	7.0	0.2
Expansion in Small Business Development Fund (GDB)	5.0	0.2
Electricity subsidy (3 months)	7.3	0.2
COVID-related Health Spending	10.0	0.3
Agriculture Emergency Response Plan	3.5	0.1
<i>Farm Labor Support</i>	<i>1.4</i>	<i>0.0</i>
<i>Marketing and National Importing Board support</i>	<i>1.0</i>	<i>0.0</i>
<i>Backyard Garden program</i>	<i>0.1</i>	<i>0.0</i>
Grenada Cooperative Nutmeg Association (GCNA)	2.0	0.1
Grenada Cocoa Association (GCA)	2.0	0.1
Community Economic Infrastructure program	6.0	0.2

*Temporary unemployment benefits funded through NIS and so are not a direct fiscal cost to the Central Government budget.

Source: World Bank, GoG, IMF.

Note: The mitigation measures are financed by the Supplementary Budget (EC\$50m), funds freed through the DSSI (EC\$10.8m) and reprioritization of expenditures.



Annex Table 2: Performance and Policy Actions being considered under the SDFP for FY21-FY23

DSPE Area	by March 2021	by March 2022	by March 2023
Improving debt transparency and timely debt reporting	The Government has (i) approved the preparation and publication of a debt management report on an annual basis and has published the 2019 report on the MoF website by March of 2021, and (ii) published the quarterly debt statistical bulletin including government debt, government guarantees and SOEs' debt, with not more than a two-month lag. The first quarterly debt statistical bulletin of third quarter 2020 will be published before end of November 2020.	The Government continues to publish the annual Debt Management Report and the quarterly Debt Statistical Bulletin, including government debt, government guarantees and SOEs' debt.	The Government continues to publish the annual borrowing plan for 2023.
		The Government has published the annual borrowing plan for 2022.	The Government continues to publish the annual Debt Management Report and the quarterly Debt Statistical Bulletin, including government debt, government guarantees and SOEs' debt.
Improving debt management	The Government has published the 2021-23 Medium-Term Debt Management Strategy (MTDS) on the MoF website.	The Government has i) approved a timebound strategy to clear the debt arrears of 1.8 percent of GDP with external creditors including Algeria, Libya and Trinidad and Tobago.	



ANNEX 3: FUND RELATIONS ANNEX



PRESS RELEASE

PR20/192

IMF Executive Board Approves US\$65.6 Million in Disbursements to Dominica, Grenada, and St. Lucia to Address COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approves three requests from Dominica, Grenada, and St. Lucia for emergency financial assistance to help address the challenges posed by COVID-19.
- The approval of the Board will make available a combined SDR 48 million (US\$65.6 million) in emergency financing to help these three countries deal with the challenges posed by COVID-19.
- IMF financing support provides resources to the countries' authorities for essential health-related expenditures and income support to ease the impact of COVID-19 on the population.
- To address the pandemic, the authorities announced measures to help employees and households, including income support to the unemployed, tax relief, and providing cash transfers to the most vulnerable and affected.
- Dominica, Grenada, and St. Lucia are members of the Eastern Caribbean Currency Union (ECCU), and the disbursements would support macroeconomic stability and facilitate the subsequent economic recovery of the region.

Washington, DC – April 28, 2020 The Executive Board of the International Monetary Fund (IMF) approved disbursements to Dominica, Grenada, and St. Lucia following their requests under the Rapid Credit Facility (RCF) mechanism, with a combined SDR 48 million (US\$65.6 million), to help cover their balance of payment needs stemming from the outbreak of the COVID-19 pandemic. Disbursements to all three countries are set at the maximum available access under the RCF instrument of 100 percent of quota for Grenada (SDR 16.4 million or US\$ 22.4 million) and St. Lucia (SDR 21.4 million or US\$ 29.2 million), and 89.4 percent of quota for Dominica (SDR 10.3 million or US\$14 million). These countries are small states that are very vulnerable to shocks, including large natural disasters, with Dominica in particular still recovering from the devastation of Hurricane Maria in 2017.

The pandemic has hit these largely tourism-dependent countries very hard. Tourism inflows essentially came to a halt in mid-March, 2020, with ripple effects across other sectors. The closure of the borders, coupled with the curtailment of commercial activity, has had a debilitating impact on these economies. A drop in fiscal revenues, combined with additional direct health and social expenditures will temporarily increase the fiscal deficit and financing needs. IMF support will help cover some of these needs and allow the governments to ease the impact on the population, such as upgrading public health facilities and providing social assistance to the vulnerable and adversely affected sectors.

Following the Executive Board discussion of the requests, Mr. Tao Zhang, Deputy Managing Director and acting Chair, made the following statement:



"The COVID-19 pandemic poses a major challenge to Dominica, Grenada, and St. Lucia. Their key tourism sectors have been hit hard by the shock. The contraction in tourism is expected to have a major impact on their economies, by causing ripple effects across all economic sectors, eroding fiscal revenues, and creating urgent balance of payments pressures. In addition, these three small states are also highly vulnerable to natural disasters.

"The countries' governments have responded to the pandemic by swiftly implementing containment measures, allocating scarce budgetary resources to critical health care spending, and introducing income support to the most affected sectors and households. Protection of the financial system will help cushion the economic impact of the pandemic. Measures have also been taken by the Eastern Caribbean Central Bank to facilitate the provision of credit and safeguard financial stability.

"The authorities have expressed commitment to meeting the regional debt target of 60 percent of GDP by 2030. To this end, they plan to implement necessary adjustment measures to rebuild policy space once the crisis has abated, building on the progress achieved in recent years. Looking forward, the authorities are also committed to implementing policies that support durable economic growth and poverty reduction within a balanced development strategy that includes comprehensive measures to boost resilience to natural disasters.

"IMF emergency support under the Rapid Credit Facility will help fill the three countries' balance of payments needs and create fiscal space for essential health expenditures, income support to workers, and cash transfers to households. Fund financing will also help catalyze further donor support to close the remaining balance of payments needs.

"The IMF will continue to be engaged with Dominica, Grenada, and St. Lucia, and stands ready to provide policy advice and further support as needed."



Grenada: Selected Economic Indicators-2016-2025										
Rank in UNDP Human Development Index out of 189 countries (2017)	75									
Life expectancy at birth in years (2017)	72									
GDP per capita in US\$ (2018)	10,79									
Population in millions (2018)	1									
Infant mortality rate per 1000 births (2018)										13.7
Adult literacy rate in percent (2004)										4
Poverty headcount index (2008)										38
Unemployment rate (2019 Q1)										15.2
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Projections										
(Annual percentage change, unless otherwise specified)										
Output and prices										
Real GDP	3.7	4.4	4.1	3.0	-9.2	6.3	5.3	3.9	3.0	2.7
Nominal GDP	6.5	6.0	3.8	4.2	-8.8	7.8	7.3	6.1	5.1	4.9
Consumer prices, end of period	0.9	0.5	1.4	0.1	0.3	1.3	1.7	1.9	1.9	1.9
Consumer prices, period average	1.7	0.9	0.8	0.6	0.2	1.2	1.7	1.9	1.9	1.9
Output gap (percent of potential GDP) 1/	0.8	1.6	3.1	4.4	-6.4	-2.4	0.0	0.8	0.6	0.3
Real effective exchange rate	2.2	-1.4	-2.4	-	-	-	-	-	-	-
Central government balances (accrual)										
(In percent of GDP, unless otherwise specified)										
Revenue	26.2	25.6	26.9	26.5	25.9	25.7	26.2	26.5	26.1	26.1
Taxes	20.9	21.4	22.3	21.9	20.2	20.9	21.6	21.9	21.9	21.9
Non-tax revenue 2/	1.8	1.8	1.6	1.8	1.7	1.7	1.7	1.7	1.7	1.7
Grants	3.5	2.6	3.0	2.8	3.9	3.2	3.0	2.9	2.6	2.5
Expenditure 3/	23.9	22.6	22.3	21.6	28.8	23.3	22.4	21.8	21.2	24.7
Current primary expenditure	16.9	17.3	17.6	17.1	22.4	18.3	17.8	17.3	17.1	17.4
Interest payments	2.9	2.7	2.0	1.8	2.2	2.2	2.1	2.1	1.9	1.6
Capital expenditure	-4.2	2.7	2.8	2.6	4.2	2.8	2.5	2.5	2.2	5.7
Primary balance 2/	5.2	5.7	6.6	6.8	-0.7	4.6	6.0	6.7	6.9	3.0
Overall balance	2.3	3.0	4.6	5.0	-2.9	2.5	3.8	4.6	5.0	1.4
Public debt (incl. guaranteed) 4/	81.6	70.4	64.6	59.4	69.0	67.5	64.0	57.5	49.8	46.1
Domestic	25.0	22.6	19.3	17.5	17.6	15.5	13.1	10.7	8.5	7.4
External	56.6	47.8	45.4	41.8	51.4	52.0	50.9	46.8	41.3	38.6
Money and credit, end of period (annual percent change)										
Broad money (M2)	1.3	4.0	5.9	2.9	-8.8	7.8	7.3	6.1	4.8	4.9
Credit to private sector	-0.2	0.6	2.8	1.4	-11.7	4.0	2.8	0.6	3.6	5.9
Balance of payments										
Current account balance, o/w:	-11.0	-14.4	-15.9	-15.8	-27.4	-17.2	-14.3	-12.8	-11.6	-11.0
Exports of goods and services	49.4	51.4	53.2	51.9	29.0	43.2	47.2	49.0	50.2	50.9
Imports of goods and services	49.9	54.7	58.6	57.6	46.1	50.0	51.0	51.2	51.1	51.2
Capital account balance	4.7	5.9	5.9	5.1	6.3	5.5	5.3	5.1	4.8	4.2
Financial account balance	-2.2	-7.2	-7.5	-10.7	-21.1	-11.7	-9.0	-7.7	-6.8	-6.8
Errors and omissions	-4.2	1.3	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt (gross)	98.7	88.9	86.3	83.1	102.2	102.5	98.4	92.1	84.8	80.4
Savings-Investment balance	-11.0	-14.4	-15.9	-15.8	-27.4	-17.2	-14.3	-12.8	-11.6	-11.0
Savings	9.0	6.5	8.1	4.5	-9.0	3.3	6.9	9.3	11.8	15.9
Investment	20.1	20.9	24.0	20.3	18.4	20.5	21.2	22.1	23.4	26.9
Memorandum items:										
Nominal GDP (EC\$ million)	2,866	3,039	3,155	3,288	2,999	3,233	3,468	3,679	3,866	4,054
Net imputed international reserves										
Months of imports of goods and services	3.9	3.4	3.9	5.5	3.5	3.6	3.7	3.8	4.0	4.1
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/ The output gap is based on an HP-filter decomposition of actual and projected real GDP into cycle and trend (with lambda equal to 6.25) and end-of-period trend growth assumed at 2.7 percent. In some periods, including 2016, trend growth is higher than actual growth, causing the output gap to shrink even when the actual growth is above long-term trend growth.										
2/ Includes Citizenship-by-Investment (CBI) related non-tax revenues.										
3/ The Chart of Accounts for expenditure classification was revised in 2016 from GFSM 1986 format to GFSM 2014 format.										
4/ Includes the impact of the debt restructuring agreement for the 2025 bonds.										



Annex Table 3.2: Selected Social and Economic Indicators, 2016-25
(updated with data released in the October 2020 IMF World Economic Outlook)

	2016	2017	2018	Prel. 2019	Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
(Annual percentage change, unless otherwise specified)										
Output and Prices										
Real GDP (at market prices)	3.7	4.4	4.1	3.0	-11.8	3.0	5.1	5.0	3.4	2.7
Consumer prices, end of period	0.9	0.5	1.4	0.1	-0.8	1.2	1.7	1.9	1.9	1.9
Consumer prices, period average	1.7	0.9	0.8	0.6	-0.2	1.1	1.7	1.9	1.9	1.9
(In percent of GDP, unless otherwise specified)										
Central government balance										
Revenue	26.2	25.6	26.9	26.5	24.8	26.0	26.2	26.5	26.2	26.2
Expenditure 1/	23.9	22.6	22.3	21.6	26.5	24.7	23.8	23.2	22.5	22.0
Primary balance	5.2	5.7	6.6	6.8	0.5	3.6	4.7	5.5	5.8	6.0
Overall balance	2.3	3.0	4.6	5.0	-1.7	1.2	2.4	3.3	3.8	4.1
Total public sector debt 2/	81.6	70.1	64.4	59.1	71.5	73.5	70.2	64.2	57.1	50.3
Balance of payments										
Current account balance	-11.0	-14.4	-15.9	-15.8	-25.3	-24.9	-18.4	-10.0	-10.6	-10.1
Memorandum items:										
Nominal GDP (EC\$ millions)	2866	3039	3155	3288	2899	3027	3243	3477	3669	3848

Source: Ministry of Finance; Eastern Caribbean Central Bank; and Fund staff estimates and projections.

1/ The Chart of Accounts for expenditure classification was revised in 2016 from GFSM 1986 format to GFSM 2014 format.

2/ Includes the impact of the debt restructuring agreement for the 2025 bonds.



ANNEX 4: LETTER OF DEVELOPMENT POLICY



PRIME MINISTER

GRENADA

MINISTERIAL COMPLEX
BOTANICAL GARDENS
TANTEEN
ST. GEORGE'S, GRENADA

5 November, 2020

Mr. David R. Malpass
President
The World Bank Group
The World Bank
1818 H Street
NW Washington, DC
20433
USA

Dear President Malpass,

**Ref: Letter of Development Policy for the
COVID-19 Crisis Response and Fiscal Management Development Policy Credit**

On behalf of the Government and people of Grenada, I submit to you this Letter of Development Policy for a COVID-19 Response and Fiscal Management Development Policy Credit (DPC) in the amount of US \$25 million. The DPC will enable the advancement of important sustainable development objectives of the Government by supporting ongoing efforts to address the socio-economic impact of the COVID-19 pandemic and build sustainability and resilience over the long term. Importantly also, it will assist in deepening Government's extant macro-fiscal reform programme to sustain achievements made since our Home-grown Structural Adjustment Programme (HGSAP) of 2014-2016.

This letter summarises salient aspects of the programme that the Government of Grenada is committed to in the following three areas that the DPC supports: (i) strengthening the Government's health and social protection responses to COVID-19; (ii) saving jobs and protecting livelihoods of households and firms; and (iii) strengthening fiscal management and transparency.

Economic and Social Context

Mr. President, Grenada's economy expanded at a brisk pace in the past seven consecutive years, with economic growth averaging 4.4% in real terms over the period 2013-2019. Regrettably, this economic expansion will be interrupted in 2020 because of the acutely negative impact of the COVID-19 pandemic, which necessitated border closures and the repression of commercial activities. Indeed, data for the first half of 2020 indicate major declines in all sectors of the economy; the Tourism and Private Education sectors markedly so. As such, an overall double-digit contraction is estimated for the year in the range of negative 10% to 12%.



Inevitably, Grenada's solid fiscal position pre-COVID-19 weakened significantly in the first half of 2020 with revenue reduced substantially and expenditure ramped up to cushion the economic blow dealt by COVID-19; the combined effect exerting a serious strain on our cash flows. By year end, an overall deficit in the region of 1.0% of GDP is estimated, which will reverse the trend of the past four consecutive years (2016-2019) of an overall surplus that averaged 3.8% of GDP. The primary surplus is estimated to be significantly smaller than those recorded in the past five consecutive years (2015-2019), which averaged 5.3% of GDP.

Consequently, public debt is estimated to increase to 70.1% of GDP in 2020 from 57.7% of GDP in 2019. The external balance is also estimated to worsen substantially in 2020 with lower export earnings, remittances and other capital inflows.

Mr. President, the economic shock triggered by the COVID-19 pandemic led to an implosion of our labour market, which saw the downward trend in unemployment in the past seven years (the overall rate reached a historic low of 15.1% in Q4 2019) being reversed in 2020, with the Q2 estimate of 28.4%. This translated into just under 14,000 jobs being lost from the employed labour force relative to the amount in Q4 2019.

The COVID-19 pandemic has also exposed, and in some cases, exacerbated long-standing development challenges such as: poverty; vulnerability; gender and income inequalities; and weak health as well as social protection systems to highlight a few. Fortunately for Grenada, no deaths have been recorded to date as a result of the pandemic, which saw 30 laboratory-confirmed positive cases during the period March to November 2020. At the time of writing this letter in November 2020, there were four new laboratory-confirmed positive cases in Grenada.

Going forward, Grenada's socio-economic conditions are expected to improve over the medium term as mitigation measures are deployed to manage as best as is feasible, the risks related to COVID-19, as well as other shocks both economic and environmental. Indeed, Grenada's macroeconomic and social resilience is expected to be strengthened through reforms in the areas supported by the DPC.

Components of the Reform Programme and Government's Commitment

Pillar 1: Strengthening the Government's Health and Social Protection Responses to COVID-19

Mr. President, the COVID-19 pandemic has exposed acute weaknesses in our health eco-system as well as our pandemic preparedness capabilities.



These weaknesses, if not adequately addressed, threaten to increase social vulnerabilities and undermine efforts geared towards attaining Goal 2 of the Sustainable Development Goals. Accordingly, we have taken swift and unprecedented measures to strengthen our health system and infrastructure including inter alia; adopting new Public Health Regulations to govern the national response to the pandemic, outlining appropriate health protocols to support a safe reopening of the economy, such as upgrading health facilities, equipping them with isolation capabilities, and increasing health expenditure to allow for more environmental health officers, personal protective equipment as well as public awareness campaigns. The Government remains strongly committed to improving the health system and health infrastructure, which is reflected in an increased allocation to the Ministry of Health in the 2021 Budget.

The Government further provides assurances that: (i) the police are being specifically trained in the application of the regulations; and (ii) public awareness campaigns are being undertaken to ensure that the public are aware of the provisions and their rights under the regulations. Furthermore, the Government recognizes the sensitive nature of personal health data that will be collected, processed and stored in connection with achieving these health objectives. Accordingly, the Government is committed to adopt in 2021 the appropriate legal instruments consistent with international good practice that define the rights and limitations on use of personal data, including sensitive personal health data.

These legal instruments will include, inter alia, provisions regarding establishing consent and other forms of legitimate and proportionate processing of data, data minimization (collecting only data that is necessary to achieve the purpose for which it is collected); data accuracy, use limitations (ensuring that data are only used for legitimate and related purposes), data retention (retaining data only for as long as they are necessary), informing data subjects of use and processing of data, and allowing data subjects the opportunity to retract consent, delete or correct information about them, provide a means for data subjects to seek redress, provide for appropriate institutional measures, and related aspects of international good practice of protecting personal data.

COVID-19 has also worsened the unemployment situation, as already mentioned, as well as laid bare social inequalities and holes in our social safety nets, which have compounded gender disparities, with women being disproportionately affected. Therefore, to help cushion the social impact of the COVID-19 pandemic, especially for those unemployed as a direct consequence of the pandemic, the Government suspended (for the period April to July 2020) the 2.0% increase in National Insurance Scheme (NIS) contributions that had been introduced in January 2020. Additionally, on the instruction of the Cabinet, the NIS rolled out a temporary unemployment benefit programme over the period April to September, 2020. A total of 3303 persons (1805 women and 1498 men) received unemployment benefits, amounting to EC\$2.8 million of the EC\$10 million approved for the programme. The Government is considering an extension of the temporary programme to January 2021, given the continued impact of the pandemic on economic activity and unemployment. The Regulations that accompany the NIS Act were amended to facilitate the programme because Grenada does not have a formal unemployment benefit programme.



The Government is committed to the development of a formal contributory unemployment benefit programme to be administered by the NIS; as a demonstration of this, Cabinet has already approved a consultancy to design a framework for a formal programme for Grenada. This is also a testament of Government's overall commitment to enhancing social protection systems and improving the delivery of social services.

Pillar 2: Saving Jobs and Protecting Livelihoods of Households and Firms

Mr. President, the Government took swift and decisive actions to blunt the socio-economic blow dealt by COVID-19. In this regard, a Supplementary Budget was approved by Parliament in April 2020 to facilitate the rollout of a stimulus package, in part, geared at saving jobs and protecting livelihoods. A Secretariat was established as the dedicated and competent authority to oversee the rollout of the stimulus package in an efficient and transparent manner. The stimulus package contained several measures. Government provided temporary payroll support to hoteliers, restaurants, bars, and small travel agents in the Tourism sector, and income support to public bus operators, taxi drivers, tourist vendors, and other hospitality-based businesses:

Additionally, Government increased funding to the small hoteliers' facility and the small business soft lending facility at the Grenada Development Bank, easing the terms and conditions to access the funds. Government also deferred the monthly advance payment on income tax and the instalment payments on the annual stamp tax all in a concerted effort to help MSMEs to maintain operations and preserve jobs. Furthermore, support was provided to farming communities and supported incomes of workers in the agro-processing and food exporting industry by providing them with key agricultural inputs, including labor, capital, and financial assistance (price support, grant and concessional credit). Government is also committed to providing financial support to the two agricultural cooperatives aimed at protecting the livelihoods of male and female farmers and agro-processors; accordingly, Grant and Loan Agreements are currently being prepared. Going forward, Government will continue to ramp up support to the agricultural sector aimed at promoting food and nutrition security and improving operations of the two cooperatives, among other strategic priorities.

Pillar 3: Strengthening Fiscal Management and Transparency

Mr. President, Government of Grenada is firmly committed to sound fiscal management, transparency and accountability. Indeed, the suite of financial legislations including the Fiscal Responsibility Act, the Public Debt Management Act, and the Public Procurement and Disposal of Property Act, which were passed during the period of our HGSAP, demonstrates our commitment. Since the end of our HGSAP, we have taken steps to further improve transparency and accountability in the management of public finances. The Government has prepared its inaugural annual integrated report, which provides a comprehensive assessment of public debt and debt management operations in 2019. Government has also improved the timeliness in which its quarterly debt bulletins are published online. Government approved the annual preparation and publication of the debt management report and is committed to preparing the integrated report on an annual basis going forward, as well as maintaining the timely preparation and publication of all its reports on public debt and public finances in general.



The quarterly debt statistical bulletin, including government debt, government guarantees, and SOEs' debt is being published in the website of this Ministry of Finance, and will continue to be published no later than two months after the end of each quarter.

In the area of public investment, Government has adopted an overarching governance framework on investment and public asset management in Grenada, including a comprehensive public physical assets registry with links to climate change and disaster risk management. Government has also taken steps to enhance the financial reporting standards in compliance with Section 64 of the Public Finance Management Act. Government has also adopted the Cash Basis International Public Sector Accounting Standards (IPSAS) for the preparation of its Public Accounts. The Government is committed to preparing and presenting the 2017, 2018, 2019 and 2020 Public Accounts in accordance with the Cash Basis IPSAS and publishing said audited accounts by 31 December 2021.

Additionally, Government remains committed to ensuring the utmost integrity of its Public Accounts and financial reports and as such, it has adopted the code of ethics and audit standards promulgated by the Institute of Internal Auditors (IIA) and is committed to the implementation of these standards to further strengthen the audit function by 31 December 2021.

We confirm that all Prior Actions have been completed and that the policy instruments adopted by Cabinet were substantially similar to those assessed by the Bank.

Conclusion

Mr. President, the Government of Grenada underscores its strong commitment to meeting our sustainable development objectives by advancing our reform agenda, important aspects of which are supported by the DPC. We express thanks to the World Bank for its continued support of our reform agenda and moreover, for its solid and long-standing partnership.

We trust that our request will receive the endorsement of the World Bank's Board of Directors.

Yours faithfully,

Dr. the Right Honourable Keith C. Mitchell
PRIME MINISTER AND GOVERNOR OF THE BANK

ANNEX 5: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar 1: Strengthening the Government’s Health and Social Protection Responses to COVID-19		
<p>Prior Action #1: The Recipient has adopted new public health regulations that govern the national response to the COVID-19 pandemic and outline appropriate health protocols to support a safe reopening of the economy.</p>	<p>No significant positive or negative environmental effects are expected to result from this PA. While these regulations could result in increased solid waste (from PPE) and small investments in retrofitting facilities, increases in solid waste are not anticipated to be significant and Grenada’s regulatory framework for solid waste management is considered sufficient to manage any potential impacts, especially the Waste Management Act No. 16 of 2001 that stipulates the management of waste in conformity with best environmental practices and related matters. Retrofitting isolation facilities will most likely be relatively minor, with no negative, significant or irreversible environmental impacts expected and the Waste Management Act No. 16 (2001) includes provisions for Environmental Impact Assessment (EIA), at the discretion of the Minister of Health. Therefore, this PA is not expected to result in significant negative environmental impacts.</p>	<p>Positive indirect impact on poor households by facilitating a safe reopening of the economy and protecting the population from the expansion of the virus. Vulnerable workers are less likely to hold jobs that can be done remotely, and thereby more reliant on the safe reopening process and preparedness infrastructure to respond to potential outbreaks. Additionally, the health and financial consequences of an infection would be particularly significant among the poor. Access to health insurance in Grenada is very low (only 10 percent of households report having at least one household member with access to health insurance and only 5 percent among households in the B40, HBS 2018), and out-of-pocket health spending is significant (OECS SCD 2018).</p>
<p>Prior Action #2: The Recipient has: (a) approved a temporary unemployment benefit program through the National Insurance Scheme (NIS) to cushion the effect on workers who have been laid off as a direct result of the COVID-19 pandemic; and (b) temporarily suspended the two percent increase in NIS contributions that had been introduced in January 2020 to</p>	<p>No significant negative environmental effects are expected to result from this PA and positive effects for climate resilience may be possible. Given that the PA aims to expand benefits from the NIS, it is not expected that this support will result in significant environmental effects such as pollution, land use change, increased waste, etc. Furthermore, this PA will benefit populations that are vulnerable to climate change impacts (mainly in the tourism sector) and aims to incorporate climate change considerations going forward, which would</p>	<p>Positive direct impact on the poor and vulnerable in the short term, though restricted to formal workers. As a result, the policy is likely to exclude a significant segment of the population (about 30 percent of employees are not registered with the NIS and over 50 percent lack a written contract). The magnitude of the transfer is modest (it represents about 20 percent to 30 percent of the income of workers</p>

temporarily reduce labor cost to firms and increase disposable income for workers.	also improve adaptive capacity of vulnerable populations to cope with shocks.	in the bottom 40 percent of the labor income distribution). Women are expected to benefit relatively more than men.
Pillar 2: Saving Jobs and Protecting Livelihoods of Households and Firms		
Prior Action #3: The Recipient has approved funding for temporary payroll support to hoteliers, restaurants, bars, and small travel agents in the tourism sector, and income support to public bus operators, taxi drivers, tourist vendors, and other such identified hospitality-based businesses.	No significant negative environmental effects are expected to result from this PA and positive effects for climate resilience may be possible. The PA will provide direct financial support to stakeholders in the tourism industry. Furthermore, this PA will benefit populations that are vulnerable to climate change impacts (mainly in the tourism sector), which would also improve adaptive capacity of vulnerable populations to cope with shocks.	Positive but limited direct impact on the poor and vulnerable. Workers in targeted jobs are more likely to belong to the middle of the wealth distribution, and this selectivity is expected to be further reinforced once accounting for the significantly lower incidence of NIS registration among poorer workers. As many as 60 percent of workers in the bottom quintile are not registered with the NIS, compared with 30 percent among those in the top quintile. Women can potentially benefit more than men (close to 70 percent of workers in the targeted occupations are women), but preliminary program data cannot confirm this.
Prior Action #4: The Recipient has bolstered farming communities and supported incomes of workers in the agro-processing and food exporting industry by providing them with key agricultural inputs, including labor, capital, and financial assistance (price support, grant and concessional credit).	No significant negative environmental effects are expected to result from this PA and positive effects for climate resilience may be possible. This PA is expected to provide income support and agricultural inputs to farmers given the decrease in production during the COVID-19 pandemic; therefore, it is not expected to contribute to significant increases in agricultural production, run-off, and land-use change. In addition, the planting materials will be suitable to Grenada and will not promote invasion of non-native species. However, if there were potential for these impacts, Grenada has the regulatory framework and capacity to manage the possible environmental effects from this PA, such as indirect land use changes and pollution from use of pesticides and fertilizers. Key policies in place include the Pesticides Control (Approval of Pesticides) Regulations 1979 (S.R.O. No. 10 of 1979); Pesticides and Toxic Chemicals Control Act 2014; the National Land Policy; the Physical Planning and Development Control Act No 25 of 2002; the Public Health Act of 1958; the	Positive direct impact on the poor and vulnerable provided appropriate targeting policies are put in place to reach a significant share of small scale and backyard farmers. The B40 account for about 50 percent of the employed in the agriculture sector. Most workers in the agriculture sector are males (80%) and are not registered with the NIS (70%).

	Waste Management Act of 2001; the Fisheries Act of 1986; and the Land Development and Utilization (Amendment) Law of 1981. Furthermore, this PA will benefit populations that are vulnerable to climate change impacts (mainly in the agricultural sector), which would also improve adaptive capacity of vulnerable populations to cope with shocks.	
Prior Action #5: The Recipient has taken the following measures to support access to finance and operational continuity for MSMEs in the face of COVID-19 in critical sectors: (a) provided additional funding for the small hoteliers facility and the small business soft lending facility managed by the Grenada Development Bank; and (b) temporarily deferred the monthly advance payment on income tax and the instalment payments on the annual stamp tax.	No significant negative environmental effects are expected to result from this PA and positive effects for climate resilience may be possible. Given that the PA aims to provide support to MSMEs to provide a safety net during the COVID-19 pandemic, it is not expected that this support will result in significant environmental effects such as pollution, land use change, increased waste, etc. If any effects were foreseen from support for minor refurbishments (unlikely) this would be mitigated through Grenada’s regulatory framework (namely the Physical Planning and Development Control Act No. 25 of 2002 and the Waste Management Act No. 16 of 2001). Furthermore, this PA will benefit populations that are vulnerable to climate change impacts (mainly in the tourism sector) and aims to incorporate climate change considerations going forward, which would also improve adaptive capacity of vulnerable populations to cope with shocks.	No significant direct poverty or social effects. Potential positive indirect effect if take-up increases significantly relative to previous years and access to credit protects employment. Barriers to access due to low formality rates are significant (NIS enrollment among employers in small firms and the self-employed average 30 percent).
Pillar 3: Strengthening Fiscal Management and Transparency		
Prior Action #6: The Recipient has taken steps to improve debt transparency and the timeliness of debt reporting by: (a) approving the annual preparation and publication of the government debt management report; and (b) publishing the quarterly debt statistical bulletin, including government debt, government guarantees, and SOEs’ debt in the website of the MoF.	No significant positive or negative environmental effects are expected to result from this PA.	No significant direct impact in the short term. Potentially positive indirect effect in the medium term by strengthening macro stability and sustained growth.
Prior Action #7: The Recipient has adopted a policy framework on investment and asset management (PIAM) providing an overarching governance framework for	No significant negative environmental effects are expected to result from this PA and positive effects for climate resilience are expected. The PA will (i) aid in both pre-disaster planning and mitigation and post-disaster recovery effort; (ii)	No significant direct impact in the short-term. Potentially positive indirect impact in the medium term by strengthening the government’s capacity to plan and respond to

<p>public assets in Grenada, involving a comprehensive (physical) assets registry, and with links to climate change and disaster risk management.</p>	<p>help the GoG to identify its true exposure and vulnerability to climate change and disaster risks events; and (ii) facilitate the implementation of the disaster risk financing (DRF) strategy adopted in September 2019. This PA will directly improve the country's resilience to climate change.</p>	<p>climate change and disaster risk events, which disproportionately affect the poor.</p>
<p>Prior Action #8: The Recipient has adopted the cash basis international public sector accounting standards (IPSAS) for the preparation of its public accounts in compliance with Section 64 of the PFM Act, to enhance its financial reporting standards.</p>	<p>No significant positive or negative environmental effects are expected to result from this PA.</p>	<p>No significant direct impact in the short term. Potentially positive indirect effect on social outcomes in the medium term if increased transparency contributes to more and better use of public resources for the poor and vulnerable.</p>
<p>Prior Action #9: The Recipient has reformed its internal audit function by adopting the code of ethics and audit standards promulgated by the Institute of Internal Auditors (IIA), to enhance and protect the value of the public sector.</p>	<p>No significant positive or negative environmental effects are expected to result from this PA.</p>	<p>No significant direct impact on poverty and inequality in the short term. Potentially positive social impact in the medium term if increased transparency and accountability translates into better services for the poor and vulnerable.</p>



ANNEX 6: POVERTY AND SOCIAL IMPACT ASSESSMENT (PSIA)

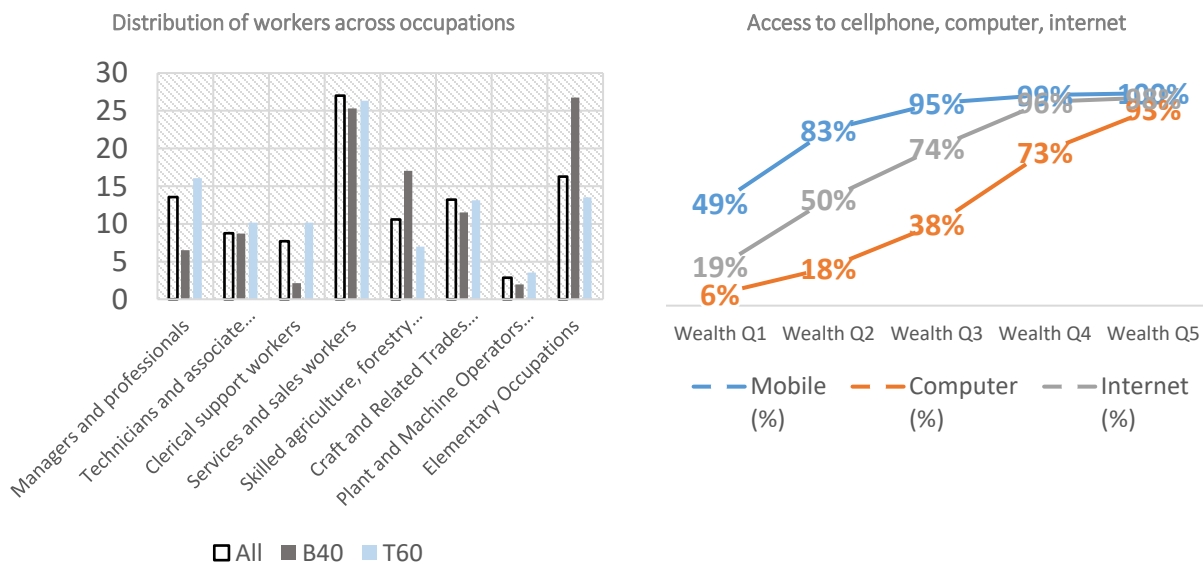
1. The analysis below focuses on the prior actions that are expected to have a significant direct impact on poverty, income inequality, or other social welfare indicators, and it draws from new analysis done for this operation based on recently available household surveys and administrative records.

Pillar 1: STRENGTHENING THE GOVERNMENT’S HEALTH AND SOCIAL PROTECTION RESPONSES TO COVID-19

PA1. The Recipient has adopted new public health regulations that govern the national response to the COVID-19 pandemic and outline appropriate health protocols to support a safe reopening of the economy.

2. The strengthening of the health system to cope with the pandemic and support a safe reopening process is expected to have a positive impact on the poor and vulnerable. Workers in poor households are less likely to hold occupations that can be done from home and less likely to have access to the necessary technologies to do so. Over 50 percent of workers in the B40 are employed in elementary occupations or services and sales, which are highly likely to be affected by the crises. While every household in the top quintile of the distribution has a mobile phone, internet, and a computer, only 49, 19, and 6 percent of households at the bottom quintiles have access to those services, respectively (Figure A1). A safe and quick reopening process, along with adequate preparedness infrastructure to respond in case of potential outbreaks, is therefore crucial for the poor and vulnerable to resume their economic activities and sustain their families. Investments towards a safe reopening are also critical to minimize the widening of inequalities in human capital accumulation that comes from the differential capacity of poor and better-off households to compensate for the closure of schools. Finally, the health and financial consequences of an infection would be particularly significant among the poor. Access to health insurance in Grenada is very low (only 10 percent of households report having at least one household member with access to health insurance and only 5 percent among households in the B40, HBS 2018), and out-of-pocket health spending is significant (OECS SCD 2018).

Figure A1. Indicators of access to unemployment assistance benefits



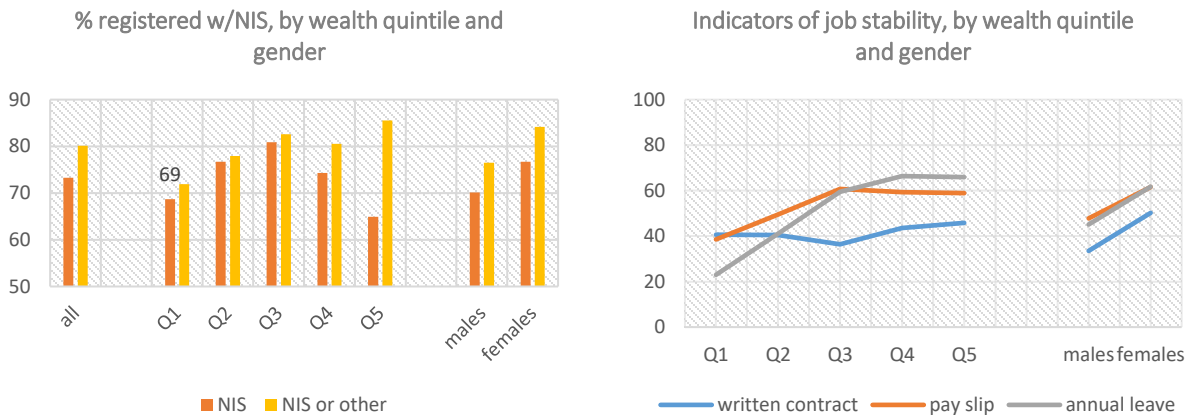


Source: LFS 2019 (left), HBS 2018 (right)

PA2. The Recipient has: (a) approved a temporary unemployment benefit program through the National Insurance Scheme (NIS) to cushion the effect on workers who have been laid off as a direct result of the COVID-19 pandemic; and (b) temporarily suspended the two percent increase in NIS contributions that had been introduced in January 2020 to temporarily reduce labor cost to firms and increase disposable income for workers.

3. The supported measure is expected to have a positive impact on the poor and vulnerable in the short term, though access is limited to formal workers. The Government put in place a temporary unemployment benefits program to support individuals that are laid-off as a result of the crises. The program is only available to those who were active contributors to the NIS, which is likely to exclude a significant portion of the workers at the bottom of the distribution (Figure A2). Based on the most recent Household and Budget Survey, about 30 percent of workers in the bottom quintile of the distribution are not enrolled with the NIS and about 20 percent of households do not have any worker registered with the NIS. Given that enrollment does not guarantee active contributions in the last 12 months, these figures provide with a lower bound to access. Complementary indicators of job quality and job stability, such as having a written contract, a pay slip, or access to annual leave, suggest that barriers to access may be even more pronounced.

Figure A2. Indicators of access to unemployment assistance benefits



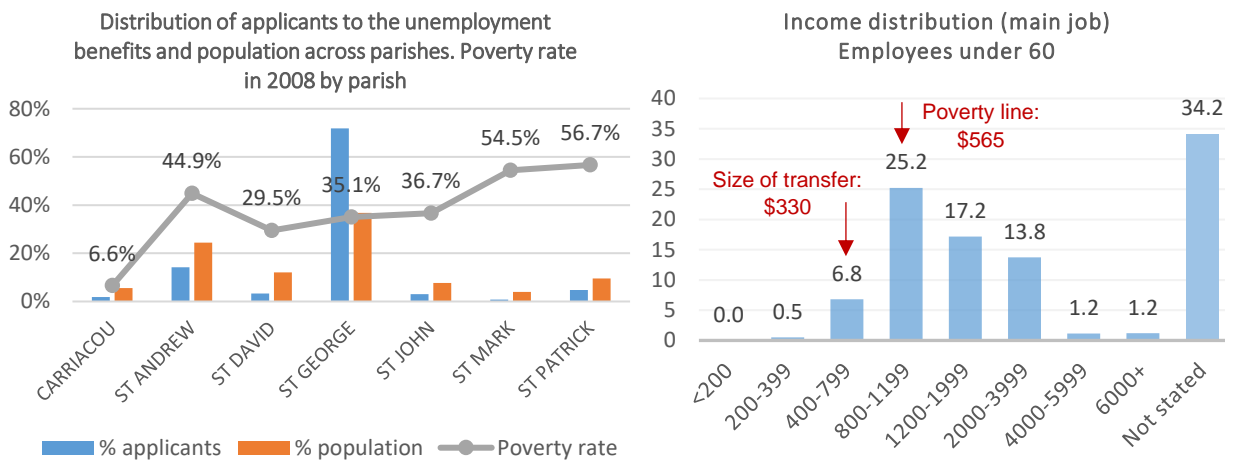
Source: HBS 2018

4. The program is estimated to have reached over 50 percent of the new unemployed, and to have benefited relatively more female workers. However, beneficiaries are largely concentrated in one parish - St. George, and benefits are relatively small in magnitude. Preliminary estimates from the Labor Force Survey from the second quarter of 2020 suggests that the unemployment rate almost doubled relative to Q2 2019, going from 15.7 percent to 28.4 percent. Based on administrative records, about 3,000 individuals received unemployment benefits in May 2020, and close to 4,000 by October. While administrative records and survey estimates should be compared with caution, these numbers suggest that over half of the newly unemployed may have received these benefits. Furthermore, 59 percent of the beneficiaries are women. The number, however, has been going down in subsequent months (the highest number of claims paid occurred in May), and they are highly concentrated in St. George (which



accounts for almost three quarter of applicants). This concentration is consistent with the profile of the actively insured (72 percent are from St. George), but it also confirms the exclusion of poorer segments of the distribution. St. George only accounts for 37 percent of the population and its poverty rate is below the median of the distribution (Figure A3, left). The three poorest parishes account for 38 percent of the population but only 20 percent of the applicants. Finally, the benefits of the program are relatively modest. The program offers a flat amount of EC\$330 a month – equivalent to about 60 percent of the poverty line - regardless of the income in the previous job. For most employees, this magnitude represents between 10 percent and 30 percent of their labor income (Figure A3, right) (20 percent to 30 percent among workers in the bottom 40 percent of the labor income distribution).

Figure A3. Location of beneficiaries and magnitude of the benefits



Source: NIS administrative records and HBS 2008 (left); LFS 2019 (right)

Pillar 2: SAVING JOBS AND PROTECTING LIVELIHOODS OF HOUSEHOLDS AND FIRMS

PA3. The Recipient has approved funding for temporary payroll support to hoteliers, restaurants, bars, and small travel agents in the tourism sector, and income support to public bus operators, taxi drivers, tourist vendors, and other such identified hospitality-based businesses.

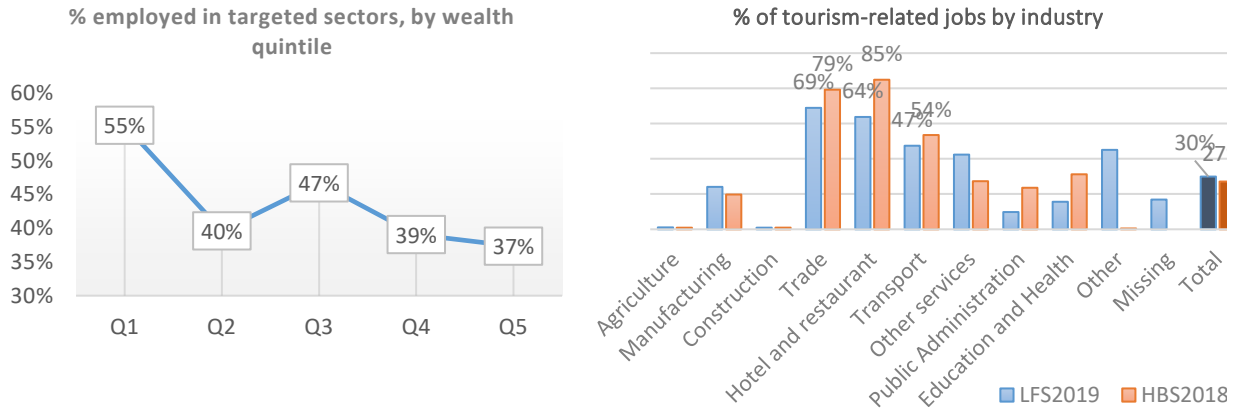
PA4. The Recipient has bolstered farming communities and supported incomes of workers in the agro-processing and food exporting industry by providing them with key agricultural inputs, including labor, capital, and financial assistance (price support, grant and concessional credit).

5. Taken together, the two industries targeted by the sectoral policies – tourism and agriculture – employ close to 50 percent of the population in the B40 of the distribution (Figure A4). The Government put in place a set of measures to protect jobs and livelihoods in the industries expected to be hardest hit by the crises. These industries, in turn, also account for a significant share of jobs among workers in the B40 (55 percent among those in the bottom quintile and 40 percent among those in the second quintile of the distribution). Furthermore, targeted industries are relatively more important among poorer workers relative to better-off worker, which is mainly explained by the agriculture sector (tourism show a somewhat upward slopping curve). Likewise, within the tourism sector policies successfully target the



three industries with the highest share of tourism-related jobs (Trade, Transport, and Hotels & Restaurants), which together cover 2/3 of tourism jobs (LFS 2019).

Figure A4. Coverage of sectoral mitigation policies

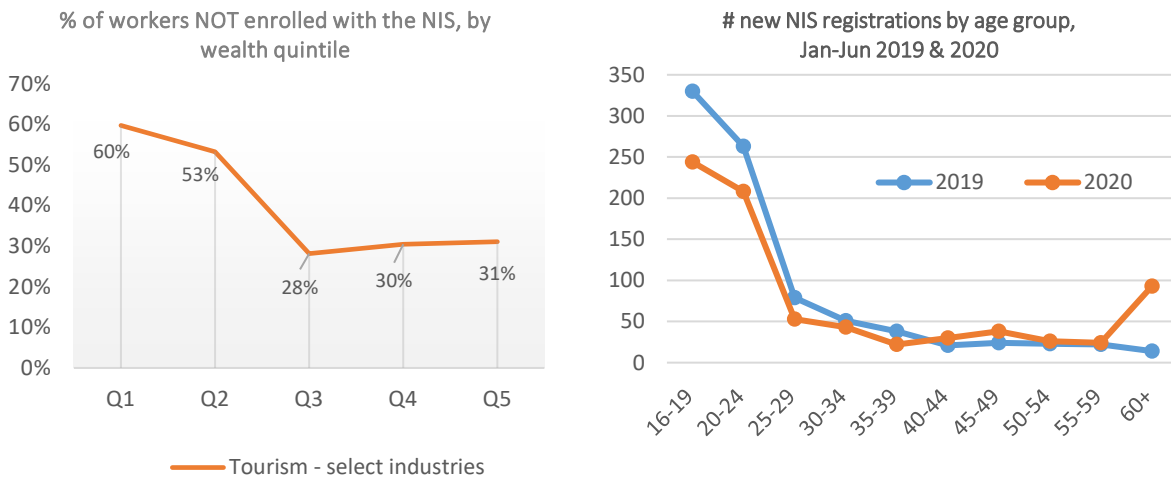


Source: LFS 2019 (left); LFS 2019 and HBS 2018 (right)

6. Within the tourism sector, however, the various registration requirements to access the payroll and income support programs are likely to exclude a large share of the vulnerable population. Both policies require registration with the NIS, employee verification when relevant, and registration with the Grenada Tourism Authority. However, these conditions are significantly less likely to be met among workers at the bottom of the distribution (Figure A5). For example, in 2019 60 percent of workers in the bottom quintile report not being enrolled with the NIS compared to 30 percent in the top quintile. More specifically, among employees in the Hotels and Restaurants sector (the target population of the payroll support), only 50 percent of those in the bottom quintile are registered with the NIS (compared to 85 percent in the top quintile); and only 40 percent in the bottom quintile have a pay slip and access to annual leave (compared to over 90 percent of the employees in the top quintile). Among employers or the self-employed in the trade and transport sectors (the target population of the income support), overall registration with the NIS is much lower (less than 40 percent on average), and significantly low among those in the B40. If workers or businesses were not enrolled with the NIS, the Government allowed them to register at the time of applying to the benefits. However, administrative records show no jump in new NIS registrations in 2020 relative to 2019 (new registrations in fact fell in 2020, driven by lower registrations among female youth). This suggests that, de facto, NIS registration is an indicator of exclusion.



Figure A5. Lack of NIS registration as an Indicator of exclusion to the programs

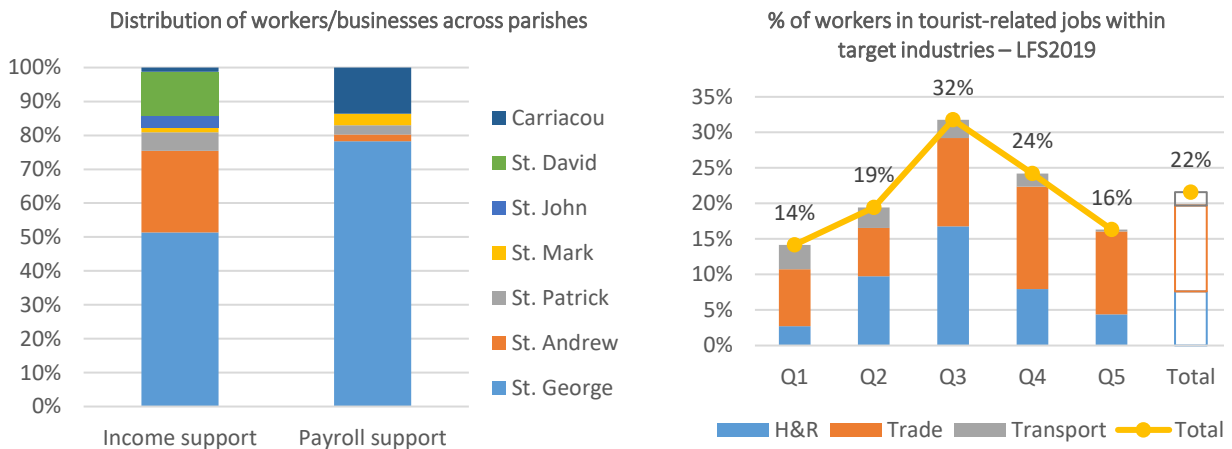


Source: LFS 2019 (left); administrative records (right)

7. While the Income and Payroll support programs are expected to have reached about 50 percent of workers in targeted jobs, beneficiaries are highly concentrated in two parishes – St. George and St. Andrew – and are more likely to come from the middle of the wealth distribution. According to administrative records, these programs reached together close to 5,000 workers (3,110 through payroll support and 1,800 through income support). Compared to the estimated number of workers employed in tourism-related jobs within the three targeted industries in 2019, these would account for about 55 percent of the intended beneficiaries. However, consistent with being formal workers, beneficiaries are concentrated along two other dimensions. Businesses who accessed the payroll support are almost exclusively located in St. George (Figure A6, left). While workers may come from other locations, this is consistent with the fact that most NIS contributors are from this Parish, and with the fact that most workers in selected industries belong to the middle of the wealth distribution (Figure A6, right). Workers who accessed the income support were a little bit more dispersed: 26 percent come from St. Andrew, which has a higher incidence of poverty relative to St. George (45 percent and 35 percent in 2008, respectively). In terms of gender disaggregation, these policies are expected to disproportionately benefit women (70 percent of workers are women, and women are more likely to be enrolled with the NIS relative to men). Gender disaggregated program records for payroll support are not available, but only 37 percent of income support beneficiaries are women.



Figure A6. Geographic distribution of beneficiaries and placement along the wealth distribution



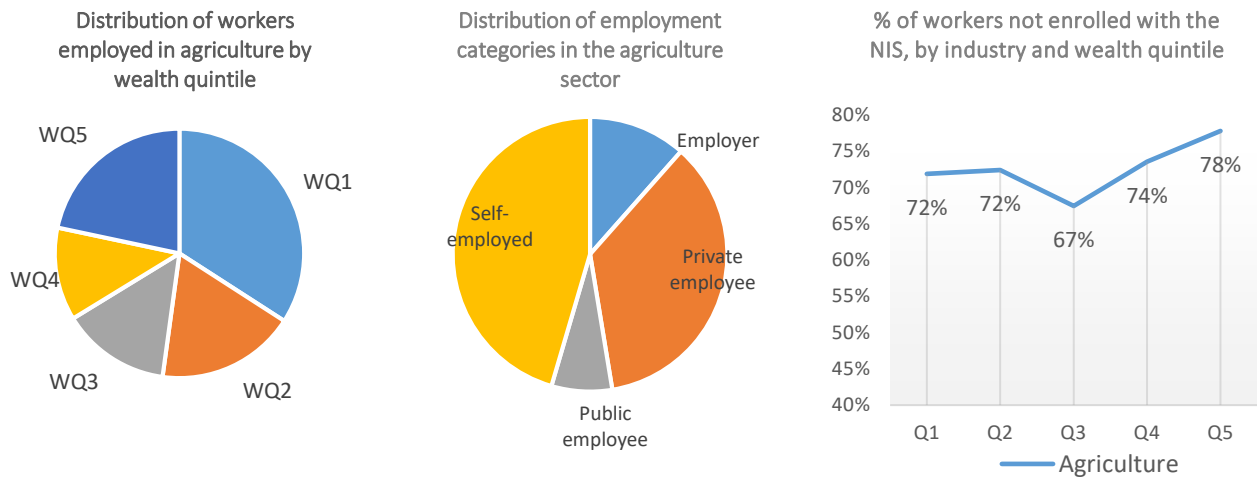
Source: administrative records (left); LFS 2019 (right)

8. Given the focus on the formal segment of the sector and the short time frame of the support, the policies in the tourism sector are expected to have a positive but limited impact on the poor and vulnerable. As mentioned above, workers in targeted jobs are more likely to belong to the middle of the wealth distribution, and this selectivity is expected to be further reinforced once accounting for the significantly lower incidence of NIS registration among poorer workers. Additionally, these policies were designed to provide a short-term support, as they were in place only for three months. Nevertheless, given the wide reach of the programs (they are estimated to have reached about 50 percent of the sector), lower income and informal workers may have benefited indirectly from the broad support to the sector.

9. The policies supporting the agriculture sector are expected to have a positive direct impact on the poor and vulnerable provided appropriate targeting policies are put in place to reach a significant share of small scale and backyard farmers (Figure A7). The agriculture sector constitutes a major source of employment among workers in the B40. About 30 percent and 15 percent of the employed in the first and second quantiles, respectively, are employed in agriculture. Most of them work as self-employed (45%) or as private employees (36%), and the majority are men (80%). Implementation delays have prevented the support through the marketing board and the cocoa and nutmeg associations to reach the farmers who constitute the end beneficiaries of these policies. It is expected that farmers connected to these associations are more likely to be located towards the middle of the wealth distribution, though information is not available to confirm this. Formal employment, as measured by registration with the NIS, is low in the agriculture sector, revolving at around 30 percent across the wealth distribution. The three additional components that are designed to reach small scale farmers have yet to pick-up. The Farm Labor Support program has only reached 650 farmers (26 percent of them women), the Protected Agriculture Program and additional 15 households, and the Back-Yard Garden Project is still in the process of identifying potential beneficiaries.



Figure A7. Snapshot of the agriculture sector



Source: LFS 2019