

Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 09-Aug-2019 | Report No: PIDC27596

BASIC INFORMATION

A. Basic Project Data

Country Grenada	Project ID P171465	Project Name Grenada Disaster Risk Management Development Policy Credit with a Catastrophe Deferred Drawdown Option (P171465)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Oct 03, 2019	Practice Area (Lead) Urban, Resilience and Land	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance, Planning Economic and Physical Development	Implementing Agency Ministry of Finance, Planning Economic and Physical Development		

Proposed Development Objective(s)

To strengthen Grenada's (a) disaster and climate resilience policy framework, and (b) fiscal risk management associated with natural hazards.

Financing (in US\$, Millions)

SUMMARY

Total Financing	20.00
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DETAILS

Total World Bank Group Financing	20.00
World Bank Lending	20.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

1. **The proposed Disaster Risk Management Development Policy Credit (DPC) with an IDA Catastrophe Deferred Drawdown Option (Cat-DDO) for Grenada, in the amount of US\$20 million, supports (a) the efforts of the Government of Grenada (GoG) to mobilize resources in the aftermath of a natural catastrophe, and (b) the country's reform program to comprehensively manage disaster and climate risks.** This operation is built on and will continue to be supported with World Bank technical assistance (TA) and complemented with other ongoing World Bank projects¹ as part of the broader partnership with the Government of Grenada on DRM and climate change adaptation.

Country Context

2. **Due to its geographical location, Grenada is exposed to hydrometeorological (high wind/excess rainfall/hurricanes, floods and drought) and geophysical (seismic/volcanic/tsunami) hazards, causing a high risk to its economic stability.** These hazards often result in significant and recurrent damages to national infrastructure including housing, transport and telecommunication networks, schools, hospitals as well as water and electrical services. As is the case with most island states, a single hazard event can impact the entire population and economy of Grenada due to the structural challenges of small island developing states, including its limited natural-resources base, small population and limited geographical area.

3. **With a population of 108,000 (2017), Grenada is a small island developing state (SIDS) with high exposure to natural disasters.** The historical economic impact of disasters in Grenada has been substantial: Hurricanes Ivan in 2004 and Emily in 2005 for example have caused estimated total damages and losses in the amount of US\$885 million (239 percent of GDP)² and US\$52 million (13 percent of GDP)³, respectively. In the long term, it is estimated the GoG needs to set aside approximately US\$4 million, equivalent to 0.4 percent of GDP (2017)⁴ each year to accommodate the impact of disasters on its direct contingent liabilities alone. Like other countries, disasters in Grenada typically also have had a disproportionate impact on the poor, which can affect poverty reduction targets and inclusive growth.

4. **In August 2018, Grenada was severely affected by excessive rainfall leading to extensive flooding and numerous landslides, causing severe damage to public and private infrastructure.** The rainfall also caused major losses to agriculture and fisheries sectors and was most acute in two of the island's six parishes, St. George's and St. David. This event compelled the Government to declare these areas disaster zones by Grenada's National Emergency Advisory Council. While GoG had purchased excess rainfall coverage through CCRIF SPC, it did not trigger a payout due to the parametric nature of the product. The Government had to finance the emergency response and early recovery phases by accessing limited reserve funds and by the reallocation of funds from other ongoing programs. A Cat-DDO would have been an ideal instrument to mitigate this fiscal impact through increased financial resilience.

5. **Grenada has a well-established legal and institutional framework for managing disaster and climate risks that is advanced among countries in the Caribbean region.** The Government has taken relevant steps to strengthen the country's disaster risk management (DRM), climate change adaptation and develop strategies to promote resilient planning. Its commitment dates back to 1985, with the creation of the National Emergency Relief Organization (NERO) and the production of the first National Disaster Plan. Since then, the Government has taken critical measures to promote

¹ Grenada is currently implementing a World Bank-funded Regional Disaster Vulnerability Reduction Project (RDVRP – P117871), which aims to reduce physical and fiscal vulnerability to disasters and the impacts of climate change through a combination of infrastructure works and technical assistance activities that increase capacity to identify and manage climate and disaster risk.

² "Grenada Macro-Socio-Economic and Assessment of the Damage caused by Hurricane Ivan". OECS (7 September 2014).

³ "Grenada Macro-Socio-Economic and Assessment of the Damage caused by Hurricane Emily". OECS (14 July 2015).

⁴ This estimate includes direct losses for the public sectors. However, simulations show that a major event triggering public losses with a return period of 100 years could cause losses in excess of \$71.4 million or 6.3 percent of GDP (2017) to the public sector.

sustainable development and ensuring effective response and management of emergency and disaster events through the establishment of legal, institutional and operational frameworks for DRM. In Grenada, the World Bank supported Regional Disaster Vulnerability Reduction Program (RDVRP) is one of the Government's main development programs to deliver on its overall climate resilience agenda. The RDVRP aims at measurably reducing vulnerability to natural hazards and climate change impacts by (a) reducing risk of failure of critical public infrastructure due to natural hazards or climate change impacts; and (b) increasing government capacity to identify and monitor climate risk and impacts. The National Climate Change Policy (NCCP 2017), also builds on the prior 2007 long-term action plan and identifies institutional gaps, priority investments for critical infrastructure, land use planning and food security.

6. **Natural disasters and disease outbreaks have demonstrated the cross-boundary nature of public health emergencies.** Recent extreme weather events such as Hurricanes Irma and Maria (2017) and regional outbreaks of Chikungunya (2014) and Zika (2016) have highlighted the consequences of weaknesses in public health emergency preparedness in Grenada and in OECS countries. Assessments conducted by the Pan-American Health Organization (PAHO) since 2015 under its Smart Health Facilities Initiative also prioritizes investment needs for resilient recovery of the health sector focusing on strengthening the following relevant processes: (i) coordinating mechanisms for health sector response, (ii) multi-hazard mitigation/prevention, preparedness, response and recovery and recovery protocols, (iii) roles and responsibilities clearly defined of key sector entities and their departments in the event of any disaster or emergency

7. **Grenada's macroeconomic policy framework is sustainable and adequate for the proposed operation.** Macroeconomic policy in Grenada is characterized by a tight fiscal stance underpinned by a rules-based framework and fiscal responsibility legislation. Recent debt restructuring and consistent primary surpluses since 2015 have put the high public debt on a downward path, on track to achieve the target of 55 percent of GDP by 2020. The Government remains committed to the fiscal rules, which enable effective control of public spending. The economy is projected to remain buoyant and stable over the medium term, with low inflation, and improving fiscal balances. Sound macroeconomic policies have enabled investor confidence and a robust expansion in the real sector driven by tourism, construction, and agriculture, which has been supported by external demand.

Relationship to CPF

8. **This operation is consistent with is consistent with the World Bank Group's Regional Partnership Strategy for the Organization of Eastern Caribbean States (OECS) 2015-2019** (Report No. 85156-LAC), discussed by the Executive Directors on November 13, 2014, which identifies disaster and climate change vulnerabilities as a key challenge in achieving poverty reduction and shared prosperity. To this end, the Cat DDO will work towards achieving Outcome nine of the RPS: "Increased capacity to manage natural hazards" under the Resilience pillar of engagement, by building greater resilience and enhanced DRM capacity in Grenada. More specifically, this DPC with Cat-DDO operation will constitute a critical line of contingency financing as part of the Government's fiscal strategy to address contingent liabilities associated with natural catastrophes, complementing existing disaster risk financing instruments, such as coverages from the CCRIF SPC.

9. **This DPC with Cat-DDO operation is directly in-line with and supports the Government's goals and objectives of enhancing the country's resilience in a comprehensive manner.** The two pillars supported by this DPC with Cat-DDO operation mutually reinforce a comprehensive approach to enhance resilience against natural hazards. Climate co-benefits for this operation are expected to be high as climate variability is anticipated to increase the frequency and

severity of hydro-meteorological hazards in Grenada and this operation increases financial and physical resilience of the Government of Grenada.

10. **The DPC with Cat-DDO complements other ongoing DPC operations⁵ in Grenada since it is a contingent line of credit.** With the focus of ring-fencing, this DRM financial instrument ensures access to quick liquidity specifically in the event of a national emergency. As the instrument requires that a declaration of a national emergency for funds to make available for disbursements, it ring-fences its resources from any potential moral hazards, including drawdowns to cover costs for non-emergency activities.

C. Proposed Development Objective(s)

The development objective of this operation is to To strengthen Grenada's (a) disaster and climate resilience policy framework, and (b) fiscal risk management associated with natural hazards. This objective will be achieved through reforms under the following pillars:

- **Pillar 1.** Strengthening Financial resilience against natural hazards and climate change.
- **Pillar 2.** Enhancing policy and institutional framework for improved Disaster Risk Management and Climate Change.

Key Results

11. **Continue addressing strategic fiscal gaps in DRM and improving the country's national financial and fiscal capacity,** that substantially contribute to better management of the cost of disasters, aiming at ensuring the sustainability of the Government's efforts and commitment to a holistic approach to disaster and climate risk reduction, and ensuring that adequate liquidity is readily available to address emergency situations triggered by natural hazards resulting in a catastrophic event.

12. Proposed Prior Actions:

Prior Action # 1: The Recipient has approved the Grenada National Disaster Risk Financing Strategy (DRFS) through Executive decree, thereby providing a comprehensive framework for using multiple instruments and programs to strengthen financial resilience for improved DRM.

Prior Action # 2: The Recipient has appointed a risk management officer to the Fiscal Oversight Committee to strengthen the capacity of said committee to proactively monitor and advise on the implementation of the disaster risk financing strategy.

Prior Action # 3: The Recipient through Cabinet approval has amended the Charts of Accounts to strengthen the budgetary framework to include provisions that enable the classification and report on post disaster expenditure in relief, recovery and reconstruction.

Prior Action # 4: The Recipient has received Cabinet approval to adopt an action plan to strengthen the financial resilience of the agriculture sector against key natural hazards.

⁵ Fiscal Resilience and Blue Growth Development Policy Credit series (P164289).

Prior Action # 5: The Recipient, through Executive decree, has adopted the Antigua and Barbuda Declaration on School Safety in the Caribbean that aims at reducing disaster risk in the education sector.

Prior Action # 6: Through an Executive Decree, the Recipient has received Cabinet approval that recognized the Association of Professional Civil Engineers as the entity authorized to officially grant accreditations for infrastructure design and construction.

D. Concept Description

13. **Under Pillar 1, “Strengthening Financial resilience against natural hazards and climate change”, implementation of reforms aims to strengthen the institutional capacity of the Government to better manage the fiscal risks associated with natural shocks and improve the financial capability to respond to disasters.** A proactive management of fiscal impacts of disasters can help Grenada to: (a) improve disaster relief, recovery and reconstruction speed; (b) quantify Government and private sector disaster liabilities; (c) improve public finance management processes; and (d) help the Government better strategize its available disaster risk financing mechanisms. The institutional actions presented in this pillar enhance Grenada’s capacity toward an *ex-ante* approach to reduce and finance fiscal risks associated with adverse natural events. The coordination of the policy reforms under Pillar I is driven by the MoF.

14. **Pillar 2, “Enhancing policy and institutional framework for improved Disaster Risk Management and Climate Change.” Through the reforms included in Pillar II, the Government is establishing the necessary policy framework to mainstream DRM and CCA in high-priority sectors.** The Government has embarked on a set of reforms to establish and strengthen the legal and institutional framework to incorporate disaster risk and climate change adaptation considerations into sectoral policies and critical public infrastructure development to improve their overall resilience and sustainability. The reforms will support risk-informed decision-making in the selection of land-use, environment, and urban development investments and interventions.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

15. **The poverty and social impact of the prior actions included in this DPC with Cat-DDO are expected to be neutral in the short term and positive over the medium and long-term⁶.** The policies supported under this project are expected to reduce the Grenada’s vulnerability to natural hazards and supporting social and economic development by, *ex ante*, improving the DRM framework and upgrading education infrastructure while improving the country’s capacity to cope with the effects of a shock *ex post*. The policies are not expected to reduce poverty directly but rather contribute to preventing increased poverty in the event of new extreme natural events and mitigating the long-term effects of disasters.

16. **The reduction of extremely high levels of vulnerability in the medium and long term will improve the well-being of most-deprived population in Grenada.** A large quantity of Grenada’s social infrastructure and the highest population densities are exposed to natural hazards⁷. Poorer socioeconomic conditions make households more sensitive to the impact

⁶ Lack of updated poverty data limits the quantitative accuracy of poverty impact projections. As a result, the analysis relies on information from [2015 labor force survey](#), and qualitative analysis is used to assess possible poverty and distributional impacts.

⁷ They are located at sea level, often right along the coast. These include education facilities, health facilities and police stations. Additionally, many of the main roads and bridges linking the various parishes are located on the coast.

of hazards and less able to respond, cope, and adapt to disasters. Moreover, the poor have a lower threshold for enduring external shocks and barely have financial resources or capital, if any, to rely on. Disaster prevention activities from Pillar II (Safer School program and the effective incorporation of resilience on infrastructure design) are envisioned to prioritize the most vulnerable population, considering their multidimensional poverty status, and thereby contribute to protecting them from unforeseen events.

17. **Strengthening the government’s fiscal resilience is an important prerequisite to enabling a rapid and effective response to disasters and supporting those most in need.** Pillar I focus on the government’s fiscal resilience is crucial for enabling the financing of post-disaster support. By putting in place dedicated systems for accessing and channeling contingency funds, the GoG can ensure that funds are available to finance the pro-poor risk management measures contained in the other pillars. Budgetary measures can be critical, for instance to ensure timely expansion of shock sensitive social protection systems.

Environmental Impacts

18. **Although not directly, the Prior Actions for this operation will improve Grenada’s ability to manage its environment and natural resources and are thus likely to result in positive impacts on the environment.** Through this process, national agencies related to economic planning, disaster risk management, land use planning, education and urban development will be able to better reflect environmental considerations and risks in their respective decision-making processes. For instance, the adoption of the insurance mechanism (Prior Action #4) will contribute to improve sustainability in the agricultural sector.

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APPROVAL

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