



**The World Bank**

Grenada Disaster Risk Management Development Policy Credit with a Catastrophe Deferred Drawdown Option  
(P171465)

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**The World Bank**

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Report No: PGD136

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF US\$20 MILLION TO

GRENADA

FOR A

Disaster Risk Management Development Policy Credit  
with a Catastrophe Deferred Drawdown Option

December 18, 2019

Urban, Disaster Risk Management, Resilience, and Land Global Practice  
Latin America And Caribbean Region

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Grenada

**CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of December 15, 2019)

Currency Unit = Eastern Caribbean Dollar (EC\$)

EC\$2.70 = US\$1.00

US\$1.37 = SDR 1

**GOVERNMENT FISCAL YEAR***January 1 – December 31***ABBREVIATIONS AND ACRONYMS**

ACP	Africa, Caribbean and Pacific
ACP-EU	African, Caribbean and Pacific Group of States (ACP) and the European Union (EU) Development Cooperation
AGRICOM	OECS Regional Agriculture Competitiveness Project
AML/CFT	Anti-Money-Laundering and Countering Financing of Terrorism
CARTAC	Caribbean Regional Technical Assistance Centre
Cat DDO	Catastrophe Deferred Drawdown Option
CCA	Climate Change Adaptation
CCORAL	Caribbean Climate Online Risk Adaptation Tool
CCPA	Climate Change Policy Assessment
CCRIF SPC	Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company
CF	Contingency Fund
CoA	Chart of Accounts
COAST	Caribbean Oceans and Aquaculture Sustainability Insurance
CPF	Country Partnership Framework
CPI	Consumer Price Index
DfID	U. K. Department for International Development
DPC	Development Policy Credit
DRF	Disaster Risk Financing
DRFS	Disaster Risk Financing Strategy
DRM	Disaster Risk Management
DRR	Disaster Risk Reduction
DSA	Debt Sustainability Analysis
EC	Eastern Caribbean Dollar
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECF	Extended Credit Facility
EnGenDER	Enabling Gender-Responsive Disaster Recovery, Climate and Environmental Resilience in the Caribbean

EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FRL	Fiscal Responsibility Law
FROC	Fiscal Responsibility Oversight Committee
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GIZ	German Society for International Cooperation
GoG	Government of Grenada
GPRS	Growth and Poverty Reduction Strategy
HDC	Health Disaster Committee
HEOC	Health Sector Emergency Operating Center
HGRP	Home-Grown Reform Program
IDA	International Development Association
IEG	Independent Evaluation Group
IFA	International Fund for Agriculture
IHR	International Health Regulations
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
JEE	Joint External Evaluation
LDP	Letter of Development Policy
MoC	Ministry of Climate Resilience, Environment, Forestry, Fisheries, Disaster Risk Management and Information
MoE	Ministry of Education, Human Resource and Religious Affairs
MoF	Ministry of Finance, Planning, Economic Development and Physical Development
MoH	Ministry of Health, Social Security and International Business
MTA	Medium Term Agenda
MTFF	Medium-Term Fiscal Framework
NaDMA	National Emergency Disaster Management Agency
NAP	National Adaptation Plans
NCCAP	National Climate Change Adaptation Plan
NDC	Nationally Determined Contribution
NDP	National Disaster Plan
NDRR	Natural Disaster Risk Reduction
NEAC	National Emergency Advisory Council
NERO	National Emergency Relief Organization
NSDP	National Sustainable Development Plan
NTF	National Transformation Fund
OECS	Organization of Eastern Caribbean States
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PLR	Performance and Learning Review
PPCR	Program for Climate Resilience
PPG	Public and Publicly Guaranteed
PROFISH	World Bank Global Program on Sustainable Fisheries
PSIP	Public Sector Investment Program

RBFH	Republic Bank Financial Holdings Limited
RCM	Regional Climate Change Models
RDVRP	Regional Disaster Vulnerability Reduction Project
RPS	Regional Partnership Strategy
SAEP	Climate-Smart Agriculture and Rural Enterprise Development Program
SCF	Strategic Climate Fund
GRS	Grievance Redress Service
SOE	State-owned enterprises
TA	Technical Assistance
TSA	Treasury Single Account
UKCIF	United Kingdom Caribbean Infrastructure Partnership Fund
WBG	World Bank Group
y/y	Year on year

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**GRENADA**

**DISASTER RISK MANAGEMENT DEVELOPMENT POLICY CREDIT WITH A CATASTROPHE DEFERRED  
DRAWDOWN OPTION**

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The team wishes to acknowledge the collaboration with and expresses gratitude to the Government of Grenada in the preparation of this Development Policy Credit (DPC) operation.

**SUMMARY OF PROPOSED FINANCING AND PROGRAM**

**BASIC INFORMATION**

Project ID	Programmatic
P171465	No

**Proposed Development Objective(s)**

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

**Organizations**

Borrower: GRENADA  
 Implementing Agency: MINISTRY OF FINANCE, PLANNING ECONOMIC AND PHYSICAL DEVELOPMENT

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	<b>20.00</b>
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**DETAILS**

International Development Association (IDA)	20.00
IDA Credit	20.00

**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**

Substantial

## Results

Indicator Name	Baseline	Target
<b>Results Indicator #1a:</b> Percentage of schools with approved comprehensive disaster management plans.	Baseline (2019): 0%	Target (2023): 70%
<b>Results Indicator #1b:</b> Percentage of schools screened for physical hazards.	Baseline (2019): 0%	Target (2023): 50%
<b>Results Indicator #2:</b> Percentage of National DRM agency (NaDMA)-led emergency responses (including simulation/drills) that apply the Coordination Protocol.	Baseline (2019): 0%	Target (2023): 100%
<b>Results Indicator #3:</b> Percentage of annual infrastructure project proposals under Public Sector Investment Program (PSIP) screened through the new review process.	Baseline (2019): 0%	Target (2023): 60%
<b>Results Indicator #4:</b> Number of the Recipient's Annual Budget Statements that identify and explicitly quantify government contingent liabilities.	Baseline (2019): 0	Target (2023): 3
<b>Results Indicator #5:</b> Number of the Recipient's Annual Fiscal Risk Statements that identify climate resilience and post-disaster allocations and/or expenditures.	Baseline (2019): 0	Target (2023): 3
<b>Results Indicator #6:</b> Number of new fisheries' workers formally registered for the climate risk insurance mechanism.	Baseline (2019): 0	Target (2023): 200 workers or greater (10% females)



**INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) PROGRAM DOCUMENT FOR  
A PROPOSED DISASTER RISK MANAGEMENT DEVELOPMENT POLICY CREDIT (DPC) WITH A CATASTROPHE  
DEFERRED DRAWDOWN OPTION (Cat DDO)  
TO GRENADA**

**1. INTRODUCTION AND COUNTRY CONTEXT**

1. **To strengthen Grenada’s disaster and climate resilience, a stand-alone Disaster Risk Management (DRM) Development Policy Credit (DPC) with a Catastrophe Deferred Drawdown Option (Cat DDO) is proposed in the amount of US\$20 million.** It supports: (a) the efforts of the Government of Grenada (GoG) in mobilizing resources in the aftermath of a disaster triggered by natural hazards, including public-health related events; and (b) the country’s reform program to build comprehensive resilience to disaster and climate risks. Access to contingent financing mechanisms, such as the Cat DDO, plays a critical role in strengthening financial protection from disaster and climate change impacts not only in Grenada but in the Caribbean region as well. In recognition of this, the World Bank has increased the availability of IDA resources to eligible Caribbean countries through Cat DDO operations. Grenada is the first of the planned series of operations in the Caribbean to benefit from this increased ex-ante financial protection. Programs under these operations are being developed based on policy actions that contribute to improving DRM and Climate Change Adaptation (CCA) and are accompanied by technical assistance (TA) to strengthen the legal and institutional framework for increased climate and disaster resilience.

2. **The Caribbean region is highly vulnerable to natural disasters, with higher than proportional cost of disaster damages.** The average estimated cost of disaster damage as a ratio to gross domestic product was four and a half times greater for small states than for larger ones worldwide, but was six times higher for small states in the Caribbean.<sup>1</sup> The region has also experienced climatic changes over the past few decades, and these changes are projected to continue in the future.<sup>2</sup> Uncertainty also remains regarding potential changes in the frequency and/or intensity of extreme weather events, which are anticipated to adversely affect a number of key resources and economic sectors.<sup>3</sup>

3. **Climate variability and change have also been linked to the emergence and re-emergence of infectious diseases.**<sup>4</sup> Climate change is also expected to result in an increase in the distribution and occurrence of vector-borne diseases, such as those carried by the *Aedes Aegypti* mosquito, namely dengue, chikungunya, and Zika fever. Variations in climate may also establish the environmental conditions for the development of diseases; for example, avian influenza, a disease with catastrophic financial impacts, that spans sectors as diverse as livestock, tourism, trade, and health care. Although the GoG has epidemiologic surveillance procedures and a rapid response mechanism to detect and manage outbreaks and public health-related events, the predicted

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<sup>1</sup> Otker, Inci, Srinivasan, Krishna, and Finance & Development. 2018. Bracing for the STORM: For the Caribbean, Building Resilience is a Matter of Survival. Vol. 55 (1), p.48.

<sup>2</sup> Centella, 2010; Christensen et al., 2007; Meehl et al., 2007; Mimura et al., 2007.

<sup>3</sup> Centella (2010) estimates that mean annual temperatures in the Caribbean will increase between 1° and 5°C by the 2080s. Temperature increases are expected to be much larger over land areas than over the sea (Mimura et al., 2007). With regard to precipitation, climate change projections generally predict that various regions of the Caribbean will become drier (Mimura et al., 2007; Centella, 2010). Most models indicate the greatest decrease in rainfall will occur in the summer, particularly around the Greater Antilles (Mimura et al., 2007). Sea levels are also anticipated to rise due to global warming.

<sup>4</sup> Intergovernmental Panel on Climate Change’s Fourth Assessment Report.

increased frequency and severity of extreme climate change events require additional preparation and financing.

4. **Economic and social impacts due to natural hazards and extreme climatic events can affect poverty reduction targets and inclusive growth in Grenada.** Grenada is a three-island archipelago of 135 square miles, with a population of around 107,000 (World Bank, 2018).<sup>5</sup> While the GoG aims to improve its citizens' social conditions through investments in infrastructure, economic diversification, and employment generation, its population and national assets remain highly exposed to natural disasters and the potential consequences of climate change. These pose a significant risk to Grenada's economy, increase the likelihood of poverty, reduce shared prosperity and exacerbate its development challenges. For example, Hurricane Ivan in 2004 and Hurricane Emily in 2005 respectively caused damages estimated at 148 percent and 30 percent of GDP. On average, over the long-term, it is estimated that the GoG would need to cover losses of approximately US\$4.1 million annually (approximately 0.3 percent of 2018 GDP), to address public sector contingent liabilities related to disasters from natural hazards (World Bank, 2018). This amount is equivalent to approximately 1.6 percent of the GoG's total expenditure in 2018.<sup>6</sup> Annex 5 describes the historical impacts of major disasters in Grenada.

5. **To address this disaster and climate vulnerability, Grenada is placing climate resilience at the center of its policy agenda.** As outlined in the joint International Monetary Fund (IMF) and World Bank Climate Change Policy Assessment (CCPA) for Grenada (2018), the country has made significant strides in its preparedness. Grenada's Nationally Determined Contribution (NDC) sets out an ambitious agenda for mitigation. The Climate Change Policy and National Adaptation Plan (NAP) provide costed and detailed plans for adaptation and resilience building. The establishment of the Ministry of Climate Resilience, Environment, Forestry, Disaster Risk Management and Information (MoC) in 2017 has further promoted the mainstreaming of climate adaptation. However, implementation capacity remains a huge impediment to meeting NAP goals, particularly given Grenada's tight fiscal constraints. Given that in the aftermath of disasters, women are often affected more adversely and severely, gender equity is also a priority area for GoG and is part of the "Enabling Gender-Responsive Disaster Recovery, Climate and Environmental Resilience in the Caribbean" (EnGenDER) initiative to develop and implement gender-responsive and inclusive NAPs and incorporate a detailed analysis of gender in climate risk assessments.

6. **The GoG has taken decisive measures towards addressing disaster risk mechanisms; nevertheless, gaps remain.** Post-disaster activities and responsibilities are well articulated but require formalization. Some of these are mitigated by support from the World Bank financed Regional Disaster Vulnerability Reduction Program (RDVRP, P117871)<sup>7</sup>. More progress is also required on disaster risk financing (DRF). In August 2018, Grenada was severely affected by excessive rainfall leading to extensive flooding and numerous landslides and resulting in severe damage to public and private infrastructure. The rainfall also caused major losses to the 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 Grenada's National Emergency Advisory Council (NEAC) to declare these areas disaster zones. While

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<sup>5</sup> World Bank Group 2018. Advancing Disaster Risk finance in Grenada.

<sup>6</sup> Probabilistic modelling for Grenada shows that in any given year there is about a one percent chance that public losses due to hydro-meteorological disasters could exceed US\$73 million (6.2 percent of GDP).

<sup>7</sup> The RDVRP is a regional project benefiting two countries from the OECS: Grenada, and Saint Vincent and the Grenadines. The total cost is US\$103.3 million, of which US\$35.0 million is allocated to Grenada and US\$68.3 million is allocated to Saint Vincent and the Grenadines. Project financing comprises 11 funding sources: (a) three IDA Credits; (b) three loans from the Strategic Climate Fund (SCF) Pilot Program for Climate Resilience (PPCR); (c) four grants from the SCF PPCR; and (d) one grant from the European Union (EU).

the GoG had purchased excess rainfall coverage through the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC), a payout was not triggered due to the parametric nature of the product; the resulting damage was insufficient to meet the payout threshold. The GoG had to finance the emergency response and early recovery phases by accessing limited reserve funds and reallocating funds from other ongoing programs. A Cat DDO would have been an ideal instrument to address such an event. There has also been significant World Bank-led TA in the region and in Grenada related to disaster risk identification, risk reduction, preparedness, financial protection, and resilient reconstruction to mitigate such risks, as well as to advance wider holistic resilience in the Caribbean.

**7. The objective of the proposed Cat DDO can be achieved through the implementation of selected policy reforms.** The policy reforms supported by this proposed operation is expected to ensure the sustainability of the GoG's disaster and climate risk reduction long-term agenda based on accountability and international best practices adapted to the context of Grenada. This operation builds on the GoG's current efforts in strengthening the existing legal and institutional framework for the management of disasters associated with natural hazards. The proposed Cat DDO operation will strengthen the reforms related to: (a) the disaster and climate resilience policy framework; and (b) fiscal risk management associated with natural hazards.

**8. The proposed Cat DDO operation is being prepared in parallel to the Grenada Second Fiscal Resilience and Blue Growth DPC (P167748) operation.** The Fiscal Resilience and Blue Growth DPC operation supports the adoption of policy and institutional reforms set out in the GoG's long-term development strategy, the Growth and Poverty Reduction Strategy (GPRS), and Grenada's Blue Growth and Coastal Master Plan. The Fiscal Resilience and Blue Growth DPC and the Cat DDO operation support a highly complementary policy agenda aimed at enhancing resilience, consistent with the World Bank's 360<sup>o</sup> Strategy for a Resilient Caribbean.<sup>8</sup> The policy reforms embedded in the Fiscal Resilience and Blue Growth DPC support the building of adequate fiscal buffers and strengthening of environmental sustainability by protecting and leveraging the blue economy's resources. The Cat DDO focuses on enhancing disaster risk resilience by supporting a comprehensive National Disaster Risk Financing Strategy (DRFS) with related policies aimed at investing in better preparedness through ex-ante disaster risk financing, stronger infrastructure, and protecting the most vulnerable.

## 2. MACROECONOMIC POLICY FRAMEWORK

### 2.1. RECENT ECONOMIC DEVELOPMENTS

**9. Grenada remains the fastest growing economy in the Eastern Caribbean Currency Union (ECCU), averaging real GDP growth of 4.8 percent since 2013.** In 2018, real GDP grew by 4.2 percent (Table 1), primarily fueled by expansion in the construction and tourism sectors.<sup>9</sup> Increased tourism-related and private sector commercial investments, together with major public sector investments, led to a sharp acceleration in construction activity. Tourist arrivals in 2018 grew by 12.7 percent, accompanied by a 10.1 percent growth in receipts. These expansions offset a 6.5 percent decline in the private education sector owing to reduced

<sup>8</sup> <https://www.worldbank.org/en/news/infographic/2018/11/19/a-360o-strategy-for-a-resilient-caribbean>.

<sup>9</sup> The Grenada economy is dominated by the services sector (including tourism and offshore medical education), which account for about 78 percent of GDP. Industry (mainly construction) and agriculture account for around 16 percent and 6 percent, respectively.

enrolment at the country's medical university. Real GDP growth is estimated to moderate to 3.5 percent in 2019, as several large-scale private construction projects have been completed and positive output gaps close.

10. **Stronger economic activity has led to improvements in the labor market.** Robust public and private sector investment supported high growth and provided employment opportunities. Albeit still high, the unemployment rate fell to 16.7 percent in the third quarter of 2018 from 23.6 percent in 2017.<sup>10</sup> Nevertheless, the overall labor force participation rate has been declining from 68.8 percent in 2015 to 65.8 percent in 2017, mainly due to a decrease in the participation of older workers (65 years and above). The decline in labor force participation reflects persistent structural labor market problems, including a private sector perceived skills mismatch, high wage reservation prices due to remittances, and strong unionization.

**Table 1. Grenada: Key Macroeconomic Indicators (2015-2022)**

	2015	2016	2017	2018 <sup>a</sup>	2019 <sup>b</sup>	2020 <sup>b</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>
<b>Real Sector</b>	<i>Annual percentage change, unless otherwise specified</i>							
Real GDP	6.4	3.7	4.4	4.2	3.5	2.9	2.9	3.2
CPI (average)	-0.5	1.7	0.9	0.8	0.8	1.7	1.9	1.9
Unemployment Rate (percent)	29.0	28.2	23.6	20.9	...	...	...	...
<b>Fiscal Accounts (Central Government)</b>	<i>Percent of GDP, unless otherwise indicated</i>							
Revenue	24.5	26.2	25.6	26.5	25.8	25.8	25.7	25.3
Expenditure	25.7	23.9	22.6	21.7	21.7	21.6	21.1	22.4
General Government Balance	-1.2	2.3	3.0	4.8	4.1	4.2	4.6	2.8
Primary balance	2.1	5.2	5.7	6.8	6.0	6.1	6.4	4.5
Public Debt	90.1	81.6	70.0	63.4	58.7	53.7	50.5	48.3
<b>Selected Monetary Accounts</b>	<i>Annual percentage change, unless otherwise indicated</i>							
Broad money (M2)	5.2	1.3	4.0	5.9	4.7	4.6	4.8	5.3
Credit to private sector	-3.8	-0.2	0.6	2.8	5.2	4.7	3.6	3.7
<b>External Sector</b>	<i>Percent of GDP, unless otherwise indicated</i>							
Current account balance, o/w:	-12.2	-11.0	-12.0	-11.2	-11.2	-10.2	-8.6	-9.1
Exports	51.2	49.3	51.3	54.2	54.3	54.0	54.0	53.9
Imports	50.9	49.8	53.1	55.2	54.9	54.8	54.8	52.8
Foreign Direct Investment	13.5	9.1	12.4	12.8	10.6	10.1	9.6	9.1
Net imputed international reserves (months of Imports)	4.3	4.0	3.6	4.1	4.1	4.0	3.8	3.6
External debt (PPG)	61.4	56.6	47.4	44.5	42.1	39.4	38.6	37.9
Terms of Trade	18.8	4.4	2.2	-6	0.5	1.1	2.2	...
Real Effective Exchange Rate (annual average, depreciation)	2.5	-0.2	-2.6	-2.4	...	...	...	...
<b>Memorandum items</b>								
Nominal GDP (EC\$ million)	2691.9	2866.4	3042.6	3202.0	3352.0	3475.6	3609.8	3857.0
Nominal GDP (US\$ million)	997.0	1061.6	1126.9	1186.3	1241.6	1287.3	1337.0	1428.0

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

<sup>10</sup> 2018 Labor Force Survey.

11. **Stronger domestic demand drove up the current account deficit in recent years but was partly offset by inflows of tourism receipts.** Current account deficit narrowed marginally in 2018 to 11.2 percent of GDP, accompanied by a 2.4 percent appreciation in the real effective exchange rate. It is estimated to remain at 11.2 percent of GDP in 2019.<sup>11</sup> Overall exports in 2018 were buoyed by an uptick of 17.9 percent year on year (y/y) in services exports, coupled with a 4.3 percent (y/y) increase in merchandise exports. Meanwhile, robust construction activity contributed to higher imports, including mineral fuels and related materials and machinery, as well as transport equipment. The current account deficit was fully funded in 2018 by net inflows of FDI of 12.8 percent of GDP. Foreign exchange reserves recovered to 4.1 months of imports at the end of 2018, after decreasing to 3.6 months in 2017.

12. **Inflation remained subdued.** Inflation edged down to 0.8 percent in 2018, given lower international food prices which partially alleviated the pass-through effect of an uptick in US inflation. For the first half of 2019, average inflation inched up to one percent, but is expected to remain flat over the full year.

13. **The financial sector continues to strengthen, with soundness indicators reflecting a prudent position.** In 2018, total assets of commercial banks grew by 5.9 percent (y/y), with total loans increasing by 1.9 percent, following consecutive declines from 2014 to 2016. Credit growth has been stronger in credit unions, where total assets and loans expanded since 2016 on average by 14 percent annually. With deposits outpacing the level of credit provided, both banks and credit unions continue to build up excess liquidity. Nonperforming loans continued to decline, moving from 3.9 percent of total loans in 2017 to 2.4 percent in 2018, which is comfortably below the prudential benchmark of 5.0 percent of the Eastern Caribbean Central Bank (ECCB). With an average capital-to-asset ratio of 13.2 percent and a tier-1 capital ratio of 11.7 percent in 2018, capital remains above the 8 percent regulatory minimum and thus has cushion to absorb losses. In a context where non-bank supervision is weak, the strong rise in credit union lending could pose a risk to financial stability.

14. **Fiscal performance remained strong, supported by adherence to the Fiscal Responsibility Law<sup>12</sup> (FRL).** Buoyant tax revenues accompanied by expenditure containment measures resulted in an overall fiscal surplus of 4.8 percent in 2018 (table 1 and table 2). The primary surplus increased to 6.8 percent of GDP in 2018, from 5.7 percent in 2017, exceeding the target of 3.5 percent set by the FRL. Over half of the 7.9 percentage point improvement in the primary balance since 2014 has been driven by an improvement in revenues, reflecting cyclical factors as well as substantive tax policy and administration reforms.<sup>13</sup> As a result, the share of tax revenues in GDP has increased from 18.2 percent in 2014 to 22 percent in 2018. Effective since the start of 2019, the tax rates on the highest personal and corporate income tax brackets were reduced from 30 percent to 28 percent, which are estimated to result in a marginal loss of 0.2 percent of GDP for the fiscal year.

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<sup>11</sup> The current account deficit is estimated to remain at 11.2 percent of GDP in 2019. While relatively high current account deficits are a somewhat common occurrence in highly import-dependent small island 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. See also: IMF 2019 Grenada Article IV Consultations.

<sup>12</sup> Fiscal Responsibility Act No. 29 of 2015, August 25, 2015.

<sup>13</sup> Tax measures since 2014 have included a broadening of the value added tax (VAT) base through the elimination of exemptions, lowering of personal income tax thresholds (which were the highest in the region), and tax and customs administration reforms.

**Table 2. Grenada: Key Fiscal Indicators for the Central Government, 2015-2022 (Percent of GDP)**

	2015	2016	2017	2018 <sup>a</sup>	2019 <sup>b</sup>	2020 <sup>b</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>
<b>Total Revenue and Grants</b>	<b>24.5</b>	<b>26.2</b>	<b>25.6</b>	<b>26.5</b>	<b>25.8</b>	<b>25.8</b>	<b>25.7</b>	<b>25.3</b>
Tax Revenue	19.0	20.9	21.4	21.9	21.7	21.7	21.7	21.4
Taxes on goods and services	8.0	8.5	8.7	8.6	8.6	8.6	8.6	8.6
Taxes on income and profits	3.8	4.4	4.6	4.8	4.6	4.6	4.6	4.6
Taxes on property	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.7
Taxes on international trade	6.4	7.1	7.3	7.6	7.6	7.6	7.5	7.5
Non-Tax Revenue	2.2	1.8	1.6	1.6	1.6	1.6	1.6	1.6
Grants	3.2	3.5	2.6	2.9	2.4	2.4	2.3	2.2
<b>Total Expenditures</b>	<b>25.7</b>	<b>23.9</b>	<b>22.6</b>	<b>21.7</b>	<b>21.7</b>	<b>21.6</b>	<b>21.1</b>	<b>22.4</b>
Current expenditure	17.0	19.4	19.3	18.6	18.2	18.2	17.8	18.4
Wages and salaries	8.0	8.4	8.1	7.9	7.8	7.8	7.7	7.9
Goods and services	2.8	4.1	4.2	4.1	3.9	3.9	3.7	3.8
Interest	3.3	2.9	2.7	2.0	1.9	1.9	1.9	1.7
Transfers	2.8	4.0	4.4	4.7	4.5	4.5	4.5	4.5
Pensions and NIS contributions	1.8	1.8	2.0	2.0	1.9	1.9	1.9	1.5
Capital expenditures	8.3	4.2	2.6	2.7	2.8	2.5	2.4	4.0
Grant-financed	3.2	2.6	2.1	2.3	2.3	2.2	2.1	2.0
Non-grant-financed	5.1	1.6	0.5	0.4	0.6	0.3	0.2	2.0
Primary balance	2.1	5.2	5.7	6.8	6.0	6.1	6.4	4.5
<b>Overall fiscal balance</b>	<b>-1.2</b>	<b>2.3</b>	<b>3.0</b>	<b>4.8</b>	<b>4.1</b>	<b>4.2</b>	<b>4.8</b>	<b>2.8</b>
<b>Public Debt</b>	<b>90.1</b>	<b>81.6</b>	<b>70</b>	<b>63.4</b>	<b>58.7</b>	<b>53.7</b>	<b>50.5</b>	<b>48.3</b>
External	61.4	56.6	47.4	44.4	42.1	39.2	38.3	37.9
Domestic	28.7	25.0	22.6	19.0	16.6	14.5	12.2	10.4

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

15. **The Government's outlays have decreased by around 7 percent of GDP since 2014.** More than one-third of the spending goes to public sector wages, which experienced a 4 percent increase in 2018, per an agreement between the Government and the unions. However, thanks to an attrition policy aimed at controlling headcount, the public-sector wage bill fell to 7.9 percent of GDP in 2018, below the 9 percent ceiling indicated by the fiscal rule. Reduced interest payments following recent debt restructuring (completed in 2017) also helped to contain expenditure. Capital spending picked up marginally in 2018 with the start of grant-financed projects that were delayed in 2017 but remained below the planned budget at 2.7 percent of GDP. Budgeting practices continue to be guided by the medium-term fiscal framework (MTFF). For 2019, the estimated marginal reduction in tax revenue, accompanied by planned increases in capital spending, is estimated to reduce the primary surplus slightly to 6.0 percent of GDP, resulting in an overall fiscal surplus of 4.1 percent, the fourth consecutive year of an overall fiscal surplus.

16. **Public debt continued a sustainable downward path, given proactive debt management and fiscal consolidation.** Debt restructuring, which began in 2013, has resulted in the successful renegotiation of debt obligations with major external and domestic creditors.<sup>14</sup> This has significantly improved the post-restructuring redemption profile of Grenada's debt and has lowered interest costs. Total debt service for 2018 declined by 22 percent (y/y). Nominal GDP growth and strong fiscal consolidation have also contributed to approximately half of the 43 percentage-point decline in public debt as a share of GDP since 2014 to 63.4 percent in 2018. Nonetheless, debt obligations to Petro Caribe, which totaled 11.5 percent of GDP in 2018, are not included in total public debt and pose potential fiscal risks. For 2019, public debt is estimated to fall further to 58.7 percent.

**Table 3. Grenada: Balance of Payments Financing Requirements and Sources, 2015-2022 (US\$ million)**

	2015	2016	2017	2018e	2019f	2020f	2021f	2022f
<b>Financing requirements</b>	181.4	179.0	242.2	201.3	213.4	171.9	163.1	179.9
CAD	122.0	116.5	134.8	132.8	138.8	132.6	117.5	129.9
Amortization MLT debt	59.4	62.5	107.4	68.5	74.7	39.3	45.6	49.9
- public sector	20.3	33.6	42.4	51.5	30.5	33.8	33.6	34.9
- private sector	39.1	28.9	65.0	16.9	44.2	5.5	12.0	15.0
<b>Financing Sources</b>	181.4	179.0	242.2	201.3	213.4	171.9	163.1	179.9
FDI	134.3	96.9	139.3	151.6	131.5	131.1	130.6	130.4
Capital grants	32.4	49.7	66.9	61.7	51.1	53.2	50.0	50.0
Public sector MLT debt disbursements	82.4	85.1	87.5	96.7	20.0	3.4	36.4	30.2
Private sector	29.7	17.0	55.1	20.0	47.4	8.9	11.1	12.2
Other flows and change in reserves	-65.0	-20.1	-39.7	-67.0	14.5	28.4	-15.1	7.1

Source: World Bank Staff Estimates based on the ECCB

Notes: e-estimate, f-forecast; data on private sector requirements and sources is based on partial information and should be interpreted with caution. Technical assistance from Caribbean Regional Technical Assistance Centre (CARTAC) is underway to compile and improve private debt data.

## 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

17. **Grenada's economic prospects are positive with growth projected to remain robust, while moderating around potential to below 3 percent over the medium term.** Public infrastructure developments as well as continued buoyancy in tourism are expected to drive growth. Major public sector projects commencing in 2019, including the Agricultural Feeder Roads Project<sup>15</sup> (EC\$101.8 million) and UKCIF Western Road Corridor Project<sup>16</sup> (EC\$46.7 million), are anticipated to create 400 jobs directly and have significant spillover effects on other sectors. The tourism sector is projected to grow faster, aided by additional flights and increased room stock, as well as the rehabilitation and expansion of the Maurice Bishop International Airport. Growth in private

<sup>14</sup> 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.

<sup>15</sup> Financed by local revenues.

<sup>16</sup> Financed by the United Kingdom Caribbean Infrastructure Partnership Fund (UKCIF).

education is projected to rebound, but expansion over the medium term is expected to be modest, averaging about 2.5 percent (y/y) compared to over 5 percent in previous years. The agriculture sector should continue its recovery but remains vulnerable to abnormal weather patterns. Strategic investments in the sector, including the World Bank-supported AGRICOM project<sup>17</sup> and the Climate-Smart Agriculture and Rural Enterprise Development Program<sup>18</sup> (SAEP), should increase resilience and sustainability.

**18. The current account deficit is projected to narrow over the medium term financed by adequate FDI inflows (table 3), while inflation will remain subdued.** A gradual deceleration in mostly construction-related imports is expected to lower the current account deficit to below 10 percent of GDP by 2021. Projected FDI flows averaging a similar amount, in addition to proceeds from the Citizenship-by-Investment (CBI) program<sup>19</sup>, are expected to fully fund the current account deficit. Inflation is estimated to pick up but remain subdued. Strong domestic demand and rising international oil and food prices will impose upward pressures on inflation over the medium term. However, given the peg to the US dollar and the expected expansion of global oil production, inflation is projected to stay low at less than 2 percent over the projection period.

**19. Fiscal outcomes are expected to further improve.** Under its Medium-Term Budget Framework, Grenada is expected to maintain fiscal surpluses at around 4.5 percent of GDP over the medium term. Fiscal revenues are projected to remain buoyant, supported by efforts to improve tax administration and compliance. The wage bill is anticipated to be below the fiscal rule ceiling of 9.0 percent of GDP, owing to ongoing reforms to curb the public sector wage bill, including reforms to compensation management supported by the Fiscal Resilience and Blue Growth DPC. Capital expenditure is estimated to receive a boost from several public investment projects supporting blue growth initiatives. Given that these projects are aimed at strengthening biodiversity and building resilience, they have the potential to raise productivity and, thereby, help the fiscal position as a share of GDP. As an upshot of the expected fiscal improvement, by 2020 public debt is projected to fall below the FRL target of 55.0 percent of GDP.

**20. Debt dynamics will continue their downward trajectory, albeit with Grenada remaining in external public debt distress.** The 2019 debt sustainability analysis (DSA)<sup>20</sup> indicates that, under a baseline scenario of strict adherence to the FRL, buoyant economic growth, and continued debt restructuring, the total public and publicly guaranteed (PPG) debt-to-GDP ratio is projected at 58.7 percent in 2019, further declining to 44.9 percent by 2023. In present value terms, total PPG debt ratios would fall from 52.1 percent in 2019 to 36.5 percent in 2023 (Figure 1). Ratios for public external debt are projected to follow a similar trajectory. A key objective of the 2020 Medium Term Debt Management Strategy is to replace short term costly (mostly domestic) debt with relatively cheaper financing. In line with this, the share of external financing – mostly concessional – is projected to increase from 70.1 percent in 2019 to 71.3 percent in 2023. Nevertheless, the results of the shock scenarios indicate Grenada's vulnerability to exports (tourism sector), natural disasters and contingent liabilities, with indicators displaying a breach of threshold upon simulation of more-adverse conditions. A return to lax fiscal policies would also have an adverse impact on the outlook for total PPG debt,

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<sup>17</sup> OECS Regional Agriculture Competitiveness Project (AGRICOM) (P158958).

<sup>18</sup> Financed by the International Fund for Agriculture (IFA) with co-financing provided by the Caribbean Development Bank (CDB).

<sup>19</sup> This government-led program allows those who invest in Grenada's economy or real estate development to gain citizenship to obtain residence and live or work in Grenada. It was created in August 2013 under the Act. No. 15 of 2013.

<sup>20</sup> Estimates from the joint IMF-World Bank DSA conducted in May 2019.



as would a return to costly non-concessional borrowing. Some bilateral arrears are yet to be regularized, with approximately US\$19 million of arrears to non-Paris Club official bilateral creditors outstanding up to early 2019. Accordingly, the external debt risk classification (that is, in ‘debt distress’) remains.<sup>21</sup> Negotiations on arrears are ongoing and the Government is taking concrete steps to resolve these.

**21. Grenada’s macroeconomic policy framework is adequate for the proposed operation.** The rules-based framework and fiscal responsibility legislation that underpin macroeconomic policy in Grenada have led to a strong fiscal position. 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 long-standing fixed exchange rate regime keeps inflation in check. The economy is projected to remain buoyant and stable over the medium term, with low inflation, and improving fiscal balances. Sound macroeconomic policies have resulted in investor confidence and a robust expansion in the real sector - driven by tourism, construction, and agriculture - which has been supported by external demand.

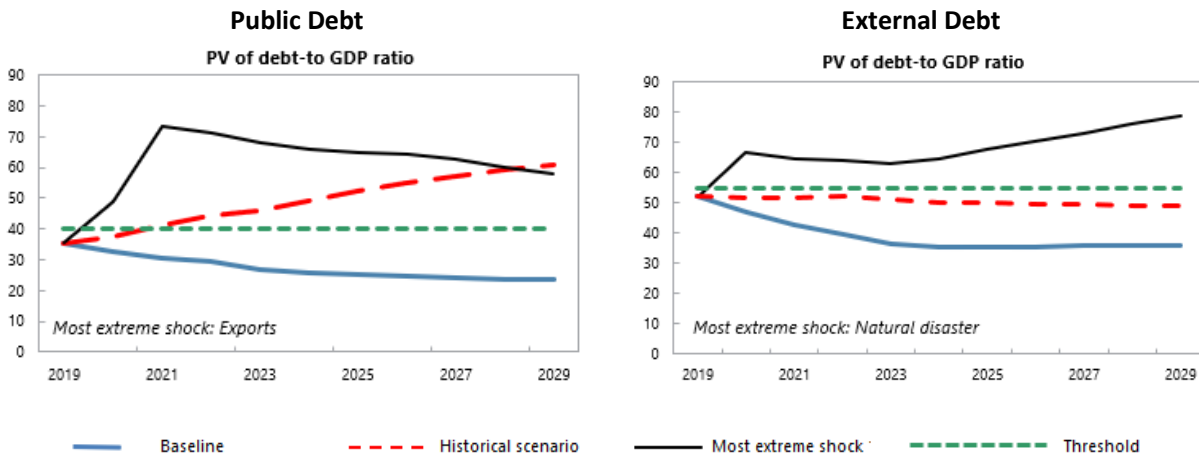
**22. The macroeconomic outlook is, however, subject to some downside risks.** External uncertainties, including economic slowdown in the United States and Europe, escalation of trade wars and increasing oil prices, pose potential risks to Grenada through threats to tourism, remittances and FDI. Grenada’s vulnerability to natural hazards is an inherent risk, which can significantly affect economic activity and fiscal performance. The complementary Fiscal Resilience and Blue Growth DPC operation supports efforts to mitigate risks to fiscal sustainability from natural disasters through the operationalization of a contingency fund, as one measure of a comprehensive disaster risk financing strategy (DRFS). The fiscal outlook can also be affected should the inflows to the National Transformation Fund (NTF) as well as external grants from development partners not continue over the medium term. Further, fiscal risks may materialize should state-owned enterprises (SOEs) fail to remain within their funding constraints or should there be calls on the Central Government’s resources if SOEs cannot service their obligations. The complementary Fiscal Resilience and Blue Growth DPC, therefore, supports reforms to enhance the fiscal transparency and accountability of SOEs. Capacity and institutional constraints also pose risks to the execution of the capital budget as envisaged in the MTF and may compromise growth prospects over the medium term, as growth is expected to be more heavily dependent on public investment infrastructure and climate resilience-related projects going forward. Pension reform, as well as the implementation of the National Health Insurance, if not properly managed, can also pose significant risks to public finances. Vulnerable populations, such as the youth and those living in rural areas, face major risks from high rates of unemployment and natural disasters. In the financial sector, regional Anti-Money-Laundering and Countering Financing of Terrorism (AML/CFT) concerns could also pose risks to correspondent banking relationships, affecting cross-border payments, trade finance and remittances.<sup>22</sup>

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<sup>21</sup> Grenada’s risk of external debt distress is assessed as “in debt distress” due to outstanding external arrears which are greater than 1 percent of GDP. Without these arrears, the external risk would be assessed as “moderate”.

<sup>22</sup> In October 2019, the GoG signed vesting orders allowing the Grenadian subsidiary of the Canadian-based Scotiabank to be acquired by Republic Bank Financial Holdings Limited (RBFH) of Trinidad and Tobago. Considering that RBFH already has a subsidiary in Grenada, the merged bank will account for about a half of the total banking sector assets, which could create a significant concentration risk in the financial system.

**Figure 1. Present Value of Public Debt (Total and External) under Alternative Scenarios**



Sources: IMF, World Bank 2019 DSA.

Notes: The most extreme stress test is the test that yields the highest ratio in or before 2029. The historical scenario produces the path of debt that would result from key macroeconomic variables in the baseline projection being permanently replaced by their 10-year historical average.

### 2.3. IMF RELATIONS

23. **The IMF Executive Board concluded Grenada’s 36-month Extended Credit Facility (ECF) arrangement in May 2017.** The arrangement made available some US\$19.4 million to the country. 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. This created the fiscal space for the Government to increase social spending and fine-tune the targeting of social transfers. Program reforms also strengthened the banking sector and improved financial stability. 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.

## 3. GOVERNMENT PROGRAM

24. Grenada has identified DRM and climate resilience as being at the center of its policy making. The proposed activities in this operation were identified in close consultation with the GoG and are consistent with the following main national strategic development documents: (a) Public Finance Management Act (2015) and Fiscal Responsibility Framework (2015); (b) Blue Growth Coastal Master Plan (2016); (c) MTF: 2019-2021; (d) National Sustainable Development Plan (NSDP) 2020-2035; and (e) Adaptation Strategy—the NAP: 2017-2021.

25. **Grenada has had a long history in developing a DRM strategy and promoting resiliency planning.** With



the enactment of the Emergency Powers Act in 1984, Grenada established the legal and institutional framework for declaring a disaster generated by a natural or health-related event. The GoG's commitment to institutionalizing disaster management continued in 1985 with the establishment of the National Emergency Relief Organization (NERO). More recently, the National Hazard Mitigation Policy (2003) and Plan (2006) mainstreamed disaster risk reduction (DRR) considerations into the national development planning processes. After Hurricanes Ivan and Emily in 2004 and 2005, respectively, Grenada introduced its National Disaster Plan (NDP), renaming NERO as the National Disaster Management Agency (NaDMA) to reflect the agency's expanded responsibilities; these now include a comprehensive DRM approach, instead of focusing only on emergency response.

**26. The GoG has taken steps to mainstream DRM by working across various line ministries and sectors to implement a multifaceted approach.** For instance, the Grenada Blue Growth Coastal Master Plan identifies opportunities for economic growth based on the resources of oceans in areas such as fisheries and aquaculture, blue biotechnology, renewable energy, research, and innovation.<sup>23</sup> In addition, the National Adaptation Plan (2017-2021) provides a strategic, coordinating framework for building climate resilience in Grenada, recognizing the need to develop the enabling environment for CCA, as well as programmatic priorities. It also provides the framework for further integrating climate change considerations into planning and budgetary processes to 'climate-proof' public and private investments.

**27. The establishment of the Ministry of Climate Resilience, the Environment, Forestry, Fisheries, and Disaster Management in 2017 has helped further strengthen the mainstreaming of climate-related projects.** The GoG's commitment to DRM and CCA policy reforms remains strong, evidenced by the establishment of this ministry to improve planning, coordination, and implementation of climate resilience. However, implementation capacity remains a huge impediment to meeting the NAP's goals (covering all infrastructure sectors, land, agroforestry, agriculture, fishing, food security, water, mangrove, marine, coral, health, and zone management), particularly given Grenada's fiscal constraints.

**28. Surveillance procedures have also been established to detect and manage outbreaks and response mechanisms for public health-related events.** In order to respond to public health-related events, Grenada has established an institutional and legal framework under the National Health Sector Strategic Plan (2016-2025). The Ministry of Health, Social Security and International Business (MoH)<sup>24</sup> is an active member of the NEAC<sup>25</sup> and continues to build capacity to reduce vulnerability, increase resilience, and promote DRR. The implementation of the Health Sector Disaster Emergency Management Program includes actions at the following levels: (a) Health Disaster Committee (HDC), a sub-committee within the MoH; (b) National Multi Hazard Health Sector Disaster Emergency Management Plan; and (c) the Health Sector Emergency Operating Center (HEOC).

**29. Grenada recently became the first country in the OECS to complete the Joint External Evaluation (JEE), which assesses a country's capacity under the International Health Regulations (IHR) (2005) to prevent,**

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<sup>23</sup> World Bank. (2016.) Grenada: Blue Growth Coastal Master Plan, Report No: AUS20778, Washington D.C: World Bank.

<sup>24</sup> The Ministry of Health is responsible for overseeing the provision of health services and for formulating health policies and regulations.

<sup>25</sup> The National Emergency Advisory Council (NEAC) is the body responsible for giving general direction and control, as well as the development of policies. These responsibilities reside with the Honorable Prime Minister.

**detect, and respond to public health emergencies.** The JEE assessment revealed opportunities for strengthening specific preparedness capacities, such as event- and indicator-based surveillance and emergency operations center capacities, plans, and procedures. These areas, as well as other key preparedness capacities, are expected to be strengthened through the recently approved<sup>26</sup> World Bank-supported Organization of Eastern Caribbean States (OECS) Regional Health Project (P168539).

30. **The GoG is also shifting to a more proactive financial response planning to disaster risk.** The GoG has been using a variety of DRF instruments to meet its probable liquidity and funding needs. Although various instruments are in place, they are not used efficiently and need to be optimized to ensure the complementarity between the various risk retention and risk transfer instruments.<sup>27</sup> The instruments for risk retention currently in place include budgetary reserves and the NTF. In terms of risk transfer instruments, Grenada purchased the CCRIF SPC parametric insurance for tropical cyclones, earthquakes, and excess rainfall, with a potential maximum payout of about 3 percent of GDP for qualifying events during the 2019-2020 season. Other instruments include the sinking fund at the ECCB, which is around 1.2 percent of GDP, and could be drawn down in the event of a major natural disaster. The hurricane clauses negotiated during the debt restructuring also allow for a reduction in debt service in the event of a qualifying natural disaster (that is, for losses of more than US\$15 million, 1.3 percent of GDP) for up to one year.

31. **Despite Grenada's progress, a lot of work however remains to be done in establishing a full-fledged DRM framework, including for DRF.** The primary legislative gap is the absence of a comprehensive disaster management law and an updated disaster management plan to regulate, guide, and govern disaster relief. There is also a need for systematic disaster risk assessment and mapping for hydro-meteorological and geological hazards to guide new development, as well as disaster risk-informed standards and regulations for building safe and resilient public infrastructure.

## 4. PROPOSED OPERATION

### 4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

32. **The development objective of the proposed operation is 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 two pillars:

- **Pillar I:** Enhancing policy and institutional framework for improved disaster risk management and climate change, and
- **Pillar II:** Strengthening financial resilience against natural hazards and climate change.

Both pillars reinforce the comprehensive approach being taken by the GoG in strengthening long term resilience and sustainability by building financial and fiscal resilience against catastrophic events triggered by natural hazards, and climate variability and change.

<sup>26</sup> Approved in August 2019.

<sup>27</sup> World Bank. 2018. Advancing Disaster Risk Finance in Grenada. <https://reliefweb.int/report/grenada/advancing-disaster-risk-finance-grenada>.

33. **The proposed operation contributes to the country's overall objective of enhancing resilience in a comprehensive manner, as stated in the GoG's ongoing programmatic agenda.** The GoG's Medium-Term Agenda (MTA) for 2019-2021 and the NSDP 2020-2035 highlight Grenada's inherent high vulnerability to natural hazards and macroeconomic risks as major sources of risk to the stability of the country's public finances. The plan specifically aims at building capacity for environmental sustainability, DRR, and CCA, to enhance the country's environmental, economic, and social resilience. This Cat DDO operation aims at supporting the integration of disaster and climate risk considerations as a core element in the design and implementation of public policies (such as environment and risk reduction policies) that impact the sustainability of the country's natural resource base and social and development gains.

34. **The GoG has identified contingent financing as a critical component of its fiscal strategy to address contingent liabilities associated with natural disasters.** The incorporation of an IDA Cat DDO brings more flexibility to the overall DRFS, allowing the GoG to optimize disaster related financial instruments. This proposed operation provides a contingent line of credit that facilitates rapid disbursement of funds for medium- to high-impact natural disasters, complementing the existing DRF instruments in Grenada. In this case, the DPC with Cat DDO can be more appropriate than risk transfer instruments to cover intermediate layers of risk, such as tropical storms and low-intensity hurricanes. The DPC with Cat DDO also complements the NTF by allowing for financial resources to accumulate by not only mitigating the losses of high frequency events, but also by supplementing gaps in financing where losses exceed the money available in the Fund. The DPC with a Cat DDO can also complement the CCRIF SPC by allowing the GoG to optimize the CCRIF SPC package and premiums. For example, under the current subscription to the CCRIF SPC, the attachment point (that is, the size of disaster losses that would trigger the CCRIF payout) is very high for the excess rainfall policy. By adding a contingent line of credit through the Cat DDO, the GoG could get better value for money and optimize CCRIF SPC policy options, because an IDA Cat DDO can cover losses below the attachment point.

35. **The design of the proposed operation builds on lessons learned from over a decade of World Bank financed operations<sup>28</sup> in the realm of DRM and DPC with Cat DDO programs.** Key lessons learned from prior DPC with Cat DDO operations<sup>29</sup> include: (a) DRM policy is most effective when it is based on adequate risk identification, including both physical and fiscal risk; and (b) the implementation of a DPC with Cat DDO operation should be set within a broader DRFS in the context of disasters and climate-related catastrophes, combining risk retention and risk transfer instruments to efficiently manage contingent liabilities associated with adverse natural events. Specifically, the DPC with Cat DDO operation has integrated the following elements in its design: (a) sufficient preparatory work, stakeholder consultations, and technical support to enhance the GoG's understanding of the financial mechanism and foster stakeholder ownership of the reform agenda; and (b) parallel TA and supervision support during the life of the DPC with Cat DDO to help in achieving the reform program's targets, while building local capacity. The latter will be useful to bolster reforms and enhance sustainability and achievement of medium- and long-term goals and improve the ability to measure outcomes.

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28 As reflected in the Independent Evaluation Group (IEG) Reports 'Hazards of Nature, Risks to Development' and 'World Bank Group Engagement in Small States'.

29 Cat DDOs: Philippines (2011; 2015), Sri Lanka (2014), Seychelles (2014), Serbia (2017), Perú (2019), Guatemala (2011, 2019), as well as the DPC with Cat DDO in Malawi (2019).

36. **The Cat DDO funds may be drawn upon the occurrence of a national disaster resulting in an official Government Declaration.** “Government Declaration” means a declaration made by the Prime Minister and published in the Recipient’s Government Gazette (or by notices affixed to public buildings or distributed amongst the public, or by announcement on the radio or otherwise, if publication in the Gazette is impossible or impractical) that a National Disaster has occurred in the territory of the Recipient or any part thereof, all in accordance with the provisions of the Recipient’s National Disaster (Emergency Powers) Act of 1984. “Disaster” means an imminent or occurring situation due to a natural or health events in accordance with the Recipient’s National Disaster (Emergency Powers) Act of 1984, including but not limited to earthquakes, hurricanes, floods, fires, outbreak of pestilence or of infectious disease, or other calamity, as a result of which supplies and services essential to the life of the community are likely to be endangered. For clarity, any emergency that is predominantly political, technological, security, military, or fiscal in nature, is excluded.

37. **Drawdown period and renewal.** As per standard practice, the drawdown period for this operation will be three years and is renewable one time for an additional three-year period during which the funds can be disbursed. Renewal would require: (a) that the GoG is implementing its policy reform program described in the Letter of Development Policy (LDP) (Annex 3); (b) confirmation of the adequacy of the macroeconomic framework; (c) approval of the Regional Vice President of the World Bank; and (d) that it takes place no earlier than one year, and no later than six months, before the closing date of the proposed Cat DDO. The ensuing drawdown will take place under the terms and conditions specified in the Financing Agreement.

## 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

### **Pillar I: Enhancing policy and institutional framework for improved disaster risk management and climate change**

38. **To increase overall resilience and economic sustainability against natural disasters,** the GoG has embarked on a set of reforms to establish and strengthen the legal and institutional framework to incorporate disaster risk and CCA considerations into sectoral policies and critical public infrastructure development. Reforms in key areas such as education (**Prior Action # 1**), DRM (**Prior Action # 2**), and climate change resilience (**Prior Action # 3**), will support risk-informed decision-making for resilient investments and interventions.

**Prior Action # 1:** The Recipient has adopted the Antigua and Barbuda Declaration on School Safety in the Caribbean, including the Roadmap on School Safety, establishing priorities to enhance the physical, environmental, and social protection levels of education facilities, as well as to increase the awareness of the school community on resilience, as evidenced by the Annex to the Antigua and Barbuda Declaration on School Safety adopted by the Recipient on April 30, 2019 during the Second Caribbean Safe School Ministerial Forum.

39. **Rationale.** There are 208 schools<sup>30</sup> in Grenada, which accommodate over 23,000 students; of these 50 schools are dual-purposed, serving as both schools and emergency shelters. Disasters have significantly compromised Grenada’s formal education, destroying schools and disrupting children’s education.<sup>31</sup> For

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<sup>30</sup> This number includes pre-schools, primary, and secondary levels of public and private institutions.

<sup>31</sup> In addition to causing immediate harm to children, there is mounting evidence that the direct impact of natural disasters can translate into a series of indirect long-term effects (World Bank Roadmap for Safer Schools).

instance, after Hurricane Emily in 2005, 21 schools and 6,854 students were affected (OECS, 2005). Five educational facilities were destroyed and over 1,700 students could not attend school. The total damage to the education sector amounted to US\$4.9 million (OECS, 2005). Grenada reported delays in reconstruction, resulting in 12 percent of schools being delayed in reopening. With temporary arrangements, most of the island's schools were able to reopen within two to three months (World Bank, 2005). Resilient schools provide a safe space for learning and development, which contributes to reducing vulnerability and building community resilience.

40. **Substance of prior action.** In 2019, the GoG adopted the *Antigua and Barbuda Declaration on School Safety in the Caribbean* and the *Caribbean Road Map for School Safety*<sup>32</sup> as the main framework for strengthening disaster resilience in the education sector. This resulted in promoting the structural safety of educational buildings and put in place comprehensive disaster management plans for each institution, with contingency plans that allow schooling to resume as soon as possible following a disaster. This framework comprises critical strategic actions for building resilience in the education sector. With the adoption of the Declaration and Road Map, the government has committed to (a) establishing a safe learning environment by enhancing and implementing standardized school safety assessments and safe school standards<sup>33</sup> for the construction or rehabilitation of school buildings; (b) developing multi-hazard school safety plans and guidelines for assessing structural safety; and (c) defining and implementing a framework to track and measure progress on the implementation of the specific actions identified in the Road Map on School Safety.

41. **Expected results.** The Ministry of Education, Human Resource and Religious Affairs (MoE) will lead the implementation (in collaboration with other line ministries, as part of the inter-ministerial agreements currently being developed) of the critical priority areas and activities proposed in the Caribbean Road Map for School Safety, which will focus on: (a) developing an enabling legal and institutional environment; (b) enhancing and implementing safety technical standards for safer schools; and (c) developing school disaster management plans and initiatives for DRR and resilience in education. Comprehensive disaster management plans will be developed and approved (**Results indicator # 1a**) for 70 percent of the schools. This will not only improve the safety of the educational community but will also provide for more coordinated response and recovery efforts after a disaster. In addition, up to 50 percent of the schools will be screened for physical hazards (**Results Indicator #1b**), which will provide a critical base for school infrastructure enhancements. In the medium-term, these results will translate into a reduction in the time period schools' educational activities are suspended after a disaster, and increased awareness of international best practices in reducing disaster risk in the education sector.

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<sup>32</sup> The Caribbean Road Map for School Safety (2017) establishes a monitoring mechanism for reporting and evaluating progress, defining a timeframe, specific activities, roles, and responsibilities.

<sup>33</sup> These standards include necessary criteria for the selection of building sites, infrastructure orientation for different hazards, and other necessary technical specifications for safe construction and rehabilitation of schools.

**Prior Action # 2:** The Recipient has adopted coordination protocols for the declaration of national and sub-national emergencies, as evidenced by the adoption of said protocols by the Minister with responsibility for disaster management as of November 15, 2019, as published in the Government Gazette No. 51, Volume 137, dated November 15, 2019.

42. **Rationale.** The National Disaster - Emergency Powers – Act 1984, which establishes the legal and institutional framework to declare an emergency generated by a natural hazard, is facing inter-institutional coordination constraints. A formalized efficient process for the declaration of an emergency is often a necessary precursor to the timely release of certain funds for emergency response and early recovery.

43. **Substance of prior action.** The formal declaration of an emergency can be applied to either the whole island, or a part of the country. The adoption of coordination protocols formalizes the process for declaring subnational and national emergencies, clarifies roles and responsibilities, and defines terminology and procedures that should be considered when making a recommendation to declare a disaster and/or terminating the disaster relief period.

44. **Expected results.** The strengthening of the existing institutional and legal framework for declaring a disaster (through the approval of a protocol) allows DRM-related agencies at both the national and local levels to operate more efficiently under an emergency declaration, furthering the legal and operational effects. It is expected that 100 percent of NaDMA-led emergency responses (including simulation/drills) will apply the adopted Coordination Protocol (**Results Indicator #2**). These measures will also support the issuing of international appeals, both through regional mechanisms as well as diplomatic channels.

**Prior Action # 3:** The Recipient has amended the Public Finance Management (PFM) Regulations Part XIII-PSIP Selection and Prioritization Criteria and Procedure and Reporting Regulation 258.2 (a) (i) to include climate resilience criteria in the screening of PSIP projects and public private partnerships, as evidenced by the publication of the amended PFM Regulations in the Government Gazette No. 47<sup>34</sup>, Volume 137, dated October 31, 2019.

45. **Rationale.** The GoG has updated its National Climate Change Adaptation Plan (NCCAP) for 2017-2021, focusing on mainstreaming CCA activities in its national development planning. The Plan sets forth specific goals and priority actions for resilient infrastructure – including both publicly owned and used assets, as well as privately-owned buildings – and sustainable land management. As a key feature to facilitate proper planning and management, the GoG has been using the Caribbean Climate Online Risk Adaptation Tool (CCORAL). Through spatial data management and risk modelling, CCORAL allows decision-makers to mainstream climate change in the assessment of activities, and to identify actions that minimize climate related losses and create opportunities for climate resilience.

46. **Substance of prior action.** The GoG will establish a formal review process for incorporating climate resilience criteria in the planning and budgeting of public sector investment programs (PSIPs). As envisaged in the NAP, the GoG will establish formal climate change focal points in priority ministries with clear roles and responsibilities for screening and assessing PSIP proposals through a climate change lens. The process will

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<sup>34</sup> Statutory Rules and Orders (S.R.&O.) N° 27 of 2019 – The Public Finance Management (Amendment)



contribute to a better understanding of the impact of climate risks in multiple development scenarios and build sector-specific capacity to climate proof policies, projects, and programs. The GoG will also integrate CCORAL in the review process, which will assist decision-makers in assessing all major and/or strategic PSIPs before they are considered for funding by the Ministry of Finance, Planning, Economic Development and Physical Development (MoF).

47. **Expected results.** A key measure of the effectiveness of the 2017-2021 National Climate Change Policy and Action Plan (NCCPAP) will be to ensure that adaptation considerations are integrated into the PSIP proposal with high climate change relevance. It is expected that a formal PSIP review process will result in more climate resilient and environmentally sustainable public planning. This will be measured by an increase in the percentage (at least 60 percent) of annual infrastructure project proposals under the PSIP that are screened under the new review process (**Results Indicator #3**), which enables better management, and increases transparency.

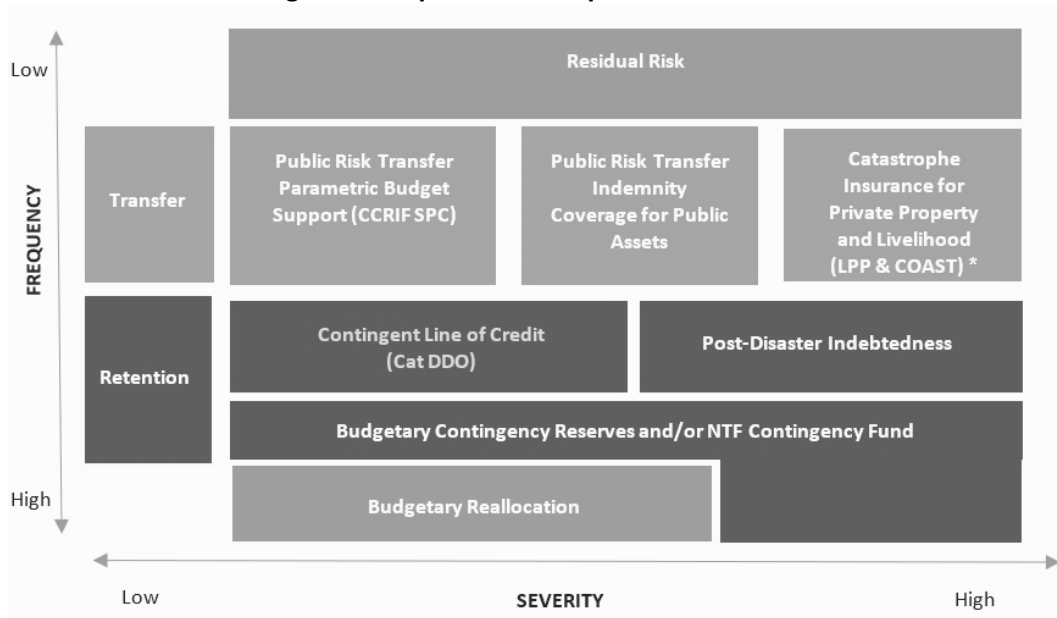
#### **Pillar II: Strengthening financial resilience against natural hazards and climate change**

48. **Institutional actions presented under this pillar aim to enhance, *ex-ante*, Grenada’s capacity to better manage the fiscal risks associated with natural disasters and improve its financial capacity to respond to future events.** The MoF has specifically focused on three strategic priority areas to support these development goals: (a) develop a DRFS (**Prior Action # 4**); (b) streamline budgetary processes to include provisions that enable the classification and reporting on post disaster expenditure in relief, recovery, and reconstruction, (**Prior Action # 5**); and (c) Increase collaboration with the private sector to improve the availability and affordability of catastrophe risk insurance products to promote sustainable livelihoods. (**Prior Action # 6**).

**Prior Action # 4:** The Recipient has adopted the Grenada National DRFS, thereby providing a comprehensive framework for using multiple instruments and programs to strengthen financial resilience for improved disaster risk management, as evidenced by Cabinet Conclusion No. 1204, dated September 9, 2019.

49. **Rationale.** The DRFS further supports the GoG’s efforts to mainstream hazard risk reduction in national development planning. Until recently, the MoF neither had a comprehensive strategy for reducing contingent liabilities in relation to disasters, nor did it have a framework for managing the fiscal risk resulting from these events. This situation had resulted in a fragmented approach to handling natural disasters and in weak *ex-ante* measures, both in the areas of PFM and DRF. Figure 2 outlines where and how the proposed Cat DDO will complement Grenada’s current financial instruments for disaster as part of a disaster risk-layering approach, combining different financial instruments in a cost-effective manner.

**Figure 2. Proposed DRFS Options for Grenada**



*\*Source: World Bank Group. 2018. Advancing Disaster Risk Finance in Grenada. (updated to include COAST).  
 Note: LPP = Livelihood Protection Policy; COAST = Caribbean Oceans and Aquaculture Sustainability Facility.*

50. **Substance of prior action.** The DRFS<sup>35</sup> sets out specific principles and a systematic approach to enable the GoG to: (a) maintain a sound fiscal position at the national government level that is necessary to support long-term rehabilitation and reconstruction needs, and minimize interruptions in ongoing development and DRR plans; (b) develop cost-effective and accessible financing mechanisms for immediate liquidity that can be channeled rapidly to prioritized institutions and sectors; and (c) reduce the impact of natural disasters on Grenada’s people and businesses, specifically focusing on developing innovative DRF instruments necessary for protecting development gains and livelihoods for the most vulnerable people and businesses (agriculture, fisheries), at the individual, community, and national levels.

51. **Expected results.** Cabinet approval of the DRFS provides the legal basis for implementing the DRFS, improving the GoG’s ability over time to: (a) mobilize and optimize a pool of complementary financial instruments; (b) respond to and mitigate the potential economic impact of natural disasters and climate change; and (c) access risk information. It is important to ensure that the GoG identifies and explicitly quantifies government contingent liabilities. This will be a critical input for decision makers to better manage the potential economic impact of disasters (**Results Indicator #4**).

<sup>35</sup> The adoption by Cabinet of the DRFS, supported by the Cat DDO operation, builds on the assessment and interventions as identified in the report “Advancing Disaster Risk Finance in Grenada”, published in February 2018. It is also aligned with the Ministry of Climate Resilience, Environment, Forestry, Fisheries, Disaster Risk Management & Information Climate Change Assessment Report (CCPA)’s key recommendations regarding the need to increase the country’s overall resilience against natural disasters and climate change.

**Prior Action # 5:** The Recipient has approved the development of a budget classifier to include provisions that enable the classification and reporting on post disaster expenditure in relief, recovery and reconstruction, as evidenced by Cabinet Conclusion No. 1204, dated September 9, 2019.

52. **Rationale.** The Chart of Accounts (CoA) currently does not allow for a comprehensive tracking of disaster-related expenditures, as there are no functional segments for tracking budgetary execution. This limits the Government's understanding of the true cost of disasters. The problem is further exacerbated by an inconsistent assignment of a budget classifier, limited to a few strategic ministries.

53. **Substance of prior action.** Recognizing that post-disaster expenditures are not accounted for in a systematic manner, the MoF plans to strengthen the budgetary framework by developing a classifier to identify and report on post disaster expenditures in relief, recovery, and reconstruction. Through the development of the budget classifier, the Government will identify any necessary amendments to the CoA and will update the coding system as per current guidelines. In addition to improving fiscal transparency and accountability for post-disaster operations, it will also enable the MoF to better monitor post-disaster relief, recovery and reconstruction, and expenditures on the maintenance of key public assets.

54. **Expected results.** Improvement of the budgetary framework provides the necessary mechanism for the GoG to assess the liquidity needed for relief and reconstruction as part of annual budget planning, document historical losses, and systematically quantify and report on post-disaster expenditures. Identifying climate resilience and post-disaster allocations and/or expenditures in the Annual Fiscal Risk Statements (**Results indicator # 5**) increases efficiency and transparency in PFM processes, promotes risk reduction investments, and informs a more efficient allocation of scarce budget resources. In the longer-term, the systematic use of this information will support the country's CCA initiatives and ongoing efforts to reduce future climate and disaster losses.

**Prior Action # 6:** The Recipient has established a pilot insurance mechanism to take effect from July 1, 2019 to June 30, 2020 to support fisheries workers in recovering economic losses from extreme weather events, as evidenced by Cabinet Conclusion No. 613 dated May 13, 2019.

55. **Rationale.** Recent declines in the yield of catch fisheries suggest that negative pressures are being exerted on marine resources due to, among others, over-fishing and degradation of coastal habitats, including the loss of reefs, seagrass beds, and mangrove forests. Coastal fishing communities in the Caribbean are particularly vulnerable to tropical cyclones and weather-related events. In this context, the GoG has recognized the need for: (a) strengthening governance and institutional capacity in the fisheries sector; and (b) providing insurance coverage to help protect the financial assets and food security of coastal fishing communities after natural disasters. Insurance offers a financial connection between the physical and economic resilience of fishing communities at a scale that allows the sharing and transfer of risk due to the impact of extreme weather events, as well as capturing of economic incentives to improve coastal resilience. The fisheries sector in Grenada, though male-dominated, is characterized by a relatively higher concentration of female workers in pre- and post-harvesting activities, such as processing and vending. The sector is also characterized by the lack of official sex-disaggregated data. Based solely on the official registry, the GoG identified only two women among the 24 fish vendors (8 percent) formally registered at the Fisheries Division in October 2018. Acknowledging that this database was incomplete, the GoG conducted field surveys to identify potential insurance beneficiaries that

were not formally registered at the Fisheries Division. The surveys showed not only a higher number of female workers in the sector, but also confirmed that women were more likely to work informally.

56. **Substance of prior action.** Leveraging existing models for tropical cyclones and excess rainfall, the GoG has adopted a climate risk insurance mechanism – the Caribbean Oceans and Aquaculture Sustainability Insurance (COAST) – to rapidly transfer money to the workers in the fisheries sector, who are affected by extreme weather events. The pilot provides insurance coverage for the 2019-2020 policy year. The insurance payouts will be triggered under specific and objective parametric criteria, and will provide immediate economic relief to fisheries workers, and promote a culture of Building Back Better to enhance the resilience of coastal communities. The premium for the 2019-2020 policy year will be financed through a recipient executed trust fund under the PROFISH Multidonor Trust Fund.<sup>36</sup> For the following years, the GoG has committed to identify financing sources to ensure the long-term sustainability of the premium payments, including a potential revision of the fisheries license fees to partially cover costs. The insurance mechanism is also contributing to improved management in the fisheries sector. COAST is incentivizing the formalization of fisheries workers across the entire value chain. As of July 2019, the GoG had identified 2,623 workers in the fisheries sector, of which approximately five percent were women. Among persons traditionally classified as fisher folk (that is, owners or crew members working on fishing boats), only about three percent were women. Given the even more severe vulnerability faced by this segment of fisheries workers (who tend to be largely informal workers), the insurance was specifically designed to cover not only fishers, but also workers in pre- and post-harvesting activities, in which women play significant roles. Through this Prior Action, the proportion of women registered as vendors in the fisheries sector increased from eight percent (October 2018) to 45 percent (July 2019).

57. **Expected results.** Access to the COAST insurance product has the added benefit of encouraging the formalization of fisheries workers, especially females, who must be registered to be entitled to the benefit. Through this climate risk insurance mechanism, which was launched for the 2019/2020 hurricane season, the GoG aims to promote more resilient fisheries and improve the livelihoods of fisherfolk. The GoG has required workers to regularly update their registration and pay their annual fees at the Fisheries Division as a condition for receiving the insurance benefit. This will allow the GoG to gather key information and generate additional revenues for improving fisheries management and decision-making. These measures will contribute to: increasing the sustainability of the program; more effective policy reforms and investments in the fisheries sector; and strengthening nature-based and infrastructure coastal resilience. This will be measured by the number of new fisheries' workers formally registered for the climate risk insurance mechanism, including a minimum of 10 percent of female workers (**Results Indicator #6**).

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<sup>36</sup> The Multidonor Trust Fund for the Global Program on Fisheries (No. TF070942).

58. Table 4 describes the analytical underpinnings for each Prior Action.

**Table 4: DPC Prior Actions and Analytical Underpinnings**

Prior Actions	Analytical Underpinnings
<b>Pillar I: Enhancing Policy and Institutional Framework for improved Disaster Risk Management and Climate Change</b>	
<p><b>PA1.</b> The Recipient has adopted the Antigua and Barbuda Declaration on School Safety in the Caribbean, including the Roadmap on School Safety, establishing priorities to enhance the physical, environmental, and social protection levels of education facilities, as well as to increase the awareness of the school community on resilience, as evidenced by the Annex to the Antigua and Barbuda Declaration on School Safety adopted by the Recipient on April 30, 2019 during the Second Caribbean Safe School Ministerial Forum.</p>	<p>World Bank and GFDRR, 2017. Roadmap for Safer Schools, Global Program for Safer Schools. Washington, DC: World Bank.          This report notes that site location, physical planning and quality building regulations are critical elements to be considered in regulatory criteria to reducing risk and making schools and their communities safer.</p> <p>UNISDR. 2013. Worldwide initiative on safer schools. This initiative promotes good practices and achievements in safer school implementation for replication globally.</p>
<p><b>PA2.</b> The Recipient has adopted coordination protocols for the declaration of national and sub-national emergencies, as evidenced by the adoption of said protocols by the Minister with responsibility for disaster management as of November 15, 2019, as published in the Government Gazette No. 51, Volume 137, dated November 15, 2019.</p>	<p>United Nations Office for Disaster Risk Reduction. Sendai Framework for Disaster Risk Reduction 2015–2030.          This international guideline encourages countries to develop and implement a systematic DRM approach and, in some cases, has led to strategic shifts in the management of disaster risks, with governments and other actors placing greater attention on disaster risk reduction compared to more reactive measures. This has included improvements in coordination between actors, enhanced early warning and preparedness, more rigorous risk assessments, and increased awareness.</p> <p>World Bank and GFDRR, 2010. GFDRR Country Note Grenada. Washington, DC: World Bank.          This document provides important information on Grenada’s risk profile and drivers of risk, such as inadequate application of building standards, lack of risk-sensitive territorial planning at the municipal level, and the spread of informal settlements.</p>

Prior Actions	Analytical Underpinnings
<p><b>PA3.</b> The Recipient has amended the PFM Regulations Part XIII-PSIP Selection and Prioritization Criteria and Procedure and Reporting Regulation 258.2 (a) (i) to include climate resilience criteria in the screening of PSIP projects and public private partnerships, as evidenced by the publication of the amended PFM Regulations in the Government Gazette No. 47<sup>37</sup>, Volume 137, dated October 31, 2019.</p>	<p>UNISDR2015. The Sendai Framework for Disaster Risk Reduction 2015-2030. Grenada (2016) Physical Planning and Development Control Act / Adoption of Building Code Order.</p> <p>Government of Grenada, 2017. National Climate Change Adaptation Plan (NAP) for Grenada, Carriacou and Petite Martinique 2017-2021, Ministry of Climate Resilience, the Environment, Forestry, Fisheries, Disaster Management and Information.</p> <p>Carneiro, F. G., and R. Odawara. 2016. Taming Volatility: Fiscal Policy and Financial Development for Growth in the Eastern Caribbean. Washington, DC: World Bank. Hallegatte, S., Adrien Vogt-Schilb, M.B., Rozenberg, J. (2017) <i>Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters</i>.</p>
<p><b>Pillar II: Strengthening Financial resilience against natural hazards and climate change</b></p>	
<p><b>PA4.</b> The Recipient has adopted the Grenada National DRFS, thereby providing a comprehensive framework for using multiple instruments and programs to strengthen financial resilience for improved disaster risk management, as evidenced by Cabinet Conclusion No. 1204, dated September 9, 2019.</p>	<p>Ghesquiere, Francis and Oliver Mahul. 2010. “Financial Protection of the State Against Natural Disasters: A Primer.” Policy Research Working Paper WPS 5429. World Bank, Washington, DC.</p> <p>This publication shows how an effective disaster risk financing strategy relies on a combination of instruments, taking into consideration a country’s fiscal risk profile, the cost of available instruments, and the expected disbursement profile after a disaster. Financial protection will help governments mobilize resources in the immediate aftermath of a disaster, while mitigating the long - term fiscal impact of disasters. Moreover, a comprehensive risk management strategy should include additional dimensions, including programs to promote risk identification, reduce the impact of adverse events, and strengthen emergency services.</p> <p>OECD (Organisation for Economic Co-operation and Development) 2017. <i>Recommendation on Disaster Risk Financing Strategies</i>.</p> <p>OECD 2018. <i>Developing the Elements of a Disaster Risk Financing Strategy</i>. Paris: Organisation for Economic Co-operation and Development.</p> <p>The reports highlight the importance of an integrated approach to DRM and the contribution of risk assessment, risk awareness, and risk prevention to the financial management of disaster risks.</p> <p>World Bank 2018. Advancing Disaster Risk Finance in Grenada. This report presents key relevant recommendations for the Government of Grenada for the formulation of a country-specific comprehensive disaster risk finance strategy (DRF), based on the assessment of the legislative, financial management, fiscal, and insurance market environment in Grenada.</p>

<sup>37</sup> Statutory Rules and Orders (S.R.&O.) N° 27 of 2019 – The Public Finance Management (Amendment)

Prior Actions	Analytical Underpinnings
<p><b>PA5:</b> The Recipient has approved the development of a budget classifier to include provisions that enable the classification and reporting on post disaster expenditure in relief, recovery and reconstruction, as evidenced by Cabinet Conclusion No. 1204, dated September 9, 2019.</p>	<p>PEFA 2016. PEFA 2016 Handbook. Volume II: PEFA Assessment Field guide. Washington, DC: Public Expenditure and Financial Accountability Program Secretariat.</p> <p>This handbook shows how a robust classification system allows transactions to be tracked throughout the budget’s formulation, execution, and reporting cycle according to administrative unit, economic category, function/subfunction, or program. This is essential for allocating and monitoring expenditure to support aggregate fiscal discipline, the allocation of resources to strategic priorities, and efficient service delivery.</p> <p>PEFA. 2015. PEFA Assessment Report Grenada. Washington, DC: Public Expenditure and Financial Accountability Program Secretariat.</p> <p>According to this assessment of Grenada’s PEFA performance, the introduction of a first generation of thematic budget classifiers contributed to improving transparency by allowing for the automatic generation of expense reports.</p>
<p><b>PA6.</b> The Recipient has established a pilot insurance mechanism to take effect from July 1, 2019 to June 30, 2020 to support fisheries workers in recovering economic losses from extreme weather events, as evidenced by Cabinet Conclusion No. 613 dated May 13, 2019.</p>	<p>COAST. Assessment Methodology for National Climate-Smart Fisheries in the Caribbean.</p> <p>COAST 2019. Developing and Applying an Assessment Methodology for the Adoption of Fisheries Insurance in the Caribbean. Grenada Assessment.</p> <p>FAO, 2007. <i>Disaster response and risk management in the fisheries sector</i>. FAO Fisheries Technical Paper 479.</p> <p>FAO, 2018. Assessment of Insurance Needs and Opportunities in the Caribbean Fisheries Sector. FIAO/SLC/C1175 (En).</p> <p>FAO Fisheries and Aquaculture Circular No. 1175.</p>

#### 4.3. LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WORLD BANK GROUP(WBG) STRATEGY

59. **Reforms supported under this DPC with Cat DDO operation will contribute to the WBGs twin goals of ending extreme poverty and promoting shared prosperity.** The policy reforms included in this operation aim at reducing vulnerability to disaster and climate risks in order to catalyze economic growth; reduce economic and fiscal volatility from disasters; and improve the livelihoods of the most vulnerable. These reforms would further support the sustainability of development programs and the GoG’s efforts to reduce extreme poverty and boost shared prosperity.

60. **The proposed operation is aligned with the Caribbean regional resilience agenda that is being implemented by the Caribbean countries and institutions, with support from the World Bank.** This effort seeks to build resilience from a 360-degree perspective<sup>38</sup> that strategically supports: (a) protecting the most vulnerable; (b) building stronger infrastructure; (c) having strong fiscal buffers and financial protection; (d)

<sup>38</sup> 360-degree strategy for a resilient Caribbean: <https://www.worldbank.org/en/news/infographic/2018/11/19/a-360o-strategy-for-a-resilient-caribbean>.

protecting and leveraging ocean and natural resources; and (e) investing in better preparedness. Access to contingent financing mechanisms such as a DPC with a Cat DDO is a key part of strengthening financial protection from disaster impacts. In recognition of this, the World Bank has increased the availability of IDA resources to Caribbean countries through Cat DDO operations.

61. **This DPC with Cat DDO is aligned with country engagement products for the OECS region** - the World Bank Group's Regional Partnership Strategy (RPS) for the Organization of the Eastern Caribbean States (OECS), discussed by the Executive Directors on November 13, 2014, and the Performance and Learning Review (PLR) discussed by the Executive Directors on May 23, 2018. The DPC with Cat DDO contributes to the following objectives of the RPS: (a) increased capacity to manage natural hazards under the Resilience pillar of engagement; and (b) improved budget management and transparency under the Public Sector Modernization Pillar. The PLR identifies the use of new financing instruments, such as the Cat DDO through IDA financing, as a key priority for OECS.

62. **The DPC with Cat DDO complements other World Bank financed operations.** The Fiscal Resilience and Blue Growth programmatic DPC, focuses on the adoption of policy and institutional reforms set out in the Government's long-term development strategy to further enhance disaster resilience; while the Cat DDO supports a policy program to strengthen financial resilience<sup>39</sup>, allowing the country to maintain a solid fiscal position when managing disaster risk. Policy actions supported under both DPCs complement each strategic pillar: (a) the NTF (the operationalization of which is supported under the Fiscal Resilience and Blue Growth DPC) is a critical part of a disaster risk-layering approach defined in the DRFS; and (b) the COAST, which is supported under this DPC with Cat DDO, complements current GoG's efforts toward a growing a blue economy. Other relevant initiatives, such as the Regional Fiscal ASA Caribbean Project,<sup>40</sup> and the RDVRP<sup>41</sup> also complement the design of this operation.

#### 4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

63. **The content of this DPC with Cat DDO is aligned with the programs of Grenada's development partners.** Grenada collaborates with several bilateral and multilateral agencies, including the European Union, Global Affairs Canada, the U. K. Department for International Development (DfID), the U.S. Agency for International Development (USAID), the German Society for International Cooperation (*Deutsche Gesellschaft für Internationale Zusammenarbeit*, 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 GoG work to promote donor coordination and to capitalize on programmatic synergies. The proposed prior actions associated with the DRF pillar represent the continued commitment of the GoG to stay the course of fiscal discipline that was an area of focus of past World Bank and IMF-supported programs.

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<sup>39</sup> Specifically, through the implementation of a comprehensive strategy (DRFS) for reducing contingent liabilities and managing the fiscal risk resulting from disasters (Prior Action #4).

<sup>40</sup> The Regional Fiscal ASA Caribbean Project (P169774) supports the Caribbean region in building macroeconomic resilience to shocks through the implementation of fiscal responsibility frameworks, including fiscal rules and disaster contingency funds.

<sup>41</sup> The Regional Disaster Vulnerability Reduction Project (P146768) aims to measurably reduce vulnerability to natural hazards and climate change impacts in the Eastern Caribbean Sub-region.



64. **Since 2015, the Grenada Disaster Risk Financing TA program has supported the GoG** (through the African Caribbean Pacific-European Union Natural Disaster Risk Reduction (ACP-EU NDRR) Program) in building technical and institutional capacity in DRF. The TA supports the MoF in establishing an integrated DRF framework for improving Grenada's financial resilience to natural disasters. This framework assesses the fiscal exposure of the country in the event of a natural disaster and facilitates the integration of disaster risk into national fiscal and debt management. Improved understanding of risk is expected to not only enable the GoG to minimize contingent liabilities, but also to decrease post-disaster reliance on international aid.

## 5. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1. POVERTY AND SOCIAL IMPACT

65. **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-term.** Policies supported, under this proposed operation, are expected to reduce Grenada's vulnerability to natural hazards and support social and economic development by, ex-ante, improving the DRM framework and upgrading the 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; rather, they will contribute to preventing increased poverty in the event of new extreme natural events and mitigating the long-term effects of disasters. Specifically, the policies are expected to have positive results in terms of: (a) improved safety of the educational community from natural hazards, and more coordinated response and recovery efforts after a disaster; (b) enhanced efficiency and positive effects of operations under an emergency declaration; (c) improved climate resilient and environmentally sustainable public planning; (d) enhanced the ability of the GoG to mobilize and optimize complementary financial instruments, and to respond to and mitigate the potential economic impacts of natural disasters and climate change; (e) efficient and effective functioning of risk reduction investments; (f) availability of insurance schemes that will guarantee the livelihoods of both female and male workers in the fisheries sector in the case of extreme weather events; and (g) reduced economic losses for the most vulnerable population. These policies will be operating in a context where the potential for the exclusion of women and vulnerable people exists; therefore, the GoG will adopt a human-centered development approach, through deeper community engagements and will seek to ensure effective and inclusive engagement with all stakeholders, including disadvantaged and vulnerable groups.

66. **The reduction of the extremely high levels of vulnerability** in the medium- and long-terms will improve the well-being of the most-deprived sections of the population in Grenada. Much of Grenada's social infrastructure and areas with the highest population densities are exposed to natural hazards.<sup>42</sup> Poorer socioeconomic conditions make households more sensitive to the impact of hazards and less able to respond, cope, and adapt to disasters. Moreover, the poor have a lower threshold for enduring external shocks and have fewer financial resources or capital, if any, to fall back on. Disaster prevention activities from Pillar I (Safer School program and the effective incorporation of resilience in infrastructure design) are envisioned to prioritize the most vulnerable population - taking into consideration their multidimensional poverty status - and contribute to protecting them from unforeseen events.

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<sup>42</sup> They are located at sea level, often right along the coast, and 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.

67. **Strengthening the GOG’s fiscal resilience is an important prerequisite to enabling a rapid and effective response to disasters and supporting those most in need.** Pillar II’s focus on the GoG’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 Pillar I. Budgetary measures can be critical, for instance, to ensure the timely expansion of shock sensitive social protection systems.

## 5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

68. **The policies selected for the proposed DPC with Cat DDO are expected to have significant positive indirect effects on Grenada’s environment, forests, and other natural resources.** Policy actions supported by this operation primarily seek to reduce the vulnerability of assets, infrastructure, and public finances, and are not designed to transform the environment. Each pillar of the operation contains prior actions that can enhance the proper management of natural resources, coasts, and the environment. Under Pillar I, efforts to improve policy and institutional frameworks will have positive environmental impacts through the inclusion of CCA considerations in sectoral policies and critical public infrastructure development, while improving resilience, sustainability, and environmental management in territorial planning. The policies supporting the improvement of education facilities will systematically enable a legal and institutional environment for incorporating DRM and CCA considerations in educational policies and plans. These efforts will support the reduction of the impacts of adverse natural events, while complying with safety and construction standards, and offering the possibility of providing children with access to adequate infrastructure. Moreover, the integration of climate resilience criteria in the screening of PSIP projects will reduce the vulnerability of future investments (public and private) and build resilient infrastructure. Policies under Pillar II aimed at strengthening the financial resilience of the fisheries sector against natural disasters are expected to have positive effects on the environment and natural resources. Fisheries insurance will contribute to improving sustainability in the fisheries sector by: (a) mapping and registering all workers before granting permits for fishing activities; and (b) increasing registration fees to generate resources for financing oversight activities, and consequently reducing unsustainable, illegal and destructive practices. These actions are expected to directly contribute to climate resilience.

69. **Climate co-benefits for the proposed operation are expected to be high as most of the policy actions directly contribute to building resilience to climate-related disasters.** CCA considerations are explicitly integrated in all the Prior Actions, translating to a very high percentage contribution to climate co-benefits. In this context, by enhancing Grenada’s adaptive capacity and resilience, the proposed program aims to reduce the vulnerability of people and critical sectors to the impacts of climate change and risks related to climate variability.

## 5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

70. **Grenada’s PFM systems have been strengthened but continued focus and emphasis is needed.** The 2015 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 being implemented progressively; the full impact of this reform program will be realized in the next 5 years. Many PFM reform actions have been completed to address some of the weaknesses identified in the 2015 PEFA. The GoG has indicated that it will refocus its attention on the PFM Reform Action Plan.



71. **PFM reforms and initiatives are ongoing since mid-2015, and include:**

- **Legislation/Policy.** Fundamental to the HGRP was the enactment of four key legislations: (a) PFM Act 17/2015; (b) Fiscal Responsibility Act 29/2015; (c) Public Procurement and Disposal of Property Act 39/2014; and (d) Public Debt Management Act 28/2015. In addition, supporting regulations and manuals, along with the operationalization of an independent Fiscal Responsibility Oversight Committee (FROC), have supported ongoing PFM reforms. The acts and regulations were designed to ensure the implementation of medium-term, results-oriented, budget planning and preparation processes, and to strengthen the authorities' ability to establish and manage within multi-year fiscal targets.
- **Aggregate Fiscal Discipline.** Substantial improvements in the budget preparation processes (that were a part of the PFM Act 2015) will strengthen the GoG's ability to manage fiscal discipline. Monthly cash forecasting linked to allocations and commitment controls, though not based on the use of a Treasury Single Account (TSA), will also assist the achievement of fiscal discipline.
- **Strategic Allocation of Resources.** The GoG implemented a new CoA in 2016, in line with the IMF's Government Financial Statistics Manual 2014, which has facilitated improved budget formulation and reporting based on administrative, economic, and functional classifications. The preparation of budgets is now guided by a budget framework paper, a budget planning and preparation manual, and a MTFP document. Special warrants are not allowed, and supplementary budgets are limited to only one per fiscal year to ensure that the strategic priorities determined through the budget formulation process remain in place. Expenditure reclassification (capital versus recurrent, and within recurrent) are ongoing and will help the GoG have a more comprehensive view of its operations. Through Prior Action 3 a budget classifier is being developed to include provisions that enable classification and reporting on post-disaster expenditure in relief, recovery, and reconstruction.
- **Efficient Use of Resources for Service Delivery.** While the new Public Procurement and Disposal of Property Act 39/2014 has been promulgated, it still needs to be made operational and effective. Weaknesses in the accountability mechanisms - including lack of timeliness of financial statements - make external audits and their scrutiny ineffective as counter checks on inefficient use of resources. The most recent audited GoG financial statements and audit report submitted to the Parliament are for the year-ended December 31, 2015. An internal audit unit was established in 2019; once operational with the planned hiring of a new chief internal audit officer in the latter part of 2019, it will help improve service delivery efficiency.

72. **Grenada publishes an annual budget. The 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 to the public. The MoF provides in-year budget execution reports to the Parliament. Monthly bulletin board publications and the budget speech with annexes are posted on the GoG website. In addition, FROC reports are published with a press conference. Year-end financial statements and audit reports are also accessible after they have been submitted to the Parliament.

73. **Continued emphasis on operationalizing the enacted legislation, as well as improving PFM processes and procedures, are needed to mitigate residual PFM risks.** Grenada's PFM system needs further improvement to address the residual weaknesses noted in public sector investment management (and related provisions for recurrent costs needed for these investments) and in the quality and efficiency of public expenditures. Budget execution is yet to reflect many of the reforms that still need to be implemented, particularly in cash management and the eventual reduction on the number of bank accounts, and the eventual roll out of a TSA. The weaknesses in financial reporting, especially in the legally required implementation of International Public Sector Accounting Standards (IPSAS) and auditing, need to be addressed. The authorities are contemplating a PEFA assessment in 2020 to update and evaluate the effectiveness of the various PFM reforms and initiatives, reassess the current PFM environment, and address other key PFM agenda items going forward.

74. **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.

75. **Disbursement and Auditing Arrangements.** As this operation proposes to strengthen Grenada's disaster and climate resilience policy framework and its fiscal risk management associated with natural hazards, the operation aims to cover events triggered by both natural disasters and health emergencies. Credit proceeds may be withdrawn upon the issuance of a Government Declaration to respond to a National Disaster (as defined in Section 4.1: Link to Government Program and Operation Description of this Program Document), provided that there is 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, to 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 is immediately credited to Grenada's government account, which will become available to finance budgeted expenditures. Within 30 days of the funds transfer, the GoG through the MoF will provide the World Bank written confirmation of the amount deposited in 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 the 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 the GoG 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

76. **The monitoring and results framework will be supported by the MoF, which is responsible for coordinating actions by other relevant ministries and agencies for the implementation of the program supported by the proposed operation.** The results framework agreed to by the GoG and the World Bank is presented in Annex 1. The policy matrix results indicators represent agreed benchmarks for evaluating the program supported by this Cat DDO. Several other agencies are involved in implementing the reform program, including the MoE; the MoC; and the NaDMA. Monitoring and evaluation capacity is traditionally weak in Grenada, and the GoG recognizes the need to strengthen these mechanisms. The World Bank will maintain an ongoing dialogue with counterparts in the MoF regarding the monitoring and evaluation of reforms supported by the operation.

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

#### 6. SUMMARY OF RISKS AND MITIGATION

78. **The overall program risk is rated Substantial.** Areas of concern include the risks associated with macroeconomic shocks, institutional-capacity constraints, and fiduciary weaknesses. (Table 5).

79. **Macroeconomic risk.** While Grenada's macroeconomic outlook is positive, the presence of significant downside risks leads to a macroeconomic risk rating of substantial for this operation. As mentioned in the macroeconomic section, exogenous macroeconomic risks of the operation are linked to Grenada's susceptibility to: (a) economic shocks, considering the GoG's dependence on tourism, remittances, FDI and agriculture, all of which are susceptible to external shocks (such as a recession in the United States and/or the United Kingdom); and (b) disasters provoked by natural hazards, given its geographical location, which exposes it to very high risks of extreme climate and weather-related events. Depending on the degree of severity, such shocks could jeopardize adherence to the fiscal rule and Grenada's ability to maintain fiscal sustainability. To mitigate these risks, the government is taking steps to strengthen its fiscal resilience by implementing policy actions supported under this operation and the complementary Fiscal Resilience and Blue Growth DPC series. In addition, measures supported by the Fiscal Resilience and Blue Growth DPC series will also help promote resilience and long-term sustainability.

80. **Institutional capacity** for implementation is rated Substantial due to weak inter-institutional coordination and the lack of technical expertise. Implementing the proposed operation will require the integrated work of

several actors at the national and local levels to move the proposed policy actions forward. This could result in scattered, low impact, and/or uncoordinated actions. These risks will be mitigated through: (a) socializing the DRM and CCA agenda through all key stakeholders by implementing an inter-institutional and multi-sectoral approach, which is expected to be promoted through the current TA that is being implemented in the country, which aims to strengthen institutional capacity for DRF; and (b) minimizing the administrative burden by focusing on a prioritized range of policy actions.

81. **Fiduciary risk.** The 2015 PEFA assessment indicated that Grenada’s PFM environment has improved in many areas. However, further improvements are needed to address residual weaknesses in public sector investment management and related provisions for recurrent costs, as well as in the quality and efficiency of public expenditures. Further, Grenada’s national procurement law does not adequately address the principles of economy, efficiency, effectiveness, integrity, openness, and transparency. Training and capacity building provided by the World Bank under the Canada-Caribbean Resilience Facility (P171256) is expected to mitigate some of these risks.

**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	● Substantial
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	
<b>Overall</b>	● Substantial



**ANNEX 1: POLICY AND RESULTS MATRIX**

Prior actions and Triggers	Results			
Prior Actions	Indicator name	Baseline (2019)	Target (2023)	Responsible agency
<b>Pillar I: Enhancing Policy and Institutional Framework for Improved Disaster Risk Management and Climate Change</b>				
<p><b>PA1.</b> The Recipient has adopted the Antigua and Barbuda Declaration on School Safety in the Caribbean, including the Roadmap on School Safety, establishing priorities to enhance the physical, environmental, and social protection levels of education facilities, as well as to increase the awareness of the school community on resilience, as evidenced by the Annex to the Antigua and Barbuda Declaration on School Safety adopted by the Recipient on April 30, 2019 during the Second Caribbean Safe School Ministerial Forum.</p>	<p><b>Results Indicator 1a:</b> Percentage of schools with approved comprehensive disaster management plans.</p>	<p><b>Baseline (2019): 0%</b></p>	<p><b>Target (2023): 70%</b></p>	<p>Ministry of Education, Human Resource and Religious Affairs</p>
	<p><b>Results Indicator 1b:</b> Percentage of schools screened for physical hazards.</p>	<p><b>Baseline (2019): 0%</b></p>	<p><b>Target (2023): 50%</b></p>	
<p><b>PA2.</b> The Recipient has adopted coordination protocols for the declaration of national and sub-national emergencies, as evidenced by the adoption of said protocols by the Minister with responsibility for disaster management as of November 15, 2019, as published in the Government Gazette No. 51, Volume 137, dated November 15, 2019.</p>	<p><b>Results Indicator 2:</b> Percentage of National DRM agency (NaDMA)-led emergency responses (including simulation/drills) that apply the Coordination Protocol.</p>	<p><b>Baseline (2019): 0%</b></p>	<p><b>Target (2023): 100%</b></p>	<p>National Disaster Management Agency</p>
<p><b>PA3.</b> The Recipient has amended the PFM Regulations Part XIII-PSIP Selection and Prioritization Criteria and Procedure and Reporting Regulation 258.2 (a) (i) to include climate resilience criteria in the screening of PSIP projects and public private partnerships, as evidenced by the publication of the amended PFM Regulations in the Government Gazette No. 47, Volume 137, dated October 31, 2019.</p>	<p><b>Results Indicator 3:</b> Percentage of annual infrastructure project proposals under Public Sector Investment Program (PSIP) screened through the new review process.</p>	<p><b>Baseline (2019): 0%</b></p>	<p><b>Target (2023): 60%</b></p>	<p>Ministry of Finance</p>



Prior actions and Triggers	Results			
Prior Actions	Indicator name	Baseline (2019)	Target (2023)	Responsible agency
<b>Pillar II: Strengthening Financial Resilience Against Natural Hazards and Climate Change</b>				
<p><b>PA4.</b> The Recipient has adopted the Grenada National DRFS, thereby providing a comprehensive framework for using multiple instruments and programs to strengthen financial resilience for improved disaster risk management, as evidenced by Cabinet Conclusion No. 1204, dated September 9, 2019.</p>	<p><b>Results Indicator 4:</b> Number of the Recipient’s Annual Budget Statements that identify and explicitly quantify government contingent liabilities.</p>	<p><b>Baseline (2019): 0</b></p>	<p><b>Target (2023): 3</b></p>	<p>Ministry of Finance</p>
<p><b>PA5.</b> The Recipient has approved the development of a budget classifier to include provisions that enable the classification and reporting on post disaster expenditure in relief, recovery and reconstruction, as evidenced by Cabinet Conclusion No. 1204, dated September 9, 2019.</p>	<p><b>Results Indicator 5:</b> Number of the Recipient’s Annual Fiscal Risk Statements that identify climate resilience and post-disaster allocations and/or expenditures.</p>	<p><b>Baseline (2019): 0</b></p>	<p><b>Target (2023): 3</b></p>	<p>Ministry of Finance</p>
<p><b>PA6.</b> The Recipient has established a pilot insurance mechanism to take effect from July 1, 2019 to June 30, 2020 to support fisheries workers in recovering economic losses from extreme weather events, as evidenced by Cabinet Conclusion No. 613 dated May 13, 2019.</p>	<p><b>Results Indicator 6:</b> Number of new fisheries’ workers formally registered for the climate risk insurance mechanism.</p>	<p style="text-align: center;"><b>Baseline (2019): 0*</b></p> <p>*The baseline considers the registration database as of October 2018</p>	<p><b>Target (2023): 200</b> new workers or greater (10% females)</p>	<p>Ministry of Climate Resilience</p>





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## ANNEX 2: FUND RELATIONS ANNEX

Press Release No. 19/265  
FOR IMMEDIATE RELEASE  
July 3, 2019

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

### **IMF Executive Board Concludes 2019 Article IV Consultation with Grenada**

On June 12, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>43</sup> with Grenada.

The Grenadian economy continues to grow robustly. GDP expanded by 4¼ percent in 2018, driven by strong activity in construction and tourism. Unemployment has been falling, but it remains high at 21.7 percent as of mid-2018. Inflation has remained low and bank credit growth is positive. The external current account deficit is estimated to have narrowed in 2018 due to strong tourism receipts, but it remains elevated at around 11 percent of GDP. Robust FDI flows, including from the citizenship-by-investment (CBI) program, are financing the external deficit while supporting economic growth.

Adherence to the fiscal responsibility law (FRL) has enabled further debt reduction. The fiscal surplus increased further in 2018, reflecting a combination of strong revenues and the FRL mandated expenditure restraint. Low execution of grant financing and institutional bottlenecks in project execution combined to keep capital outlays subdued at 2¾ percent of GDP. Central government debt fell from 70 to 63½ percent of GDP in 2018, but arrears to Algeria, Libya, and Trinidad and Tobago remain to be regularized.

Growth is set to remain above potential in 2019, but is projected to ease somewhat over the medium-term, consistent with a waning of FDI-driven construction. The fiscal position is projected to loosen over the medium term in line with the FRL's provisions that take effect after public debt falls below 55 percent of GDP and should provide some support to the economy. External risks are mainly on the downside and are centered on prospects for U.S. growth and global financial conditions. Domestic risks are two-way and partly hinge on the efficiency of the envisioned fiscal expansion that is permitted by the FRL.

### **Executive Board Assessment<sup>44</sup>**

Executive Directors welcomed Grenada's continued strong economic and fiscal performance and sustained debt reduction, underpinned by sound policies. They emphasized that further policy improvements and public support for reforms are critical to achieve higher and broad-based medium-term growth, further reduce

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<sup>43</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

<sup>44</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>



unemployment, entrench debt sustainability, and strengthen financial stability.

Directors underscored the importance of focusing policy efforts on making growth more resilient, sustainable, and inclusive. They noted that Grenada's growth potential is held back by susceptibility to economic shocks and natural disasters in addition to long-standing structural weaknesses such as high unemployment and an external competitiveness gap. In this context, Directors supported making prudent and efficient use of Grenada's hard-earned fiscal space to address the country's infrastructure and resilience gaps. They highlighted the need to enhance the business climate and competitiveness, including through improvements in labor market institutions. They noted that education and training programs to match job opportunities with the labor force are also needed.

Directors commended the authorities' steadfast compliance with the Fiscal Responsibility Law (FRL). They agreed that the FRL could be enhanced, with a consistent and well-sequenced implementation, to facilitate more productive spending while safeguarding debt sustainability. In particular, they emphasized the need to improve the procedures for expenditure planning and classification. Directors welcomed the authorities' intention to implement initiatives on pension reform and healthcare coverage in a manner that is consistent with the FRL and fiscal sustainability.

Directors encouraged the authorities to move ahead with fiscal structural reforms to improve spending quality and mitigate fiscal risks. They stressed the importance of implementing the public-sector management reform strategy to improve public sector productivity and service delivery. They recommended further strengthening social assistance programs and continuing public investment management and public enterprise reforms, while regularizing bilateral arrears. Directors welcomed the climate change policy assessment and the authorities' intention to elaborate a comprehensive disaster resilience strategy with inputs from key stakeholders. This should help catalyze concessional financing to address the infrastructure and resilience gaps.

Directors welcomed steady improvements in bank credit growth and banking soundness indicators. At the same time, they noted that the continued fast growth in lending by credit unions and the rising property markets warrant close monitoring. They called for a proactive approach to strengthening the supervision and regulation of the non-bank financial sector by the local regulator and the need for coordination with the ECCB and the ECCU's peer regulators. Directors highlighted the importance of continued efforts to ensure compliance with AML/CFT regulations in all areas to support correspondent banking relationships and preempt any financial integrity concerns.



**ANNEX 3: LETTER OF DEVELOPMENT POLICY**

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



**MINISTRY OF FINANCE,  
PLANNING, ECONOMIC  
DEVELOPMENT AND  
PHYSICAL DEVELOPMENT  
FINANCIAL COMPLEX,  
THE CARENAGE,  
ST. GEORGE'S,  
GRENADA, W.I.**

Letter of Development Policy  
Disaster Risk Management Development Policy Credit with a Catastrophe Deferred  
Drawdown Option

November 19, 2019

Mr. David Malpass  
President  
World Bank Group  
Washington, DC 20433  
United States of America

Dear Mr. Malpass,

I write to request the approval of a Development Policy Credit with Catastrophe Deferred Drawdown Option (Cat DDO) in the sum of US\$ 20 million. This letter summarizes critical aspects of the program that the Government of Grenada is committed to implement to reduce disaster and climate risks and to increase resilience to the impacts of natural disasters.

More specifically, this line of credit is expected to strengthen the viability of our contingency financing arrangements in the event of a catastrophe triggered by natural hazards, including public-health related events. The credit facility will also support the efforts of the Government of Grenada to implement our recently approved disaster risk financing strategy which was developed with the World Bank technical support. We express our gratitude to the World Bank for its technical assistance in this critical area.

**Overall Resilience Agenda**

The mainstreaming of climate resilience into the legislative agenda and the policy and investment planning framework is a major feature of our government's agenda. In 2018, in support of this objective, we reallocated our ministerial portfolios to create a Ministry of Climate Resilience, Environment, Forestry, Fisheries, Disaster Management and Information. This arrangement facilitates a sharper focus on these critical areas and allows for improved management of the synergies among the various components of the portfolio.

This Ministry is now responsible for coordinating the implementation of a wide-ranging domestic policy framework which includes the National Climate Change



Adaptation Plan (NAP 2017-2021); the Climate Change Policy 2017-2021; the Blue Growth Master Plan; the Integrated Coastal Zone Management Policy Document and the Grenada Protected Areas System Plan. The Climate Resilience Ministry is also leading a major review and update of our national disaster management plan. On the regional and international front, we have committed to a number of multilateral environmental agreements (MEAs) including: the Antigua & Barbuda Declaration on School Safety, Cartagena Convention for the Protection and Development of the Marine Environment of the Wider Caribbean; the Cartagena Protocol on Biosafety; the Montreal Protocol on Substances that Deplete the Ozone Layer and the St. George's Declaration of Principles for Environmental Sustainability in the OECS.

We have also recently completed work on the first draft of our National Sustainable Development Plan 2020-2035 (NSDP) which will provide the overarching framework for the implementation of these and other initiatives.

Coming out of our Home-Grown Structural Adjustment Program (2014-2017), the Grenadian economy has maintained healthy real sector growth rates averaging 4.5 percent over the last five (5) years while fiscal outcomes have exceeded the targets set by our fiscal responsibility legislation with primary surpluses averaging 5.2 per cent of GDP over the same period. Following our major debt restructuring initiative and the intense focus on the strengthening of the policy and operational framework for management of both the revenue and expenditure accounts, the public debt situation has been brought under control and debt ratios are now firmly on a downward trajectory.

The Government of Grenada is acutely aware of the risks that the onset of natural disasters could pose to maintaining the momentum of this progress. A contingent financing line will fill an important gap in our menu of public financial management instruments, ensuring immediate post-disaster liquidity to meet emergency and recovery needs. Furthermore, the proposed policy reform program provides an important platform for addressing: (i) the need for a coherent, evidence-based strategy which optimizes the synergies between available sovereign risk transfer and retention instruments; (ii) the need for strengthening documented governance systems to support disaster and expenditure management operations; (iii) the need to mainstream risk monitoring and reporting into fiscal management operations; (iv) the potentially significant fiscal implications of the continued retention of risks in respect of critical physical infrastructure and (v) the need for specific *ex-ante* protection mechanisms to enable the efficient delivery of support to the fisheries sub-sector in the event of a natural disaster.

In view of the above, the Government of Grenada plans to support and complement the policy reforms under the relevant government authority, and ensure they will offer the expected results over the course of the next three years:

**Pillar 1 - Enhancing the policy and institutional framework for improved Disaster Risk Management and Climate Change.**



The objective of this pillar is to complement on-going reforms aimed at establishing and strengthening the legal and institutional framework that supports the incorporation of disaster risk and climate change adaptation considerations into sectoral policies and critical public infrastructure development. The key aspects of the policy reforms under this pillar are included below:

- **Safer Schools, Ministry of Education & Human Resource Development.** The reforms in the education sector focus on the implementation of the Antigua and Barbuda Declaration on School Safety in the Caribbean adopted in April of this year, including the implementation of the Caribbean Roadmap on School Safety. The Ministry of Education will be leading this initiative in collaboration with other line ministries through inter-ministerial agreements that will be formalized in the coming weeks, which will focus on disaster resilient school infrastructure, development of school disaster management plans and initiatives in disaster risk reduction and resilience in education.
- **Institutional framework for declaring a disaster, National Disaster Management Agency.** An improved operational framework for the management of the critical immediate disaster response phase and a strengthened environment for business continuity in the event of future natural disasters. Cabinet recently approved a set of protocols and specific institutional arrangements that will apply to the declaration of subnational and national disaster-related emergencies.
- **Climate resilient Public Sector Investment Programs, Ministry of Finance, Planning, Economic Development and Physical Development.** To promote the inclusion of climate resilience criteria in the screening of public investment projects, an amendment to Section XIII of the of the Public Finance Management Regulations was approved by Cabinet. This amendment is expected to support the development of a more robust pre-investment management system, promoting a better understanding of the impact of climate risks and building sectoral capacity to address them.

**Pillar 2 - Strengthening financial resilience against natural hazards and climate change.**

Consolidating the gains of our fiscal adjustment program and mainstreaming climate change and disaster management into our economic management system will be the major focus of the reform interventions. Against the background of the major hurricane-related losses inflicted by previous weather events, we want to underscore our commitment to the implementation of the disaster risk financing strategy, which provides a comprehensive framework for using multiple instruments and programs to strengthen financial resilience for improved disaster risk management. The specific reforms targeted under Pillar 2 are well aligned with our ongoing initiatives



to strengthen fiscal management operations as mandated by the suite of public finance management legislation which currently guides our efforts to achieve and maintain debt sustainability. The key aspects of the policy reforms under this pillar are included below:

- **Disaster risk financing strategy, Ministry of Finance, Planning, Economic Development and Physical Development** aims to enhance Grenada's capacity to adopt an ex-ante approach, to the management of the fiscal risks associated with natural disasters and improve its financial capacity to respond to future events. The Government of Grenada remains committed a proactive approach to the management of the fiscal impacts of disasters that can help Grenada to: (a) improve disaster relief, recovery and reconstruction speed; (b) quantify Government and private sector disaster liabilities; and (c) help the Government to develop cost-effective disaster risk financing mechanisms.
- **Budgetary framework for disaster risk management, Ministry of Finance, Planning, Economic Development and Physical Development.** Aligned with the disaster risk financing strategy, The Government of Grenada remains committed on improving public finance management processes such as development and use of a climate and disaster related budget classifier for planning the allocation and reporting on climate resilience and/or post-disaster expenditures.
- **Insurance mechanism for the fisheries sector, Ministry of Climate Resilience, Environment, Forestry, Fisheries, Disaster Risk Management & Information.** Grenada is one of three countries, currently piloting an insurance risk mechanism to support fisheries workers in recovering economic losses from extreme weather events, through the introduction of the Caribbean Oceans and Aquaculture Sustainability Facility (COAST). This parametric insurance product has the potential to be an important addition to the region's support system for the fisheries sector, also promoting resilience in the fisheries sector and adoption of better and more sustainable fishing practices. The Government of Grenada is committed to an implementation approach which will focus on promoting the sustainability of the initiative beyond the pilot period that ends in June of 2020.

In summary, I would like to reiterate our strong commitment to the reforms contemplated in the Development Policy Credit with Catastrophe-Deferred Drawdown Option and we look forward to the Bank's continued support for our efforts to build a more disaster resilience country.



**The World Bank**

Grenada Disaster Risk Management Development Policy Credit with a Catastrophe Deferred Drawdown Option  
(P171465)

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I thank you for your continuing cooperation and look forward to the favourable consideration of this program by the World Bank's Board of Directors.

Yours sincerely,

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



**ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE**

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<b>Pillar I: Enhancing Policy and Institutional Framework for Improved Disaster Risk Management and Climate Change</b>		
<p><b>PA1.</b> The Recipient has adopted the Antigua and Barbuda Declaration on School Safety in the Caribbean, including the Roadmap on School Safety, establishing priorities to enhance the physical, environmental, and social protection levels of education facilities, as well as to increase the awareness of the school community on resilience, as evidenced by the Annex to the Antigua and Barbuda Declaration on School Safety adopted by the Recipient on April 30, 2019 during the Second Caribbean Safe School Ministerial Forum.</p>	Potential positive	Potential positive
<p><b>PA2.</b> The Recipient has adopted coordination protocols for the declaration of national and sub-national emergencies, as evidenced by the adoption of said protocols by the Minister with responsibility for disaster management as of November 15, 2019, as published in the Government Gazette No. 51, Volume 137, dated November 15, 2019.</p>	Positive, direct	Positive, direct
<p><b>PA3</b> The Recipient has amended the PFM Regulations Part XIII-PSIP Selection and Prioritization Criteria and Procedure and Reporting Regulation 258.2 (a) (i) to include climate resilience criteria in the screening of PSIP projects and public private partnerships, as evidenced by the publication of the amended PFM Regulations in the Government Gazette No. 47, Volume 137, dated October 31, 2019.</p>	<p>Significant positive environmental effects.</p> <p>The fisheries insurance policy will contribute to improve sustainability in the fisheries sector by: (i) mapping and registering all fisheries workers before granting permits for fishing activities; (ii) formalizing the sector, especially fish vendors, as beneficiaries of the insurance; and (iii) identifying additional sources of revenue for the sector. These will help reduce unsustainable, illegal and destructive fisheries’ practices.</p>	<p>No significant negative effects, potential positive effects.</p> <p>Extreme weather events are identified as a major risk to the fisheries’ assets of 47 percent of fishers (men/women) in the Caribbean countries. Grenadian fishermen/women are highly vulnerable to extreme weather events due to lack of insurance. This prior action is thus expected to build the resilience of vulnerable workers in the fisheries sector and provide livelihood protection.</p>





**Pillar II: Strengthening Financial Resilience Against Natural Hazards and Climate Change**

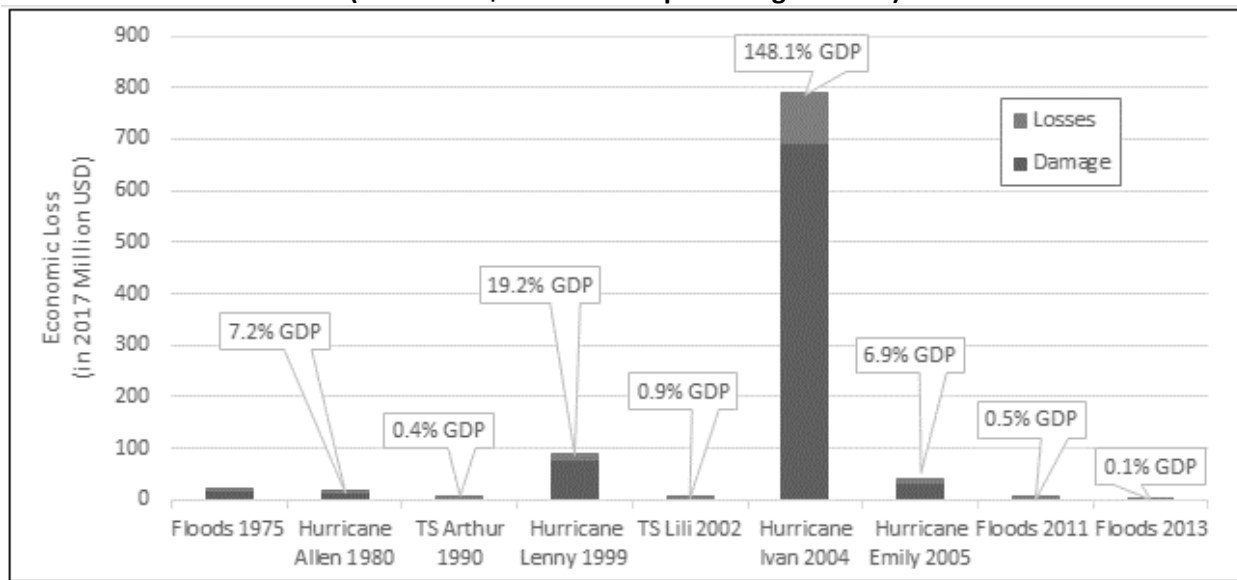
<p><b>PA4.</b> The Recipient has adopted the Grenada National DRFS, thereby providing a comprehensive framework for using multiple instruments and programs to strengthen financial resilience for improved disaster risk management, as evidenced by Cabinet Conclusion No. 1204, dated September 9, 2019.</p>	<p>No</p>	<p>Minor, positive indirect</p>
<p><b>PA5:</b> The Recipient has approved the development of a budget classifier to include provisions that enable the classification and reporting on post disaster expenditure in relief, recovery and reconstruction, as evidenced by Cabinet Conclusion No. 1204, dated September 9, 2019.</p>	<p>No</p>	<p>No</p>
<p><b>PA6:</b> The Recipient has established a pilot insurance mechanism to take effect from July 1, 2019 to June 30, 2020 to support fisheries workers in recovering economic losses from extreme weather events, as evidenced by Cabinet Conclusion No. 613 dated May 13, 2019.</p>	<p>No significant negative effects, potential positive environmental effects.</p> <p>The policy will contribute to better understanding the impact of climate risks in multiple development scenarios and build sector-specific capacity to climate proof policies, projects and programs.</p>	<p>No significant negative effects, potential positive effects.</p> <p>Positive indirect impacts on the poor are expected over the medium term. As poor households are systemically more vulnerable to post-disaster disruptions in infrastructure and services, climate resilient planning has inherently positive equity implications.</p>



**ANNEX 5: HISTORICAL IMPACTS OF MAJOR DISASTERS IN GRENADA**

From 1975 to 2018, the most significant disasters in Grenada resulted in damages and losses equivalent to US\$967 million.<sup>45</sup> Based on the compiled historical database and statistical/engineering techniques, it is estimated that hydrometeorological events represent an annual average direct cost of US\$10.9 million, equivalent to 0.97 percent of GDP (2017). While disasters originated by hydrometeorological hazards are more frequent, there is still an existing risk of earthquakes (even though it is not showcased in the given timeframe), with a modelled annual average direct cost of US\$2.4 million, equivalent to 0.21 percent of GDP (2017).

**Figure 3. Damages and Losses from the Most Significant Disasters in Grenada (In 2017 US\$ millions and percentage of GDP)**



Source: Damages and losses data are extracted or estimated using proxies derived from post-disaster needs assessments and open databases (EM-DAT and DesInventar).

**Table 6. Damages and Losses from Major Adverse Natural Hazards in Grenada (In 2017 US\$ millions and as a percentage of given year’s GDP)**

Event	Damages (US\$, millions)	Losses (US\$, millions)	Total (US\$, millions)	Total as Percentage of GDP (in year of occurrence)
Floods	19.7	2.7	22.5	-
Hurricane Allen	13.7	1.9	15.6	7.2%
Tropical Storm Arthur	1.9	0.3	2.2	0.4%
Hurricane Lenny	79.2	11.0	90.2	19.2%
Tropical Storm Lili	3.2	1.1	4.3	0.9%
Hurricane Ivan	693.7	94.2	787.8	148.1%

<sup>45</sup> In 2017 U.S. dollars. The post-disaster needs assessments account for direct damage to assets and buildings (that is, damages) and indirect losses due to variation in prices or revenues (that is, losses).



Event	Damages (US\$, millions)	Losses (US\$, millions)	Total (US\$, millions)	Total as Percentage of GDP (in year of occurrence)
Hurricane Emily	33.2	8.1	<b>41.3</b>	<b>6.9%</b>
Floods	2.5	0.3	<b>2.8</b>	<b>0.5%</b>
Floods	0.3	0.04	<b>0.3</b>	<b>0.1%</b>

*Source:* Damages and losses data are extracted from post-disaster needs assessments as compiled by the GFDRR, and from open databases such as EM-DAT and DesInventar. The nominal values of damages and losses are updated to 2017 values using Consumer Price Index (CPI) time series; the total of damages and losses as percentage of GDP is calculated based on GDP data from the World Economic Outlook of the IMF.