PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

November 10, 2016
Report No.: AB7878

Operation Name	Third Programmatic Resilience Building Development Policy Credit
Region	Latin America and Caribbean
Country	Grenada
Sector	General industry and trade sector (50%); Agro-industry, marketing, and trade (15%); Other social services (14%); General public administration sector (14%); General finance sector (7%)
Operation ID	P156761
Lending Instrument	Development Policy Credit
Borrower(s)	Government of Grenada
Implementing Agency	Ministry of Finance, Planning, Economy, Energy and Cooperatives Government of Grenada St. George's, Grenada Tel: (473) 440-2928
Date PID Prepared	November 10, 2016
Estimated Date of Appraisal	November 11, 2016
Estimated Date of Board Approval	December 16, 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

Grenada suffers from systemic vulnerabilities and structural challenges, due to its small size and high exposure to natural disasters. As a small, open, island economy, Grenada is vulnerable to a wide range of exogenous shocks, including weather events, volatile terms of trade, and economic downturns in key source markets for tourism and foreign direct investment (FDI). Striking examples are the devastation of Hurricane Ivan in 2004, Hurricane Emily in 2005, and the recession that took hold from 2009 through 2012, following the onset of the global financial crisis in 2008. The combination of slow growth, limited private sector dynamism, and a sustained pro-cyclical fiscal policy stance led to rising public sector debt and expanding fiscal deficit over the past decade, which culminated in an economic crisis in 2011-2012. A new Government was elected in February 2013, and it set out to pursue a comprehensive set of reforms to tackle the country's long-standing development challenges.

There is no recent data to assess shifts in poverty alleviation and shared prosperity, however, social indicators point to some gains in social development during the past 15 years. The poverty rate was 37.7 percent in 2008, the latest year for which figures are available, at which time 2.4 percent of the population lived in extreme poverty. More recent data is available for some social indicators, which show that Grenada has made progress on a number of its Millennium Development Goals over the past 15 years. For example, the under-5 mortality rate decreased from 15.9 per 1,000 live births in 2000 to 11.8 in 2013. Further, Grenada's population has near-universal access to drinking water and sanitation, along with high rates of net primary school enrollment rate, access to electricity, and mobile phone service. Nevertheless, the latest available data indicates that inequality is relatively high in Grenada with a Gini coefficient of 0.45 in 2006, compared to other members of the Organization of Eastern Caribbean States (OECS), albeit inequality in Grenada is below the average Gini coefficient for the Latin America and the Caribbean region of 0.529 in 2009.

II. Operation Objectives

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

III. Rationale for Bank Involvement

Budget support financing through this third and final DPC in the programmatic Development Policy Finance (DPF) series and related technical assistance have supported the implementation of the Government's ambitious reform program from 2013 to date. The PDO of the proposed DPC addresses the Government's main policy objectives, i.e., to promote private-sector-led growth, to restore fiscal sustainability and to improve social development indicators. The DPC is also aligned with the regional Comprehensive Debt Framework, which is designed to achieve debt sustainability in Caribbean countries by: (i) improving the investment climate and competitiveness; (ii) improving public resource management; and (iii) enhancing resilience against natural disasters.

Real Gross Domestic Product (GDP) growth posted a robust recovery from the 2009-2012 recession, with an average 5.3 percent rate of growth from 2013 through 2015, fueled by strong growth in agriculture, tourism and construction. GDP growth peaked at a vibrant rate of 7.3 percent in 2014, in part reflecting an upswing in tourist arrivals and visitor expenditures. In 2015, real GDP growth moderated to a still strong pace of 6.2 percent, primarily due to moderation in agricultural production. Despite recent strong growth outturns, unemployment remains sharply elevated, and the weak labor market has contributed to subdued domestic demand and contractions in credit growth. Low global oil prices and weak domestic demand contributed to moderate deflation in 2013 and 2014, while the real effective exchange rate appreciated as the US dollar strengthened. The external accounts have improved significantly over the past two years reflecting the impact of dampened imports, resulting from fiscal consolidation and lower fuel prices.

Grenada continued strong fiscal consolidation in 2015, and in mid-2015 passed a new rules-based fiscal framework to lock-in gains and achieve fiscal discipline over the long-term starting with targets for 2016. The overall deficit (cash basis) narrowed by 3.5 percentage points in 2015 to a deficit of 1.2 percent. Excluding interest payments equivalent to 3.4 percent of GDP, the primary balance improved to a surplus of 2.0 percent in 2015 from a deficit of 1.2 percent of GDP in 2014. The Government's restructuring of all public and publicly-guaranteed debt is nearing completion. With the agreements reached to date, the public debt stock fell from a peak of 107.8 percent of GDP in 2013 to 91.6 percent at end-2015.

Grenada's macroeconomic policy framework is considered adequate for the proposed operation. Sound macroeconomic policies have enabled a robust expansion in the real sector driven by tourism, agriculture and construction, and supported by strong external demand. The progress made under the debt restructuring and fiscal consolidation programs generated a primary surplus in 2015, placing the debt burden on a downward trajectory and reinforcing medium-term fiscal stability. The completion of the debt-restructuring process should open new fiscal space for social spending and growth-enhancing investments over the medium term.

This operation is part of a multi-donor effort. The current administration has demonstrated a credible commitment to restoring fiscal discipline under a structural reform program supported by the World Bank, the International Monetary Fund (IMF), and the Caribbean Development Bank (CDB). This DPF series supports the Government's long-term efforts to address systemic vulnerabilities by targeting structural reforms in the areas of private sector development and fiscal management. The series complements concurrent operations by the IMF and CDB. The IMF program, anchored by a 36-month IMF Extended Credit Facility, focuses on improving medium-term growth prospects, restoring fiscal sustainability and strengthening the financial sector. The CDB is currently implementing the third operation in a programmatic lending series that is closely aligned with the DPF. The Government has already made important progress in strengthening the tourism, agribusiness and energy sector, reforming public procurement, improving the regulatory framework for public-private partnerships and enhancing debt management, all of which are policy areas supported under the proposed operation.

IV. Tentative financing

Source:	($ million)
Borrower	0
International Development Association – SDR 6.8 million	9.34
Total	9.34

V. Institutional and Implementation Arrangements

The monitoring, evaluation, and results framework is being supported by the Ministry of Finance (MoF), which is responsible for coordinating actions by other relevant ministries and agencies for the programmatic series. A number of other agencies are involved in implementing the reform program supported by this DPF series, including the Ministry of Social Development and Housing, the Ministry of Agriculture, Lands, Forestry, Fisheries, and Environment, the Ministry of Tourism, the Department of Public Administration, and the Ministry of Works. The World Bank has discussed the importance of developing a monitoring and evaluation process with the relevant institutions to ensure adequate feedback to policymakers. Monitoring and evaluation is traditionally a weak area in small island economies, including Grenada, and the Government recognizes the need to strengthen these mechanisms. The results framework agreed upon by the Government and the World Bank includes indicators to be assessed at the end of the DPF series in 2017. These indicators represent agreed-upon benchmarks for evaluating the program supported by this DPF series. The World Bank will maintain an ongoing dialogue with counterparts in the MoF regarding the monitoring and evaluation of reforms supported by the DPF series.

VI. Risks and Risk Mitigation

There are moderate risks to the achievement of the objectives of this DPF series. Areas of particular concern include macroeconomic risks, risks related to institutional capacity and environmental risks.

While Grenada's macroeconomic outlook is generally positive, and the Government has adopted strong mitigation measures, important downside risks remain, and the macroeconomic risk rating for this operation is moderate. Exogenous macroeconomic risks to the outcomes of the operation are tied to Grenada's small economy, which is vulnerable to shifts in external demand, given the lack of diversification. Worsening global economic conditions, or a faltering recovery in the United States, could negatively affect tourism exports, remittances, and FDI inflows, potentially slowing economic growth and causing the external accounts to deteriorate, which could disrupt achievement of the proposed operations' results through a potential deterioration in Government finances. Similarly, the continued appreciation of the U.S. dollar, due to the further tightening of U.S. monetary policy, or the regional outbreak of the Zika virus, could erode competitiveness and reduce tourism arrivals, respectively, and widen the current account deficit and impact growth outturns. A significant delay in completing the ongoing debt-restructuring process could undermine fiscal and debt sustainability. These risks, however, are being mitigated by the Government's reforms aimed at supporting strong private sector growth, and by the broad political support and strong consensus in favor of its reform agenda. In particular, these reforms include the June 2015 Fiscal Responsibility Act (FRA), which establishes a fiscal rules-based policy framework to restore and maintain debt sustainability, and is expected to enhance macroeconomic management going forward. The framework covers the central Government, statutory bodies, and state-owned enterprises, and to ensure adherence to the rules, the FRA restricts expenditures on the wage bill. Ongoing structural reforms will further mitigate these risks.

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

Grenada is inherently vulnerable to natural disasters and climate change, and as a result environmental risks are moderate. As a small-island developing country, Grenada is highly vulnerable to natural disasters, which are both more frequent and more damaging than in other countries, and could seriously affect multiple dimensions of the proposed operation, and delay achievement of associated results. A study shows an annual average loss from all natural disasters of 10.8 percent of the country's GDP for the period 1994-2013. The high costs of disaster mitigation and response could strain the public resource envelope, which could delay the country's progress toward renewed fiscal sustainability and divert scarce financing away from long-term development objectives, or increasing indebtedness. Natural disasters could also seriously impact the DPF series results by disrupting operation-specific economic sectors, such as agriculture and tourism. To mitigate against these risks, the government is strengthening its capacity to manage disasters and evaluate environmental risks in collaboration with its development partners. In particular, this operation, complemented by support provided under the World Bank-financed Regional Disaster Vulnerability Reduction Project and ongoing United Nations'

(UN) programs, will help strengthen the Government's capacity to manage disasters and mitigate environmental risks.[1] In contrast, there is a low likelihood that the achievement of the operation's outcomes would be affected by exogenous social risk factors, and indeed the policy measures supported under the operation are expected to have positive poverty and social impacts. For example, through greater efficiency in public resource management leading to improved public service delivery. Additionally, reforming the social safety net system is expected to directly contribute to the government's long-term social agenda. While social risks are assessed as low, given moderate risks associated with the environment, the overall environmental and social risks are deemed to be moderate.

VII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The poverty and social impact of the policy measures supported by this DPF series are expected to be positive or neutral, and some reforms are expected to have a direct positive impact on poor and vulnerable households.

The policy measures supported under Pillar 1 of the proposed operation are expected to have a positive poverty and social impact. International evidence suggests that the commercialization of government-owned agricultural estates may increase employment and modestly boost income levels among estate workers. If involuntary resettlement results from the commercialization of these estates, Grenada's legal framework requires that the authorities identify and mitigate any negative economic and social impacts and provide appropriate compensation for forfeited land or loss of employment. Improving inter-agency coordination and automating customs processes is likely to reduce the administrative costs of trade, potentially lowering prices for imported food and consumer goods. Creating an enabling environment for PPPs should boost private investment in infrastructure and improve public services, with a positive impact on job creation. Strengthening energy regulation and promoting investment in renewable energy would help diversify electricity generation, increasing the reliability and resilience of the power supply. Investment in renewable energy is also expected to increase employment in the power sector while reducing spending on imported fossil fuels.

The poverty and social impact of the reforms supported under Pillar 2 is also expected to be positive over the medium-to-long term. Greater efficiency in public resource management will promote improved service delivery, provided that the growth of the civil service can be contained. An updated public procurement system is a prerequisite for a well-functioning public sector and will become increasingly critical to accommodate a rising flow of funds resulting from this DPF series and other donor support operations. The establishment of strong accountability institutions, such as the Public Procurement Board and the Procurement Review Commission, will strengthen fiduciary oversight of the World Bank's investment portfolio. Enhanced debt management capacity is expected to improve the debt profile, reducing interest payments and easing fiscal pressure on the government budget. Reforming the social safety net system will directly contribute to the Government's long-term social agenda. The new targeting tool and the Beneficiary Management Information System will tighten the Support for Education, Empowerment and Development program's focus on poor and vulnerable

[1] In collaboration with various development partners, the Food and Agriculture Organization of the UN is providing technical assistance in the development of disaster-risk management plans for agriculture sectors throughout the Caribbean, including in Grenada.

households and facilitate improvements in the implementation of other social programs. The application of the Grenadian Living Conditions Indicator will contribute to the Government's equity objectives by more accurately identifying poor households, many of which are not currently receiving social support.

The effect of the reforms supported under Pillar 3 is expected to be neutral in the short term, but to have a positive poverty and social impact over the long term. While building code compliance may add to initial construction costs, the reduction in loss of life and property in future hazards events more than compensates for this increase. There is a likelihood that poor households often invest their savings in incremental housing construction. As a result, single structural failures or natural disaster can destroy not only a building, but also a household's entire savings. Therefore, safer construction practices will make roads, bridges and buildings more resilient to natural disasters, not only preventing the loss of life and destruction of property, but also reduce potential financial losses from disasters. As poor households are systematically more vulnerable to the physical and economic impacts of natural disasters, disaster preparedness has inherently positive equity implications.

Environmental Aspects

Based on the Bank's assessment, all of the prior actions of the proposed operation will have positive or neutral effects on the environment, except for the first one, which poses uncertain effects. This prior action provides for leasing of Government estates in order to bring mostly idle Government-owned land under commercial management. Possible negative risks include increased generation of solid waste, constrained water availability, and misuse of pesticides.

The aforementioned negative risks are deemed low or unlikely in part because these estates are already in cultivation, and the commercialization agreements will not extend to protected areas, such as forest reserves or designated watersheds. Negative risks are also deemed low given the governing legal framework, such as the Waste Management Act of 2001, that provides for the following: (i) the private firms managing the estates are prohibited from engaging in any practices known to have a harmful effect on soil quality, and are required to meet locally and internationally acceptable legal and environmental standards in all operations relevant to agricultural exports; and, (ii) the Government has the right to inspect the estates, and the lessees are required to submit written yearly reports on health, safety, and environmental matters. As the GoG has a policy and strategy to reduce solid waste disposal through diversion activities, including reduction, reuse, recycling, composting, and recovery (waste-to-energy), the Bank assesses negative effects stemming from the possible increased generation of solid waste from agribusiness processing plants as unlikely to materialize. More broadly, in Grenada, the Land Development Control Authority is responsible for ensuring that development processes are undertaken in an orderly manner, and that an adequate environmental legislation framework is in place.[2] The Bank also assesses the risk of constrained water availability as low, given that the GoG is carrying out recommendations of the Water Resources Assessment and Management Study.[3] The study will strengthen the Government's water-data collection and management system to support identifying best adaptation options for managing surface water and groundwater demand, supply, and storage, and thereby strengthen its capacity to manage water scarcity risks. Finally, negative risks associated with the misuse of pesticides are deemed low, as the GoG has prepared an Earth System Modeling Framework,

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

[3] This study is the technical assistance component of the Pilot Programme for Climate Resilience, supported by the World Bank (Climate Investment Funds, 2011).

which includes pesticide best management practice and integrated pest management guidelines, along with preparation of Pest Management Plans where there are significant pest management issues. The OECS Agricultural Competitiveness Project of the World Bank, which includes Grenada, is supporting these efforts.

The other reforms supported under this DPF series are expected to have a negligible or modestly positive environmental impact. The expected effects of the passage of the Food Safety Act which establishes standards for food quality and prevention of food safety risks are positive, leading to a reduction in infectious diseases and, overall, to improved health conditions of the population. Given the current reliance on the import of fossil fuels for the generation of electricity, alternative technologies, such as solar, wind, geothermal, and waste-to-energy are viable options in Grenada, consolidating and promoting the renewable energy component of the national energy portfolio will have positive environmental effects. The Physical Planning and Development Control Act No. 23 provides the most comprehensive legislative instrument for environmental impact assessment. Thus, the Bill has significant positive effects on the environment.

VIII. Contact point

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