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Report No. 28334-GRD

Grenada OECS Fiscal Issues Policies to Achieve Fiscal Sustainability and Improve Efficiency and Equity of Public Expenditures

October 25, 2004

Caribbean Country Management Unit
Poverty Reduction and Economic Management Unit
Latin America and the Caribbean Region

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Document of the World Bank

CURRENCY AND EXCHANGE RATES
 Currency Unit – Eastern Caribbean Dollar (EC\$)
 US\$1 = EC\$2.70

FISCAL YEAR
 January 1 – December 31

ACRONYMS AND ABBREVIATIONS

| | | | |
|---------|---|------------|---|
| ACP | African, Caribbean and Pacific (States) | MoF | Ministry of Finance |
| ALOS | Average Length of Stay | MoHE | Ministry of Health and Environment |
| ASYCUDA | Automated System for Customs Documentation and Administration | MoHSCC | Ministry of Housing, Social Services and Cooperatives |
| BOLT | Build-Operate-Lease-Transfer | MoTCAGACSS | Ministry of Tourism, Civil Aviation, Social Services, Gender and Family Affairs |
| BNTF | Basic Needs Trust Fund | MoW | Ministry of Works, Communications and Public Utilities |
| CARICOM | Caribbean Community and Common Market | MTESP | Medium-Term Economic Strategy Paper |
| CDB | Caribbean Development Bank | NAO | National Authorizing Officer |
| CEE | Common Entry Exam | NAWASA | National Water and Sewerage Authority |
| CET | Common External Tariff | NDF | National Development Foundation |
| CF | Consolidated Fund | NGO | Nongovernmental organization |
| CFAA | Country Financial Accountability Assessment | NIS | National Insurance Scheme |
| CG | Central Government | NPP | New National Party |
| CGCED | Caribbean Group for Cooperation in Economic Development | OC | Operating Committee |
| CIF | Cost, insurance, and freight | OECD | Organization for Economic Cooperation and Development |
| CS-DRMS | Commonwealth Secretariat Debt Recording and Management System | OECS | Organization of Eastern Caribbean States |
| CSC | Custom Service Charge | PAC | Public Accounts Committee |
| CTAS | Computerized Treasury Accounting System | PFM | Public Financial Management |
| CXC | Caribbean Examination Council | PMM | Prime Minister' Ministry |
| DBM | Debt Management Unit | PMTCU | Project Management and Technical Cooperation Unit |
| DFID | Department for International Development | PPCC | Planning and Priority Consultative Committee |
| EC | Eastern Caribbean | PSCD | Public Service Development Committee |
| ECCB | Eastern Caribbean Central Bank | PSIP | Public Sector Investment Program |
| ECCU | Eastern Caribbean Currency Union | PTR | Pupil-Teacher Ratio |
| ECEMP | Eastern Caribbean Economic Management Program | SEDU | Small Enterprise Development Unit |
| EDF | European Development Fund | SIGFIS | Standardized Integrated Government Financial Information System |
| EU | European Union | SIGTAS | Standardized Integrated Government Tax Administration System |
| FAA | Finance (Administration) Act | SLCE | School Learning Certificate Exam |
| FTAA | Free Trade Area of the Americas | SOEs | State-owned enterprises |
| GCT | General Consumption Tax | SPEED | Strategic Plan for Educational Enhancement and Development |
| GDB | Grenada Development Bank | STABEX | Stable Export Earnings Program |
| GDP | Gross Domestic Product | TAMCC | T.A. Marryshaw Community College |
| GER | Gross Enrollment Rate | UNDP | United Nations Development Program |
| GCR | Cross Completion Rate | UNESCO | United Nations Educational, Scientific, and Cultural Organization |
| GFS | Government Financial Statistics | VAT | Value-added tax |
| HP | Hodrick-Prescott | WAEMU | Western Africa Economic and Monetary Union |
| IFC | International Finance Corporation | WBI | World Bank Institute |
| ILO | International Labour Organization | | |
| IMF | International Monetary Fund | | |
| IMR | Infant mortality rate | | |
| IOCR | Institutional and Organizational Capacity Review | | |
| MDGs | Millennium Development Goals | | |
| MIS | Management information system | | |
| MoCPM | Ministry of Carriacou and Petite Martinique | | |
| MoE | Ministry of Education | | |

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Preface

This report was completed in April 2004, before Hurricane Ivan struck Grenada in September of that year. Hurricane Ivan was one of the most severe natural disasters worldwide in the past 30 years with damage in Grenada exceeding 200 percent of GDP. In July 2005, ten months after Hurricane Ivan, Grenada was struck by Hurricane Emily with damages of about 13 percent of GDP.

The report reviews Grenada public expenditures for the period 1995-02 and suggests policy recommendations to achieve fiscal sustainability, improve social service delivery, and reform social protection based on the economic situation of the country at the time. Since the completion of the report, Grenada has undertaken a number of important initiatives to address the fiscal challenges that the country faces, especially in the aftermath of Hurricanes Ivan and Emily. In particular, the authorities have developed a “burden-sharing” strategy to achieve fiscal sustainability. However in Grenada, as in all small states, faster implementation is hindered by limited institutional capacity.

The authorities have completed the restructuring of commercial (November 2005) and bilateral (May 2006) debt. Furthermore, revenue enhancing and expenditures measures aimed at reducing the financing gap have been introduced in the context of a three- year Poverty Reduction and Growth Facility (PRGF) approved by the International Monetary Fund (IMF) on April 17, 2006. In addition, the authorities have improved transparency of the fiscal accounts with the Accountant General now current with the submission of the public accounts to Parliament and the Public Accounts Committee is fully functional

Acknowledgments

This report is based on the contributions of a team consisting of Lorraine Blank (social protection), Andreas Blom (education), Patrick Grady (public sector investment program and public sector employment and compensation), Ted Paterson (budget management), Helen Saxenian (health), and Claudia Sepúlveda (fiscal sustainability and fiscal and business cycles). As Task Manager, Claudia Sepúlveda was responsible for the overall preparation of the report. Shahrokh Fardoust and David Rosenblatt were peer reviewers of the report.

The team would like to thank Antonella Bassani and Mauricio Carrizosa for their helpful comments and their invaluable collaboration to improve this report. The report also benefited from the accomplished research assistance of Laura dos Reis, Thomas Pave Sohnesen, and Kevin Tomlinson and the excellent assistance of Patricia Chacón Holt, Michael Geller, and Anne Pillay.

The assistance, cooperation, and input of many government departments in Grenada—too numerous to mention individually—is gratefully acknowledged. The report also benefited from the assistance and cooperation of the Eastern Caribbean Central Bank, the Caribbean Development Bank, and the International Monetary Fund. Without their help, preparation of this report would not have been possible.

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OECS FISCAL ISSUES: GRENADA

POLICIES TO ACHIEVE FISCAL SUSTAINABILITY AND IMPROVE EFFICIENCY AND EQUITY OF PUBLIC EXPENDITURES

EXECUTIVE SUMMARY

Overview

1. Grenada comprises three small islands (Grenada, Carriacou, and Petit Martinique) with a population of about 100,000 inhabitants in an area of 750 square kilometers and a per capita GNI of US\$3,290 in 2002 (World Bank Atlas methodology, current US\$). A former British colony, it became a member of the British Commonwealth in 1974. Until the early 1990s, banana cultivation and export was the main economic activity of the country. During the 1990s, this activity declined sharply and virtually ceased in 1997 as a result of low productivity, poor fruit quality, and erosion of the preferential access to the European Union (EU). The country remains heavily dependent on tourism and spice production. In recent years, however, it has been able to successfully diversify into light manufacturing, telephone, and internet based marketing.

2. As a member of the Eastern Caribbean Currency Union (ECCU), Grenada shares a common central bank, the Eastern Caribbean Central Bank (ECCB), and a common currency, with the other five independent members of the Organization of Eastern Caribbean States (OECS) and three dependent territories (Anguilla, Montserrat and the British Virgin Islands).¹ Their currency is the Eastern Caribbean (EC) dollar, which has been pegged to the U.S. dollar since 1976 at EC\$2.70 per US\$1. The commitment to a fixed exchange rate and a prudent monetary policy under the ECCU umbrella has been a key element in maintaining an inflation rate close to international levels.

3. Notwithstanding a common central bank and a common currency, Grenada, like the other ECCU member countries, conducts fiscal policy independently. While limited progress has been made on a common fiscal policy in the region, the

deterioration of the ECCU fiscal position in the recent years, notably in Antigua and Barbuda, Dominica, and St. Kitts and Nevis, has reinitiated discussion among its members of the need to coordinate fiscal policies.

4. During 1980–89, Grenada's economy showed a strong growth performance, with an average growth rate of about 6.3 percent per year. However, in the 1990s economic growth in Grenada slowed to 3.6 percent per year as a result of exogenous shocks (hurricanes and declining trade preferences for banana). In 2000, the Grenada economy rebounded growing at 7.2 percent, but in 2001 and 2002 the economy contracted by 3.8 percent and 1.1 percent, respectively, as a result of the September 11 events, the global economic slowdown and tropical storm Lili in September 2002. The projected growth rate for 2003 is 2.0 percent. This contraction has been accompanied by increasing fiscal deficits and rising public debt and debt service obligation as capital expenditures in 2001 doubled its 2000 level. In 2002 the Central Government (CG) primary deficit after grants was 14.7 percent of GDP, the CG debt-to-GDP ratio 84 percent and interest payments about 5 percent of GDP.

5. The medium term growth potential in Grenada is in the range of 3.5–4.5 percent, reflecting the completion of most of the major infrastructure projects and a pick up in the global economy inducing restoration of tourism to its pre-September 2001 levels. However, main exogenous risks to the medium term scenario are posed by natural disasters such as tropical storms or hurricanes, reduced access to the regional capital market fuelled by high fiscal deficit and debt ratios, increase in oil prices, and higher interest rates in the US.

6. Despite high levels of per capita income and good social service provision, poverty remains a persistent problem in Grenada. The national 1999 poverty assessment indicates that approximately one in three individuals is poor (that is, living below a locally defined poverty line). Moreover, approximately 13 percent of Grenada's population is indigent; that is, they do not have sufficient resources

¹ The OECS consists of six independent members: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, in addition to three dependent territories of the United Kingdom, Montserrat (full member), Anguilla, and the British Virgin Islands (associate members).

to meet their basic dietary needs.² Unemployment is also a concern; the unemployment rate in 2000 was 15.2 percent and according to the 1999 poverty assessment, the unemployment rate among poor females is 20.5 percent and 18.6 percent among poor males. Income insecurity/volatility at country and household levels as a result of climatic and external economic shocks is particularly pronounced in Grenada, like in the rest of the Caribbean, given its small size, limited economic diversification and high degree of openness, and its extreme vulnerability to hurricanes. The impact of this extremely high volatility is especially negative for the poor and near poor who may not be able to rely on savings or on the government's social protection programs to smooth consumption during times of hardship.

7. With respect to the Millennium Development Goals (MDGs), the primary education goal has been attained—primary education is universal for boys and girls. It is likely that the goal of eradicating extreme poverty and hunger will be achieved; Grenada is estimated to have less than 2 percent of the population living on less than US\$1 per day. With respect to the health MDGs, the under-5 mortality and HIV/AIDS goals are the most relevant to Grenada. Malnutrition (defined as the prevalence of underweight children), maternal mortality, and tropical diseases (other than dengue, which is endemic) are not major issues. The under-5 mortality rate in Grenada dropped from an estimated 37 per 1,000 in 1990 to 26 per 1,000 in 2000. This is a decline of about 3.9 percent per year. The MDG target—a reduction of two-thirds from 1990 to 2015—would require that the rate fall to about 13 per 1,000 by 2015. According to trend projections, Grenada will not reach this MDG target. At the same time, it is important to recognize that the MDG goals get harder to achieve as countries move to relatively low mortality rates. It is difficult to assess the likelihood of reaching the HIV/AIDS target, because baseline data on HIV prevalence and incidence are poor. However, the government has launched a comprehensive HIV/AIDS prevention and control program with the support of the World Bank with the objective of reversing its spread.

8. Grenada was one of the first OECS countries to explore alternative forms of public service delivery such as the statutorization (i.e., transformation from a government department to a statutory body) of the Post Office in 1997 and the contracting out of

government services. However, until now the impact of the commercialization program (statutorization and contracting out) on the quality of services has varied and no fiscal savings over the previous level appear to have been realized.

9. To restore rapid economic growth, ensure medium-term fiscal sustainability under the umbrella of the currency union and protect the social achievements realized in the past decades, the main challenges facing the Grenada government are to: (a) tighten fiscal policy, notably through reduction of capital expenditures and the realization of the fiscal savings expected from the public sector reform initiated in 1997 (b) increase the efficiency of public investments and public service delivery; (c) strengthen regulation and efficiency of public utilities and sea/air transport; (d) modernize the legal framework that oversees public sector employment; and (e) promote education and skills development to prepare the population, notably the poor, to take advantage of new opportunities in the global environment.

10. This report concludes that the fiscal policy conducted by Grenada during 2001 and 2002 was unsustainable, due to a one-time spike in capital expenditures to 22 percent of GDP in 2002, and that it will require an average primary surplus of 4-5 percent of GDP during 2003-2010 to achieve a debt-to-GDP ratio of 60 percent (the ECCU target). Most of the adjustment needed to achieve a sustainable fiscal policy will have to come from expenditure cuts: reorientation of capital expenditures to projects geared to growth and poverty reduction and the realization of the fiscal savings expected from the public sector reform initiated by the government. In addition, a reduction in tax exemptions and discretionary concessions is essential, as is a restructuring of the revenue base through the introduction of the value-added tax (VAT). This is particularly timely given the high dependence of the country on international taxes and the expected negative impact of FTAA on the OECS' countries tax revenues. Next, while social indicators are good for a country at this level of gross domestic product (GDP), there is ample room for more efficient modalities of education and health service delivery that can generate savings and improve effectiveness. In addition, the government needs to ensure that its social programs, in particular social protection, are provided in a well-targeted and effective manner in order to provide more effective safety nets to mitigate the possible impact of fiscal consolidation and of the rationalization in education and health service

² In 1999, the adult equivalent poverty and indigence lines were equal to EC\$ 1,831 and EC \$1,431 respectively.

delivery, and continued vulnerability to external shocks. Specific recommendations on how to achieve fiscal sustainability, improve social service delivery, and reform social protection are provided in the attached matrix. (See Table E.S.1).

11. The report is organized as follows: Chapter 1 discusses fiscal sustainability in Grenada and presents options for fiscal consolidation; Chapter 2 discusses the role of the business cycle in the design of fiscal policy by reviewing the cyclical components of the fiscal accounts; Chapter 3 discusses the budget management system in place and its effect on budgetary outcomes. Chapter 4 examines the Public Sector Investment Program (PSIP); Chapter 5 discusses public sector employment and compensation issues; Chapters 6 and 7 examine public expenditures and outcomes in the education and health sectors; and Chapter 8 discusses social protection programs.

Fiscal Sustainability

12. At the Central Government (CG) level, the fiscal position of Grenada has weakened substantially since 2001. After a primary fiscal deficit (after grants) of about 8 percent of GDP in 1990, the Grenada CG followed a cautious fiscal policy from 1991-2000. During the 1991-2000 period, the CG contained the primary fiscal deficit to 0.9 percent of GDP in 1991 and ran a primary surplus of 2-3 percent of GDP between 1992-95. In 1996 and 1997, the CG primary balance was nil. However, since 1998 the CG fiscal position started to deteriorate. From 1998-2000, the primary deficit was manageable at 1-1.5 percent of GDP. But since 2001, the CG fiscal position deteriorated sharply and the CG ran a primary deficit of 5.8 percent of GDP in 2001 and 14.7 percent of GDP in 2002.

13. The main cause of the deterioration of the CG finances since 2001 has been an increase in non-interest expenditures, predominantly capital expenditures. Non-interest expenditures were about 35 percent of GDP in 1990 and during 1991-2000 were contained to about 29 percent of GDP. However, since 2001 they increased steadily until reaching a peak of 43 percent of GDP in 2002. At the core of the observed increase in CG expenditures is a surge in capital expenditures, some of them contracted in the early 1990s but only now recorded as expenditures (as for example the Ministerial Complex and the National Stadium) as well as the completion of the first stage of the reconstruction of the General Hospital. Although GDP contracted by

3.8 percent in 2001 and 1.1 percent in 2002 as a result of the global economic slowdown, drop in tourism following September 11, and Tropical Storm Lili in September 2002, current revenue as a percentage of GDP kept constant at its pre-2001 level of about 27 percent.

14. The fiscal policy implemented by the CG during 2001-2002 was unsustainable, but in 2003 the CG stabilized the debt-to-GDP ratio at about 85 percent of GDP. The government in the 2004 budget presentation targeted the years 2007-2010 to achieve a CG debt-to-GDP ratio of 60 percent. A fiscal policy similar to the one set in 2003 and reasonable assumptions for the real interest and growth rates will not accomplish the objective established in the budget presentation. Indeed, the debt-to-GDP ratio will increase steadily to a level of about 90 percent of GDP by 2010, under the assumption of a real interest rate of 4 percent and growth rate of 2 percent. But a CG debt-to-GDP ratio of 60 percent can be achieved in 2010, if the government can on average run a primary surplus of about 4-5 percent of GDP during the period 2003-2010. This fiscal effort is reasonable given that the 2001-2002 spike in capital expenditures was in all likelihood a one-time event as the CG bought out the lease arrangements for the National Stadium and the Financial Complex.

15. The ECCB's Monetary Council meeting that took place in February 2003 reconfirmed the agreed regional fiscal framework that includes ceilings on debt and on fiscal performance for the CG (see Chapter 1, paragraph 1.16). The aim of the ECCB in setting these fiscal convergence criteria is to ensure long-run fiscal sustainability and the stability of the currency union by limiting negative spillovers. Based on its fiscal ratios in 2002, the deadline for fiscal convergence (a four-year horizon) requires a fiscal adjustment higher than the one discussed above if the objective is to meet the proposed 60 percent of GDP ceiling. But a date of 2010 seems feasible for Grenada.

Fiscal Policy and the Business Cycle

16. Economic volatility tends to discourage long-term investments in physical and human capital, and thus leads to a lower growth potential. The poor segments of the population are generally the most affected because they lack the means to protect themselves from adverse employment and income effects. Governments have a broad set of instruments available to reduce aggregate volatility and its effects, one of which is fiscal policy. In developed

economies, fiscal policy is usually designed to stimulate output when the economy moves into recession and to contract output when an expansion takes place. A fiscal policy designed in this way leads to a strongly countercyclical fiscal policy.

17. Volatility in Grenada, measured by the standard deviation of the cyclical component of GDP, was about 2.2 percent during the period 1983-2002 and very similar to volatility in St. Kitts and Nevis (2.1 percent). The Grenada GDP cyclical component shows no clear link to its major sources of economic volatility, hurricanes and tropical storms, but several expansions and contractions are worth noticing. Between 1980 and 2002, Grenada was hit by six hurricanes and one tropical storm. In four out of seven hurricane and tropical storm years, Grenada's GDP decreased below its trend, and in the other three years increased above its trend. The deepest contraction took place in 2002, the year of tropical storm Lili.

18. All components of the fiscal accounts are more volatile than GDP. The highest volatility is for grants, tax on income and profits, and capital expenditure. Current expenditure and all its components, as well as capital expenditure and interest payments, are acyclical (that is, in good times or bad times the government does not increase or reduce its expenditures). This result is similar to the one observed in the Organization for Economic Cooperation and Development (OECD) countries, but not in developing countries. Current and tax revenues are procyclical (not surprising given that most taxes are in some way proportional to economic activity), in particular tax on international transactions. All other tax components are acyclical.

19. Finally, all measures of fiscal balance such as primary, current, and overall balance are acyclical, that is, they do not co-move with the GDP cycle. In good times the government does not run a higher or lower fiscal surplus than its trend. This is an interesting result and contrary to the empirical evidence for developing countries. However, most of this evidence does not include small states like Grenada, in which the procyclicality of tax revenues is high and expenditures are acyclical.

20. The cyclical adjustment to the government budget balances in Grenada varies from 1.3 percent of GDP in 2000 (expansion year) to 0.8 percent of GDP in 2002 (recession year). For example, in 2002, the overall fiscal deficit after grants was 19.5 percent of GDP, but factoring out the cyclical impact of

lower tax collection, the cyclically adjusted overall fiscal deficit was only 18.7 percent of GDP. The Grenada cyclical adjustment compared to other countries in the region is in the low range. The cyclical adjustment in St. Kitts and Nevis is between -1.8 and 1 percent of GDP and in Chile is between -4.0 and 2.5 percent of GDP.

21. Once the cyclical effects are factored out, the country has run a structural primary and overall deficit since 1996. In 1994, the structural primary deficit was 0.1 percent of GDP and kept increasing until it reached 13.9 percent of GDP in 2002. The same pattern is observed for the structural overall fiscal balance. This confirms the conclusion that the business cycle has had little effect on the sharp deterioration of Grenada's fiscal position in 2001 and 2002.

22. Fiscal rules have two main objectives: (a) to enforce fiscal responsibility, and (b) to ensure a countercyclical fiscal policy. In this regard, Grenada is on the right path with an acyclical fiscal policy. However, in order to move the country to a countercyclical fiscal policy we propose a fiscal rule based on a structural surplus of about 2 to 4 percent of GDP. This rule is more austere than the Chilean fiscal rule of a structural surplus of 1 percent. However, considerations of high GDP volatility and credibility in small states would require that countries like Grenada adopt tighter fiscal rules. The recommended fiscal rule implies a fiscal adjustment of about 9-11 percent of GDP, higher than the adjustment recommended to achieve fiscal sustainability.

23. However, successful implementation of a fiscal rule based on a structural surplus would require, as a first step, timely and reliable fiscal information. As discussed in the report, the current presentation of the fiscal information does not follow international practices and presents a distorted picture of the country's fiscal situation.

24. This report envisages a two-step sequence in the government fiscal policy. First, achieve fiscal consolidation by running, on average, a primary surplus of about 4-5 percent of GDP between 2003-2010. During this period the government would build credibility with its prudent stance on fiscal policy and simultaneously use this transition period to ensure that transparency in the fiscal accounts and debt reporting complies with international guidelines (a pre-condition for successful implementation of the fiscal rule). Second, after 2010 the structural surplus

rule would be implemented, which will reaffirm and intensify government commitment to fiscal responsibility and reorient its fiscal policy to an effective performance of its countercyclical role and strengthening fiscal discipline.

Financial Management

25. Grenada introduced in 1997 a set of budget reforms that served to improve aggregate fiscal outcomes. These changes, however, have not yet fully translated into improved resource allocation, effective expenditure controls, and improved transparency. The reasons behind these shortcomings are the lack of firm resource envelopes at the aggregate and ministry level underpinned by a medium-term economic strategy and ministries' corporate plans nested in a consistent macroeconomic framework. Both the Strategic Policy Paper (a yearly document that presents the economic prospects of the country for the next fiscal year) and the Medium-Term Economic Strategy Paper (MTESP, a three-year economic plan) last prepared for the Caribbean Group for Cooperation in Economic Development (CGCED) in June 2002, suffer from the same shortcomings: (a) top-down estimates of aggregate resources available for public expenditure not always consistent with macroeconomic stability, (b) lack of bottom-up estimates of the cost of carrying out ongoing and new programs, (c) no attempt to reconcile the aggregate resources with the cost estimates of ongoing and new programs. Another shortcoming is the failure of the Accountant General to submit the government's financial accounts on a timely basis and therefore be subject to audit by the Audit Department.

26. The budget provides an accountant's view of government transactions rather than a presentation of the government's fiscal policy. The budget adheres to the traditional administrative, program, and economic structure format. However, this presentation is insufficient to assess the fiscal position of the government and to follow up on key programs linked to policy priorities. The Ministry of Finance does, however, have the capacity to present the budget by standard functional classification and it is recommended that it do so in fiscal year 2005.

27. The debt management function needs to be strengthened. This function is split between the Budget and Debt Management (DBM) unit in Finance that maintain data on foreign debt and the Accountant General's Department, which handles domestic debt. The debt management section within

DBM has been plagued with high rates of staff turnover, forcing Grenada to call on the ECCB for backstopping support on a regular basis. To facilitate cash flow and debt management, the Ministry of Finance has instituted a Debt Management Committee, comprising the Permanent Secretary of Finance, Accountant-General, and Director of Economic Affairs. This committee meets monthly to review revenue and expenditure performance and consider financing alternatives. It is recommended that the domestic and external debt units be merged into one. In addition, this new unit needs to be staffed with qualified personnel that can keep adequate records of external and domestic debt, analyze the data, and advise the government on debt management issues.

28. While independent in a sense by dint of authority derived directly from the Constitution, the Director of Audit (and the Audit Department) has no guaranteed operating budget or staff complement, and must obtain approval from the Executive via the annual Estimates process. The problems of Grenada's Audit Department are longstanding. No government accounts were submitted from independence in 1974 until well after the US intervention a decade later. From the late 1980s to the mid-1990s, Grenada benefited from a British project to strengthen the Audit Department and to bring the public accounts up-to-date. During the life of this project, a fire destroyed the Ministry of Finance Complex in 1990, making it impossible to prepare the 1988 and 1989 accounts. The accounts were reconstructed as of the day of the fire, involving write-offs of EC \$46.9 million, but by 1995 the government's annual statements were again well in arrears. In 2000, the Director of Audit was suspended and her case is still before the courts so an individual on an acting basis fills this important position.

29. In addition, other factors that have served to reduce potential benefits accruing from the work of the Audit Department include: (a) the automation of critical financial management functions without adequate input from the Audit Department; (b) the non-functioning of the Public Accounts Committee, and (c) lack of training for staff, particularly on computer assisted auditing tools, auditing of computer systems, and value-for-money auditing.

30. The financial statements of Grenada present a partial view of government activities. The operations of statutory bodies are not covered, and several contingent liabilities are not presented in the financial statements. Most of the State owned-enterprises

(SOEs) are significantly in arrears in the preparation of their financial statements and the submission of these for audit and for Parliament's review. Although the Director of Audit has the right to require submission of SOE audit reports and to supplement them by further investigations if he/she considers it necessary, he/she has not done so.

31. Foreign aid accounting is also a problem. When cash is received that is tied to a project or a program, it is credited to a temporary account, and cleared to revenue only when expenditure reports are received. It appears that considerable expenditure is not cleared or is cleared after long delay, so both revenue and expenditure are understated. This pattern seems to be worse for capital projects.

32. The formulation of the budget receives inputs from the social partners, but this undoubtedly could be made more systematic. A Multipartite Consultative Committee was established in the late 1990s as a means for discussing public policy options and has met regularly. Also, the Chamber of Commerce submits budget recommendations each year. The recent agreement by OECS countries to establish National Economic Councils with public and private sector members may lead to a more systematic approach. However, the capacity of the social partners—most of which are small organizations—to go beyond their immediate concerns and address complex national policy issues remains limited.

Public Sector Investment Program

33. From 1994 to 2002, capital expenditures in Grenada were on average about 11 percent of GDP. This level of capital expenditures is one of the highest in the OECS countries. Dominica's Central Government (CG) spent about 9.0 percent of GDP in capital expenditures during FY 1995/96-2000/01, St. Kitts and Nevis Federal Government about 5.1 percent of GDP over the period 1996-2001 (a country that like Grenada was hit by two major hurricanes between 1996 and 2001), and St. Lucia 7.7 percent of GDP during FY 1995/96-2001/02.

34. During this period, on average almost half of capital expenditures were in infrastructure. The social sectors accounted for about 20 percent of total capital expenditures and agriculture and others (including public services and safety) about 28 percent. In part, expenditures on infrastructure have been driven by the damage caused by the passage of Hurricane George in 1998, Lenny in 1999 and Tropical Storm

Lili in 2002. However, the fact that (a) important infrastructure projects such as the Financial Complex, Ministerial Complex and National Stadium are not part of the capital budget due to their financing mechanism; and (b) a large fraction of the expenditures recorded under infrastructure (for example, the road maintenance program) are recurrent expenditures and not investment in fixed capital which raise questions on the actual impact on infrastructure and growth of these expenditures. Since 1997, capital expenditures have been mostly financed through loans and local revenue.

35. The public sector investment program presented in the MTESP and the capital budget presented in the Estimates Book mainly cover Central Government, but some projects of statutory agencies are also included. No project being considered to be financed under Build-Operate-Lease-Transfer (BOLT) agreements or by private corporations but guaranteed by the government is included in the PSIP. It is recommended that the government subject all CG investment projects and investment projects to be guaranteed by the government to a cost-benefit analysis before the government commits to undertake or guarantee the project. BOLT agreements covering the National Stadium and the Ministerial Complex have financed investments for a total of EC\$ 127 million. However, these projects although guaranteed by the government, were not subject to any cost benefit-analysis. Investment projects by private corporations but guaranteed by the government should be disclosed in the government's financial statement as government liabilities.

36. Grenada has a dual budget. The Budget and Debt Unit in the Ministry of Finance is responsible for recurrent expenditures, while the Project Management and Technical Cooperation Unit (PMTCU) prepares the capital budget and the medium-term PSIP. The Chief Planning Officer heads the PMTCU unit. There are two committees that oversee the capital budget and the medium-term PSIP, the Planning and Priority Consultative Committee (PPCC) and the PSIP Operating Committee (OC). The PPCC is responsible for formulating policy and selecting projects to be included in the PSIP. The OC is the working level committee that is responsible for the identification, preparation, implementation, and monitoring of projects. During the 2000 medium-term PSIP exercise for the Medium-term Economic Strategy Paper (MTESP), another committee known as the Project Facilitation Committee became operational. It was chaired by the Prime Minister and included

selected Permanent Secretaries and Technical Officers from line Ministries. Its main function was to identify policy issues and actions affecting the implementation of projects. The Project Facilitation Committee like the PPCC does not appear to be active. Thus, the lack of coordination and institutional authority in the PMTCU unit and between the Budget and Debt Unit and the PMCTU is one of the main reasons behind the lax management of capital expenditures.

37. Although the PSIP is prepared as a three-year medium-term investment program, in practice the focus is the one-year capital budget. The relatively low realization rate (about 65 percent), but higher than in St. Kitts and Nevis, provides an indication of the extent to which the capital spending intentions included in the estimates do not represent a firm investment plan. Also, several investment projects included in the PSIP and the capital budget should be classified as recurrent expenditures (about at least 25 percent of the reported capital expenditures in the year 2002).

38. The implementation of the PSIP is carried out by the line ministries and monitored by the Project Management and Technical Cooperation Unit. However, the coordination among these agencies is weak. Post-evaluation of projects is usually conducted only for projects financed by external donors.

Public Sector Compensation

39. Given the small size of its economy and population, Grenada has limited resources to carry out the whole range of functions performed by any government. As several studies have shown, small countries tend to have bigger public administrations in response to the higher cost of supplying public goods and the need to provide a stabilization role to ameliorate the effect of external shocks. However, in this regard, Grenada has managed its wage bill prudently in comparison to neighboring countries. Since 1995, the wage bill as percentage of GDP has remained stable at around 11.8 percent of GDP. But even under this prudent management of the wage bill, there is still scope for improvement, in particular in the wage policy used by the government to reward performance.

40. The Grenada government is to be commended for its commitment to public sector reform, mainly in the form of contracting out services and statutorization. Since 1997 with the statutorization of

the Post Office, Grenada has contracted out several government services. This policy has translated in a decline in CG employment from 5,264 positions in 1995 to 5,074 in 2002 or 0.5 percent per year. This decline in CG employment is the result of a reduction in the number of non-established positions, which decreased from 1,235 positions in 1995 to 402 in 2002.³

41. However, a new form of employment has arisen under object 340 (Professional and Others Services) in the budget. The economic object 340 in the Estimates has been often used in the case of IT professionals where there is a EC\$ 500-1,000 per month gap between the government pay scale and the private sector salaries. However, the government decided to keep some of the employees released through commercialization in the payroll. Because the government could not re-hire the released employees and was committed to the targeted staffing level of 5,000, their compensation was recorded in the object 340. Moreover, some of these employees were kept on the payroll under object 340 performing the same tasks as prior to commercialization. Although these expenses must be approved as part of the annual budget process, they are not subject to central control by the Department of Human Resources. Consequently, their use results in reduced controls on staffing.

42. Personal Emoluments and Wages increased (in real terms) in total by 20 percent or 2.5 percent per year during the period 1995-2002. This increase in the wage bill is wage driven rather than employment driven. There were only three negotiated increases in salaries and these increases account for a small fraction of the raise in the wages bill. However, pay scale changes and performance increments explained most of the increase in the wage bill. In 1996, following a study by KPMG done in May 1995, a new pay and performance system was implemented. The new performance appraisal adopted, and still in place, yielded increases of about 10 percent per year because most of the employees were ranked as best

³ There are two types of government positions in Grenada, established and non-established. Employees in established positions are appointed by the Governor General upon formal request by the Public Service Commission, with the approval of the Establishment Division in the Prime Minister's Office. Established positions are permanent positions listed in the budget, and their compensation is classified as Personal Emoluments. Employees to non-established positions are hired directly by line ministries, their numbers are also presented in the budget, and their wages are included as a line item.

performers. The Department of Human Resources believed that increases due to performance will max in 2004 as most employees will be in the last pay level and will only get increases if they are promoted to the next grade. Although these increases may have, to some extent, reduced the gap between public and private sector compensation, they have also implied an increase in CG compensation that does not necessarily reflect increases in productivity in the public sector.

43. This inflexibility of the public sector wage policy is a concern in the context of a currency union. In a currency union, the real appreciation of the exchange rate that fiscal deficits can generate cannot be compensated by an increase in the exchange rate, thus wages will need to adjust downwards to maintain the competitiveness of the economy. However, if the public sector wage policy is not flexible, as seems to be the case in Grenada, and public employment represents a substantial share of total employment in the economy, then the country will be double tied, as was the case in Argentina. One alternative that has been discussed in the literature is to index wages to GDP.

44. The government is strongly committed to a program of commercialization as part of an overall public sector reform. Several different arrangements have been employed during the divestiture of functions. In recent years, 800 to 1,000 positions (the majority non-established positions) have been contracted out of the CG. It represents a significant proportion of the total CG employees and has been the main mechanism that the government has used to achieve its targeted staffing level of 5,000.

45. However, a preliminary assessment of the commercialization process in Grenada conducted by the World Bank in 2003, at the request of the government, concluded on the basis of interviews with public officers, supervisors of contracted out services and consumers that: (a) the impact of commercialization on the quality of services contracted out varied; (b) no economies over the previous level of costs appear to have been realized (the failure to realize savings was likely a product of the model used for contracting out); and (c) the outsourcing or privatization of services employing established employees is impeded by the inordinately heavy burden of severance payments and an outdated and restrictive legal framework. Thus, to date outsourcing has been confined to services employing daily wage workers requiring costly but manageable severance payments. On the basis of the above

observations, it is recommended that the government collect more data to carry out a more detailed evaluation of the commercialization program to date, to further inform future initiatives in this regard.

46. Grenada presents some fragmentation and duplication of work between ministries, departments, and agencies leading to a diffusion of responsibilities. The survey of public officials, carried out by the World Bank for the OECS Institutional and Organizational Capacity Review (IOCR) in 2001, noticed a fragmentation and duplication of functions which adversely affect the public service. This suggests that missions, objectives, and functions of the different ministries need to be reviewed to determine the most effective and efficient organizational structure. Opportunities to pool resources and realize lower unit costs through greater collaboration, including at the regional level, extend to almost all areas of public sector activity, including international relations, economic and social policy, and policing. The benefits of common organizational arrangements for tax administration, customs, audit services, police services, magistracy, and environmental protection were discussed in the OECS IOCR.

47. A modern public sector reform program would need to address the issue of the existing fragmentation and duplication of work among ministries, departments, and agencies, leading to a diffusion of responsibilities. The reform would need to be informed by a human resource management strategy, and a performance appraisal system should be established with bonuses to reward good performance but not built into the pay scale. It would also need to be accompanied by the introduction and/or upgrade of information systems in order to accurately cost its implications (pension and severance payments) and monitor public employment (established and non-established positions) on a regular basis.

Health

48. Public financing and public provision of health care dominate Grenada's health system. The system has a strong primary health care orientation with a solid nursing base. The public health sector has managed to avoid investments in unsustainable medical equipment and tertiary facilities, and has introduced a policy of contracting out hospital support services and other innovations to improve efficiency. Grenada's health system has served the country well, although the model now needs some

redesign to face the challenges of the coming years—fiscal pressures exacerbated by the demands on the system from an aging population

49. Public spending on health during 1994–2002 was about 3.9 percent of GDP, on average. In the same period, average recurrent public spending on health was about 3.1 percent of GDP. The share of capital expenditures financed by loans has been rapidly rising throughout the period with the reconstruction of the General Hospital. The reconstruction was of high priority, given how deteriorated the hospital had become. Some of these capital investments have already generated efficiency improvements, such as the reduction in average length of stay.

50. The government has been successful in containing the share of health spending allocated to wages (below 60 percent, one of the lowest shares in the OECS countries). This has allowed expenditures on non-wage inputs such as pharmaceuticals. Drug stock outs—a common problem in many countries—are reported by health personnel to be infrequent. The public sector purchases most of its drugs—85 to 90 percent—through the OECS drug procurement service in order to achieve economies of scale and good prices. Grenada has a good payment record—paying its bills relatively quickly compared to other OECS countries in the procurement service. However, maintenance problems appear widespread in public health facilities. The percentage of recurrent health expenditures allocated to maintenance was 9.6 percent in 1993 and only 3.5 percent in 2002. In addition, the process in place to access these funds by the health centers seems cumbersome and slow. Ensuring adequate funding in the budget and decentralizing the control of some maintenance funds might be one-way to improve the situation.

51. As the disease patterns change over time and with the goal of achieving greater economies of scale, it may be possible to rethink the configuration of health facilities in the country, primarily by reorganizing and consolidating some of the primary health center services. The government should also be able to achieve greater economies of scale by better coordinating health services with its OECS neighbors and other countries in the region, including for specialized laboratory tests and procurement of medical supplies. An excellent example of exploiting economies of scale at the regional level that can be extended to other services is the Eastern Caribbean Drug Procurement Service.

52. Public health financing is mainly through the consolidated fund. User fees in public facilities are not a significant share of total public spending on health. The government collected about EC\$1,032,000 in user fees in public facilities in 2002 (1995 EC\$), about US\$4 per capita. That same year, user fees were the equivalent of 10 percent of the General Hospital spending, and 3 percent of total recurrent spending by the Ministry of Health. Facilities do not retain fees, so they have little incentive to put effort into collection. Fees revert to the consolidated account.

53. The government recognizes that the user fee system has problems and is reviewing it. In revising the fee schedule, several factors need to be considered. First, exemptions for individuals and for types of services are needed so that the poor are not deterred from getting service and individuals are not deterred from getting services with large externalities (such as immunizations, tuberculosis treatment). Second, fees need to be kept affordable for reasons of financial protection—for services offered in the publicly-financed health service, fees should not become a catastrophic burden even on the non-poor. Third, fees can be used to improve efficiency, for example, by charging people a fee when they go to the overcrowded emergency room for a problem that should be addressed in a health center. Fourth, it is recommended that the General Hospital be allowed to retain fees, as an incentive to collect and reinvest in the hospital. With the proper incentives, the Hospital could keep Admissions and Billing open 24 hours, with all people routed through admissions, with deposits for people on private wards, among other measures, in order to increase collections.

54. The country has debated for some time whether it should adopt a national health insurance system based on payroll taxes. For such a small country, working with the existing financing system, but finding ways to improve efficiency to ensure that the country is getting better value for money may be a better choice in the long run. Assuming that the government continued to finance general health services, the introduction of a social security tax system would have the advantage of generating additional funds for the health system and this is important given that some groups in the population are willing to pay for additional coverage due to their purchase of private insurance and of private services out-of-pocket. Furthermore, the existing National Insurance Scheme already collects revenue from payroll taxes so that mechanism is already in place. However, there are disadvantages. Payroll taxes are

a tax on labor. In addition, given that many households are outside the formal sector, a national health insurance system would not cover the full population—the government would need to cover those outside the formal sector from general revenues. There are administrative costs to the system. Collecting contributions from those who have the ability to pay, but who are outside the formal sector, would be a challenge. Workers/employers contributing to national health insurance would expect differentiated services from what they can already obtain through the existing system. If the government cut its contributions to health from the general tax base over time, it would have consequences for the poorer segments of the population dependent on government financing.

Education

55. The government is to be commended by the reform efforts in the education sector initiated in the 1990s. These reforms have produced improvements in educational outcomes, including increases in enrollment into pre-primary and secondary education. However, the Grenadian education system faces two main challenges that require strong policy actions to be overcome: (i) the cohorts entering the education system since the late 1990s are smaller, therefore without a gradual reduction in the number of schools and teachers in pre-primary and primary education, unit costs will rise; and (ii) the education system needs to improve learning outcomes of the students. The low quality of education substantially reduces the value of the invested resources. Raising the quality of education will require additional teacher training programs that need to be financed by reallocating resources within the Ministry of Education's budget.

56. The results of the Minimum Competency Test, administered to students in grade 4 and designed to determine whether students at that grade level had acquired the expected knowledge and skills, reveal the need to improve the quality of primary education. In the Caribbean wide CXC-exam, that measures learning outcomes for graduates of secondary education, Grenadian pupils scored the lowest among its OECS peers in 2001, with a pass rate of 24 in Math and 57 in English. Insufficient teacher qualifications are one of the main reasons behind these poor outcomes of the education system.

57. From pre-primary to tertiary education, the government is the main provider of education in Grenada. Although non-governmental schools exist

at all educational levels, they only play a minor role in the provision of education. The Grenadian government invested on average about 5.7 percent of GDP in education from 1996-2002. This level of expenditure is significantly higher than the ratio in the Latin American and Caribbean Region (4.1 percent of GDP), but below the average for English-speaking Caribbean countries (6.6 percent of GDP). The high investment in education provides a tremendous opportunity for skill building and economic growth. However, this has not always been accompanied by satisfactory education outcomes, equity, and efficiency.

58. The allocation of recurrent expenditures by educational level has remained fairly stable since 1996. This partially reflects a failure of the budget to foster progress in the education system. In 2002, the primary education system continued to receive the lion's share of the budget (47 percent), with secondary schools as the second largest recipient (25 percent). Thereafter followed the sub-sectors administration (10 percent), tertiary education (8.5 percent), pre-primary (6 percent) and other (3.5 percent). This report argues that policymakers could to a greater extent shift resources away from the government's lower priorities towards the top priorities in the system (secondary education). For example, the government could shift expenditures away from pre-primary and primary levels, where the pupil population is declining, towards the top priority of expansion of secondary education. Such shifts have not taken place in the recurrent budget, which indicates that better coordination between stated education policies and budget allocations and execution could improve the value of the current sizeable level of expenditure in education.

59. Administration expenditures for education in Grenada take up twice the resources compared to larger developing countries. The way forward to overcome economies-of-scale is to increase sub-regional cooperation. Grenada spends one dollar on administration out of each ten dollars spent on education. This is slightly below the average among its OECS neighbors but double that of the average Latin American region. The OECS difference is explained by the high degree of fixed costs in administration in small states, for example in the development of curricula and information systems, and elaboration of new programs and guidelines in general. As a result, innovation in provision is infrequent and ministerial staff is overloaded with little time to supervise and reform the system—all factors that contribute to an inefficient and

occasionally outdated *modus operandi* of the Education Ministries in the OECS countries. One such example is the development of a new curriculum for secondary education, where the OECS countries through the OECS Education Reform Unit have agreed to develop and implement a common curriculum. Despite the existence of a new curriculum, the OECS countries, including Grenada, have been reluctant to implement it. Enhanced cooperation could take place in many other areas of educational management, such as information system, monitoring and evaluation of programs, examination and testing at the primary level, teacher training, and development of new programs and guidelines.

60. Salaries represent about eighty percent of recurrent education expenditures in Grenada, one of the lowest shares in the OECS countries. The main reason for this lower share of salaries in recurrent expenditures is that Grenada is among the Caribbean states that employ their teacher force most efficiently. In fact, in 2001, in primary and secondary education the pupil-to-teacher ratio (PTR) reached 25 and 23, respectively. Only Jamaica and the Dominican Republic have a higher PTR in the Caribbean.

61. The most important educational barriers for low-income families are limited access to, and inconsistent quality of, the education system. The School Feeding Program is traditionally perceived as an expenditure line that benefits low-income students. However, the School Feeding Program in Grenada covers the majority of the primary school population without being adequately targeted. The 1999 poverty assessment indicates that 41 percent of children from poor households receive free meals compared to 59 percent from non-poor households. A similar pattern is observed with free textbooks. The lack of targeting for textbooks is especially worrisome given that 1 out of 5 poor children has no textbook, while this happens for only 1 in 12 among children from the richest quintile.

Social Protection

62. Grenada implements a range of social insurance and social assistance programs, which in combination attempt to address the critical risks and vulnerabilities faced by the population.

63. The most important features of Grenada's social protection structure are: (a) the large number of agencies involved and the array of programs – many of which target the same groups but with different

targeting mechanisms and criteria (the government implements, through at least ten different line ministries and statutory organizations, over twenty-five social protection programs); (b) the limited availability of time series data on social protection programs which makes their monitoring and evaluation difficult; and (c) the significant number of social protection programs funded through the capital budget. This reduces the transparency of decision making for social protection and also raises concerns about the sustainability of social protection initiatives.

64. Between 1997-2001, Grenada spent—on average—about 2.8 percent of GDP on social protection programs (including social security). This figure is below the average for Latin America and the Caribbean region, and other OECS countries. For example, during the same period, Dominica spent on average about 5.0 percent of GDP on social protection programs and St. Kitts and Nevis around 3.5 percent of GDP. The combination of relatively low allocations to social protection and large numbers of overlapping programs and administrative structures increases the cost of services provision and thinly spreads the already limited resources available for social expenditures from the government.

65. The government of Grenada does not have yet a clearly articulated social protection strategy. Priority areas for action include poverty reduction through human resource development – particularly through expanded access to early childhood and secondary education with government provision targeted to the poor. In addition, frequent ministerial shifts in portfolio responsibility for social protection programs and frequent personnel shifts – particularly at the level of Permanent Secretary – have resulted in duplication and fragmentation of programs and a loss of institutional memory. As a result of the lack of a coordinated social protection strategy and clearly identified social protection priorities, there are no mechanisms for fiscal prioritization of programs. This is reflected in the budgeting process during which budgets are essentially determined by previous budget allocations and not in response to changing needs and priorities.

66. The large number of programs, each with separate administrative systems and procedures, strain an already overburdened public sector. The lack of coordinated efforts across ministries and departments has resulted in overlaps, duplication, inefficiencies, and administrative waste. In addition, these agencies have different systems for identifying

beneficiaries. This increases administrative costs and time costs for beneficiaries. There is a need to strengthen the planning and executing capacity for these programs and to put in place mechanisms for their fiscal prioritization.

67. Several programs, including the school lunch program and the road maintenance program, are not sufficiently targeted to the poor. Reducing program leakage and introducing better targeting would considerably ease pressure on the budget. Divestment of programs to private providers (profit or nonprofit) could also result in cost savings. These savings could be used for much-needed capacity building and institutional strengthening, including development of targeting, management information systems (MIS), and survey capacity. Savings could also be used to expand program coverage with provision of benefits conditional on activities that promote human capital. The net fiscal impact of the above reforms would need to be carefully assessed.

68. Next, programs targeted to the poor are not linked to any requirements, such as school or health clinic attendance (like, for example, Bolsa Escola in Brazil and PROGRESA in Mexico) that could help to break the cycle of poverty. Also, they are not well poised to respond to income volatility resulting from significant economic downturns or natural disasters and therefore to mitigate transient spells of poverty. In addition, the National Insurance Scheme (NIS) does not cover a significant share of the population and faces long-term sustainability issues that will need to be addressed in the future.

69. Inadequate MIS systems and capacity constraints with respect to data collection, monitoring, and evaluation are common across the OECS. Regional initiatives for MIS development and monitoring and evaluation capacity building would address the human resource constraints in individual countries and would be more cost effective than developing systems on a country-by-country basis.

70. Effective planning will require updated poverty and labor market information at regular intervals. Timely and reliable information on poor and vulnerable groups is essential for the design and implementation of social safety net programs. The Caribbean Development Bank (CDB)-financed Poverty Assessment that was conducted in 1999 provided useful information; however, it is recommended that data on poverty and labor markets be collected on a regular basis.

Table E.S.1 Summary of Policy Recommendations

| Objectives | Recommended Policy Actions | Who Decides and Implements | Priority |
|---|---|---|---|
| ACHIEVE FISCAL SUSTAINABILITY | | | |
| ECCB's target of CG debt-to-GDP ratio of 60 percent. | <ul style="list-style-type: none"> Implement tax recommendations suggested by the IMF. (para. 1.26) Implement a primary surplus of 4-5 percent of GDP, on average, from 2003-2010. (para. 1.15) Broaden the new Finance (Administration) Act (FAA) to include fiscal responsibility provisions with explicit fiscal targets. (para. 3.8) Contain investment projects to only projects geared to growth and poverty reduction and maximize use of grants and concessional financing. (para. 4.11 and 4.12) | Cabinet Ministry of Finance Line Ministries | Short and Medium term Short and Medium term Medium term Short term |
| Improve debt management. | <ul style="list-style-type: none"> Consolidate the debt management function in one unit. (para. 3.26) Staff the Debt Management Unit with qualified personnel that can keep adequate records of external and domestic debt, analyze the data, and advise the government on debt management issues. (para. 3.26) | Ministry of Finance Accountant General | Short term Short term |
| Ensure soundness of the National Insurance Scheme (NIS). | Diversify the investment portfolio into regional and international assets. (para. 1.31) | NIS | Medium term |
| Improve fiscal policy over the cycle | Adopt fiscal rule based on a structural surplus (para. 2.25) | Cabinet Ministry of Finance | Medium term |
| IMPROVE BUDGET PREPARATION, EXECUTION, AND MONITORING | | | |
| Prepare a budget consistent with a fiscally sustainable policy. | Ensure that the MTESP and the Strategic Policy Paper are used as effective tools to anchor the budget by including: (para. 3.11-3.12) | Cabinet Ministry of Finance Line Ministries | Short term and Medium term |

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| Objectives | Recommended Policy Actions | Who Decides and Implements | Priority |
|---|---|---|-------------------------------|
| | <ul style="list-style-type: none"> • Estimates of aggregate resources available for public expenditure consistent with macroeconomic stability. • Bottom-up estimates of the cost of carrying out ongoing and new programs consistent with aggregate available resources. • Ensure that the major line ministries complete corporate plans and keep these updated to reflect changes in national priorities. • Ensure close coordination between the Budget and Debt Unit (recurrent budget) and the Project Management and Technical Cooperation Unit (capital budget) to anchor the capital budget and the PSIP to the country strategy and the available aggregate envelope for capital expenditure. | | |
| INCREASE FISCAL TRANSPARENCY AND ACCOUNTABILITY | | | |
| Present an accurate view of the SOE investments and finances. | Include the operations of statutory bodies, Built-on-Lease-Transfer (BOLT) agreements and other contingent liabilities in the country's financial statements. (para. 3.30) | Ministry of Finance SOEs Accountant General Audit Department | Short term |
| Monitor the Commercialization Program. | Record all expenses for the commercialized programs in the recurrent budget using adequate object codes. (para. 5.11 and 5.24) | Ministry of Finance Accountant General | Short term |
| Link government policies to social outcomes. | Disaggregate expenditures at the program level to allow monitoring of outcomes. (para. 3.14) | Ministry of Finance Line Ministries | Medium term |
| Improve the quality of audits. | <ul style="list-style-type: none"> • Complete the long-overdue annual government financial statements and present them to the Director of Audit. (para. 3.28-3.29) • Include Audit Department's recommendation in the design and | Accountant General Ministry of Finance Audit Department | Short term Medium term |

Table E.S.1 Summary of Policy Recommendations

| Objectives | Recommended Policy Actions | Who Decides and Implements | Priority |
|--|--|--|-------------------------------------|
| | <p>implementation of automation of financial management. (para. 3.28)</p> <ul style="list-style-type: none"> • Provide staff with required training in financial management. (para. 3.28) | | Medium term |
| IMPROVE EFFICIENCY IN THE PSIP | | | |
| Apply selection criteria for public investment projects. | <ul style="list-style-type: none"> • Include in the budget and the PSIP only investment projects with all required information (in particular projected recurrent costs). (para. 4.6) • Include in the budget and the PSIP only investment projects prioritized based on some type of cost-benefit analysis and in accordance with the overall resources available for capital expenditures. (para. 4.6 and 4.12) • Subject all projects with a cost above EC\$5 million to a formal cost-benefit analysis before including it in the capital budget or the PSIP (including investment projects to be guaranteed by the government). (para. 4.6 and 4.12) | Ministry of Finance Line Ministries | Short term |
| | | Ministry of Finance Line Ministries | Short and Medium term |
| Strengthen the preparation of the PSIP. | <ul style="list-style-type: none"> • Define preparation and implementation procedures for the PSIP. (para. 4.6-4.8) • Train staff in the procedures and tools of project analysis. (para. 4.6-4.8) | Ministry of Finance Line Ministries | Short-term Short and Medium term |
| REFORM THE PUBLIC SECTOR | | | |
| Strengthen Public Sector Reform. | <ul style="list-style-type: none"> • Revise the legal framework that govern the appointment of public officers, pensions, etc. to reflect the requirements of a small economy that experience frequent external shocks and wants to respond with the flexibility of a modern public service. | Ministry of Finance Line Ministries | Short and Medium term |

Table E.S.1 Summary of Policy Recommendations

| Objectives | Recommended Policy Actions | Who Decides and Implements | Priority |
|---|---|--------------------------------------|--|
| | <p>(para. 5.26)</p> <ul style="list-style-type: none"> • Introduce and/or upgrade information systems in order to accurately cost the implications (pension and severance payments) of alternative forms of divesting public sector activities and monitor its outcome. (para. 5.27) • Carryout a detailed evaluation (cost-benefit) analysis of the commercialization program to date. (para. 5.23-5.24) • Establish a proper Secretariat with full personnel to assess alternative service delivery options and follow-up implementation. (para. 5.20) • Subject commercialization contracts to competitive bidding and establish monitoring procedures to determine whether the services contracted out are being rendered in the quantity and quality specified. (para. 5.25) | | <p>Short and Medium term</p> <p>Short term</p> <p>Short term</p> <p>Short term</p> |
| <p>Enhance productivity of the civil service.</p> | <ul style="list-style-type: none"> • Implement the Commonwealth Secretariat Human Resource Strategy. (para. 5.28) • Review the performance appraisal system in place to avoid salaries increments that are too large and for almost everyone in the public sector. (para. 5.30) | <p>Department of Human Resources</p> | <p>Medium term</p> <p>Medium term</p> |
| <p>Eliminate duplication of activities in the government.</p> | <p>Implement the recommendations of the OECS Institutional and Organizational Capacity Review (IOCR). (para. 5.31)</p> | <p>Ministry of Finance</p> | <p>Medium term</p> |
| <p>IMPROVE/SUSTAIN HEALTH OUTCOMES AND IMPROVE EFFICIENCY IN THE DELIVERY OF HEALTH SERVICES</p> | | | |
| <p>Reduce mortality in communicable and noncommunicable diseases.</p> | <ul style="list-style-type: none"> • Strengthen public health and primary care in noncommunicable diseases and injuries, in order to continue to improve health | <p>Ministry of Health</p> | <p>Short and Medium term</p> |

Table E.S.1 Summary of Policy Recommendations

| Objectives | Recommended Policy Actions | Who Decides and Implements | Priority |
|--|--|---|---------------------------|
| | <p>indicators and contain costs over time. (para. 6.8)</p> <ul style="list-style-type: none"> • Step up efforts to address HIV/AIDS. (para. 6.10) | | Short and Medium term |
| Improve efficiency in health care. | <ul style="list-style-type: none"> • Rethink the configuration of health facilities by reorganizing and consolidating some of the primary health center and district hospitals. (para. 6.14) • Review the incentive structure in place that allow district medical officers to work few hours a day in public service and devote the rest of the day to private patients. (para. 6.26) • Ensure adequate funding for maintenance in the budget and decentralize control of some of the funds. (para. 6.15) • Permit the General Hospital to retain the hospital fees. (para. 6.21) | Ministry of Health | Medium term |
| Exploit and extend economies of scale in health procurement. | Organize on a regional basis services such as specialized laboratory tests and medical supplies by using the example of the Eastern Caribbean Drug Procurement Service. (para. 6.17) | Ministry of Health | Medium term |
| Increase revenue, efficiency, and equity in the user fee policies. | <ul style="list-style-type: none"> • Review the user fee policy in terms of equity and efficiency. (para. 6.21) • Increase fees to cover costs for physicians who treat their private patients in public facilities and for overseas visitors. (para. 6.21) | Ministry of Finance Ministry of Health | Medium term Short term |
| Cost saving in the management of health personnel. | Generate cost savings without affecting the quality of services by substituting some nursing positions with lower-cost nurse assistants. (para. 6.25) | Ministry of Finance Ministry of Health | Short term |
| Strengthen the regulation of private health insurance. | <ul style="list-style-type: none"> • Encourage standardization of packages to promote efficiency. (para. 6.23) | Ministry of Health | Medium term |

Table E.S.1 Summary of Policy Recommendations

| Objectives | Recommended Policy Actions | Who Decides and Implements | Priority |
|--|---|----------------------------|---|
| | <ul style="list-style-type: none"> Monitor coverage numbers and service offered as part of the oversight of the health sector. (para. 6.23) | | |
| IMPROVE/SUSTAIN EDUCATION OUTCOMES AND IMPROVE EFFICIENCY IN THE DELIVERY OF EDUCATION SERVICES | | | |
| Improve education outcomes. | <p>Increase attention to schools with low-performing students. Possible programs include (para. 7.14):</p> <ul style="list-style-type: none"> Additional training for teachers and principals. Increased resources for special classes. | Ministry of Education | <p>Medium term</p> <p>Medium term</p> |
| Improve teaching quality. | <ul style="list-style-type: none"> Hire only certified teachers for open positions in schools. (para. 7.32-7.33) Introduce a mentoring program as an element of teacher training. (para. 7.32-7.33) Establish a retraining program of existing teaching staff, in particular in secondary education. (para. 7.32-7.33) | Ministry of Education | <p>Short term</p> <p>Short term</p> <p>Medium term</p> |
| Exploit economies of scale at the primary and secondary level. | <p>Increase the pupil-teacher ratio in primary and secondary level to 30 through (para. 7.30):</p> <ul style="list-style-type: none"> Merge primary schools based on school mapping to exploit economies of scale in the education system and reduce cost, while increasing quality. Mandate a minimum floor on class size at the primary and secondary level (for example, 15). Institute a common core curriculum for the first three forms of secondary education to reduce the excessive offering of subjects of a specialized nature. | Ministry of Education | <p>Medium term</p> <p>Short term</p> <p>Medium term</p> |
| Incentives to improve efficiency | Provide incentives for each school to deliver | Ministry of Finance | Medium term |

Table E.S.1 Summary of Policy Recommendations

| Objectives | Recommended Policy Actions | Who Decides and Implements | Priority |
|---|---|--|---------------------------|
| in schools. | education more efficiently by rewarding the ones that reach the revised pupil-teacher ratio (see above) and allow them to retain part of the savings. (para. 7.21) | Ministry of Education | |
| Exploit economies of scale at the regional level. | Reduce administration costs through enhanced cooperation at the regional level with the development of exams, information systems, strategies, curricula, collective textbook purchases, and sharing of teachers. (para. 7.22) | Ministry of Education | Medium term |
| Increase Cost Recovery in Tertiary Education. | Increase fees by EC\$750. (para. 7.23) | Ministry of Finance Ministry of Education | Short term |
| Improve Equity in the Access to Education. | <ul style="list-style-type: none"> • Target better the School Feeding and Textbook Program. (para. 7.24-7.25) • Evaluate the equity and efficiency of the student loan scheme for tertiary education operated by the Grenadian Development Bank. (Box 7.1) | Ministry of Finance Ministry of Education Grenadian Development Bank | Short term Medium-Term |
| IMPROVE EFFICIENCY IN THE DELIVERY OF SOCIAL PROTECTION PROGRAMS | | | |
| Develop a well-coordinated social protection strategy for the country. | Introduce sector-wide planning, based on the work already started through the pro-poor budget analysis, so that all ministries and agencies responsible for implementing social protection programs come together to identify social protection priorities and coordinate strategies to address these priorities. (para. 8.6-8.8) | Cabinet | Medium term |

Table E.S.1 Summary of Policy Recommendations

| Objectives | Recommended Policy Actions | Who Decides and Implements | Priority |
|---|---|--|--|
| <p>Improve targeting to the poor.</p> | <ul style="list-style-type: none"> • Develop a more effective and efficient system to identify beneficiaries, including mechanisms to target households for income transfers and student education and learning funds and noncontributory pensions and communities (poverty maps). (para. 8.12) • Implement regular household surveys to assess poverty levels, incidence, and coverage of social safety net programs that could be used to assist in the development of targeting systems. (para. 8.41) • Improve labor market data to make labor market programs more responsive to the requirements of the labor market. (para. 8.41) | <p>Cabinet Statistical Office Relevant Line Ministries</p> | <p>Medium and long term</p> <p>Medium and Long term</p> <p>Long term</p> |
| <p>Develop human capital in conjunction with participation in social protection programs.</p> | <p>Identify strategies for using social protection programs to promote human capital development, including introduction of conditional cash transfers (para. 8.38)</p> | <p>Cabinet Relevant Line Ministries</p> | <p>Medium term</p> |

1. FISCAL DEFICIT, PUBLIC DEBT, AND FISCAL SUSTAINABILITY

1.1 Grenada comprises three small islands (750 square kilometers) in the Eastern Caribbean, Grenada, Carriacou, and Petit Martinique, with a population of about 100,000 inhabitants and a per capita GNI of US\$3,290 in 2002 (World Bank Atlas methodology, current US\$). A former British colony, it became a member of the British Commonwealth in 1974. Until the early 1990s, banana cultivation and exports was the main economic activity of the country. During the 1990s, this activity declined sharply and virtually ceased in 1997 as a result of low productivity, poor fruit quality, and erosion of the preferential access to the European Union (EU). The country remains heavily dependent on tourism and spices. In recent years, however, it has been able to successfully diversifying into light manufacturing, telephone and internet based marketing.

1.2 Grenada, as a member of the Eastern Caribbean Currency Union (ECCU), shares a common central bank, the Eastern Caribbean Central Bank (ECCB), and a common currency, with the other five independent members of the Organization of Eastern Caribbean States (OECS) and three dependent territories (Anguilla, Montserrat, and the British Virgin Islands).⁴ Their currency is the Eastern Caribbean (EC) dollar, which has been pegged to the U.S. dollar since 1976 at EC\$2.70 per US\$1. The commitment to a fixed exchange rate and a prudent monetary policy under the ECCU umbrella has been a key element in maintaining an inflation rate close to international levels.

1.3 Notwithstanding a common central bank and a common currency, Grenada, like the other ECCU member countries, conducts fiscal policy independently. While limited progress has been made on a common fiscal policy in the region, the deterioration of the ECCU fiscal position in recent years, notably in Antigua and Barbuda, Dominica, and St. Kitts and Nevis, has reinitiated discussion among its members on the need to better coordinate fiscal policies.⁵

1.4 Grenada's fiscal position has weakened substantially since 2001. After a primary fiscal deficit (after grants) of about 8 percent of GDP in 1990, the Grenada Central Government (CG) followed a cautious fiscal policy from 1991-2000. But since 2001 the CG fiscal position deteriorated sharply with the CG running a primary deficit of 5.8 percent of GDP in 2001 and 14.7 percent of GDP in 2002. Thus, the CG debt-to-GDP ratio increased from 49 percent in 2000 to 84 percent in 2002. The projected primary surplus in 2003 is 1.0 percent.

1.5 In light of the preceding discussion, the main objective of this chapter is twofold: first, to evaluate the fiscal sustainability of the Grenada Central Government (CG) and second, to propose various options for the adjustment required to achieve fiscal sustainability. The main findings and recommendations can be summarized as follows:

- On the basis of a continuation of the government 2003 fiscal policy (with a projected primary surplus of 1 percent of GDP), the CG debt-to-GDP ratio is expected to remain at high levels (83-90 percent of GDP in 2010), depending on the assumptions of real interest and growth rates.

⁴ The OECS consists of six independent members: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, in addition to three dependent territories of the United Kingdom, Montserrat (full member), Anguilla, and the British Virgin Islands (associate members).

⁵ The communiqué of the Special Meeting of the OECS Authority, Castries, St. Lucia, September 28, 2001, alludes to the need to examine in the medium term public sector reform aimed at increasing efficiency, and fiscal reform including matters related to revenue, expenditure, financing, and debt management, as well as common approaches to taxation and incentives to be applied to encourage cruise shipping.

- An average primary surplus of about 4-5 percent of GDP during the period 2003-2010 will allow the CG to achieve a debt-to-GDP ratio of 60 percent in 2010 (the targeted level by the government in the 2004 Budget presentation and by the ECCB's Monetary Council).
- The fiscal adjustment implicit in a primary surplus of 4-5 percent is feasible. The adoption of the tax policy recommendations suggested by the International Monetary Fund (IMF) would yield a small increase in revenue collection, because of the excessive reliance of the country on international taxes and the expected negative impact of the FTAA on Grenada's tax revenues, but alone would not be sufficient to reach the recommended primary surplus. It is therefore recommended that expenditure be cut (in particular capital expenditures) and the public sector reform initiated by the government in 1997 be pursued.

A. GRENADA FISCAL PERFORMANCE, 1990-2002

1.6 **At the Central Government level, the fiscal position of Grenada has weakened substantially since 2001.** As Figure 1.1 shows, after a primary fiscal deficit (after grants) of about 8 percent of GDP in 1990, the Grenada CG followed a cautious fiscal policy from 1991-2000. During this period, the CG contained the primary fiscal deficit to 0.9 percent of GDP in 1991 and ran a primary surplus of 2-3 percent of GDP between 1992-95. In 1996 and 1997, the CG primary balance was nil. However, since 1998 the CG fiscal position started to deteriorate. From 1998-2000, the primary deficit was manageable at 1-1.5 percent of GDP. But since 2001 the CG fiscal position deteriorated sharply, with the CG running a primary deficit of 5.8 percent of GDP in 2001 and 14.7 percent of GDP in 2002. This last figure should be used with caution because 2002 was an unusual year as the government made a one-time payment (EC\$ 127 million) for the transfer of the National Stadium and the Ministerial Complex properties to the government by buying out the lease arrangements.

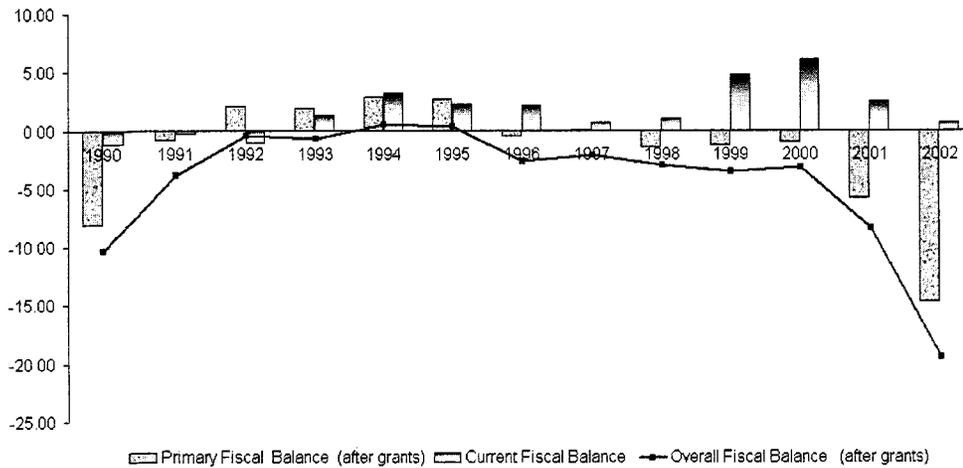
1.7 **The main cause of the deterioration of CG finances since 2001 has been an increase in noninterest expenditures, predominantly capital expenditures.** As Figure 1.2 shows, noninterest expenditures were about 35 percent of GDP in 1990 and during 1991-2000 were contained to about 29 percent of GDP. However, since 2001 they increased steadily and reached 43 percent of GDP in 2002. At the core of the observed increase in CG expenditures is a surge in capital expenditures, some of them contracted in the early 1990s but only now recorded as expenditures (for example the Ministerial Complex and the National Stadium) as well as the completion of the first stage of the reconstruction of the General Hospital. Although GDP contracted by 3.8 percent in 2001 and 1.1 percent in 2002 as a result of the September 11 effect on tourism, the 2001 global economic slowdown and Tropical Storm Lili in September 2002, current revenue as percentage of GDP kept constant at its pre-2001 level of about 27 percent of GDP.⁶

1.8 **No reliable information exists of the overall fiscal performance of the rest of the Non-Financial Public Sector.**⁷ Grenada began a privatization program in the mid-1980s and by 1993 had privatized 19 of 27 state-owned enterprises (SOEs). At present, there are seven remaining SOEs. These are supposed to pay dividends to the government but only the Post Office and Port Authority do so. The estimated revenues from these two entities are included in the budget but in practice only a fraction of the estimated revenues are collected.

⁶ In January 2003, the IMF approved US\$ 4 million in emergency assistance for Grenada in support of the government's efforts to deal with the aftermath of tropical storm Lili.

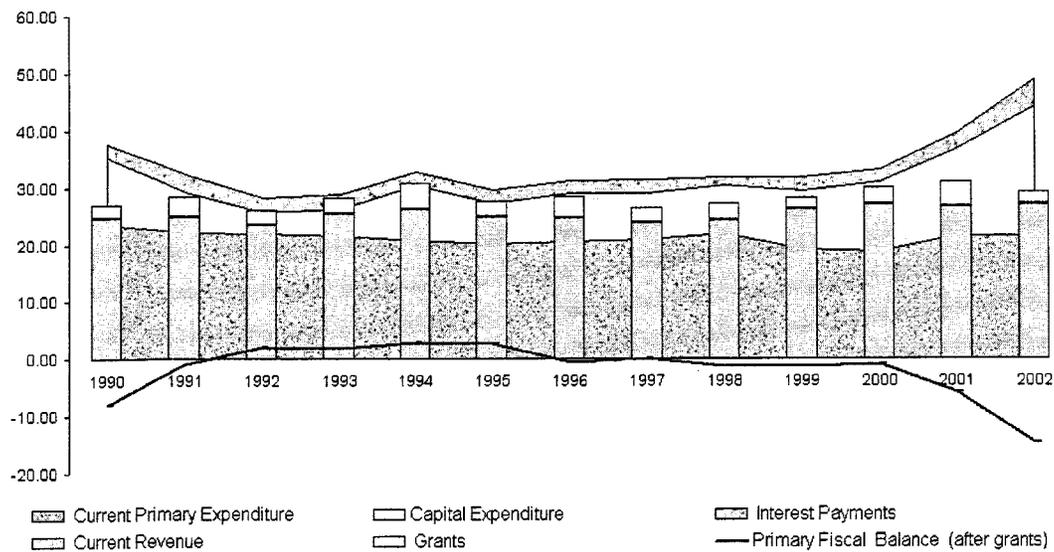
⁷ Grenada's public enterprises and their date of creation are: Grenada Ports Authority (1978), Grenada Airports Authority (1985), National Water and Sewerage Authority (1969), Housing Authority of Grenada, Grenada Marketing and National Importing Board (1973), Board of Tourism and the Post Office (1997).

Figure 1.1. Grenada Central Government Fiscal Performance, 1990-2002
(as percentage of GDP)



Source: ECCB and IMF data

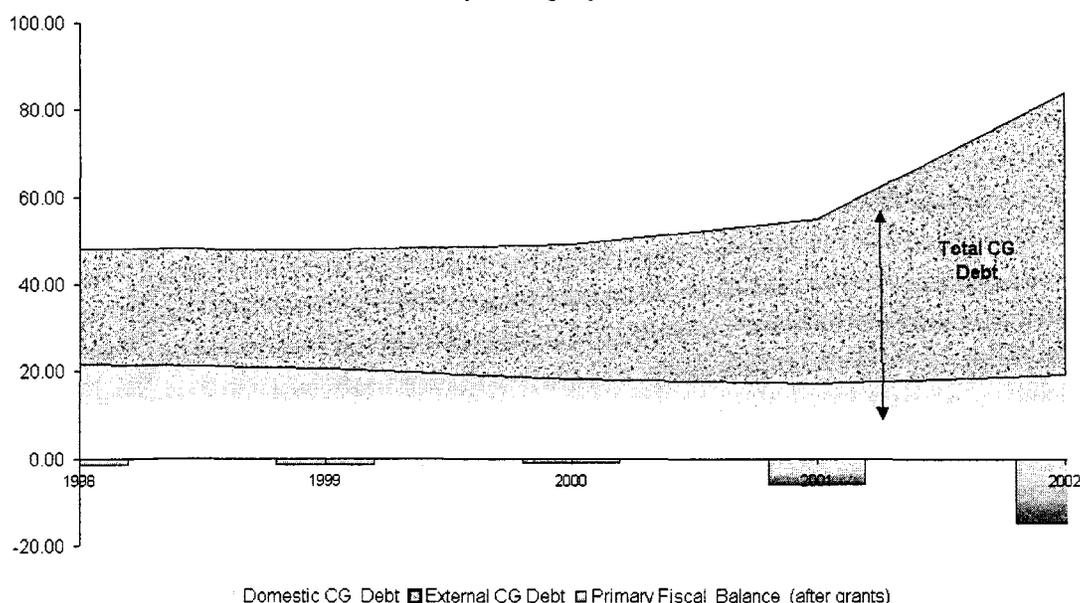
Figure 1.2. Grenada Central Government Primary Expenditure, Interest Payments, and Revenue 1990-2002
(as percentage of GDP)



Source: ECCB and IMF data

1.9 Due to the weakening of the CG fiscal position, the government turned to borrowing to finance its fiscal deficit. From 1998 to 2002, the ratio of CG debt-to-GDP increased from 48.0 percent of GDP to 84.0 percent, an increase of 75 percent or 19 percent per year (see Figure 1.3).⁸ As a result, interest expenditures increased from 1.6 percent of GDP in 1998 to 4.8 percent of GDP in 2002. As will be illustrated in the next section, to maintain fiscal solvency and to achieve the debt-to-GDP ratio targeted by the government in 2004 Budget presentation and by the ECCB's Monetary Council, the CG will need to generate a sizeable primary surplus to pay the interest on the debt. In June 2002, Grenada issued a US\$ 100 million (about 25 percent of GDP) 10-year international bond with a yield of 9.5 percent. The receipts of the bond issue have been used to retire more expensive debt, including the lease-purchase arrangements discussed above, to clear arrears, and to finance high priority investment projects.

Figure 1.3. Grenada CG Debt, Debt Guaranteed and Primary Surplus 1998-2002
(as percentage of GDP)



Source: ECCB and IMF data

1.10 Moreover, the additional borrowing of the CG has been contracted mainly with external creditors, at commercial terms. This pattern is the opposite of St. Kitts and Nevis, and similar to the one of Dominica. As Figure 1.3 shows, in 1998 about 56 percent of the total CG debt was external in comparison to about 70 percent in 2002. In addition, the GC government guaranteed debt in an amount of 29.6 percent of GDP in 2002.

B. DOES GRENADA FACE A FISCAL SUSTAINABILITY PROBLEM?

1.11 The figures on primary deficit and debt presented above raise serious concerns about the fiscal solvency of the government since 2001. We address these concerns using an intertemporal approach to fiscal solvency. This approach, broadly speaking, defines a fiscal policy as sustainable if the present value of all future primary surpluses is enough to repay the current outstanding debt. It is

⁸ Unfortunately, consistent CG debt data is only available since 1998.

important to stress that this type of debt sustainability analysis does not address the optimal level of indebtedness, its composition, and political economy considerations.⁹

Central Government

1.12 The fiscal policy implemented by the CG during 2001-2002 was unsustainable, but in 2003 the fiscal policy of the CG stabilized the debt-to-GDP ratio at about 85 percent of GDP. As Table 1.1 shows, the one-year fiscal effort (increase in revenues and/or cut in expenditures) required to achieve a stable debt-to-GDP between 1998 and 2000 was feasible at between 1.5 to 2.4 percent of GDP depending on the assumptions of real interest and growth rates. However, in 2001 the fiscal effort required to achieve the previous year debt-to-GDP ratio increased to 6-7 percent of GDP depending on the assumptions of real interest and growth rates and reached 15-16 percent of GDP in 2002.

1.13 The previous conclusion is also supported by Grenada's credit ratings. One indicator commonly used as a proxy for fiscal sustainability is the country credit ratings. Drudi and Prati (1999) present a signaling model in which the primary surplus and outstanding debt are complementary inputs in the determination of the credit of a country. An improvement in the primary surplus or a reduction in the debt-to-GDP ratio is expected to raise the country rating. One of these credit ratings is the Institutional Investor rating published twice a year since 1979. Banks are asked to grade each of the countries on a scale of 0 to 100, with 100 representing those with the least chance of default. As Figure 1.4 shows, Grenada's country rating, as of September of each year, increased steadily until 2002 (with a 38 rating) and declined in 2003 as the weak fiscal performance of Grenada in the previous year was made public. In a sub-regional context, Grenada's country rating is worse than Barbados, Trinidad and Tobago, and the Dominican Republic, but better than Jamaica.

1.14 Faced with high debt and debt service obligations, in 2003 the government decided to stabilize its debt-to-GDP ratio at a level of about 83-84 percent of GDP and targeted the years 2007-2010 to achieve a CG debt-to-GDP ratio of 60 percent. However as Table 1.1 shows, based on reasonable assumptions for the real interest and growth rates, a fiscal policy similar to the one set in 2003 (a primary surplus of 1 percent of GDP) would not achieve this objective. Indeed, the debt-to-GDP ratio would increase steadily to a level of about 90 percent of GDP by 2010, under the assumption of a real interest rate of 4 percent and a growth rate of 2 percent. An increase of 1-percentage points in growth would stabilize the debt- to-GDP ratio only at 83 percent by 2010, but still above the targeted 60 percent. That is, the key driver of the CG debt-to-GDP ratio in the next years is interest rates.

⁹ This methodology includes seignorage as a source of revenue; however, the apportioning of seignorage to national economies has not been discussed in the ECCU, and it is not taken into account in the fiscal sustainability exercise at the country level. However, any fiscal sustainability exercise at the ECCU level should incorporate seignorage as revenue.

Table 1.1 Short-term Fiscal Effort Required to Achieve Fiscal Sustainability 1998-2010

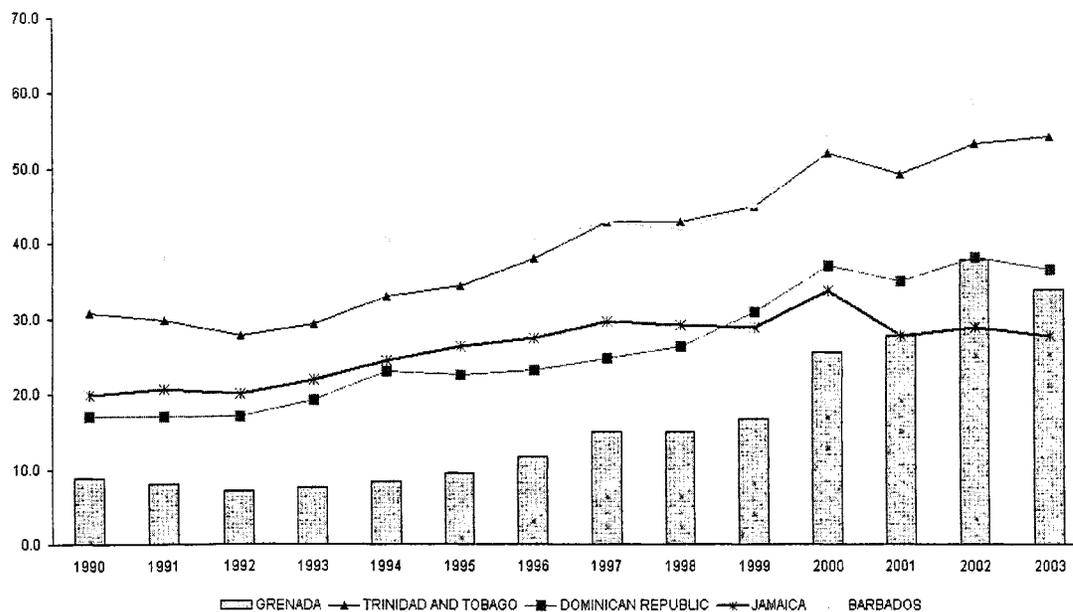
| | Actual | | | | | Projected | | | | | | | |
|---------------------------------|--------|-------|-------|-------|-------|---|-------|-------|-------|-------|-------|-------|-------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Public Sector Debt | 48.05 | 47.78 | 49.15 | 54.85 | 83.92 | 84.60 | 85.29 | 85.99 | 86.71 | 87.45 | 88.20 | 88.96 | 89.74 |
| Primary Surplus | -1.41 | -1.27 | -1.00 | -5.81 | -14.7 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Total Revenue and Grants | 28.82 | 28.12 | 29.93 | 30.89 | 29.41 | 29.00 | 29.00 | 29.00 | 29.00 | 29.00 | 29.00 | 29.00 | 29.00 |
| Primary Expenditure | 30.23 | 29.39 | 30.93 | 35.56 | 43.29 | 28.00 | 28.00 | 28.00 | 28.00 | 28.00 | 28.00 | 28.00 | 28.00 |
| Short-term Fiscal Effort | 2.37 | 2.22 | 1.98 | 6.91 | 16.37 | Scenario A Real interest rate =4 percent, Growth rate = 2 percent | | | | | | | |
| Short-term Fiscal Effort | 1.89 | 1.74 | 1.49 | 6.36 | 15.54 | Scenario B Real interest rate =4 percent, Growth rate = 3 percent | | | | | | | |

Source: World Bank calculations

Note: It is assumed for the period 2003-2010, a level of primary expenditure of 28 percent of GDP consistent with the average primary expenditure observed before the 2002 buy-out of the lease for the Ministerial Complex and the National Stadium. With respect to tax and grants, a level of 29 percent of GDP is assumed consistent with the IMF projections.

Scenarios A and B assume a nominal interest rate of 6 percent (the average interest rate paid by the CG) and an inflation rate of 2 percent. Scenario A assumes a long-term GDP growth rate of 2 percent (see Table 2.1, period 2000-02). Scenario B assumes a long-term growth rate of 3 percent, the average for the period 1990-99 in Table 2.1.

Figure 1.4 Institutional Investor Country Credit Rating for Selected Caribbean Countries 1990-2003
(100 lowest chance of default)



Source: Institutional Investor, September of each year

1.15 To achieve a CG debt-to-GDP ratio of 60 percent by 2010, the government would need on average to run a primary surplus of about 4-5 percent of GDP during the period 2003-2010. As Table 1.2 shows, for a real interest rate of 4 percent and a growth rate of 2 percent, an average primary surplus of 5 percent from 2003-2010 would achieve the objective of a CG debt-to-GDP ratio of 60 percent. An increase of 1-percentage points in the growth rate would reduce the primary surplus required to stabilize the debt-to-GDP ratio at 60 percent to 4 percent. Both figures of primary surpluses are feasible and would require a fiscal adjustment (cut in expenditures and increase in revenue) of 3-4 percent of GDP.

Table 1.2 Debt-to-GDP ratio path under alternative Scenarios 2003-2010
(as percentage of GDP)

| | Scenario A | Scenario B |
|------|--|--|
| | Real interest rate=4 percent Growth rate= 2 percent Primary Surplus = 5.0 % of GDP | Real interest rate=4 percent Growth rate= 3 percent Primary Surplus = 4.0 % of GDP |
| 2003 | 85.60 | 83.41 |
| 2004 | 82.31 | 80.24 |
| 2005 | 78.95 | 77.05 |
| 2006 | 75.53 | 73.82 |
| 2007 | 72.04 | 70.56 |
| 2008 | 68.48 | 67.26 |
| 2009 | 64.85 | 63.93 |
| 2010 | 61.15 | 60.57 |

Source: World Bank calculations

Fiscal Rules in the ECCU

1.16 **The ECCB's Monetary Council that took place in February 2003 reconfirmed the agreed fiscal framework that includes ceilings on debt and fiscal performance of the CG.** The aim of the ECCB in setting these fiscal rules is to ensure long-run fiscal sustainability and the credibility of the currency union by limiting negative spillovers. However, as discussed in paragraph 1.3, the ECCB has no mandate over fiscal policy in any member country, and the fiscal rules are not binding at this moment for the member states. Box 1.1 presents the convergence criteria in the ECCU and the Western Africa Economic and Monetary Union (WAEMU). Like the ECCU, the WAEMU comprises developing countries with a currency pegged to only one single currency, the Euro.

Box 1.1. The Convergence Criteria in the ECCU and WAEMU

Eastern Caribbean Currency Union (ECCU)

The ECCB has put forward a proposal that comprises the following four targets to be achieved by 2007:

- A Central Government current account surplus of 4 to 6 percent of GDP
- An overall government budget deficit of no more than 3 percent of GDP
- A total outstanding Central Government debt of no more than 60 percent of GDP
- Debt service payments by the Central Government of no more than 15 percent of current revenue.

Western African Economic and Monetary Union (WAEMU)*

The regional Convergence, Stability, Growth, and Solidarity Pact adopted in December 1999 by the WAEMU, has four primary convergence criteria and four secondary criteria. The norms established by these criteria have to be met by 2002. The primary criteria are:

- The ratio of the basic fiscal balance (defined as non-grant revenue minus expenditure excluding foreign-financed investment) to GDP must be zero or positive
- The ratio of outstanding domestic and foreign debt to nominal GDP must not exceed 70 percent
- The average annual inflation cannot be more than 3 percent a year
- No accumulation of domestic and external payment arrears in the current financial period.

The secondary criteria are:

- The ratio of the wage bill to tax revenue cannot exceed 35 percent
- The ratio of domestically financed public investment to tax revenue must be at least 20 percent
- The ratio of current external deficit, excluding grants to nominal GDP, cannot exceed 5 percent
- The tax-to-GDP ratio must be 17 percent or more.

However, because of the limited progress achieved by the member countries in meeting the convergence criteria at end-December 2002, the WAEMU Commission proposed to the Heads of State to extend the timetable to end-December 2005.

* The eight members of the WAEMU are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

1.17 **In 2002, Grenada did not meet any of the four debt and fiscal performance ceilings proposed by the ECCB's Monetary Council. However, in previous years the government met some of the fiscal targets.** Every year with the exception of 1999 and 2000, the CG has run a current fiscal surplus above the target of 4 to 6 percent of GDP. The target for overall deficit (after grants) has been reached in 7 of the last 13 fiscal years. If we do not take grants into account, the CG has met the target of overall deficit only in 1 of the last 13 years. The target debt service to current revenue and debt-to-GDP ratio has been met every year since 1990 with the exception of 2002.

1.18 **At the time of the reconfirmation of the fiscal framework agreement, the ECCB's Monetary Council regarded 2007 as a critical date for fiscal consolidation.** As we discussed in para. 1.15, Grenada can achieve in 2010 the fiscal consolidation aimed by the ECCB's Monetary Council, but this will imply running an average primary surplus of about 4-percent of GDP between 2003-2010.

1.19 **The successful achievement of debt and fiscal ceilings needs the simultaneous introduction by the ECCB member states of a system of incentives and penalties to encourage compliance and a mechanism for monitoring and surveillance of the fiscal performance.** The ECCB has not yet specified any system or mechanisms to ensure compliance with the proposed fiscal ceilings. Moreover, the WAEMU example suggests that surveillance of the fiscal ceilings and close monitoring against annual targets during the convergence phase are key to achieving fiscal convergence.

1.20 **Moreover, the ECCB-proposed fiscal ceilings cover only the CG; public enterprises and government-guaranteed debt have been excluded.** However, the public sector position can be critical and should be included in any proposal of deficit and debt ceilings. Also, the inclusion of the public sector in the fiscal framework would ensure that the government would produce accurate and timely information on the financial position of public enterprises and their debts.

1.21 **The deficit and debt ceilings do not take into account the cyclical nature of the fiscal indicators in the OECS countries, which as small states are subject to frequent external shocks.** In that regard, it is recommended that the ECCU move from debt and fiscal performance ceilings to a countercyclical fiscal policy based on a simple fiscal rule for the structural balance. This report envisages a fiscal policy sequencing in which first, fiscal consolidation is achieved and then a structural surplus is implemented (see Chapter 2 for more details).

C. FISCAL CONSOLIDATION IN GRENADA'S PUBLIC SECTOR

1.22 **In the previous section, we showed that the CG primary surplus needs to be increased in future years to ensure fiscal sustainability. We propose that the fiscal adjustment rely primarily on expenditure cuts, in particular capital expenditures and the realization of the fiscal savings expected from the public sector reform initiated by the government in 1997.** Tax increases are seen as only a small fraction of the adjustment. As discussed below, this type of adjustment is based on the observed pattern of government expenditures and the expectation that a tax reform will yield only a limited increase in tax collection given the expected negative impact of the FTAA on Grenada's tax revenues.

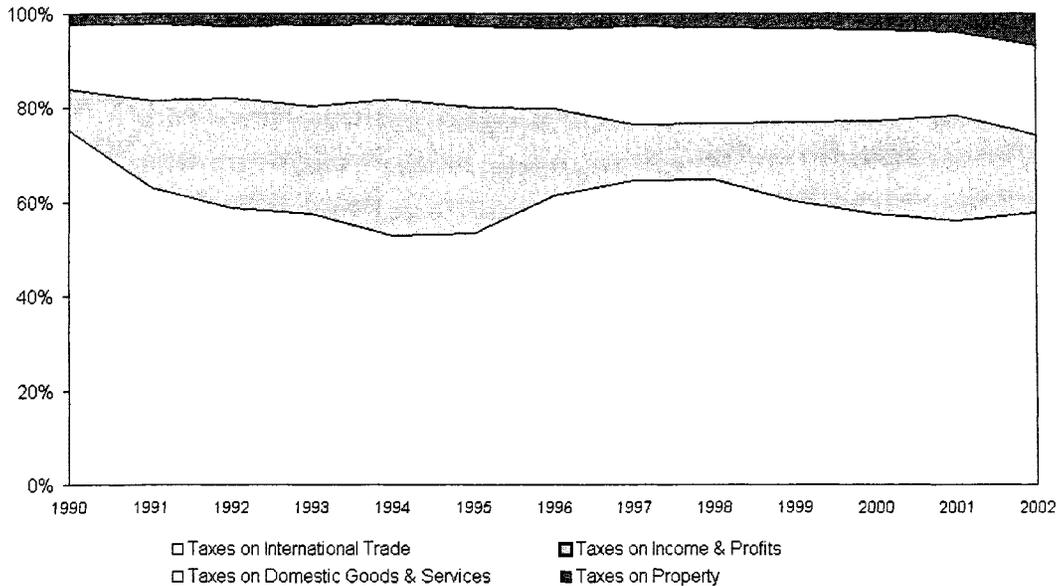
Tax Revenues

1.23 **The main characteristics of Grenada's tax structure can be summarized as follows (see Figure 1.5):**

- Current revenue (tax and non-tax revenue) has been stable at about 25 percent of GDP between 1990 and 2002 with a minimum of 23.5 percent of GDP in 1992 and a maximum of 27.0 percent of GDP in 2000.
- Taxes on international trade have declined as source of the tax revenue intake. In 1999, 75 percent of tax revenue was collected from international trade taxes compared to 58 percent in 2002. The trade taxes collected are the common external tariff (CET) under the CARICOM agreement, the general consumption tax (GCT) and a custom service charge (CSC). The current tariff rate is 25 percent and was to go down to 20 percent in 2000, but an extension of the 25 percent rate has been granted until

2005. The GCT on imports varies between 0-75 percent and a 5 percent CSC is applied. An environmental surcharge is also applied to a range of goods.

Figure 1.5 Grenada Central Government Current Revenue Composition, 1990-2002
(as percentage of total tax revenue)



Source: ECCB and IMF.

- Taxes on income and profits represented on average about 19 percent of tax revenue during 1990-2002. However, during this period it fluctuated significantly between 9 and 22 percent of GDP. This is the result of several decisions with respect to exemptions, income threshold, etc., taken during this period. There is a personal income tax on wages and salaries at a single rate of 30 percent. However, the income threshold at which persons become liable to income tax is EC\$ 60,000, so high that most of the population has dropped out of the tax rolls. Moreover, a decision was made to exempt all civil servants and members of the parliament from income taxation. Corporate tax is levied at a reasonable rate of 30 percent; the exceptional aspect of the corporate tax is the substantial number of exemptions granted to particular firms.
- Taxes on domestic goods and services represented on average about 18 percent of tax revenue during 1990-2002. They fluctuated from a minimum of 14 percent in 1990 to a maximum of 21 percent in 1997. This category includes the GCT, that is a remnant of the failed 1986 VAT much modified and eroded, and a number of excises and licenses on specific goods and services; the largest ones are the tax on hotels and services, the gasoline levy, and the stamp duty. The gasoline levy, contrary to other taxes on domestic goods and services, is the residual of the retail price (fixed by the government) minus the cost, insurance, and freight (c.i.f.) price of the imported product and the fixed margins for importers and retailers.
- Property taxes, on rental income from houses and on land have increased steadily during 1990-2002. In 1990 they only accounted for 2.2 percent of tax revenue, but in 2002 they accounted for 7 percent.

1.24 **A key feature of the present tax system in Grenada and other OECS countries is the pervasive use of tax concessions.**¹⁰ Bain (1995) estimated that in 1991 revenues foregone from tax concessions on imports (including import duty, consumption tax and others duties collected on imports) were about 53.9 percent of potential revenue, on the assumption of zero elasticity of imports with respect to tariffs and consumption tax. Moreover, tax concessions commit the government to sacrifice revenue for years ahead. Indeed data for 1999 show that tax concessions already given will expire in the year 2013. This estimate of revenue foregone does not include revenues foregone from income tax holidays, which cannot be easily done, as OECS countries do not systematically require the filing of income statements by companies enjoying tax holidays.

1.25 **The main stated purpose of tax concessions in Grenada, as in other OECS countries, is to attract foreign investment. However, the empirical evidence suggests that taxes are not among the main determinants of foreign investment.** Foreign investors place more value on a stable economic environment with transparent rules than on tax incentives.¹¹ The most suitable approach to address the concerns of tax competition among OECS countries is to support, more forcefully, a program of fiscal policy convergence that includes tax harmonization among member states.

1.26 **A complete discussion of a short and medium-term tax policy strategy is beyond the scope of this report. The IMF Fiscal Affairs Department has produced two reports on the subject. Unfortunately, no estimates of the revenue implications of its tax recommendations were attempted;** however, given the expected negative impact of FTAA on the OECS' countries tax revenues, it is likely that tax reform measures will only result in a small net increase in revenue collection and alone would not be sufficient to reach the recommended primary surplus (Tait, Terkper and Dieterich 2000; Stotsky, Dos Santos, Dieterich, Palomba, and Bristow 2003). The main recommendations of these reports can be summarized as follows:

- *Taxes on goods and services.* In the short-term, move toward equalizing the general consumption tax rate and apply this rate equally to domestic and imported goods and services. Implement a modern system of excises, applied equally to domestic and imported goods. Deregulate the retail price of gasoline and levy a specific excise on petroleum. Phase in this tax to avoid any significant jump in retail prices. Phase out general consumption tax and import duty exemptions currently granted. In the medium term, implement a value-added tax (VAT) to replace the consumption tax, and the hotel occupancy tax, and a number of minor levies (the petroleum tax on a specific basis and the others on an ad valorem basis).
- *Income Taxes.* Reduce the threshold for personal income tax to less than half of its current value of EC\$ 60,000 per year and apply tax to the income in this bracket at 15 percent rate. Apply a final withholding tax at the lower bracket rate to all interest payments to individuals. Require corporations to aggregate interest income with other forms of income and apply the standard corporate income tax rate. Restructure income tax to enable the elimination of tax holidays by increasing the generosity of depreciation allowances and extending them to commercial structures. Implement transfer price regulations.

¹⁰ An elaborate system of import duty exemptions provides for very generous concessions for taxes on imports for the development of industry, tourism, agriculture, social, educational, cultural, and other purposes. The main exemptions are provided under the Customs Act, the Fiscal Incentive Act, and the Hotel Aid Act. Also, some investors benefit from income tax holidays.

¹¹ See Zee, Stotsky, and Ley (2002) and the references therein.

- *Property Tax.* Property assessment needs to be comprehensively revalued and then updated on a regular basis, using information from recent sales as a guide to market value. Over time, the rate should be increased to a level of about 1 percent.
- *Tax concessions.* Award tax concessions only in accordance with a strict interpretation of the Hotel Aid Act and Fiscal Incentive Act. Repeal other acts authorizing tax incentives and cease granting them on an ad hoc basis through cabinet or ministerial decisions. Do not renew income tax holidays and do not grant new ones. With the replacement of existing direct taxes with moderate taxes, such as the VAT and excises, do not extend concessions under the old tax system to the new tax system (VAT).

Central Government Expenditures

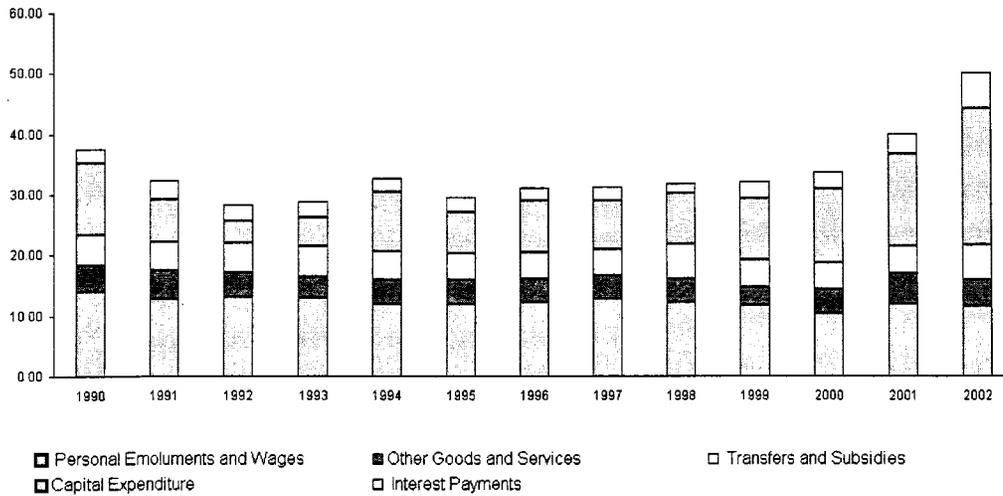
1.27 CG expenditures during 1990-2000 were on average about 31.6 percent of GDP, but have increased steadily since 2001 reaching a peak of 48.9 percent of GDP in 2002 (Figures 1.6 and 1.7). As Figure 1.6 shows, the largest part of the increase was in capital expenditures and interest expenditures associated with the increase in borrowing. These increases have led to the need for a fiscal adjustment focused mainly on a reduction in capital expenditures and the realization of the fiscal savings expected from the public sector reform initiated by the government in 1997.

1.28 During 1990-2002, personal emoluments and wage expenditures fluctuated between 10.4 and 13.9 percent of GDP. The wage bill increased in real terms during this period at a reasonable 1.8 percent per year. At the core of the increases observed in the wage bill in real terms (in constant 1995 EC dollars) is an increase in wages due to the performance appraisal system in place. Under this performance system the increments are too large and almost everyone (95 per cent of civil servants) qualifies for them. Chapter 5 examines the impact of the public sector reform initiated by the government in 1997 and presents recommendations to realize some fiscal savings expected by the government from this reform.

1.29 Capital expenditures were, on average, about 8.3 percent of GDP during 1990-2000, but increased to 15.2 percent of GDP in 2001 and reached its peak of 22.5 percent of GDP in 2002. In constant EC dollars of 1995, capital expenditures increased from EC\$ 81.0 million in 1990 to EC\$ 145.0 million in 2002. The main reasons for this increase were a) large investment projects (off-budget) contracted in the early 1990s (for example, the Ministerial Complex and the National Stadium), but only recorded as capital expenditures in 2002 when the government bought out the lease agreements and both properties were transferred to the government for EC\$ 127 million; and b) the reconstruction of the General Hospital. To deal with these problems, in chapter 4 a tighter control of the PSIP is recommended as a crucial element in containing and improving the efficiency of capital expenditures and helping the government to achieve its goal of fiscal sustainability. Expenditures on goods and services during 1990-2002 were stable at around 4.8 percent of GDP.

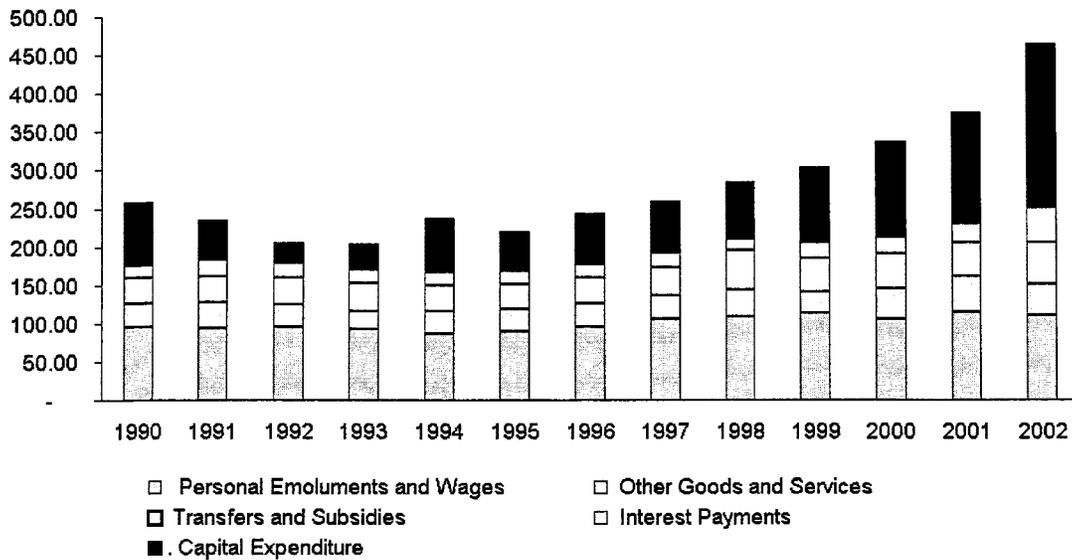
1.30 Finally, interest payments as a percentage of GDP increased 2.5 times during 1990-2002 and almost tripled in constant EC dollars. In 1990, interest payments were 2.3 percent of GDP and increased to 4.8 percent of GDP in 2002. This increase reflects two factors: (a) the higher indebtedness of the Grenadian government, and (b) the increased reliance of the government on borrowing at higher costs during this period.

Figure 1.6 Grenada Central Government Expenditure Composition, 1990-2002
(as percentage of GDP)



Source: ECCB and IMF

Figure 1.7. Grenada Central Government Expenditure Composition, 1990-2002
(in millions EC\$1995)



Source: ECCB and IMF

Social Security Scheme

1.31 **The National Security Scheme (NIS) is currently financially sound, but it is crucial that the government maintain regular contribution payments, that its portfolio is diversified into regional and international assets, and that its current concentration in public sector assets be reduced.** The National Insurance is funded by a mandatory 9 percent payroll tax (4 percent employer contribution and 5 percent employee contribution) levied on wages of all employed and self-employed persons, including public employees. Approximately 15 percent of the elderly receive pensions. ILO actuarial analysis indicates that the number of people contributing at least once in 1999 was approximately 26,800 or 73 percent of the employed population. Coverage of self-employed persons is not mandatory and only a small percentage of the self-employed participate. Also of concern are seasonal, domestic and informal sector workers for whom contributions are not made. The 1999 Actuarial Review found that the National Insurance Scheme was adequately funded. Although immediate measures are not needed to extend the life of the NIS reserves, long-term sustainability will require increases in contribution rates and/or reform of benefits, payment of government arrears to the system and strengthening of investment policies to ensure risk diversification.¹² Moreover, as with many social security funds worldwide, there is a need to ensure that the long-term investment strategy is sufficiently diversified into regional and international assets and away from heavy concentration on public sector assets.

¹² Following a recent reduction in government arrears financed through the US\$100 million bond issue (see para. 1.9), no detailed figures are available on their current level.

2. FISCAL POLICY AND BUSINESS CYCLES

2.1 The Latin America and the Caribbean (LAC) Region, like other developing regions, faces a high degree of volatility in real output. In the last 40 years, the standard deviation of the growth rate of real GDP in the LAC region has been twice as high as in industrial economies. Moreover, smaller economies such as Grenada tend to experience, on average, higher volatility than larger economies.¹³

2.2 The importance of economic volatility in long-term growth and its effect on the poor segments of the population are at the center of the need to identify policies and institutions that can ameliorate their impact. Volatility tends to discourage long-term investments in physical and human capital and thus leads to a lower growth potential. In addition, the poor segments of the population are generally the most affected because they lack the means to protect themselves from adverse employment and income effects.

2.3 Governments have a broad set of instruments available that they can use to reduce aggregate volatility and its effects. One of these instruments is fiscal policy. In industrial economies, fiscal policy is usually designed to stimulate output when the economy moves into recession and to contract output when an expansion takes place. A fiscal policy designed in this way leads to a strongly procyclical budget surplus (countercyclical fiscal policy).

2.4 In industrial economies, a countercyclical fiscal policy is usually accomplished in two ways: first, by having components in the budget that respond automatically to the business cycle, such as tax revenues (which respond positively) or unemployment benefits (which respond negatively), and second, by using discretionary components in the budget to provide a stimulus during bad times.

2.5 This chapter first describes the cyclical features of government finances in Grenada by applying the Hodrick-Prescott methodology, an algorithm that decomposes a time series into cycle and trend. Second, it suggests the implementation of a countercyclical fiscal policy based on a fiscal rule that uses the structural (cyclically adjusted) balance as the indicator of fiscal policy. The application of this simple fiscal rule can allow the government to accumulate resources in good times and run them down in bad times.

2.6 The main findings and recommendations can be summarized as follows:

- The weakening of Grenada's fiscal position in the last years obeys to a long-term growth rate in expenditures (mainly capital expenditures) above revenues and not cyclical factors.
- Grenada's fiscal policy is acyclical. That is, the primary, overall, and current fiscal balance does not co-move with the GDP cycle. In good times the government does not run a higher or lower fiscal surplus than its trend. This finding is contrary to the empirical evidence for developing countries (procyclical fiscal policy), but consistent with the limited evidence for small states in the Caribbean.
- In order to enforce fiscal discipline and move the country to a countercyclical fiscal policy, it is recommended that a fiscal rule based on a structural surplus of about 2 to 4 percent of GDP be adopted. This rule implies a fiscal adjustment of 9-11 percent of GDP.
- This report envisages a fiscal policy sequencing in which first, fiscal consolidation is achieved by 2010 (as discussed in chapter 1) and then a structural surplus rule is implemented. This sequence will

¹³ See De Ferranti and others (2000); Crucini (1997); and Head (1995).

allow the country to build credibility and simultaneously use this transition period to ensure that transparency in the fiscal accounts and that debt reporting complies with international guidelines.

A. TRENDS AND CYCLES IN GRENADA'S FISCAL ACCOUNTS, 1983–2002

2.7 **Is the business cycle the main cause of the weakening of Grenada's fiscal position?** This section attempts to answer the question by examining the cyclical fluctuations in GDP and government fiscal accounts from 1983 to 2002 using yearly data.¹⁴ The methodology used to disentangle trend and cycle is the Hodrick-Prescott (HP) filter.¹⁵ The empirical evidence confirms that the main cause of the weakening of Grenada's fiscal position in the last few years is a long-term growth rate in expenditures, mainly capital expenditures, above revenues and not cyclical factors.¹⁶

The Business Cycle in Grenada

2.8 **In the 1990s Grenada's long-term GDP growth rate slowed down to 3.4 percent per year from 7.5 percent in the previous decade.** As Table 2.1 shows, Grenada's GDP trend grew by 4.6 percent per year from 1983 to 2002. This long-term growth rate is the result of two distinct periods. From 1983 to 1989, GDP trend grew by 7.5 percent per year, while from 1990 to 1999 GDP trend grew at only 3.4 percent. In the first three years of the 2000s, GDP trend grew only at 2.7 percent. This reduction observed in the long-term growth rate since the 1990s is a fundamental change in the economic environment that the government should take into consideration in future preparation of the budget and its fiscal sustainability discussions.

2.9 **The Grenada GDP cyclical component shows no clear link to hurricanes, but several expansions and contractions are worth noting.** As Figure 2.1 shows, between 1982 and 2002, Grenada was hit by six hurricanes and one Tropical Storm. In four out of seven hurricane and tropical storm years, the Grenada GDP decreased below its trend, and in the other three years increased above its trend. The greatest expansion took place in 2000, with an increase in GDP of almost 6 percent above its trend. The deepest contraction took place in 2002, the year of Tropical Storm Lili, with Grenada's GDP contracting by 3.5 percent in comparison to its trend. From 1989-1992, the Grenada economy grew, on average, by 1.5 percent above its trend. However, from 1993 until 1998 GDP decreased, on average, by almost 1.6 percent in comparison to its trend, and did not recover until 1999.¹⁷ From 1999-2000, the Grenada economy grew, on average, by about 4.2 percent above the GDP trend, with the highest expansion in 2000, 6.0 percent. The contraction in 2001 and 2002 mainly reflects the effect of September 11 on tourism, the global economic slowdown, and Tropical Storm Lili.

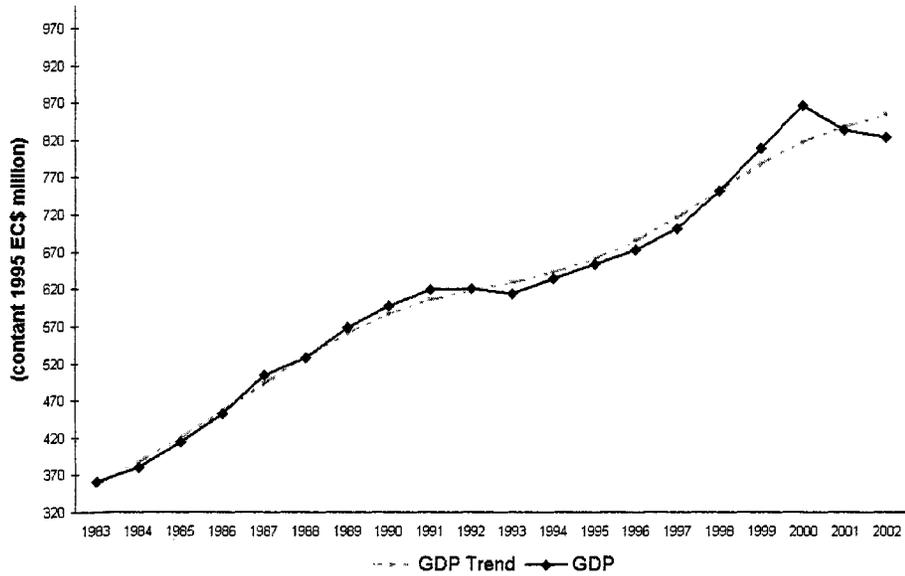
¹⁴ The choice of the sample period was largely driven by the availability of data. The ECCB provided us with disaggregated government fiscal accounts and real GDP only since 1983.

¹⁵ In layman's terms, the HP filter can be thought of as removing a smooth trend (like one would draw freehand) from the data. A complete discussion of this method can be found in Appendix A.

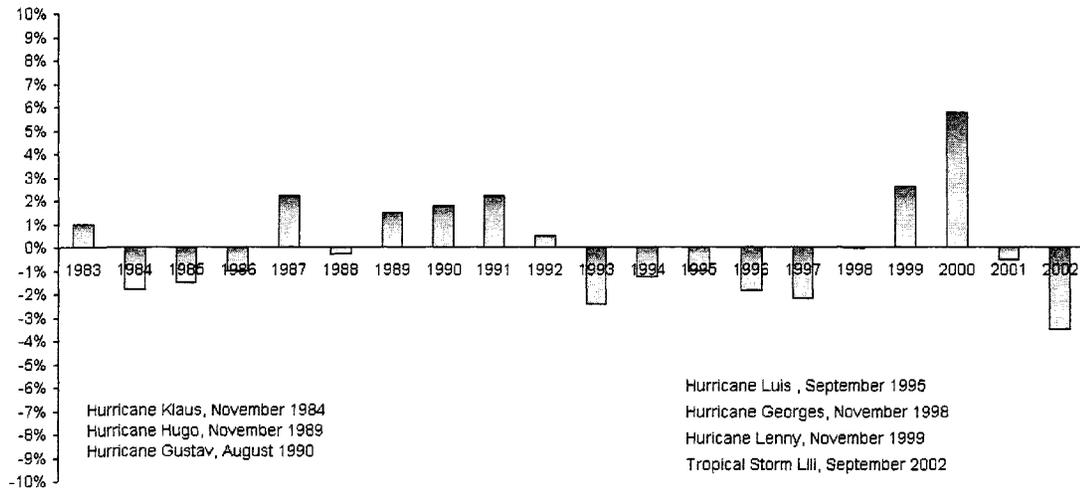
¹⁶ In this report, the long-term growth rate of a variable is defined as the first differences in the trend of the variable.

¹⁷ During the period 1992-94, the Government implemented a self-imposed Structural Adjustment Program aimed at achieving macroeconomic stability and placing the economy on a path of sustained economic growth.

Figure 2.1 Grenada GDP, GDP Trend and Cyclical Component 1983-2002
(a) GDP and GDP Trend
(in millions EC\$ 95)



(b) GDP Deviations from Trend
(as percentage)



Source: Author's calculations based on ECCB and IMF data

2.10 GDP volatility in Grenada is similar to volatility in St. Kitts and Nevis. However, Grenada's GDP volatility was higher in the 1990s than in the 1980s. Volatility in Grenada, measured by the standard deviation of the cyclical component of GDP, was about 2.2 percent during 1983–2002. Volatility in Kitts and Nevis during 1980–2002 was 2.1 percent.¹⁸ However Grenada's volatility during 1983–89 was 1.6 percent, and increased to 1.9 percent during 1990–1999. This is a pattern opposite to the one observed in the majority of the Latin American and Caribbean countries in which GDP volatility decreased in the 1990s. For example, St. Kitts and Nevis volatility decreased from 2.7 percent in the 1980s to 1.5 percent in the 1990s.¹⁹ From the available data, the source of the increased volatility in Grenada during the 1990s is not clear, and it is recommended that a more in depth analysis be conducted in this issue.

Trend and Cyclical Component of the Fiscal Accounts in Grenada

2.11 The main reason behind Grenada's ability to maintain a weak, but sustainable fiscal position during the 1980s and 1990s was a long-term growth rate in revenues higher than expenditures. As Table 2.1 shows, during 1983–2002, current revenue trend increased by 4.5 percent per year, while the current and capital expenditures trend grew on average at 3.4 percent and 3.2 percent per year, respectively. Moreover, the data show two distinct periods. From 1983 to 1989, the long-term average annual growth rate in current revenue (5.3 percent) was slightly below that of current expenditure (5.6 percent), but during 1990–1999 the pattern was reversed. From 1990 to 1999, the long-term growth rate in current revenue (4.3 percent) was significantly higher than current expenditure (2.1 percent). However, in the first three years of this decade, the difference between the long-term average annual growth rate in current revenue (3.8 percent) and current expenditure (3.2 percent) and capital expenditure (22.9 percent) has decreased. This is the main reason behind the weakening of Grenada's fiscal position in the last few years. (See chapter 1).

2.12 On the expenditure side, during the period 1983–2002, personal emoluments and wages and expenditure on goods and services drove the long-term growth rate of total expenditure. As Table 2.1 shows, during 1983–2002 the trend of personal emoluments and wages grew by 3.6 percent per year and expenditure on goods and services by 4.0 percent per year, with personal emoluments and wages representing about 36 percent of total expenditures and expenditure on good and services about 12 percent. The third determinant of the growth rate of total expenditure was interest payments, which grew at a rate of 6.3 percent per year and represented about 7 percent of total expenditures. Capital expenditures that accounted for 31 percent of total expenditures grew at a long-term rate of only 3.2 percent per year. However, for the sub-period 1990–1999 and 2000–02, the conclusions are different. Capital expenditures drove the long-term growth rate of total expenditure. The trend of capital expenditures grew by 5.9 per year and 22.9 percent, respectively, above all expenditures categories.

2.13 On the revenue side, during 1983–2002 the main determinants of the long-term growth rate of current revenue were taxes on international transactions and property. As Table 2.1 shows, during 1983–2002 the trend of taxes on international transactions grew by 7.7 percent per year and taxes on property by 12.6 with taxes on international trade and property representing about 52 percent and 3 percent of current revenue, respectively. Moreover, although taxes on income and profits and domestic goods and services represented about 16 percent and 19 percent of total current revenue respectively, the long-term growth rate was only 2.1 and 0.8 percent per year. In the sub-period 1990–99, taxes on income

¹⁸ See "OECS Fiscal Issues: St. Kitts and Nevis", The World Bank, 2003.

¹⁹ This reduction in volatility in the 1990s has been observed in Latin America and the Caribbean by Loayza, Fajnzylber, and Calderón (2002) for output per capita, and by the "Caribbean Economic Overview 2002: Macroeconomic Volatility, Household Vulnerability, and Institutional and Policy Responses" for Gross National Disposable Income.

and profits replaced taxes on international transactions as the main determinant of the long-term growth rate of current revenue. This is not a surprising result, because the tariff reduction under the 1993 agreement on the introduction of a CET reduced import duty revenues

Table 2.1 Long-Term GDP, Government Revenue, and Expenditure Growth Rates 1983-2002
(as percentage)

| | Average Growth Rate | | | |
|--|---------------------|---------|---------|---------|
| | 1983-2002 | 1983-89 | 1990-99 | 2000-02 |
| Current Revenue | 4.5 | 5.3 | 4.3 | 3.8 |
| Tax revenue | 4.7 | 5.9 | 4.2 | 3.9 |
| Tax on income and profits | 2.1 | -11.7 | 8.6 | 8.3 |
| Tax on property | 12.6 | 17.3 | 7.2 | 20.8 |
| Tax on domestic goods and | 0.8 | -6.6 | 4.6 | 2.9 |
| Tax on international transactions | 7.7 | 18.3 | 3.0 | 1.9 |
| Non-tax revenue | 3.5 | 0.8 | 5.4 | 2.8 |
| Grants | -5.6 | -21.9 | 2.8 | -1.1 |
| Current Expenditure | 3.4 | 5.6 | 2.1 | 3.2 |
| Expenditure on personal emoluments and wages | 3.6 | 7.9 | 1.7 | 1.1 |
| Expenditure on other goods and | 4.0 | 6.6 | 1.4 | 7.2 |
| Expenditure on transfers and subsidies | 2.6 | -0.6 | 3.9 | 4.8 |
| Interest Payments | 6.3 | 7.8 | 1.4 | 19.6 |
| Capital Expenditure | 3.2 | -11.1 | 5.9 | 22.9 |
| GDP | 4.6 | 7.5 | 3.4 | 2.7 |

Source: Author's calculations based on ECCB and IMF data.

Note: Statistics are based on Hodrick-Precott trend data. Growth rates are first differences in the trend of the variable.

2.14 Grants present a negative trend during the period 1983–2002, but a positive one in the sub-period 1990-99. Grants have decreased at a long-term rate of about 5.6 percent per year, while in the sub-period 1990-99 grants increased at 2.8 percent per year.

2.15 All components of the fiscal accounts are more volatile than GDP. The highest volatility belongs to grants, tax on income and profits and capital expenditure. As Table 2.2 shows, grants volatility is 16 times higher than GDP volatility, and tax on income and profits and capital expenditure 11-12 times higher. Current revenue volatility is lower than current expenditure volatility—4.7 percent compared to 5.7 percent.

2.16 Current expenditure and all its components, and capital expenditure and interest payments, are acyclical. In other words, in good times the government does not increase its expenditures, and in bad times does not cut them. The correlation between the cyclical component of expenditure and GDP fluctuates from -0.38 to 0.15, but is not significant at 10 percent. This is an interesting result, similar to the one observed in OECD countries, but not in developing countries. However, Talvi and Végh (2000) show the same result for the case of the Dominican Republic and the World Bank for St. Kitts and Nevis in the report “OECS Fiscal Issues: St. Kitts and Nevis”.

Table 2.2 Cyclical Properties of GDP, Central Government Revenue, and Expenditure, 1983–2002

| | Standard Deviation (%) | Correlation with GDP |
|--|------------------------|----------------------|
| Current Revenue | 4.7 | 0.59** |
| Tax revenue | 5.1 | 0.51* |
| Tax on income and profits | 27.0 | 0.12 |
| Tax on property | 18.0 | 0.00 |
| Tax on domestic goods and services | 13.5 | 0.02 |
| Tax on international transactions | 7.4 | 0.48* |
| Non-tax revenue | 11.5 | 0.34 |
| Grants | 35.7 | -0.06 |
| Current Expenditure | 5.7 | 0.25 |
| Expenditure on personal emoluments and wages | 6.2 | 0.08 |
| Expenditure on other goods and services | 11.2 | -0.38 |
| Expenditure on transfers and subsidies | 10.9 | 0.15 |
| Interest Payments | 15.2 | -0.09 |
| Capital Expenditure | 23.5 | -0.04 |
| Primary Deficit (after grants) | 19.6 | -0.13 |
| Overall Deficit (after grants) | 22.1 | -0.19 |
| Current Deficit | 14.5 | -0.36 |
| GDP | 2.2 | 1.00 |

Source: Author's calculations based on ECCB and IMF data.

Note: Statistics are based on Hodrick-Precott filtered data.

** Significant at 1 percent level.

* Significant at 5 percent level

2.17 **Current and tax revenue were procyclical during 1980–2002, due to the procyclicality of taxes on international transactions. All other tax components are acyclical.** The correlation between current revenue and tax revenue with GDP is 0.59 and 0.51 respectively, and significant at the 1 and 5 percent level. Taxes on international transactions are procyclical, with a correlation of 0.48 significant at the 5 percent level. The procyclical nature of current and tax revenue is not surprising, because most taxes are in some way proportional to economic activity. However, it is surprising that taxes on income and profits are not procyclical.

2.18 **Finally, all measures of fiscal balance, such as primary, overall, and current balance, are acyclical.** That is, the primary, overall, and current fiscal balance does not co-move with the GDP cycle. In good times the government does not run a higher or lower fiscal balance than its trend. The correlation between primary surplus and overall surplus with GDP cyclical component is -0.13 and -0.19, respectively, but not significant at 10 percent. This is an interesting result and in contradiction with the empirical evidence for developing countries. However, most of this empirical evidence does not include small islands like Grenada, in which government expenditures are acyclical.

B. THE STRUCTURAL BUDGET SURPLUS AND THE USE OF FISCAL RULES IN GRENADA

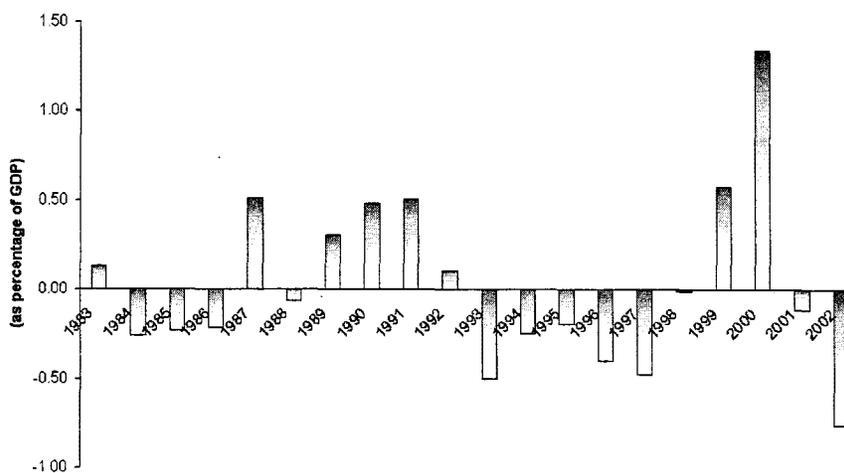
2.19 This section will examine the role of cyclical factors in the fiscal performance of Grenada. In order to factor out cyclical effects, a structural budget surplus indicator is defined. The methodology used here is the same as the one used by the European Community. It uses the HP filter-based trend in GDP to measure potential output. For the case of Grenada's economy, only one tax revenue category (international transaction taxes) showed a statistically significant correlation with cyclical GDP.²⁰ No government expenditure category showed a statistically significant correlation with cyclical GDP. A complete discussion of the methodology is presented in Appendix B.

Structural Budget Estimates for Grenada, 1983–2002

2.20 The cyclical adjustment of the government budget balances in Grenada varies from -0.8 percent of GDP in 2002 (recession year) to 1.3 percent of GDP in 2000 (expansion year).

International transaction taxes account for all the cyclical adjustment. (See Figure 2.2). As we discussed in paragraph 2.17, this is due to the high correlation between the cyclical component of taxes in international transactions and GDP (0.48) and the importance of taxes in international transactions in total revenue (52 percent). Grenada's cyclical adjustment compared to other countries in the region is in the low range. The cyclical adjustment in St Kitts and Nevis is between -1.8 and 1.9 percent of GDP and in Chile is between -4.0 and 2.5 percent of GDP.

Figure 2.2 Fiscal Cyclical Adjustment in Grenada 1983-2002
(as percentage of GDP)



Source: Author's calculations based on ECCB and IMF data

2.21 Once the cyclical effects are factored out, the country fiscal structural balances follows very closely the observed fiscal balances. For example, as Figure 2.3 shows, the government ran an overall fiscal deficit after grants of 19.5 percent of GDP in 2002, but factoring out the cyclical impact of lower tax collection, the cyclically adjusted overall deficit was 18.7 percent of GDP. The latter concept is the so-called structural fiscal balance. The same pattern is observed for the cyclically adjusted primary and current fiscal balance. The main message is that cyclical factors are not the main determinant of the fiscal deterioration experienced by the country in the last few years.

²⁰ The elasticity for international transaction taxes was 1.6.

2.22 **It is recommended that Grenada adopt a fiscal rule based the structural budget measures detailed above.** Any fiscal rule has two objectives: (a) to enforce fiscal responsibility, and (b) to make certain that the government runs a countercyclical fiscal policy. In this regard, Grenada is on the right path with an acyclical fiscal policy. However, in order to move the country to a countercyclical fiscal policy we propose a fiscal rule based on a structural surplus.

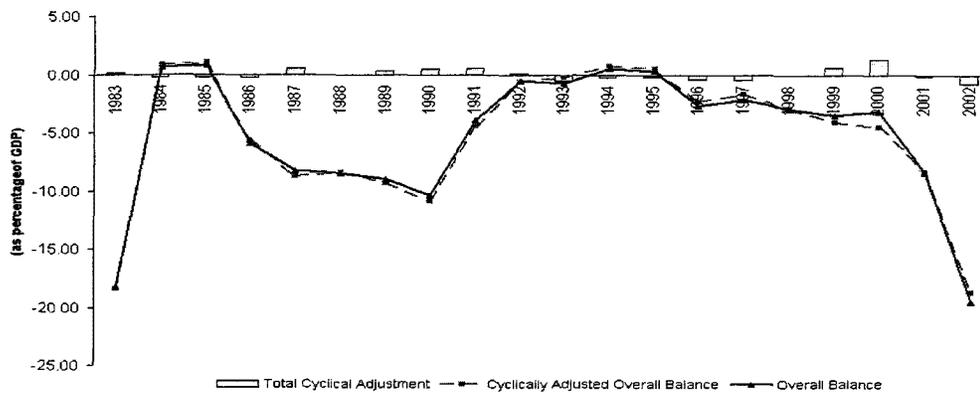
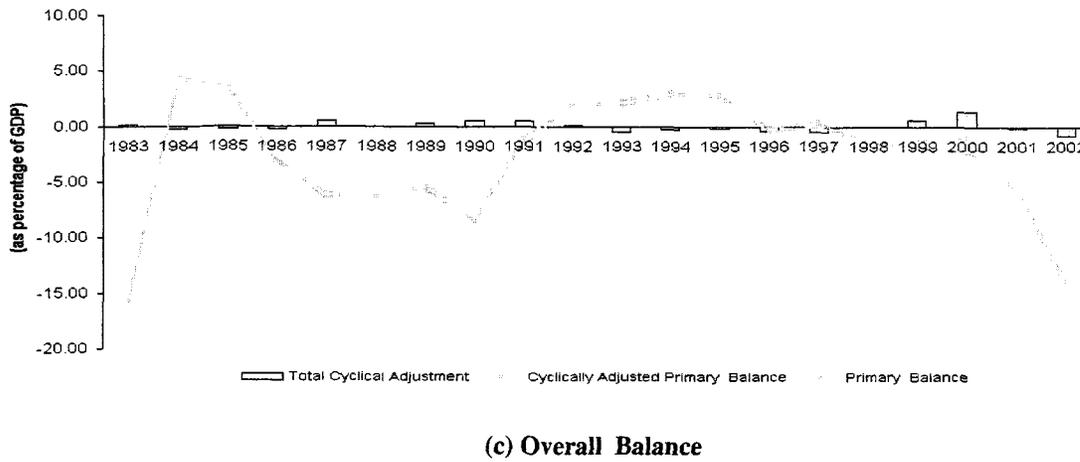
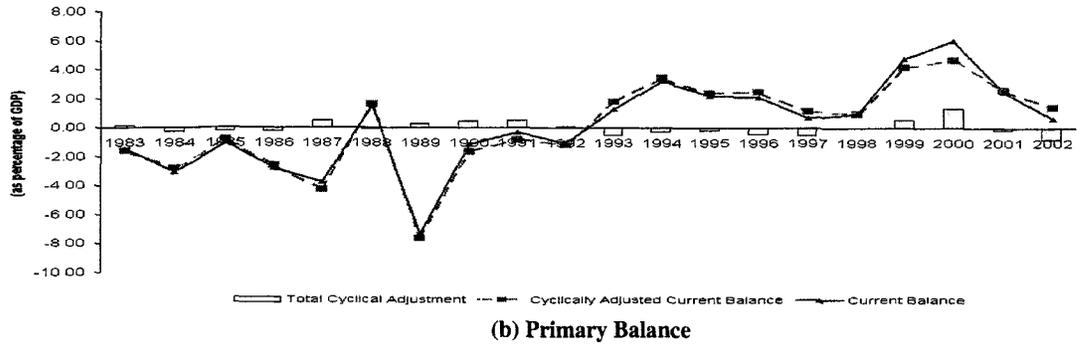
2.23 **We propose a structural surplus of about 2 to 4 percent of GDP for Grenada. This rule is more austere than the Chilean fiscal rule of an overall surplus of 1 percent.** However, considerations of high GDP volatility in small states and credibility may require that small states such as Grenada adopt tighter fiscal rules. This fiscal rule implies a fiscal adjustment of about 9-11 percent of GDP in the medium-term.²¹ Box 2.1 presents in detail the fiscal rule in place in Chile since 2000.

2.24 **However, successful implementation of a fiscal rule based on a structural surplus would require, as a first step, timely and reliable fiscal information.** As we discuss at length in Chapters 3-5, the current presentation of the fiscal information does not follow international practices and do not present a complete picture of the country's fiscal situation. These data shortcomings would need to be addressed to support the adoption of a fiscal rule based on a structural surplus.

2.25 **Therefore, the sequencing of the fiscal adjustment proposed in chapter 1 and the proposed fiscal rule need to be considered.** This report envisages a sequencing strategy in which the government, first, achieve fiscal consolidation along the lines suggested in chapter 1 by running, on average, a primary surplus of about 4-5 percent of GDP between 2003-2010. During this period, the government will build credibility with its prudent stance on fiscal policy and simultaneously use this transition period to ensure that transparency in the fiscal accounts and debt reporting complies with international guidelines (a precondition for successful implementation of the fiscal rule). The structural surplus rule could be implemented after fiscal consolidation and transparency in fiscal accounts and debt reporting are achieved. The introduction of the structural surplus rule will reaffirm and intensify the government commitment to fiscal responsibility and reorient fiscal policy to an effective performance of its countercyclical role and strengthening fiscal discipline.

²¹ In 2002, one time payments of about 12 percent of GDP were made for the National Stadium and the Ministerial Complex. Thus, subtracting from the overall cyclically adjusted fiscal balance (18.7 percent of GDP) these expenditures, then the fiscal adjustment required to comply with the fiscal rule is about 9-11 percent of GDP.

Figure 2.3 Cyclical Adjusted Primary, Overall, and Current Balance in Grenada 1983–2002
(as % GDP)
(a) Current Balance



Source: Author's calculations based on ECCB and IMF data

Box 2.1: Chile's Fiscal Rule

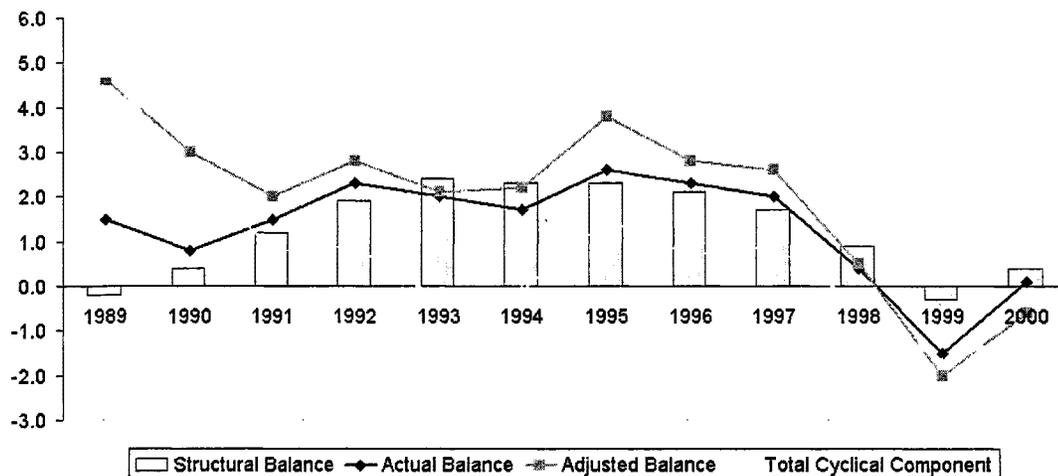
In 2000, the Chilean government introduced a fiscal rule based on a structural surplus of 1 percent of GDP. The objective of this fiscal rule is twofold: (a) to strengthen Chile's commitment to fiscal responsibility, and (b) to develop fiscal policy indicators that will serve as a tool to formulate medium-term fiscal policy rules, avoiding the procyclical bias in public finances.

The fiscal rule is a self-imposed measure enforced by the government to guide fiscal policy during 2001–05. The computation of the structural balance follows the IMF methodology and reflects the amount revenues and fiscal spending would reach if the GDP were at its potential level and the price of copper were at the medium-term price. Consequently, it excludes the cyclical effects of economic activity and the price of copper. The institutional coverage used in the structural balance is the Central Government. The figure below summarizes the results of the application of this method during 1989–2000.

The estimate of the structural balance consists of three steps:

- Adjustment of the actual balance according to the concept of net worth variation of the Central Government (adjusted balance).

Chile: Structural and Overall Balance 1989-2000 (as % GDP)



- Estimation of the cyclical impact of each budget component. This includes the impact of the economic cycle on tax revenues and the impact of cyclical fluctuations of the price of copper on fiscal revenues from copper. The cyclical component of spending has not been taken into consideration because there is no significant relation between public spending and GDP in the Chilean economy. The cyclical component of tax revenues is obtained by adjusting observed tax revenues using an estimated output elasticity of 1.05. The cyclical adjustment to the copper price is based on the gap between actual export price and the estimated reference price.

- Estimation of the structural balance. This is obtained at by subtracting cyclical components (tax revenues and income from copper) from the adjusted balance.

Source: Marcel and others (2001).

3. BUDGET MANAGEMENT

3.1 Budget procedures, which lead to the formulation, approval and implementation of the budget and its impact on fiscal outcomes, have received considerable attention in the recent literature. Several empirical studies have provided evidence that budget institutions have an impact on fiscal outcomes in developed and developing countries. Von Hagen (1992) and Von Hagen and Harden (1995) found that European countries with strong institutional rules governing the budget process have lower expenditure, deficit, and debt ratios. Eichengreen (1992), Alt and Lowry (1994), and Poterba (1994), among others, have studied the effect of fiscal restraints on fiscal outcomes for the U.S. states finding that more restrictive state fiscal institutions are correlated with more rapid fiscal adjustment. Alesina, Hausman, Hommes and Stein (1996) and Stein, Talvi and Grisanti (1999) have extended this line of research to Latin American countries. They found evidence that countries with centralized, transparent budget processes and strict formal or informal constraints have lower deficits and debt levels. Jones, Sanguinetti and Tomassi (1999) obtained similar results analyzing public expenditures in the Argentinean provinces. Lao-Araya (1997) corroborates this finding for Thailand, Gleich (2003) for transition economies, and Campos and Pradhan (1996) for several developing countries in Asia and Africa.

3.2 Consequently, a good public expenditure management system provides a government with the incentive and means to promote fiscal discipline and efficiency and a transparent use of funds in service delivery. Starting in 1997, Grenada instituted a set of budget reforms that have served well to improve aggregate fiscal outcomes, however, there are still considerable shortcomings that need to be addressed by the government.

3.3 This chapter focuses on the rules governing the decision-making process that leads to the formulation of the budget, its passage through the legislature, its implementation, execution, and monitoring and recommends changes in the budgetary processes and framework that can help to achieve fiscal discipline, better allocation across ministries and programs and a more transparent budgeting process. The main findings and recommendations can be summarized as follows:

On Legislation

- The draft of the Public Finance Management Bill (PFM) and Audit Bill that together will replace the 1990 Finance (Administration) Act (FAA) and its 1998 Amendment need to contain more stringent provisions governing the use of advances and deposit accounts. In addition, this new FAA presents an excellent opportunity for the government to extend it into a fiscal responsibility law by introducing explicit fiscal targets to be met.
- Also, the updated Financial Rules and Stores Rules that will be issued following the enactment of the PFM need to address the following concerns: a) the incorporation of computerized systems and b) donor financed activities, including offshore receipts and expenditures such as direct payments by donor agencies to suppliers, plus the treatment of donors' deposit accounts outside the Accountant General's control.

On Budget Preparation, Execution, and Monitoring

- Extend the budget cycle to 24 months as has been done in other OECS countries.

- Strengthen the Medium-Term Economic Strategy Paper (MTESP) and the Strategic Policy Paper as a tool to anchor the budget by making certain that the following elements are thoroughly addressed: (a) estimates of aggregate resources available for public expenditure consistent with macroeconomic stability, (b) bottom-up estimates of the cost of carrying out ongoing and new policies based on reliable assumptions, and (c) reconciliation of the aggregate resources with the cost estimates of the ongoing and new activities.
- Ensure that major ministries complete corporate plans and keep these updated to reflect changes in national priorities.
- The capital budget prepared by the Project Management and Technical Cooperation Unit needs to be an integral element of the Strategic Policy Paper and the MTESP. A complete discussion of the Public Sector Investment Program (PSIP) and policy recommendations are the focus of Chapter 4.
- The current program presentation in the budget is insufficient to link expenditures to policy priorities such as growth and poverty reduction. Therefore, the government will be well advised to disaggregate expenditures at the program level in a way that will be useful for monitoring outcomes, such as in health, education, and social protection.
- Although the government has instituted a Debt Management Committee to monitor and manage domestic and external debt, the domestic and external debt units need to be merged into one. In addition, this new unit needs to be staffed with qualified personnel that can keep adequate records of external and domestic debt, analyze the data, and advise the government on debt management issues.
- There are still shortcomings that curtail the effective operation of the Standardized Integrated Government Financial Information System (SIGFIS). First, skilled and experienced personnel remain in short supply. Second, the Human Resources module is needed. Third, not all line ministries and agencies have terminals to access the SIGFIS system.

On Budget Accountability

- The financial statements of Grenada should cover all government activities. The operations of statutory bodies, including state-owned enterprises need to be included in the government financial statements.
- Complete the long-overdue annual government financial statements and present them to the Director of Audit; Audit the statements and present the reports to the Minister of Finance to put before Parliament.
- Weak Public Accounts Committees (PACs) are a common feature in the OECS countries. The recent Country Financial Accountability Assessment (CFAA) report for the OECS recommended a number of measures, including the following, to begin addressing this common problem: a) Given that opposition parties are often insufficiently represented to form a functioning PAC, it is recommended that each country consider enacting the appropriate constitutional or other changes to allow the appointment of nonparliamentary members; b) Members of Parliament and other interested parties could participate in the Commonwealth Parliamentary Association, which, in conjunction with the World Bank Institute (WBI), has organized a Study Group on Public Accounts Committees and plans follow-up seminars; c) OECS countries could draw on the advice of neighboring countries such as Jamaica, where the PAC is a vibrant component of government oversight and d) It is recommended that a media campaign be developed to publicize PAC activities to the public and to create demand from the public for strong public financial management.

A. CONSTITUTIONAL AND LEGAL FRAMEWORK

3.4 **Grenada attained independence in 1974 when the Grenada Constitution Order came into operation.** As a constitutional monarchy with a Westminster-style Parliament, it has a Governor-General (who represents the UK Queen) and a bicameral legislature with a Senate of 13 members.²² Executive authority lies with the Prime Minister and the Cabinet. The lower House at present has 16 members, that is, one elected from each of 15 constituencies and the Speaker, who is elected by the House from outside the elected membership. The New National Party (NPP, conservative) has been in power since 1995. Following the November 2003 elections, the NPP holds 8 of the 15 seats elected in the lower House instead of the 15 seats held before the election. Parliament has a life of five years. Figure 3.1 presents Grenada's government structure.

3.5 **The 1974 Constitution includes general provisions on financial matters. These are then amplified in the Finance and Audit Act of 1990 and the Finance and Audit (Amendment) Act 25 of 1998.**²³ The Finance and Audit Act, with the 1998 amendment, provides definitive guidelines on government financial management, containing provisions for: a) control and management of public finance; b) principal officials responsible for managing government finances; c) definitions of the Consolidated Fund and other public funds; d) general procedures for government accounting, authorization of expenditure payments, bank accounts, investments and deposits, management of the public debt, abandonment of claims and write-offs of public monies, stores surcharges, and financial management of State-Owned Enterprises (SOEs); and e) issuance of regulations by the Minister of Finance to provide more detailed guidance on financial management.

3.6 **The 1987 Financial Rules and 1957 Store Rules provide more detailed guidance on financial management and are issued by the Minister of Finance under the power given by the 1990 FAA and its Amendment.** Financial Rules include provisions for the application of the Finance and Audit Act in ministries and departments with detailed internal control arrangements on commitment accounting and other checks to avoid unauthorized expenditures beyond budget approvals, pre-audit of payment vouchers and instruments to ensure compliance with the regulations, surprise inspections to deter fraud, embezzlement and negligence, detailed regulations for the maintenance of vote account, security of accounts and instructions covering every aspect of receipts and payments, and their accounting. The Stores Rules give the provisions governing the procurement of goods and services, the custody, issues, and receipts of stores, and accounting, inventories, and other records.

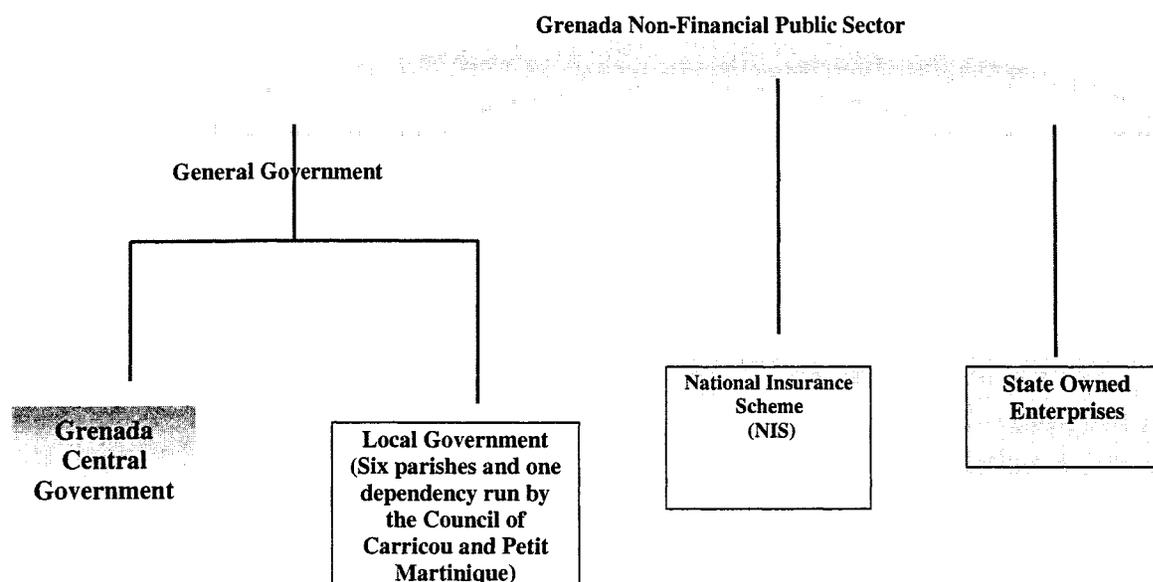
3.7 **Other legislation that affects budget management in Grenada includes:**

- Revenue legislation which defines taxes, establishes tax bases and rates, assigns responsibilities for assessments, collections, accounting, and sets penalties and means of enforcement;
- Acts, which establish Statutory Bodies (including State Owned Enterprises);
- Fiscal Incentives Legislation, mainly the Fiscal Incentives Act and the Tourism Incentives Act, which define the conditions in which exemptions from taxes, customs duties, service charges and fees will be granted 'under statute'.

²² Senators are appointed by the Governor General - 10 on the advice of the Prime Minister, 3 on the advice of the Leader of the Opposition.

²³ This Amendment was passed to give legal status to the Financial Rules of 1987 and Stores Rules of 1952 and enable these to be used in disciplinary proceedings.

Figure 3.1 Grenada Government Structure



3.8 **Grenada's legislation and regulations for financial administration and audit need to be modernized.** There is a draft Public Finance Management (PFM) Bill and a draft Audit Bill that together will replace the 1990 FAA and the 1998 Amendment. The draft bills are based on the model recommended under the Eastern Caribbean Economic Management Program (ECEMP) II and had been under review since 1996. They are now under active preparatory discussion to be sent to the Legal Draftsman, then presentation to the House and enactment would follow. It is recommended that the government incorporate into the PFM draft more stringent provisions governing the use of advance and deposit accounts. In addition, this new PFM draft presents an excellent opportunity for the government to explore the possibility of extending it into a Fiscal Responsibility Law by introducing explicit fiscal targets to be met. The Brazilian Fiscal Responsibility Law can serve as a guide in this regard. Updated Financial Rules and Stores Rules will be issued following the enactment of the PFM, but the draft for the former does not refer to various computerized systems in place nor to matters relating to donor financed activities (e.g., offshore receipts and expenditures such as direct payments by donor agencies to suppliers, plus the treatment of donors' deposit accounts outside the Accountant General's control). ECEMP III has a project to review the applicability of the draft Rules in a computerized environment.

B. BUDGET PREPARATION, EXECUTION AND MONITORING

Preparation and Presentation

3.9 **Grenada has a dual budget system.** The Budget and Debt Management unit in the Ministry of Finance (MoF) is responsible for recurrent expenditures and for monitoring overall expenditures and revenues, while the Project Management and Technical Cooperation Unit takes the lead with respect to capital projects. Grenada has a calendar fiscal year. Unlike other OECS countries, which have adopted a continuous 24-month budget cycle, Grenada has retained an 18-month cycle, which seriously constrains the ability of all parties to conduct adequate strategic and operational planning. The budget cycle is presented in Figure 3.2.

3.10 Starting in 1997, Grenada instituted a set of budget reforms.²⁴ The principal measures of these reforms were:

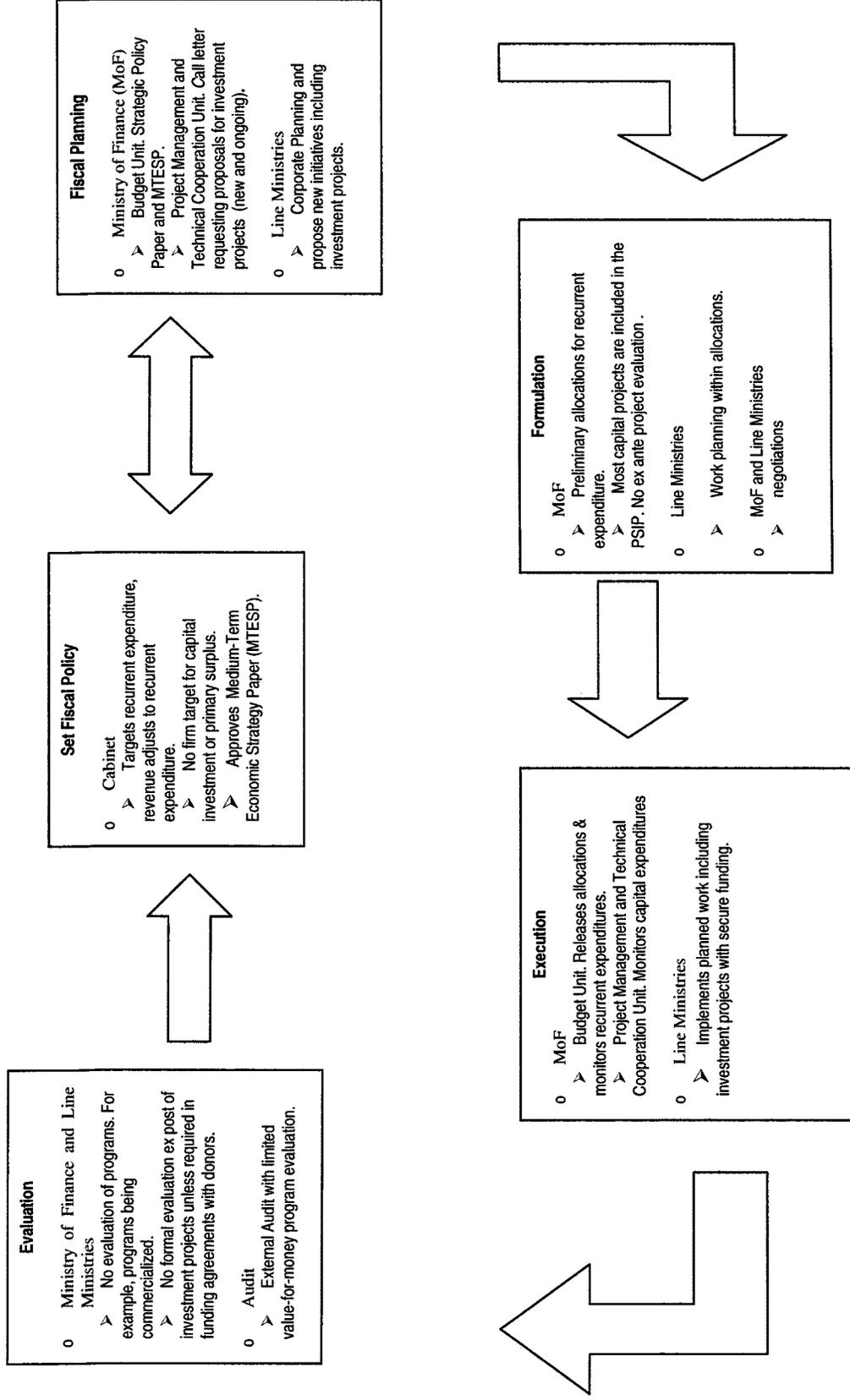
- Conversion of the budget from a line item format to a program format;
- Development of Corporate Plans by each ministry or department outlining the agency's missions and priorities, and the objectives for each program;²⁵
- Publication of all Corporate Plan summaries in the Annual Estimates;
- Development of preliminary allocations for each agency, issued with the budget call, with instructions that agencies should reallocate funds from low priority programs to higher priority without exceeding their allocations;
- Formation of Budget Committees in the agencies to complete the corporate plan, annual strategic outlook, and budget preparation, and to monitor implementation.

3.11 The budget, in line with the 1997 budget reform, is prepared based on the Strategic Policy Paper that is in turn anchored in the current Medium Term Economic Strategy Paper (MTESP) and the ministries' Corporate Plans. Both the Strategic Policy Paper (a yearly document that presents the economic prospects of the country for the next fiscal year including revenue projections and proposals for expenditure limits for each ministry) and the 2003-05 MTESP (a three-year economic plan that provides the information for the next budgets) last prepared for the Caribbean Group for Cooperation in Economic Development (CGCED) in June 2002, suffer from the same shortcomings: (a) top-down estimates of aggregate resources available for public expenditure not always consistent with macroeconomic stability (mainly fiscal), (b) lack of bottom-up estimates of the cost of carrying out ongoing and new activities or based on unreliable assumptions, and (c) no attempt to reconcile the aggregate resources with the cost estimates of ongoing and new activities. Moreover, unfortunately, the attempt to base the budget also on the ministries corporate plans did not succeed. The government's fiscal resources could not meet the requirements implied by the plans, and the planning phase of the budget cycle is too short for agencies to revise their plans to fit within government priorities and available resources. Budgeting remained incremental and the corporate planning initiative lost credibility with some agencies no longer making an effort to update their plans as required by the Budget Circular.

²⁴ The budget reform program in the OECS countries is part of the wider fiscal reform program of the ECCB, instituted with assistance from the ECEMP. Budget reforms were piloted in St. Kitts and Nevis, and replicated in Dominica, Saint Lucia, and St. Vincent and the Grenadines. Grenada only partially implemented these measures.

²⁵ In Grenada's case, the move to Corporate Planning was initiated some years prior to the budget reform as part of a DFID financed Public Sector Reform project. As part of the budget reform, corporate plans were required before any increase to an agency's base budget would be considered.

Figure 3.2 The Budget Cycle in Grenada



3.12 Given the dual budget system, the capital budget prepared by the Project Management and Technical Cooperation unit is appended to the Strategic Policy Paper, but it is not an integrated element of this document. Indeed, both the Public Sector Investment Program (PSIP) (which presents the investment plan for three years) and the capital budget (that presents the current investment plan) are a list of desired investment projects rather than a well-thought-out and feasible investment plan with growth and poverty reduction as main objectives. Therefore, they cannot be used with confidence to project the fiscal outcomes in the current or next fiscal years. The PSIP is the focus of Chapter 4 of this report.

3.13 In this budget process, the government solicits views from its social partners. The Multipartite Consultative Committee was established in the late 1990s as a means for discussing public policy options. It has met regularly, but Committee members feel it has not been effective. The Chamber of Commerce submits budget recommendations each year. The government has implemented a number of the recommendations such as an increase in licenses and user fees.

3.14 Other than Trust Funds and those aid funds, which are unreported by donors, Grenada's budget is comprehensive, including all central government transactions. However, the budget reform resulted in only minor modifications to the format of the budget. Recurrent expenditures are detailed by object line (personnel emoluments, utilities, etc.) for each vote and program. The approved estimates and the estimated prior year expenditure are provided for comparison, together with actual expenditures for the two previous years, all at the object line level. No explanations of variances are provided.²⁶ However, as Box 3.1 shows major discrepancies are observed between estimated outturn and actual provisional for recurrent expenditures. In addition, the current program presentation in the budget is insufficient to link expenditures to policy priorities such as growth and poverty reduction. Therefore, the government will be well advised to disaggregate expenditures at the program level in a way that will be useful for monitoring outcomes, such as in health, education, and social protection.

3.15 The Ministry of Finance does, however, have the capacity to present the budget by standard functional classification, and should start doing so in fiscal year 2005. The Standard Object Classification introduced by Grenada in 1998 is compatible with the IMF Government Financial Statistics economic classification system. Thus, although recurrent expenditure data are not presented in IMF-GFS format in the Estimates books, Grenada uses the functional classification in the MTESP. Thus, it should be able to move quickly to present the budget according to international best practices, such as the ones contained in the IMF's Government Financial Statistics (GFS)

²⁶ As the preparation and audit of the annual accounts are years in arrears, the 'actual' prior year expenditures are termed 'provisional'.

Box 3.1 Errors and Omissions in Grenada Estimates

Grenada's Estimates contain numerous errors and omissions. Expenditures reported for prior years are often the approved estimates for that or another year rather than the actual expenditures. Prior year expenditures of entire programs sometimes go unreported. More generally, estimated expenditures for the year just ending can be extremely inaccurate and subject to substantial revisions in future years. The table below lists some of the Votes, ranked by the size (in percentages) of the revision in their 2000 expenditures reported initially as 'estimated outturn' in the Estimates for 2001 and subsequently as 'actual provisional' in the Estimates for 2002. Total recurrent expenditures were revised downward by almost EC \$13 million or 4.8 percent of the originally estimated outturn. At the program level, revisions were as high as 295 percent of the estimated outturn and in 14 cases exceeded 25 percent. Errors and omissions concerning capital expenditures in prior years appear to be even worse and are discussed in Chapter 4 of this report.

| FY 2000 expenditures reported in... | | | |
|-------------------------------------|---|--|---------------|
| Selected Votes | 2001 Budget Book (Estimated Outturn) | 2002 Budget Book (Actual Provisional) | % Revision |
| Magistracy | 1,110,676 | 820,861 | -26.1% |
| Legal Affairs | 1,952,522 | 1,539,173 | -21.2% |
| Supreme Court | 1,338,292 | 1,059,533 | -20.8% |
| Works, Communication and Utilities | 7,236,424 | 5,934,905 | -18.0% |
| Director of Public Prosecutions | 149,625 | 129,265 | -13.6% |
| Carriacou & Petite Martinique | 1,666,125 | 1,863,722 | +11.9% |
| Foreign Affairs | 4,912,733 | 4,339,941 | -11.7% |
| Governor General | 424,352 | 471,682 | +11.2% |
| Public Debt | 62,759,096 | 56,103,829 | -10.6% |
| Prime Minister's Ministry | 3,015,652 | 2,699,328 | -10.5% |
| Audit | 555,882 | 498,456 | -10.3% |
| Total all Votes | 268,676,386 | 255,776,268 | -4.8% |

The extent and size of these errors and omissions makes meaningful analysis difficult, and reduces accountability. As Parliament does not have accurate information on prior year expenditures, its members are not in a position to assess whether the budgets proposed for programs are reasonable. This problem is magnified because audits of the public accounts are years late and generally contain the strong reservation by the Director of Audit that the accounts do not accurately represent 'the state of affairs of the Government of Grenada as at [year end], nor of its revenue and expenditure for the year then ended.'

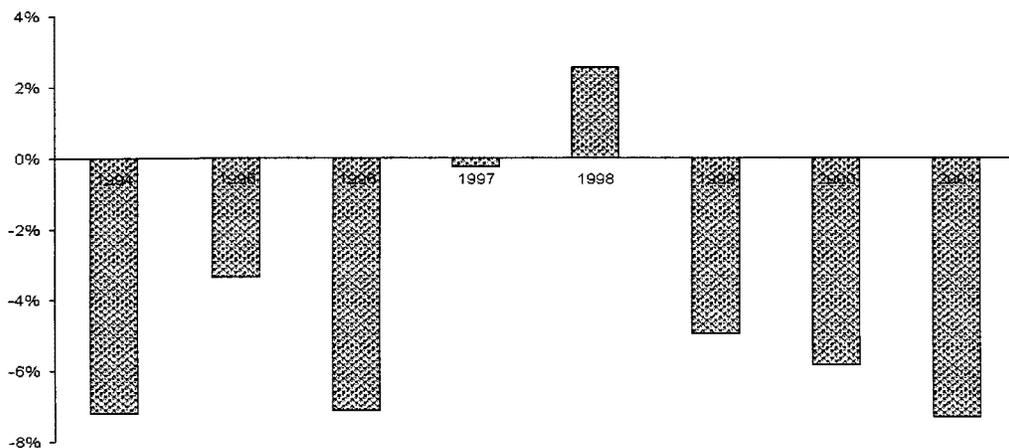
Execution²⁷

3.16 **The budget preparation shortcomings discussed previously are reflected in an aggregate trend of budgeting expenditures above program requirements.** As Figure 3.3 shows, in every fiscal year since 1995 actual recurrent expenditures have been below budgeted, with the exception of 1998 (election year). In addition, in the last years the variance has increased from about 5 percent in 1999 to 7 percent in 2002. This is evidence of increased weakness in the preparation of the budget. Interestingly, this pattern is very similar to the one observed in Dominica, but quite the opposite of the one observed in St. Kitts and Nevis. In St. Kitts and Nevis every year since 1995, with one exception, actual expenditures

²⁷ This analysis is based on Grenada's Annual Estimates books for 1994 through 2002. Reported recurrent expenditures differ somewhat from those prepared by the IMF and ECCB, both because of differences in presentation and classification and because the Estimates books often contain incorrect figures for prior year expenditures.

were above budgeted expenditures. In the case of Dominica, the under budgeting was the result of cash constraints, in Grenada it is the result of budgeting at the Ministry and program level independently of the aggregate expenditure target that the Government is committed to observe.

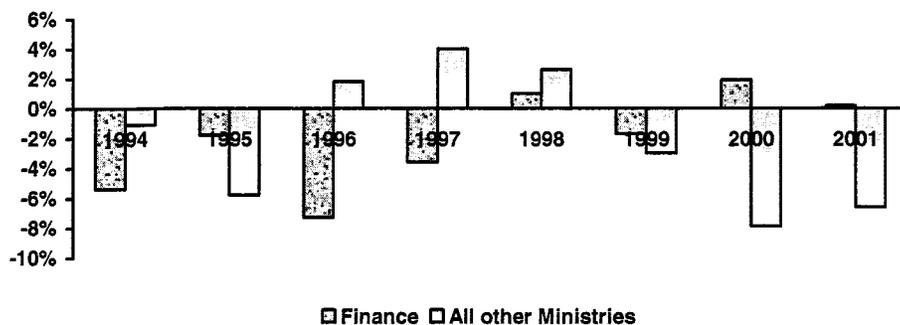
Figure 3.3 Variance between Actual and Budgeted Recurrent Expenditures in Grenada, 1994-2001
(in percentage)



Source: Grenada Estimates

3.17 **Breaking the total variance in expenditures incurred by the Ministry of Finance and all other ministries reveals some interesting patterns.**²⁸ As Figure 3.4 shows, on aggregate, the MoF portfolio was under budget each year until 1998, but subsequently tended to be over-budget. All other ministries were, on aggregate, over budget from 1996 through 1998 but under budget before and after.

Figure 3.4 Variance between Actual and Budgeted Recurrent Expenditures in Grenada, MoF and all other Ministries, 1994-2001
(in percentage)



Source: Grenada Estimates

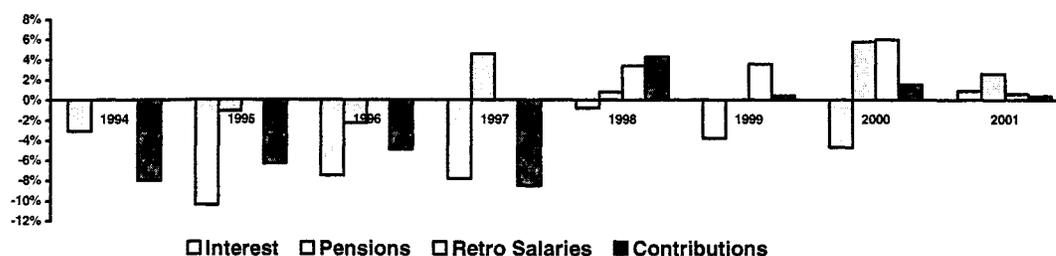
²⁸ The Ministry of Finance itself plus votes covering interest on public debt, pensions, retroactive salaries, and contributions to regional and international organizations.

3.18 **Turning to the Finance portfolio, the shift from consistent under-spending prior to 1998 followed by over-spending in the next years is the result of lack of provision for significant future payments in the budget.** As Figure 3.5 shows the main components of the over-spending experienced by the MoF in the last years are:

- significant retroactive salaries payments were made from 1998 onwards with only provision for such payments in the 2001 budget;
- under-estimation of the provisions made for Pensions and Gratuities since 1997; and²⁹
- a significant shift in the budgeting-spending pattern for payment of contribution and arrears to international and regional organizations. In brief, the budget provisions made dropped in the four previous years prior to 2001 to zero, while the actual payments rose.³⁰

Interestingly, enough compared to other OECS countries interest payment were consistently under budget until 2000. Interest were over budgeted in 2001, and base on the experience of the other Caribbean countries this is a warning sign of the need to look more carefully at the budget process for interest payments.

**Figure 3.5 Variance between Actual and Budgeted Recurrent Expenditures in the MoF
Grenada, 1994-2001
(in percentage)**



Source: Grenada Estimates

3.19 **As Figure 3.6 shows, by decomposing spending of all other Ministries the following patterns emerge:**

- Spending by Education generally exceeded the budget (on average, by 3.9 percent) from 1994 through 1997, but came under budget by an estimated average of 6.8 percent for the remainder of the period under examination.³¹
- Spending by Health was consistently under budget, with variances averaging 4.1 percent from 1994-97, and 12.8 percent for the next four years.

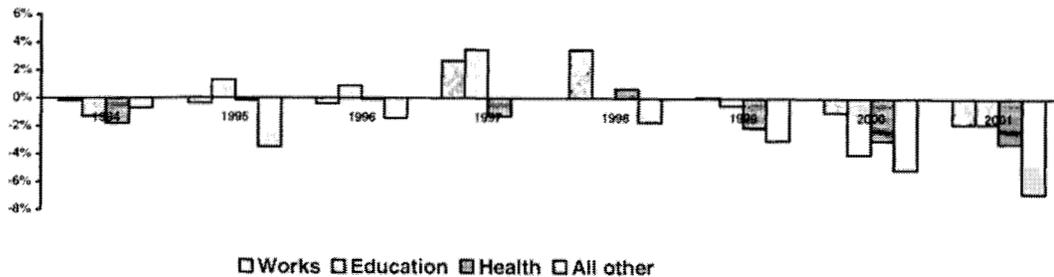
²⁹ The Actual (provisional) expenditures for 1999 reported for each program of this vote in both the Estimates of 2001 and 2002 are exactly the same as the budget provisions. This is likely an error and we do not have the actual expenditures for 1999.

³⁰ The Actual (provisional) spending reported for 1995 is exactly the same as that for 1994. Thus the figure shown for 1995 is probably an error.

³¹ Actual (provisional) expenditures reported for 1998 are exactly the same as the budget for 1998. Presumably, this is an error and 1998 has been left out of the calculations.

- Variances in the Ministry of Works, Communications, and Utilities were modest except for 1997 and 1998 when the Road Maintenance Program overspent by EC\$3.7 million (179 percent of budget) and EC\$5.8 million (204 percent of budget) respectively.
- Spending by all other non-Finance votes was under budget for the entire eight-year period.

Figure 3.6 Variance between Actual and Budgeted Recurrent Expenditures in the Ministries of Education, Health, Works and Others Grenada, 1994-2001
(in percentage)



Source: Grenada Estimates

3.20 **The impression that budgets do not accurately reflect either the work planned or the actual spending is reinforced when individual agencies and programs are examined.** Table 3.1 shows variances, expressed as percentages of each agency or program's budget, for some of these.³² While Grenada has been able in most years to cap aggregate spending on recurrent programs at close to its total recurrent budget, the budgets for a high proportion of programs bear little resemblance to the actual spending on those programs. This disparity has worsened in the past four years, when over-spending after 1997 on some large votes within the MoF portfolio threatened total spending targets. It appears that the Ministry of Finance has not forecast its requirements accurately and, therefore, has not adjusted the target allocations for other agencies at the start of each budget planning cycle. Instead, over-spending on Finance portfolio votes has resulted in substantially reduced allocations to other agencies during the budget year, thus holding spending by these agencies far below the budgets appropriated by Parliament. This poor budgeting is part of a broader picture of weak performance in key economic and public management functions. This in turn reflects severe under-spending on these functions that has persisted throughout the period since 1994. The table below depicts the degree to which under-spending relative to budget has occurred within key economic and public management programs.

³² To cope with the problem of errors in the reported actual expenditures but retain some sense of the trends, two-year averages are used.

Table 3.1 Programs Over or Under budget in Grenada 1994-2001
(in percentage)

| | 1994-1995 | 1996-1997 | 1998-1999 | 2000-2001 |
|--|-----------|-----------|-----------|-----------|
| ORGANS OF PARLIAMENT | | | | |
| Governor General | -3.5 | 7.8 | -5.4 | -19.7 |
| Parliament | -3.3 | 0.2 | -16.1 | -15.1 |
| Audit | -9.8 | -12.1 | -19.0 | -26.5 |
| JUSTICE SERVICES | | | | |
| Supreme Court | -10.7 | 0.1 | -2.9 | -29.2 |
| Magistracy | -3.6 | 3.8 | -18.8 | -32.3 |
| Director of Public Prosecutions | 4.4 | -16.7 | -18.4 | -59.4 |
| Legal Affairs (Program) | -17.9 | -0.7 | -6.0 | -22.4 |
| SOCIAL SERVICE PROGRAMS | | | | |
| Gender & Family Affairs | -40.1 | -57.0 | -3.9 | -21.3 |
| Community Development | -30.5 | -2.8 | -10.6 | -26.2 |
| Culture | -13.0 | -21.2 | -21.8 | -22.7 |
| Health Administration | -0.2% | -24.7 | -6.1 | -15.1 |
| Environmental Health | -17.7 | -28.5 | -20.0 | -25.2 |
| ECONOMIC SERVICES | | | | |
| Agricultural Extension | -19.1 | -12.4 | -9.9 | -15.3 |
| Agricultural Engineering | -17.4 | -9.1 | -17.0 | -20.9 |
| Produce Chemistry Lab | -1.7 | -13.2 | -15.1 | -37.6 |
| Livestock/Veterinary Services | -7.9 | -7.1 | -11.4 | -18.4 |
| KEY ECONOMIC & PUBLIC MANAGEMENT PROGRAMS | | | | |
| Audit | -9.8 | -12.1 | -19.0 | -26.5 |
| Cabinet Sec. & Dept. of Human Resources | -7.7 | -12.8 | -13.1 | -16.9 |
| Inland Revenue | -15.2 | -10.4 | -23.1 | -20.6 |
| Accountant General | NA | NA | -11.7 | -8.4 |
| Department of Economic Affairs | -47.6 | -15.7 | -10.0 | -15.6 |

Source: Author's calculations

Monitoring

3.21 Grenada implemented the Smart Stream version of the Standardized Integrated Government Financial Information System (SIGFIS) in 1999, the second country in the ECEMP II program to adopt the system.³³ However, there are still shortcomings in the effective operation of SIGFIS. The modules for funds, payables, purchasing, ledger, and cashiering (receipt of cash) have been implemented. Remaining problems include:

- The Human Resources module has not been fully implemented;
- Other than the Ministries of Finance and Education and the Audit Department, agencies do not yet have on-line access;
- Some reports which should be standard have not yet been developed and personnel find it difficult to generate non-standard reports from the system due to: (a) the absence of a user-friendly interface for report generation and (b) inadequate training.

Plans exist to address most of these problems. The network infrastructure in preparation for the rollouts of on-line access to the other large ministries has been installed but further work has to be done to bring these ministries on-line.³⁴

³³ The SIGFIS has also been implemented in Dominica, Saint Lucia, and St. Vincent and the Grenadines using Smart Stream software, and in both St. Kitts and Nevis using FourGen.

³⁴ Government payroll is now handled on a stand-alone 'Easy Pay' system.

3.22 Treasury produces a variety of monthly reports and year-end reports from SIGFIS to allow in-year budget monitoring. However, high rates of staff turnover coupled with inadequate training and documentation of procedures mean that transactions entered in Treasury are often misclassified. Moreover, few spending agencies regularly reconcile the Treasury reports against their vote books, so the accuracy of these reports is questionable. The accumulation of errors and omissions also complicates the preparation of annual financial statements, which are years in arrears.³⁵

3.23 The Economic Affairs Division tries to maintain control of expenditure through a system of weekly and monthly cash forecasts and quarterly allocations that authorize Accounting Officers to make commitments within given limits. These allocations are fed into SIGFIS/SmartStream (see above), so any requests for payment over and above the cumulative total of allocations are automatically rejected. However, only the Ministries of Finance and Education have fully operational systems. Ministries and departments that are not on line still submit payment requests by hand, which complicates central control. Moreover, the control is effective only on total expenditures (payments), not on commitments. Accounting Officers are required to keep Vote Account Books that show a running balance of funds available for each budgeted item, but this does not prevent excessive commitments, which create liabilities that the government has to meet, irrespective of cash limits. A funds control module of Smart Stream is designed to prevent this by registering commitments as they are made. In the meantime, the result is:

- Increased pressure on the financial sector for higher overdrafts,
- Pressure on creditors to allow more time for settlement, and
- Pressure on ministries and departments to cut ‘discretionary’ expenditure and delay projects.

3.24 The Standardize Integrated Government Tax Administration System (SIGTAS, Inland Revenue) and Automated System for Customs Documentation and Administration (ASYCUDA, Customs) systems automate the bulk of the revenue accounting tasks for the two major revenue departments. Once again, reporting limitations represent a problem. All revenues are deposited into the Consolidated Fund. Treasury updates these balances in the SIGFIS system. Some entities like Land Revenue are on line, Customs updates data at the end of each day, and Health Ministry information is updated twice a week. Unfortunately, the two systems are not integrated, which would facilitate the maintenance of a single account per taxpayer covering all taxes. There are internal audit units in Customs, Inland Revenue and the Ministry of Finance. The MoF is supposed to check that ministries and departments are reconciling their records with the monthly statements from the Accountant General, but little reconciliation is being done. The Director of Audit’s report for FY 1997 refers to the lack of bank reconciliations.

3.25 Grenada uses a cash basis of accounting. Monthly, quarterly, and year-end reports are produced, but these appear to contain numerous and material errors and the annual financial statements are many years in arrears. The Accountant-General has assigned a special team to reduce the backlog. Unfortunately, no audit report since independence has found that the annual financial statements provided an accurate reflection of the revenues and expenditures for the year covered or of the government’s financial affairs as of year-end.

3.26 The debt management function is split between the Budget and Debt Management (DBM) unit in Finance, which uses the CS-DRMS to maintain data on foreign debt, and the Accountant

³⁵ The legislative requirement is for these to be submitted to the Director of Audit within six months of year-end. This can be extended in writing by the Minister of Finance who then must advise the House of the extension. The 1998 accounts were submitted in March 2002. The 1999, 2000, and 2001 Financial Statements were completed in 2003 and the 2002 Financial Statement accounts are targeted for completion by February, 2004.

General's Department, which handles domestic debt.³⁶ The debt management section within DBM has been plagued with high rates of staff turnover, forcing Grenada to call on the ECCB for backstopping support on a regular basis.³⁷ To facilitate cash flow and debt management, the Ministry of Finance has instituted a Debt Management Committee, comprising the Permanent Secretary of Finance, Accountant-General, and Director of Economic Affairs. This meets monthly to review revenue and expenditure performance and consider financing alternatives.³⁸ It is recommended that, the domestic and external debt units be merged into one. In addition, this new unit needs to be staffed with qualified personnel that can keep adequate records of external and domestic debt, analyze the data, and advise the government on debt management issues.

3.27 **Foreign aid accounting is a problem.** When cash is received that is tied to a project or program, it is credited to a temporary account, and cleared to revenue only when expenditure reports are received. The spending project unit is supposed to prepare a journal voucher to inform the Accountant General of expenditures. It appears that considerable expenditure is not cleared out or is cleared only after long delay, so both revenue and expenditure are understated. The Capital Development Projects Unit was transferred from the Accountant General's Department to the Economic Affairs Division in 2000 and this has exacerbated the problem. There are said to be enormous differences between expenditure in the Public Sector Investment Program system and the Accountant General's ledger.³⁹

C. BUDGET ACCOUNTABILITY

3.28 **While independent in a sense by dint of authority derived directly from the Constitution, the Director of Audit (and the Audit Department) has no guaranteed operating budget or staff complement, and must obtain approval from the Executive via the annual Estimates process.** In addition, other factors have served to reduce potential benefits accruing from the work of the Audit Department, including:

- The failure of the Accountant General to submit the government's annual accounts on a timely basis;
- The automation of critical financial management functions (e.g., SIGFIS; SIGTAS; and ASYCUDA) without adequate input from the Audit Department;
- The non-functioning of the Publics Accounts Committee (see para. 3.32)
- Lack of training for staff, particularly on computer assisted auditing tools, auditing of computer systems, and value-for-money auditing.

3.29 **The problems of Grenada's Audit Department are longstanding.** No government accounts were submitted from independence in 1973 until well after the US intervention a decade later. From the late 1980s to the mid-1990s, Grenada benefited from a British aid project to strengthen the Audit Department and to bring the public accounts up-to-date. During the life of this project, a fire destroyed the Ministry of Finance Complex in 1990, making it impossible to prepare the 1988 and 1989 accounts. The accounts were reconstructed as of the day of the fire, involving write-offs of EC \$46.9 million, but by 1995 the government's annual statements were again well in arrears.⁴⁰ In 2000, the Director of Audit was

³⁶ Grenada is not in arrears on domestic or foreign debt except for some Treasury Bills interest, which reflects procedural rather than cash flow problems.

³⁷ The ECCB, which provides 'backstopping' services to its members relating to the CS-DRMS, now advocates the transfer of this system to Treasury.

³⁸ The government is pursuing a debt consolidation program.

³⁹ World Bank, OECS Country Financial Accountability Assessment, 2003.

⁴⁰ Those that were submitted were assessed by the Director of Audit as not properly reflecting 'the state of affairs of the Government of Grenada as at [year end], nor of its revenue and expenditure for the year then ended.'

suspended and her case is still before the courts so an individual on an acting basis fills this important position.⁴¹

3.30 The Financial Statements of Grenada present a partial view of government activities. The government would like to monitor SOE financial performance better, but at the moment there is no specific unit with a mandate to do so. SOEs and other statutory bodies are audited in accordance with their respective statutes, mainly by private audit firms, which should be in good professional standing and totally independent of the bodies they audit and of the government. The Director of Audit has constitutional authority to audit statutory bodies. However, he does not do so. These documents are tabled in the House but not debated.

*Parliament and the Public Accounts Committee (PAC)*⁴²

3.31 The Estimates, which are actively debated in both the House and the Senate, provide essential – albeit minimal – information for Parliament to discharge its responsibility to hold the government to account for its use of public resources.⁴³ This does not mean that Parliament is otherwise equipped to perform this task adequately. This is a current problem in Grenada – and one that has occurred in other OECS countries owing to the small number of elected representatives and the first-past-the-post election system. Even when Opposition members are elected, their numbers may be inadequate for them to exercise effective oversight on many issues. As well, a Parliamentary Committee intended to play a key role in holding the government to account – the Public Accounts Committee (PAC) – has rarely functioned effectively.

3.32 In Grenada, a Standing Order of the House of Representatives provides for the election of a three-to-five member PAC by the House. Neither ministers nor parliamentary secretaries can be appointed to the PAC, which excludes all but two members of the current House, making it impossible to constitute the Committee.⁴⁴ This led to an amendment to the Standing Orders to provide for two committees, one each in the House and the Senate, and having these sit together as a Joint Committee. However, the PAC has not yet been established as the government has not proposed and passed the necessary motion in the House.

3.33 Accountability to Parliament is also compromised when expenditure control mechanisms are misused. For example, until the 1998 amendment to the Finance and Audit Act, the Minister of Finance was empowered to authorize expenditures via special warrants to cover unforeseen expenditures which could not be delayed without ‘injury to the public service’ provided that supplemental estimates were submitted to Parliament at its next sitting and the total value of special warrants outstanding did not exceed \$50,000. A 1997 study found that the Minister had approved EC \$27 million – over 50 times the statutory limit – in special warrants in that year alone, with none of these subsequently approved by Parliament via a Supplemental Appropriations Act.⁴⁵

⁴¹ Appointments to the position of Director of Audit is governed by Section 87 of the Constitution, and incumbents who have not reached retirement age may only be removed for inability to exercise the functions of the office or for ‘misbehaviour’ after an enquiry by a tribunal appointed by the Governor General. The tribunal ruled the Director of Audit could be discharged for misbehaviour, but she appealed and won. This decision was overturned by the OECS Supreme Court (December 2000) and the case is now before the Privy Council of the UK.

⁴² The World Bank’s recent “OECS Country Financial Accountability Assessment (CFAA)” contains a detailed assessment of the problems facing Public Accounts Committees in the Eastern Caribbean.

⁴³ Unfortunately, information concerning expenditures in prior years is often rife with errors.

⁴⁴ The Committee last met in 1997 to consider the 1991 statements of account.

⁴⁵ See “Value-for-Money Study of the Ministry of Finance”, KPMG, December 1997, pp. 32-35.

4. PUBLIC SECTOR INVESTMENT PROGRAM

4.1 One of the main reasons behind the weakening of Grenada's fiscal position discussed in Chapter 1 is the significant debt contracted to finance investment projects. From 1994 to 2002, capital expenditures in Grenada were on average about 11 percent of GDP. This level of capital expenditures is one of the highest in the OECS countries. Dominica's Central Government (CG) spent about 9.0 percent of GDP in capital expenditures during FY 1995/96-FY 2000/01, St. Kitts and Nevis Federal Government about 5.1 percent of GDP over the period 1996-2001 (a country that like Grenada was hit by two major hurricanes between 1996 and 2001), and St. Lucia 7.7 percent of GDP during FY 1995/96-2001/02.

4.2 The main recommendation of chapter 1 is that capital expenditures be reduced and their efficiency improved. While detailed recommendations follow below to improve capital spending efficiency, it was not possible to establish an optimal level of capital expenditures given the poor quality of the data as discussed below.

On Capital Expenditures and PSIP Preparation, Monitoring, and Execution

- The capital budget and the PSIP prepared by the Project Management and Technical Cooperation Unit (PMTCU) in the MoF need to be made an integral element of the Strategic Policy Paper and the Medium-term Economic Strategy Paper (MTESP) and not merely an addendum containing a list of desired investment projects. The Budget and Debt Unit and PMTCU need to work closely to anchor the capital budget and the PSIP to the country strategy.
- It is recommended that Grenada establish clear selection criteria for investment projects. First, only investment projects, independently of their source of financing, with all the required information (in particular projected recurrent costs) should be included in the capital expenditure and the PSIP. Second, only investment projects prioritized based on some type of cost-benefit analysis and in accordance with the overall resources available for capital expenditures should be included in the capital budget and the PSIP. Third, all projects with a cost above for example, EC\$ 5.0 million should be subject to a formal cost-benefit analysis before being included in the capital budget or the PSIP. Fourth, given the objective of the government to reduce the high debt burden, the PSIP should maximize the use of available grants and concessional resources financing.
- At a technical level, administration procedures for the PSIP and capital budget preparation and implementation need to be defined, and staff needs to be trained in the procedures and tools of project analysis.
- The PMTCU should require the line ministries to report capital spending monthly and should stop disbursements to those projects that do not provide regular information.
- Projects above EC\$ 5.0 million need to be subject to a post-evaluation of their impact.

On the Coverage of Capital Expenditures and the PSIP

- Investment projects currently included in the PSIP and in the capital budget that are in nature expenditures incurred on a yearly basis should be recorded as recurrent expenditures. International practice should be followed in this respect.
- All investment projects by statutory agencies, such as state-owned enterprises, or private corporations but financed through loans guaranteed by the government (for example, BOLT agreements), need to

be included in the PSIP and the financial statements and be subject to a cost-benefit analysis before the government guaranteed these projects.

A. INSTITUTIONAL ORGANIZATION AND PREPARATION

Institutional Organization

4.3 **Grenada has a dual budget. The Project Management and Technical Cooperation Unit (PMTCU) in the MoF prepares the capital budget and the medium-term PSIP.** The Chief Planning Officer heads the unit. There are two committees that oversee the capital budget and the medium-term PSIP, the Planning and Priority Consultative Committee (PPCC) and the PSIP Operating Committee (OC). The PPCC is responsible for formulating policy and selecting projects to be included in the PSIP. The committee consists of the Permanent Secretaries and Chief Technical Officers from the line Ministries and is chaired by the Permanent Secretary of Finance. The PMTCU acts as the secretariat for the PPCC organizing meetings and managing the flow of relevant information. The PPCC is supposed to meet four times per year, but has met infrequently. The OC is the working level committee that is responsible for the identification, preparation, implementation, and monitoring of projects. It consists of the project/planning officers from the line ministries and is chaired by the Chief Planning Officer. During the 2000 medium-term PSIP exercise for the Medium-term Economic Strategy Paper (MTESP), another committee known as the Project Facilitation Committee became operational. It was chaired by the Prime Minister and included selected Permanent Secretaries and Technical Officers from line Ministries. Its main function was to identify policy issues and actions affecting the implementation of projects. The Project Facilitation Committee like the PPCC does not appear to be active.

4.4 **In January 2002, a European Union Project Management Unit was established in the Ministry of Finance, led by the National Authorizing Officer (NAO), the person responsible for administering all EU Aid granted to Grenada.** The NAO is instrumental in selecting the projects to be funded by the EU and acts as a liaison between the government and the EU. The European Union Project Management Unit is responsible for the implementation, administration, and monitoring of all EU funded projects under such instruments as STABEX, the National Indicative Program, and the Special Framework of Assistance to ACP Banana Producers. Similar units have been established in most OECS countries to facilitate compliance with EU procedures and guidelines. The slow pace of EU grant disbursements, however, evidences that red tape still curtails the process. For example, allocations for STABEX 1996 and 1997 (in total about €800,000) were decided in November 1998, but still an agreement on how to use these funds has not been signed. Under the Special Framework of Assistance to ACP Banana Producers, in the years 1999-2001 €2.0 million were allocated, but only a small fraction has been disbursed.

4.5 **It is recommended that the role of the PMTCU for donor assistance coordination be strengthened.** Currently, line ministries liaise directly with donors and may only bring in the MoF at a later stage. Some donors such as Japan and Taiwan, China liaise directly with the Ministry of Agriculture and the Prime Minister's Ministry respectively. Others such as the EU deal with the NAO. A stronger PMTCU would help to coordinate the assistance from all donors within the country's economic strategy and avoid future unexpected financial implications to the budget.

PSIP and Capital Budget Preparation

4.6 **A call letter is sent out to line ministries (18 months before the budget is presented to the Parliament) to submit their project proposals with all the required information to the Ministry of Finance. However, the information received in these proposals is generally inadequate for a**

thorough assessment. In the past, no information was provided for recurrent spending in the project proposals. It was left to the line ministries to include the relevant provision in their own recurrent estimates submission. More recently, recurrent expenditures have been linked to project planning in some instances such as the Basic Education Reform Project financed by the World Bank. However, this is still more the exception than the rule. One of the roles of the PMTCU is to help the line Ministries develop their project ideas into project profiles on an ongoing basis. The PPCC is then supposed to prioritize the projects submitted linking them to the framework provided by MTESP. However, no cost-benefit analysis is generally done by the line ministries or the MoF to assess whether the proposed projects are cost-effective (with the exception of those financed by some donors). A package of proposals reflecting the government's priorities is submitted to Cabinet for final decision during the process of preparing the budget. The Estimates are approved by Parliament through an Appropriation Bill that provides the legal basis for spending on the projects. The line ministries implement the projects with the Accountant General being responsible for making the approved disbursements. For major construction projects, the Ministry of Works is responsible for managing the procurement activity and providing the needed technical support to the various implementing agencies.

4.7 The figures presented in the capital budget and the PSIP are of limited use as an indicator of public investment in fixed capital because a significant number of projects included in the PSIP and the capital budget are recurrent expenditures. OECS countries by and large include in their PSIP all projects for which they will seek external financing (loans and/or grants). Thus, when the capital budget is prepared all the projects in the year for which the budget is prepared are classified as capital expenditures. However, this does not follow international practice and IMF guidelines. For example, training programs, maintenance of buildings and roads, some social protection programs, analytical work such as poverty assessments, labor force surveys, population censuses, and other expenditures incurred annually should be recorded as recurrent expenditures independent of their source of financing. The government may keep all these projects in a separate file for the purpose of seeking external financing from donors, but the recording in the budget and the PSIP should follow international guidelines. In 2002, for example the following projects were included in the capital budget while they should be categorized as recurrent expenditure: National Training and Employment Program (EC\$ 1.5 million), Tourism Marketing and Promoting (EC\$ 10.0 million), Contributions to the IFC, GDB, CDB and SEDU (EC \$1.8 million), Road Maintenance Program (EC\$ 20.4 million) and School Feeding Program (EC \$2.1 million). In total, all these projects represented about 25 percent of the reported capital expenditures in the year 2002.

4.8 The public sector investment program presented in the MTESP and the capital budget presented in the Estimates Book mainly cover Central Government, but some projects of statutory agencies are also included. All capital expenditures in excess of EC\$100,000 are included in the PSIP and the capital budget. This includes expenditures by the Central Government and some statutory bodies such as the National Water and Sewage Authority (NAWASA). It is recommended that all investment projects by statutory agencies be included in the PSIP and be subject to a cost-benefit analysis. This is a serious gap because these investment projects can represent a sizeable portion of the public sector investment program and can expose the government to serious fiscal liabilities. The current nomenclature allows the PSIP and capital expenditures to be disaggregated by the CG and the rest of the public sector. It is recommended that the government start to do so in the 2005 budget.

4.9 Projects being considered to be financed under Build-Operate-Lease-Transfer (BOLT) agreements or by private corporations but guaranteed by the government need to be subject to a cost-benefit analysis before the government commits to guarantee the project or sign a BOLT agreement. BOLT agreements covering the Financial Complex, National Stadium, and Ministerial Complex have financed investments for at least a total of EC\$ 127 million. However, these projects although guaranteed by the government, were not subject to any cost benefit-analysis. Moreover, it is

recommended that all projects guaranteed by the government be disclosed in the government financial statements. Property of the National Stadium and the Ministerial Complex buildings was transferred to the government in 2002. A more detailed discussion of the BOLT agreements is presented in Box 4.1.

Box 4.1 The use of Build-Operate-Lease-Transfer (BOLT) Agreements to Finance Capital Expenditures

The Financial Complex, National Stadium, and Ministerial Complex were constructed using BOLT agreements for their financing. Under these agreements the government agreed to lease these buildings from a private firm when construction is completed with the option of buying and transferring the buildings to the government. In these agreements the government usually guarantees the loan contracted by the private firm. None of these investment projects was subject to rigorous cost-benefit analysis, and at least the National Stadium and the Ministerial Complex would be hard to justify in terms of their rates of return on investment.

The National Stadium, with a cricket stadium for about 3,000 persons and a soccer stadium for about 5,000 persons, was completed in early 2000. Its purpose was to be a “centre-piece and rallying point for sport development, sports tourism, culture and entertainment.” It was originally budgeted to cost EC\$ 58 million, but ended up costing EC\$ 85.2 million or almost 10 per cent of GDP at the time of construction. It is highly unlikely that it will ever be able to generate enough revenue to cover its capital and operating costs. There are already plans for an extension, required to host the cricket World Cup. In small countries like Grenada, the best way to meet the country’s needs for sporting facilities is to encourage amateur sport, physical fitness and social cohesion through several smaller facilities rather than one costly national stadium with a seating capacity that is almost never fully used.

The Ministerial Complex is a prestige office building, which provided ministries with needed office space but at a relatively high price. The complex, which cost EC\$ 41.7 million or over 4 per cent of GDP, was never included in the country’s capital budget. Instead, it was constructed off budget and subsequently transferred to government along with a corresponding amount of debt. Construction defects reportedly resulted in some difficulties in controlling the building internal temperatures. Off-budget projects like this often end up being more costly and troublesome than their more transparent on-budget equivalents.

4.10 Grenada prepares a three-year medium-term PSIP as part of the MTESP. However, in practice the focus is the one-year capital budget. As Table 4.1 shows, in the PSIP the capital spending intentions are the highest for the budget year (estimates). In following years, planned capital spending drops off. The reason for this pattern is threefold: a) in some sectors, lack of a well-thought-out medium-term country strategy and sectoral strategies that allow line ministries in coordination with the MoF to prepare a medium-term PSIP; b) the fact that donors’ objectives and financing become explicit only closer to the budget year; and c) the lumpy nature of capital spending in small states. It is recommended that the government prepare a rolling three-four year PSIP instead of preparing a PSIP only in response to the Medium Term Economic Strategy Paper (MTESSP) presentation at the Caribbean Group for Cooperation in Economic Development (CGCED). The last CGCED took place in June 2002.

4.11 The government’s broad goal that guides the PSIP and the capital budget is poverty reduction, infrastructural development and investment in productive sectors to stimulate growth. Nevertheless, some investment projects in the 2003 budget only partially fulfill these objectives. In addition, some projects including the Special Project Program (EC\$ 5.0 million), National Training and Employment Program (2.1 million), Road Maintenance Program (EC\$ 3.0) and School Feeding (EC\$ 2.1 million) aimed at poverty reduction, but as we discuss in chapter 7 and 8 of this report the targeting mechanism is weak and leakage to higher-income level families is pervasive. In addition, an extension to the National Stadium is planned at a cost of EC\$ 5.0 million. However, no cost-benefit analysis of this project has been undertaken and its impact on growth is questionable.

Table 4.1 Grenada Public Sector Investment Program 2003-05
(in millions EC\$)

| | Projections | | |
|--------------------------------|-------------|-------|------|
| | 2003 | 2004 | 2005 |
| Economic Services | 60.7 | 66.1 | 49.6 |
| Agriculture | 10.4 | 12.9 | 2.9 |
| Tourism | 15.1 | 20.2 | 20.1 |
| Transportation | 30.4 | 27.2 | 22.4 |
| Water | 4.8 | 5.8 | 4.2 |
| Social Services | 52.6 | 31.8 | 22.8 |
| Education | 16.3 | 11.7 | 7.4 |
| Health | 21.0 | 4.9 | 1.3 |
| Housing | 2.5 | 2.5 | 1.6 |
| Other Social Services | 12.8 | 12.7 | 12.5 |
| General Public Service | 10.7 | 8.1 | 5.2 |
| Administration | 6.8 | 3.6 | 2.0 |
| Public Safety | 2.9 | 3.0 | 2.7 |
| Other Fixed Investment | 1.0 | 1.5 | 0.5 |
| Total | 124.0 | 106.0 | 77.6 |
| Percentage of which: | | | |
| Ongoing | 83.0 | 79.4 | 74.8 |
| New | 17.0 | 20.6 | 25.2 |
| Percentage financed by: | | | |
| Local | 30.9 | 35.6 | 40.0 |
| Loans | 47.5 | 42.5 | 39.4 |
| Grants | 21.6 | 22.0 | 20.6 |

Source: Government of Grenada, Medium Term Economic Strategy, 2003-2005, June 2002.

Note: Figures are mainly for the CG, but include projects for some statutory agencies such as NAWASA.

4.12 In summary, the following steps can be taken to improve the preparation of the PSIP and the capital budget:

- The capital budget and the PSIP prepared by the PMTCU in the MoF need to be made an integral element of the Strategic Policy Paper and the MTESP and not merely an addendum containing a desired list of investment projects. The Budget and Debt unit and PMTCU need to work closely to anchor the capital budget and the PSIP to the country strategy.
- It is recommended that the government establish clear selection criteria for investment projects. First, only investment projects, independently of their source of financing, with all the required information (in particular projected recurrent costs) should be included in the capital budget and the PSIP. Second, only investment projects prioritized based on some type of cost-benefit analysis and in accordance with the overall resources available for capital expenditures should be included in capital expenditures and the PSIP. Third, all projects with a cost above EC\$5.0 million should be subject to a formal cost-benefit analysis before being included in the capital expenditure or the PSIP. Fourth, given the objective of the government to reduce its high debt burden, the PSIP should maximize the use of available grant and concessional resource financing.

- At a technical level administrative procedures for PSIP and capital budget preparation and implementation need to be defined and staff need to be trained in the procedures and tools of project analysis.
- The PMTCU should require the line ministries to report capital spending monthly and should stop disbursements to those projects that do not provide regular information at the end of the month.
- Expenditures incurred on a yearly basis currently recorded as investment projects should be recorded as recurrent expenditures.

B. EXECUTION AND MONITORING

Execution

4.13 **From 1994 to 2002 capital expenditures in Grenada were on average about 11 percent of GDP.** As Table 4.2 shows, capital expenditures fluctuate from a low of about 6.0 percent of GDP in 1995 to a peak of 15.8 percent in 2001, with the reconstruction of the General Hospital. This level of capital expenditures is one of the highest in the OECS countries. Dominica's CG spent about 9.0 percent of GDP in capital expenditures during FY 1995/96-FY 2000/01, St. Kitts and Nevis Federal Government about 5.1 percent of GDP over the period 1996-2001 (a country that like Grenada was hit by two hurricanes between 1996 and 2001), and St. Lucia 7.7 percent of GDP during FY 1995/96-2001/02.

Table 4.2 Sectoral Composition of Actual Capital Expenditures for Grenada 1994-2002
(as percentage of GDP)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | Average 1994-2002 |
|------------------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|-------------------|
| Tourism | 0.06 | 0.17 | 0.05 | 0.29 | 0.29 | 0.10 | 1.10 | 0.90 | 1.13 | 0.46 |
| Community Development. | 0.22 | 0.52 | 0.31 | 0.25 | 0.14 | 0.17 | 0.23 | 0.29 | 0.29 | 0.27 |
| Infrastructure | 4.44 | 2.98 | 4.33 | 4.27 | 4.60 | 6.67 | 6.29 | 5.92 | 5.77 | 5.03 |
| Education | 0.41 | 0.32 | 0.53 | 0.39 | 0.42 | 1.35 | 1.47 | 1.69 | 1.55 | 0.90 |
| Health | 0.78 | 0.24 | 0.15 | 0.43 | 0.28 | 0.41 | 1.73 | 2.68 | 1.09 | 0.87 |
| Other Social Services | | | | | | | | | 1.25 | 0.14 |
| Agriculture | 2.80 | 1.73 | 2.20 | 1.67 | 0.77 | 0.85 | 1.51 | 1.49 | 0.60 | 1.51 |
| Other | 1.00 | 0.92 | 0.95 | 0.85 | 1.46 | 0.89 | 1.97 | 2.84 | 1.97 | 1.43 |
| Total | 9.72 | 6.88 | 8.52 | 8.16 | 7.96 | 10.44 | 14.31 | 15.80 | 13.66 | 10.60 |

Source: Grenada, Estimates for the Year.

Note: a) The figures in this table differ from those in chapter 1 because the buy-out of the National Stadium and the Ministerial Complex was recorded as recurrent expenditure in the budget. b) Health includes housing in 1994. Community Development includes Youth & Sports in 2001. c) Others include general public services and public safety.

4.14 **During this period, on average almost half of capital expenditures were in infrastructure.** In part, expenditures on infrastructure have been driven by the damage caused by the passage of Hurricane George in 1998, Lenny in 1999 and Tropical Storm Lili in 2002 (see Tables 4.3 and 4.4). However, the fact that a) important infrastructure projects such as the Financial Complex, Ministerial Complex and National Stadium are not part of the capital budget due to their financing mechanism and b) a large

fraction of the expenditures recorded under infrastructure (for example, the road maintenance program) are recurrent expenditures and not investment in fixed capital raise questions on the actual impact on infrastructure of these expenditures.

Table 4.3 Actual Capital Expenditures for Grenada 1994-2002
(EC\$ '00)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|-----------------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|
| Tourism | 415 | 1,254 | 439 | 2,533 | 2,721 | 1,045 | 12,200 | 9,600 | 12,300 |
| Community Development | 1,565 | 3,863 | 2,535 | 2,160 | 1,280 | 1,699 | 2,500 | 3,100 | 3,100 |
| Infrastructure | 31,518 | 22,291 | 34,838 | 36,962 | 43,581 | 68,052 | 69,500 | 63,300 | 62,500 |
| Education | 2,935 | 2,424 | 4,282 | 3,399 | 3,996 | 13,750 | 16,200 | 18,100 | 16,800 |
| Health | 5,550 | 1,769 | 1,222 | 3,749 | 2,645 | 4,157 | 19,100 | 28,700 | 11,800 |
| Other Social Services | | | | | | | | | 13,600 |
| Agriculture | 19,911 | 12,961 | 17,690 | 14,460 | 7,282 | 8,705 | 16,700 | 15,900 | 6,500 |
| Other | 7,106 | 6,894 | 7,615 | 7,363 | 13,801 | 9,075 | 21,800 | 30,400 | 21,400 |
| Total | 68,999 | 51,458 | 68,620 | 70,626 | 75,307 | 106,482 | 158,000 | 169,100 | 148,000 |

Source: Grenada, Estimates for the Year.

Note: a) Health includes housing in 1994. Community Development includes Youth & Sports in 2001. b) Others include general public services and public safety.

Table 4.4 Actual Capital Expenditures for Grenada 1994-2002
(as percentage of total capital expenditures)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Tourism | 0.6 | 2.4 | 0.6 | 3.6 | 3.6 | 1.0 | 7.7 | 5.7 | 8.3 |
| Community Development | 2.3 | 7.5 | 3.7 | 3.1 | 1.7 | 1.6 | 1.6 | 1.8 | 2.1 |
| Infrastructure | 45.7 | 43.3 | 50.8 | 52.3 | 57.9 | 63.9 | 44.0 | 37.4 | 42.2 |
| Education | 4.3 | 4.7 | 6.2 | 4.8 | 5.3 | 12.9 | 10.3 | 10.7 | 11.4 |
| Health | 8.0 | 3.4 | 1.8 | 5.3 | 3.5 | 3.9 | 12.1 | 17.0 | 8.0 |
| Other Social Services | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.2 |
| Agriculture | 28.9 | 25.2 | 25.8 | 20.5 | 9.7 | 8.2 | 10.6 | 9.4 | 4.4 |
| Other | 10.3 | 13.4 | 11.1 | 10.4 | 18.3 | 8.5 | 13.8 | 18.0 | 14.5 |
| Total | 100.0 |

Source: Grenada, Estimates for the Year.

Note: a) Health includes housing in 1994. Community Development includes Youth & Sports in 2001.

b) Others include general public services and public safety

4.15 On average, Agriculture and Others (including public services and public safety among others) comprised about 28 percent of total capital expenditures. Agriculture capital spending share in total capital expenditures has declined over the period from 29 percent in 1994 to 4.4 percent in 2002. Recent agricultural projects include a loan to facilitate the production of organic bananas for the UK

market; the restructuring of the cocoa industry; and the opening of the Melville Street Fish Market. On the other hand, the share of the category 'other expenditures' has increased over the period from 10.3 percent in 1994 to 14.5 percent in 2002 as the refurbishment of government buildings (mainly the Ministerial Complex) is being completed.

4.16 The social sectors accounted for about 20 percent of total capital expenditures. As we discuss in chapter 6 and 7 of this report the main projects were: in health, the reconstruction of the General Hospital and the HIV/AIDS Prevention and Control Project financed by the World Bank and in education the World Bank Basic Education Program (US\$ 11.1 million).

4.17 The realization rate of planned capital expenditures in Grenada is low with a high year-to-year variation. As Table 4.5 shows, on average over the 1994 to 2002 period, only around 65 percent of planned capital expenditure was actually implemented. However, this statistic conceals substantial year-to-year variations and the progress in improving the rate of realization in recent years. After falling to around a half from 1995 to 1998, the realization rate rose steadily to 88 per cent in 2001 and achieved 74 percent in 2002. While there is still room for improvement, the realization rate is substantially higher than in St. Kitts and Nevis and Dominica.⁴⁶

Table 4.5 Realization Rate of Grenada Capital Expenditures 1994-2002

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | Average 1994-2002 |
|------------------------------|--------|--------|---------|---------|---------|---------|---------|---------|---------|----------------------|
| Estimates (EC\$ Thousand) | 82,688 | 95,269 | 137,912 | 141,693 | 155,384 | 185,000 | 203,088 | 192,368 | 199,724 | |
| Actual (EC\$ Thousand) | 68,999 | 51,458 | 68,620 | 70,626 | 79,434 | 106,482 | 158,000 | 169,100 | 148,046 | |
| Realization Rate (%) | 83.4 | 54.0 | 49.8 | 49.8 | 51.1 | 57.6 | 77.8 | 87.9 | 74.1 | 65.1 |

Source: Grenada, Estimates for the Year.

4.18 By funding, the largest shortfall has been in loans which on average were half realized (Table 4.6). The lowest rate of realization for Grants was around 40 per cent in 1999. Local revenues were often required to make up shortfalls, as were external loans. In 2000, the realization rate for local source funding was actually in excess of 100 per cent. In this year, local sources accounted for almost half of the actual financing of capital expenditures. In 2001, the realization rate for external loans exceeded 100 per cent as loans were incurred to meet shortfalls in other funding

Table 4.6 Realization Rate of Grenada Capital Expenditures by Funding Source 1994-2002
(as percentage)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---------------|------|------|------|------|------|------|-------|-------|------|
| Local Revenue | NA | 81.5 | 66.2 | 76.3 | 76.5 | 79.3 | 116.6 | 78.7 | 90.0 |
| Loans | NA | 35.4 | 22.2 | 28.8 | 25.4 | 61.2 | 58.4 | 106.8 | 64.9 |
| Grants | NA | 45.1 | 63.3 | 54.7 | 73.6 | 39.8 | 60.9 | 79.1 | 59.4 |
| Total | 83.4 | 54.0 | 49.8 | 49.8 | 51.1 | 68.5 | 77.8 | 87.9 | 74.1 |

Source: Grenada, Estimates for the Year.

⁴⁶ With the exception of 2003/04 which has seen a significant improvement in Dominica's realization rate.

4.19 **Since 1997, capital expenditures have been mostly financed through loans and local revenue instead of grants.** As Table 4.7 shows, in 1994 about 36 percent of all capital expenditures were financed by grants, in 1997 only 30.5 percent and in 2002 less than 20 percent. Local revenue and loans have substituted grants. In particular, local revenue financed only about 23 percent of total capital expenditures in 1994, but in 2002 financed 51.2 percent. Moving forward and given its high debt burden, Grenada needs to maximize the use of available grants (especially from the EU) and concessional resource financing.

Table 4.7 Sources of Financing of Grenada Actual Provisional Capital Expenditures 1994-2002

(as percentage of total capital spending)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Local Revenue | 22.7 | 45.4 | 41.0 | 44.7 | 39.0 | 35.1 | 48.4 | 36.7 | 51.2 |
| Loan | 41.3 | 13.6 | 15.7 | 24.8 | 24.0 | 40.6 | 33.1 | 39.1 | 30.6 |
| Grant | 35.9 | 41.0 | 43.3 | 30.5 | 37.0 | 24.3 | 18.5 | 24.2 | 18.1 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Grenada, Estimates for the Year.

4.20 **The most important source of external financing in 2001 was Taiwan, China.** As Table 4.8 shows, Taiwan, China provided grants for about EC\$22.4 million or 21 percent of the total external financing received by Grenada. The next most important source was the Caribbean Development Bank, which provided mostly loans. Japan was the third most important source of financing and the second most important provider of grants. The World Bank was the fourth most important source of financing with loans for EC\$ 5.1 million. The United Kingdom through DFID's grants was the fifth most important source of financing. The EU with its STABEX and EDF instruments was not a major source of financing in 2001 as it had been in most recent years.

Table 4.8 Source of External Financing of Capital Expenditure in 2001
(EC\$ Millions)

| | Loan | Grant | Total | As percentage of Total |
|---------------|------|-------|-------|------------------------|
| Taiwan, China | | 22.4 | 22.4 | 20.9 |
| CDB | 18.4 | 1.1 | 19.5 | 18.2 |
| Japan | | 6.5 | 6.5 | 6.1 |
| World Bank | 5.1 | | 5.1 | 4.8 |
| BDD/DFID | | 1.7 | 1.7 | 1.6 |
| France | | 0.1 | 0.15 | 0.1 |
| EU | | 0.08 | 0.08 | 0.1 |
| UNICEF | | 0.05 | 0.05 | 0.1 |
| Others | 42.6 | 8.9 | 51.5 | 48.1 |
| Total | 66.1 | 40.9 | 107.0 | 100.0 |

Source: Grenada, Estimates for 2002.

Monitoring

4.21 **The capacity of the Project Management and Technical Cooperation Unit (PMTCU) to monitor the implementation of capital projects, which are carried out by line ministries, is weak.** Line ministries are supposed to complete quarterly reports on project implementation to be sent to the

PCTU unit, but compliance has been rather lax which makes it rather difficult to monitor implementation by the PSIP unit.

4.22 Expenditures in investment projects are not tracked adequately. Indeed, record of actual expenditures in some capital projects lagged behind in some cases by more than one year because line ministries did not submit the required information and the PMCTU unit did not enforce this requirement. In addition, capital expenditures disbursed directly by donors (for example, Japan) are unlikely to be recorded and therefore no information exists on actual expenditures and thus is not presented in the budget. The Accountant General's Department of the Ministry of Finance is responsible for making the approved disbursements. Not all projects are included at budget time. Some can be introduced at mid-year through supplementary estimates. This gives the government some flexibility to respond to urgent needs, but it also gives ministries an opportunity to short circuit the whole PSIP process.

4.23 Post evaluation of projects is usually only done for external funded projects where it is required by the financing institutions. A good example is the Basic Education Reform Project that the government implemented from 1996 to 2001 with financial support from the World Bank. The project achieved greater access to secondary education through the increase in enrollment from 7,417 pupils in 1995 to 9,699 pupils in 2001 and improvement in the quality of instruction: the pass rate of the CXC exam increased from 52.5 percent in 1995 to 66 percent in 2001. On the negative side, the project fell short of the goal to increase efficiency: the pupil-teacher ratio in primary decreased from 1:27 to 1:25, where the target was 1:29.

5. PUBLIC SECTOR EMPLOYMENT AND COMPENSATION

5.1 With a total population of about 100,000 inhabitants, Grenada has limited resources to carry out the whole range of functions performed by any government. As several studies have shown, small countries tend to have bigger governments in response to the higher unit cost of supplying public goods and the need to provide a stabilization role to ameliorate the effect of external shocks (Alesina and Wacziarg 1997; Rodrik 1996).

5.2 In this regard, Grenada has managed its wage bill prudently in comparison to neighboring countries. Since 1995, the wage bill as percentage of GDP has remained stable at around 11.8 percent of GDP. Moreover, the wage bill has fluctuated from 10.4 percent of GDP in 2000 to 12.8 of GDP in 1997 (election year). However, even under this prudent management of the wage bill there is still scope for improvement, in particular in the wage policy used by the government to reward performance.

5.3 The Grenada government is also to be commended for its commitment to public sector reform, mainly in the form of contracting out services and statutorization. Since 1997 with the statutorization of the Post Office, Grenada has contracted out several government services. Commercialization provides an alternative to the direct delivery of services by the government and offers the possibility of improving the quality of services, at a lower cost. However, if commercialization is to deliver on its promise, it requires careful preparation in the context of an overall public sector reform, adequate cost-benefit evaluation, selection of providers in a competitive fashion, and systematic monitoring and feedback of the provider's performance by an effective managerial entity in the government. This report contends that commercialization in Grenada still has to deliver the returns that one would expect from the effort made by the country.

5.4 The purpose of this chapter is to review the main trends in CG employment and compensation, as well as the experience to date with public sector reform, in particular the policy of commercialization that the government has been pursuing since 1997. The main findings and recommendations can be summarized as follows:

On Legislation

- The articles in the Constitution that govern the appointment of public officers, pensions, etc. need to be revised to reflect the requirements of a small open economy that experience continuous external shocks and want to respond with the flexibility of a modern public service.

On CG Employment and Compensation

- The performance appraisal system in place does not work as intended. The increments are too large and almost everyone (95 per cent) qualified for them. Public officials need to be educated about the importance of frank and objective appraisals for improving the delivery of public service. If this can be done, then some sort of performance bonus that is not built into the pay scale might provide a useful incentive.
- The practice of recording some of the expenses of the commercialized programs under object 340 or in the capital budget should be discontinued. All expenses for the commercialized program need to be recorded in the recurrent budget in the same program as before but under a new object code that allows the government to monitor and evaluate these programs.

- Moving forward, it is recommended that the government in response to changes in the age structure of the population rethink (downwards) the number of established employees required to deliver education and health services (see chapters 6 and 7 in this report).

On Commercialization and other Public Sector Reform Issues

- The Grenada government lacks a human resource strategy. The Commonwealth Secretariat carried out a detailed assessment of the training needs of the public service in early 2000. This assessment needs to be implemented.
- The government needs to carry out a detailed evaluation (cost-benefit analysis) of the commercialization program to date to further inform future initiatives in this regard.
- The government needs to establish a proper secretariat with full-time personnel to assess alternative service delivery options and to address the issues that inevitable arise during implementation. A task force of senior public servants, each with several responsibilities, cannot carry the commercialization program forward on its own.
- Commercialization contracts should be subject to competitive bidding by potential suppliers. In addition, the government needs to establish formal monitoring procedures to determine whether the services contracted out are being rendered in the quantity and quality specified in the contracts.
- It is essential that the information systems that contain such staff particulars as date of hiring, date of increments and movements between salary scales, training received, performance evaluation reports, and the date of retirement be updated to the needs of a modern public service.
- It is recommended that the government exploit, through greater collaboration at the regional level, opportunities to pool resources and realize lower unit costs in the areas of tax administration, customs, audit services, police services, magistracy, and environmental protection.

A. TRENDS IN CENTRAL GOVERNMENT EMPLOYMENT DURING 1995-2002

5.5 There are two types of government positions in Grenada: established and non-established. The Public Service Commission appoints employees to established positions and is responsible for promotions and disciplinary actions in the public service.⁴⁷ Established positions are permanent positions listed in the budget, and their compensation is classified as Personal Emoluments. Employees for non-established positions are hired directly by line ministries, the positions are also listed in the budget, and their compensation is classified as wages. The Department of Human Resources in the Prime Minister's Ministry is responsible for the control of established positions and must be consulted by ministries concerning non-established positions.

5.6 From 1995 to 2002, Central Government employment in Grenada declined by a total of 3.6 percent or 0.5 percent per year. However, this decline in CG employment is the result of a reduction in the number of non-established positions.⁴⁸ As Table 5.1 shows, total CG positions decreased from 5,264 positions in 1995 to 5,074 in 2002. But this reduction in positions was driven only by a reduction in the number of non-established positions. Non-established positions decreased from 1,235 positions in 1995 to

⁴⁷ The Public Service Commission is a five-member constitutional body which has a Chair chosen by the Governor General and must include representatives of the Teachers' Union and the Public Workers' Union as well as two members selected by the Prime Minister.

⁴⁸ Information on hours worked by non-established employees was not available, thus it is possible that some of the non-established employees are part-time and therefore cannot be compared to established positions. Moreover, the World Bank's team did not receive information on vacancies and acting positions.

402 in 2002. That is, a total reduction of 67 percent or 14.8 percent per year. By contrast, established positions in the CG increased from 4,029 positions in 1995 to 4,672 positions in 2002.

Table 5.1 Employment in Grenada Central Government, 1995-2002

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1995-2002 |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-----------|
| Established Positions | 4,029 | 4,443 | 4,298 | 4,018 | 4,541 | 4,548 | 4,633 | 4,672 | |
| Annual Growth Rate (%) | | 10.3 | -3.3 | -6.5 | 13.0 | 0.2 | 1.9 | 0.8 | 2.1 |
| Non-established Positions | 1235 | 907 | 825 | 830 | 847 | 670 | 421 | 402 | |
| Annual Growth Rate (%) | | -26.6 | -9.0 | 0.6 | 2.0 | -20.9 | -37.2 | -4.5 | -14.8 |
| Total CG Employment | 5,264 | 5,350 | 5,123 | 4,848 | 5,388 | 5,218 | 5,054 | 5,074 | |
| Annual Growth Rate (%) | | 1.6 | -4.2 | -5.4 | 11.1 | -3.2 | -3.1 | 0.4 | -0.5 |
| As % of Population | 5.3 | 5.4 | 5.1 | 4.8 | 5.4 | 5.2 | 5.0 | 5.0 | |

Source: Grenada, Estimates for the Year.

Note: a) Figures are actual for all years except for 2001 and 2002, which are budgeted. b) Figure for 2001 for established positions corrected to be 4,633 based on add-up of components.

5.7 The largest decreases in the number of non-established CG workers occurred in the Ministries of Works, Communications and Public Utilities and Education. As Table 5.2 shows, of the 548 non-established positions cut between 1995-2001, 238 positions (43 percent) were in the Ministry of Works, Communications and Public Utilities; 93 positions (17 percent) in the Ministry Education and 82 positions (15 percent) in the Ministry of Agriculture, Forestry, Land and Fisheries. The services delivered by the Road Maintenance Program in the Ministry of Works and Communications started to be contracted out in 2001. The Post Office was statutorized in January 1997, removing almost a hundred positions: 31 of which were non-established positions.

5.8 Established positions in the CG during this period increased by a total of 16 percent or 2.1 percent per year. The main increases as Table 5.2 shows correspond to Police (119 positions), Ministry of Education (119 positions), Ministry of Housing, Social Services, Culture and Co-Operatives (43 positions) and the Prime Minister's Ministry (39 positions). Interestingly enough the increase in the number of established positions in the Ministry of Education (119 positions) more than compensate the reduction in the number of non-established positions (93 positions) in the same ministry.

5.9 The Ministries of Education, Health and Environment and the Department of Police accounted for almost 75 percent of established positions in 1995 and 2001. Established positions are distributed among 12 Ministries and 10 Departments. As Table 5.3 shows, in 1995, the largest ministry/department was the Ministry of Education with 36.9 percent of the total established positions; the second largest was the Ministry of Health and Environment with 22.1 percent of the total; and the third largest was the Department of Police with 15.5 percent of the total. The same distribution of established positions among ministries/departments was observed in 2002. The ratio of police personnel per 100,000 habitants in Grenada (635) is in the high end compared to neighboring countries such as Barbados (516) and Dominica (605).⁴⁹

⁴⁹ The data for Barbados and Dominica are for 2000, and its source is the Seventh United Survey of Crime Trend and Operations of Criminal Justice System, United Nations. The data for Grenada are from the Budget Estimates 2003, vote 12, programs 01 and 24-27 (established and non-established positions).

Table 5.2 Change in Central Government Employment by Ministry 1995-2001

| Vote | 1995 | | 2001 | | Change | |
|--|-----------------------|---------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
| | Established Positions | Non-Established Positions | Established Positions | Non-Established Positions | Established Positions | Non-Established Positions |
| 01 Governor General | 11 | 4 | 11 | 4 | 0 | 0 |
| 02 Parliament | 14 | 2 | 13 | 2 | -1 | 0 |
| 03 Supreme Court | 32 | 3 | 31 | 2 | -1 | -1 |
| 04 Magistracy | 33 | 3 | 37 | 4 | 4 | 1 |
| 05 Audit | 19 | 0 | 20 | 0 | 1 | 0 |
| 06 Public Service Commission | 10 | 0 | 11 | 0 | 1 | 0 |
| 07 Director of Public Prosecutions | 4 | 0 | 4 | 0 | 0 | 0 |
| 08 Electoral Office | 9 | 0 | 7 | 0 | -2 | 0 |
| 09 Legal Affairs, Local Government, and Labour | 17 | 20 | 24 | 2 | 7 | -18 |
| 10 Prime Minister's | 36 | 0 | 75 | 0 | 39 | 0 |
| 11 Prisons | 129 | 1 | 130 | 1 | 1 | 0 |
| 12 Police | 681 | 159 | 800 | 170 | 119 | 11 |
| 15 Tourism | 17 | 43 | 19 | 1 | 2 | -42 |
| 16 Foreign Affairs | 38 | 11 | 37 | 12 | -1 | 1 |
| 17 Labour, Social Security., Cooperatives and Community. Development | 47 | 9 | NA | NA | NA | NA |
| 19 Youth, Sports, and Community Development | 27 | 24 | 37 | 8 | 10 | -16 |
| 20 Finance | 335 | 14 | 330 | 0 | -5 | -14 |
| 30 Works | 70 | 266 | 59 | 28 | -11 | -238 |
| 32 Post Office | 64 | 31 | NA | NA | NA | NA |
| 35 Housing, Social Security | 0 | 0 | 43 | 1 | 43 | 1 |
| 36 Carriacou & Petite Martinique | 0 | 0 | 25 | 9 | 25 | 9 |
| 40 Education | 1,623 | 149 | 1,742 | 56 | 119 | -93 |
| 50 Health | 975 | 71 | 986 | 44 | 11 | -27 |
| 64 Agriculture | 211 | 159 | 192 | 77 | -19 | -82 |
| Total | 4,402 | 969 | 4,633 | 421 | 231 | -548 |

Source: Grenada, Estimates for the Year 1995 and 2001

5.10 In 1995, three ministries and one department accounted for 3/4 of non-established positions. In 2001, only two ministries and one department accounted for the same fraction of non-established positions. In 1995, the Ministry of Works, Communications and Public Utilities hired about 27 percent of all non-established employees, followed by the Ministry of Agriculture, Forestry, Land and Fisheries and the Police Department each with 16.4 percent of the total, and the Ministry of Education with 15.4 percent. In 2001, as a result of the contracting out of road maintenance, only three votes accounted for 75 percent of all non-established positions. The Police department accounted for 40.4 percent of all non-established positions, followed by the ministries of Agriculture, Forestry, Land and Fisheries, with 18.3 percent of the total non-established positions and Education with 13.3 percent.

Table 5.3 Central Government Employment by Ministry 1995 and 2001
(as percent of total CG employment)

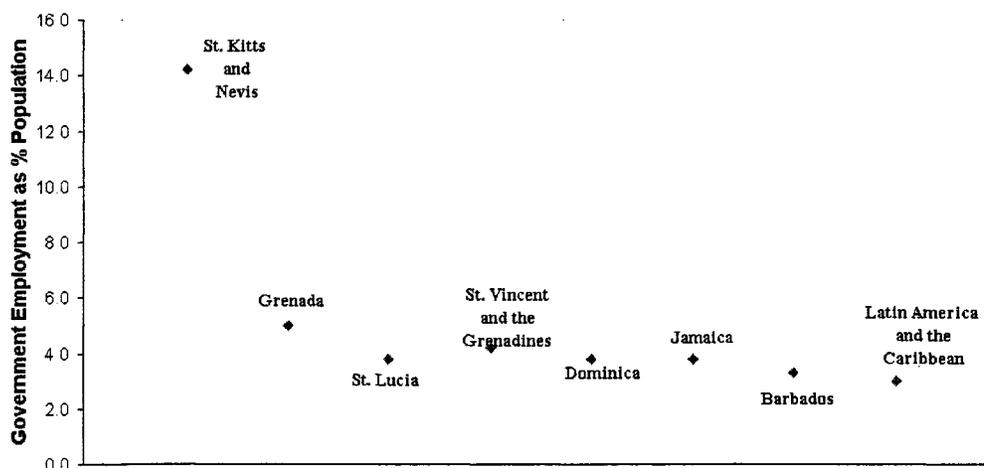
| Vote | 1995 | | 2001 | |
|--|-----------------------|---------------------------|-----------------------|---------------------------|
| | Established Positions | Non-Established Positions | Established Positions | Non-Established Positions |
| 01 Governor General | 0.2 | 0.4 | 0.2 | 1.0 |
| 02 Parliament | 0.3 | 0.2 | 0.3 | 0.5 |
| 03 Supreme Court | 0.7 | 0.3 | 0.7 | 0.5 |
| 04 Magistracy | 0.7 | 0.3 | 0.8 | 1.0 |
| 05 Audit | 0.4 | 0.0 | 0.4 | 0.0 |
| 06 Public Service Commission | 0.2 | 0.0 | 0.2 | 0.0 |
| 07 Director of Public Prosecutions | 0.1 | 0.0 | 0.1 | 0.0 |
| 08 Electoral Office | 0.2 | 0.0 | 0.2 | 0.0 |
| 09 Legal Affairs, Local Government, and Labour | 0.4 | 2.1 | 0.5 | 0.5 |
| 10 Prime Minister's | 0.8 | 0.0 | 1.6 | 0.0 |
| 11 Prisons | 2.9 | 0.1 | 2.8 | 0.2 |
| 12 Police | 15.5 | 16.4 | 17.3 | 40.4 |
| 15 Tourism | 0.4 | 4.4 | 0.4 | 0.2 |
| 16 Foreign Affairs | 0.9 | 1.1 | 0.8 | 2.9 |
| 17 Labour, Social Security., Cooperatives and Community. Development | 1.1 | 0.9 | NA | NA |
| 19 Youth, Sports, and Community Development | 0.6 | 2.5 | 0.8 | 1.9 |
| 20 Finance | 7.6 | 1.4 | 7.1 | 0.0 |
| 30 Works | 1.6 | 27.5 | 1.3 | 6.7 |
| 32 Post Office | 1.5 | 3.2 | NA | NA |
| 35 Housing, Social Security | 0.0 | 0.0 | 0.9 | 0.2 |
| 36 Carriacou & Petite Martinique | 0.0 | 0.0 | 0.5 | 2.1 |
| 40 Education | 36.9 | 15.4 | 37.6 | 13.3 |
| 50 Health | 22.1 | 7.3 | 21.3 | 10.5 |
| 64 Agriculture | 4.8 | 16.4 | 4.1 | 18.3 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Grenada, Estimates for the Year 1995 and 2001

5.11 **A new form of employment has arisen under object 340 in the budget.** The economic object 340 (Professional and Others Services) in the Estimates has been often used in the case of IT professionals where there is a EC\$ 500-1,000 per month gap between the government pay scale and the private sector salaries. However, the government decided to keep some of the employees released through commercialization in the payroll. But, because the government could not re-hire the released employees and it was committed to the targeted staffing level of 5,000, their compensation was recorded in the object 340. Moreover, some of these employees were kept on the payroll under object 340 performing the same tasks as prior to commercialization. Although these expenses must be approved as part of the annual budget process, it is not subject to central control by the Department of Human Resources. Consequently, its use results in only a partial control on staffing in the CG.

5.12 **In conclusion, in 2001, 5 in 100 individuals worked for the Grenada's CG as an established or non-established employee.** This is a much lower ratio than in St. Kitts and Nevis and about the same as in St. Lucia (with similar population sizes) and significantly higher than in Jamaica and the Latin America and Caribbean Region in general. (Figure 5.1). Moreover, because of the use of object 340, it is not clear that all the reduction observed in non-established positions took place or that some of the non-established workers were kept in the payroll but under a different code.

**Figure 5.1. Government Employment as percentage of Population, 2001
(Selected Caribbean Countries)**



Source: Mukherjee, De Tommaso and Schiavo-Campo (1997) "Government Employment and Pay: A Global and Regional Perspective", Policy Research Working Paper, The World Bank.

B. TRENDS IN CG COMPENSATION DURING 1995-2002

5.13 Personal Emoluments and Wages increased (in real terms) by 20 percent or 2.5 percent per year during the period 1995-2002. This increase in the wage bill is wage driven rather than employment driven. As Table 5.4 shows, the total (nominal) increase in personal emoluments and wages was 35 percent during this period or 4.4 percent per year; however, in the same period the number of CG established positions and non-established positions decreased by 3.6 percent or 0.5 percent per year. Moreover, inflation increased only by about 14 percent in total or 1.9 percent per year.

5.14 During this period, there were only three negotiated increases in salaries for the periods 1993-95, 1996-2001, and 2002-05. These increases account for a small fraction of the raise in the wages bill. The pattern of increases in wages due to negotiated increases is more clearly revealed in the profile of the low end of the salary scale E for established positions. Category E applies to local government officers, road officers and trained nurses. Table 5.4 shows, that in this period there were two negotiated increases in wages and salaries in 1997 and 2001 with a total increase of 11.1 percent or 1.6 percent per year, hardly enough to keep the wage scale up with inflation over the same period. Therefore, these increases do not explain the increase in the wage bill observed during this period

Table 5.4 Grenada CG Compensation 1995-2002

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 1995-2002 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|-----------|
| Personal Emoluments and Wages (EC\$ Millions) | 82.04 | 88.11 | 96.93 | 95.83 | 107.35 | 105.62 | 116.9 | 111.1 | |
| Annual Growth Rate (%) | | 7.4 | 10.0 | -1.1 | 12.0 | -1.6 | 10.7 | -5.0 | 4.4 |
| Total CG Positions | 5,264 | 5,350 | 5,123 | 4,848 | 5,388 | 5,218 | 5,054 | 5,074 | |
| Growth Rate (%) | | 1.6 | -4.2 | -5.4 | 11.1 | -3.2 | -3.1 | 0.4 | -0.5 |
| Average Compensation per established and non-established position (EC\$) | 15,586 | 16,470 | 18,920 | 19,767 | 19,924 | 20,241 | 23,130 | 21,896 | |
| Growth Rate (%) | | 5.7 | 14.9 | 4.5 | 0.8 | 1.6 | 14.3 | -5.3 | 5.0 |
| Salary Scale Grade E (EC\$) | 13,464 | 14,004 | 14,004 | 14,004 | 14,004 | 14,004 | 15,000 | 15,000 | |
| Growth Rate (%) | | 4.0 | 0.0 | 0.0 | 0.0 | 0.0 | 7.1 | 0.0 | 1.6 |
| Annual Inflation | 2.24 | 2.79 | 1.29 | 1.41 | 0.51 | 2.18 | 3.20 | 1.73 | 1.9 |

Source: Grenada Estimates for the years 1994-2002.

5.15 However, pay scale changes and performance increments wages explained most of the increase in the wage bill. In 1996, following a study by KPMG done in May 1995, a new pay and performance system was implemented. This new pay system involved the preparation of job descriptions and the initiation of annual performance appraisals. The new pay system for public officers has 13 grades (A-M) with 9 pay levels for grades A-I and 5 pay levels for grades J-M.⁵⁰ The new performance appraisal adopted, and still in place, yielded increases of about 10 percent per year because most of the employees were ranked as best performers. The Department of Human Resources believed that increases due to performance will max in 2004 as most employees will be in the ninth pay level and will only get increases if they are promoted to next grade.

5.16 This inflexibility of the public sector wage policy is a concern in the context of a currency union. In a currency union, the real appreciation of the exchange rate that fiscal deficits can generate cannot be compensated by an increase in the exchange rate, thus wages will need to adjust downwards to maintain the competitiveness of the economy. However, if the public sector wage policy is not flexible, as seems to be the case in Grenada, and public employment represents a substantial share of total employment in the economy, then the country will be double tied, as was the case in Argentina. One alternative that has been discussed in the literature is to index wages to GDP.

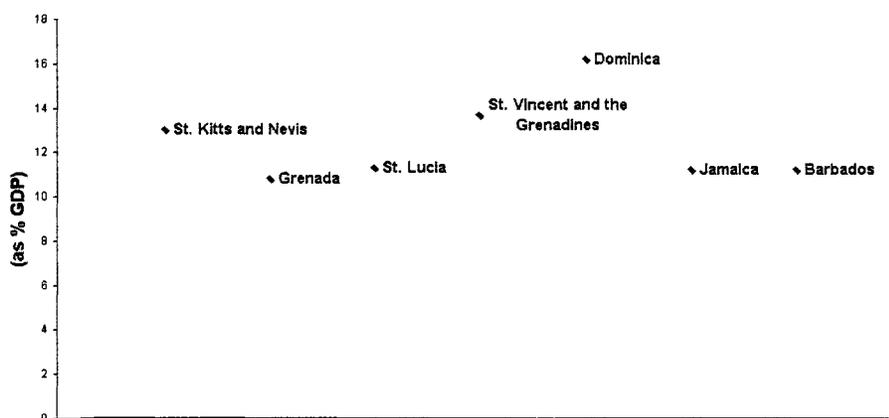
5.17 Although these increases may have achieved to some extent the goal of reducing the gap between public and private sector compensations, they have also implied an increase in CG compensation that does not necessarily reflect increases in productivity in the public sector.

⁵⁰ Police Officers and Teachers have a separate pay structure.

Moreover, they raise the question whether or not changes in the incentive structure (performance appraisal) governing public sector wage policy could change attitudes and performance in the workplace without the need for commercialization. While no information was provided on private sector wages, discussions with officials have suggested that public service salaries still are below those in the private sector at the senior and middle level and above private sector wages at the bottom end of the salary scale. This seems to be one of the reasons why it is difficult to recruit highly skilled public servants and that turnover is high at the middle level of the public service. However, as it was discussed in chapter 1 (para. 1.23) civil servants are exempted from income taxation

5.18 The ratio of wages and salaries at 10.8 per cent of GDP is lower than in St. Kitts, Dominica, St. Lucia, and St. Vincent and the Grenadines but about the same as Jamaica and Barbados (see Figure 5.2). The government needs to be prudent in the management of the wage bill given that the CG debt (excluding government guarantees to statutory bodies and private enterprises) to GDP ratio had reached almost 85 percent as of December 31, 2003.

**Figure 5.2 Public Sector Wage Bill as percentage of GDP, 2001
(Selected Caribbean Countries)**



Source: Author's calculations.

C. PUBLIC SECTOR REFORM, COMMERCIALIZATION AND STATUTORIZATION

5.19 The government is strongly committed to a program of commercialization as part of an overall public sector reform. Several different arrangements have been employed during the divestiture of functions. In the case of solid waste disposal and the post office, an autonomous executive agency was created. In other cases such as grounds maintenance of athletic facilities, cleaning of government offices, and cleaning of public markets, a contractual arrangement has converted agency employees into private providers of equivalent services. In recent years, 800 to 1,000 positions (the majority non-established positions) have been contracted out of the CG. It represents a significant proportion of the total CG employees of around 5,500 and has been the main mechanism that the government has used to achieve its targeted staffing level of 5,000.

5.20 Cabinet established a Commercialization Task Force in September 1999 to oversee the commercialization and/or private management of selected government departments. However, this Task Force has met infrequently. The Commercialization Task Force includes the Head of the

Department of Human Resources, the Permanent Secretary of Finance, the Accountant General, and the Head of Legal Affairs, and is chaired by the Permanent Secretary of Agriculture - reporting to a broader Public Service Development Committee (PSDC) chaired by the Cabinet Secretary. Its effectiveness has been weighed down by non-attendance of many members. In May 2001, an effort was made to revitalize the Task Force, but again it suffered from poor attendance. More fundamentally, the government has not established a proper secretariat with full-time personnel to assess alternative service delivery options and to address the issues that inevitably arise during implementation. A task force of senior public servants, each with several responsibilities, cannot carry the commercialization program forward on its own.

5.21 The Post Office was the first government operation to be commercialized by setting it up as a statutory agency in January 1, 1997. It has been operating as such ever since. Since then, the cleaning services in the Ministerial Complex, road maintenance, the Farms Roads Division and other services in the Ministry of Agriculture, cleaning services and fee collection at public markets, maintenance, cleaning and security services in the Ministry of Education, maintenance of sports facilities, cleaning, security, grounds and maintenance of Hospital Services, and waste collection and disposal have been contracted out. The 2003 Estimates reports the government's intentions to transform the Printery into a statutory agency by June 2003.⁵¹ Discussions have also been underway about statutorizing the General Hospital and the T.A. Marryshow Community College. However, the unions have been resisting the change and as of today, they are still part of the CG.

5.22 It was estimated in the report on public service reform prepared by KPMG for the Office of the Prime Minister in 1994 that it would be possible to reduce staff numbers by 688 through contracting out and to save EC\$1,642,000 per year. This estimate was based on the data available on compulsory competitive tendering in central government in Britain where savings of 30 percent were reported for compulsory competitive tendering and 20 to 25 percent for market tested services. Services covered included: gardeners and grounds men; cleaners; security; seamstresses; police garage; schools' maintenance; refuse services; computer services; printery; and hospital laundry.⁵²

5.23 The World Bank conducted a preliminary assessment of the commercialization process in Grenada in 2003 at the request of the government on the basis of interviews with public officers, supervisors of contracted out services and consumers. The assessment noted that:

- The impact of commercialization on the quality of services contracted out varied. The quality of the service provided for road maintenance, maintenance of athletic fields, and cleaning of government offices improved slightly, the performance of cleaning services and fee collection at public markets was unsatisfactory;
- No economies over the previous level of costs appear to have been realized. The failure to realize savings was likely a product of the model used for contracting out.⁵³
- The outsourcing or privatization of services employing establishment employees is impeded by the inordinately heavy burden of severance payments. Thus, to date outsourcing has been confined to services employing daily wage workers requiring costly but manageable severance payments (see para. 5.26).

⁵¹ The printery publishes the official Gazette and other government documents, has a staff of 22 full-time employees established and non-established

⁵² See "The Government of Grenada Prime Minister's Office: Report on a Strategic Review for Public Service Reform", KPMG Peat Marwick, September 1994, p.27.

⁵³ The mode used for contracting out was to provide the released workers with a severance payment and help them form companies that would receive contracts to carry out the same services they had delivered as public employees.

5.24 **On the basis of the above observations, it is recommended that government carry out a detailed evaluation of the commercialization program to date, to further inform future initiatives in this regard.** To date none of the executed or proposed commercialization projects has been subject to a cost-benefit analysis of different options. This is in part because the information available from the government does not disaggregate inputs and outputs at the level required, or is presented in budget codes in conjunction with other expenses or because the scope of the program has been extended making it difficult to compare before and after commercialization (Box 5.1 details some of the problems involved in attempting to evaluate the statutorization of the Post Office). For example, expenses for the road maintenance program before commercialization were recorded as recurrent expenditures in the budget, after commercialization they are recorded in object 340 in a new program in the recurrent budget and in the capital budget.⁵⁴ However, only after such a study is done, would it be possible to establish if commercialization has resulted in better value for money and the population has benefited from increased productivity and efficiency.

5.25 **Next, it is recommended that future instances of commercialization be open to bids from private operators or employee cooperatives- without insisting on the preservation of jobs.** Similarly, it is recommended that upon expiration of existing contracts, future contracts be awarded on the basis of an open bidding process by potential suppliers. In addition, to the extent possible the government should avoid financing the up-front capital costs of the private operators but rather encourage them to obtain private financing from banks. Each commercialization contract should have an established monitoring procedure to determine whether the services contracted are being rendered in the quantity and quality specified in the contracts.

5.26 **Moreover, the legislation that governs public sector employment is outdated and has a void with respect to the potential compensation to be paid when an established employee is terminated on account of redundancy. This in turn limits the possibility of the government to embark on an overall public sector reform.** As discussed in the education and health chapters of this report, changes in service delivery modes in the social sectors are required in the near future and this reform may imply the curtailing of established positions in these sectors. However, Article 84 (8) of the Grenada Constitution guarantees that any established worker who is required to retire on abolition of his/her office or for the purpose of reorganization of the Ministry or Department shall be entitled to pension and retiring benefits as if he/she had attained the compulsory retiring age. That is, an immediate pension (pension that would be normally received at age 60) based on the last salary earned and the maximum permissible months (320) months. Non-established workers are not eligible for pension, but are eligible for a severance allowance in accordance with the terms of the collective agreement, those with fewer than five years of service are compensated at four weeks compensation times the number of years of service or fraction thereof. For those with five or more years of service, the payment is equal to six weeks compensation times the number of years of service or fraction thereof. There are no upper limits on these payments. It is not clear whether permanent employees eligible for a pension can also receive a severance allowance. The law creating the pension regime was abrogated on April 4, 1983. The government maintains that only those employees that were employed prior to that date are eligible for payments in the event of their dismissal; it is estimated that perhaps as many as half of the permanent employees are covered. However, the unions maintain that the Constitutional provision covers all employees, even those who have entered government service since April 4, 1983. A case involving this issue is currently on

⁵⁴ Clearly all expenses for road maintenance in the capital budget should be moved to the recurrent budget as a matter of good budgeting practices.

Box 5.1 The Post Office Statutorization

The Post Office was the first government operation to be commercialized by being set up as a statutory agency in January 1, 1997. It has been operating as such ever since. Prior to commercialization, the Post Office had 44 employees and formed part of the Ministry of Works, Communications and Public Utilities. Rather than separate the existing employees, of the Post Office, the workers agreed to be seconded to the Postal Corporation, thus preventing the need to make severance payments. The original duration of the secondment was two years, but was extended for an additional three, expiring in January 2002.

The status of the seconded workers has yet to be resolved. In March 2001, the Postal Corporation informed the government of its decision to return 27-seconded workers to the Ministry of Works, Communications and Public Utilities. The Ministry requested a postponement of their return and, as of yet none have returned. In May 2003, the Postal Corporation sought to return only 14 of the original 44-seconded employees, retaining the remaining 30 employees. If these workers cannot be placed in the civil service they will have to be declared redundant and retired with full pensions as mandated by the Constitution (see para. 5.25) for the case of established positions.

It is difficult to assess its success based on the information contained in the Estimates and Financial Statements of the Grenada Postal Corporation shown below. As can be seen, expenditures before commercialization and expenses after do not seem to be strictly comparable. This could be because some expenses were recorded under other programs. While there seems to be a closer correspondence between recurrent revenue and gross income, the fact that recurrent revenue is lower than gross income, and expenditure on administration is lower than expenses suggests that some expenditure was being netted against revenues prior to commercialization. This is consistent with the pattern of the surplus, which is similar in 1997 and 1996, after and before commercialization. The fact that the surplus deteriorates after 1997 is cause for some concern about the efficiencies resulting from commercialization. However, this could also result from improved services or lower prices. Nevertheless, the best that can be said is that there is no aggregate evidence that commercialization of the Post Office has resulted in lower costs or increased revenues to the government.

Post Office Revenues, Expenditures and Net Surplus Before and After Commercialization (EC\$)

| | Before Statutorization | | | After Statutorization | | | |
|-------------------------------------|------------------------|-----------|-----------|-----------------------|-----------|-----------|-------------|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 (prov) |
| Expenditures | | | | | | | |
| Administration | 1,398,060 | 1,353,857 | 1,331,002 | | | | |
| Administrative and General Expenses | | | | 955,549 | 1,265,955 | 1,569,872 | 1,860,829 |
| Direct Expenses | | | | 1,356,346 | 1,679,222 | 1,897,980 | 1,963,711 |
| Total Expenses | | | | 2,311,895 | 2,945,177 | 3,467,852 | 3,824,540 |
| Revenues | | | | | | | |
| Total Recurrent Revenue | 3,035,676 | 4,022,652 | 3,043,271 | | | | |
| Total Gross Income | | | | 3,486,778 | 2,998,162 | 3,664,924 | 4,156,085 |
| Net | | | | | | | |
| Net surplus | 1,637,616 | 2,668,795 | 1,712,269 | 1,690,161 | 1,115,510 | 1,114,583 | 1,209,069 |

Source: Grenada, *Estimates for the Year and Grenada Postal Corporation, Financial Statements for the year ended December 31, 1997, 1998, 1999 and 2000*

appeal before the Privy Council in England. It should also be noted that the pension legislation made no provision for the funding of pensions. Pensions must be treated as a current expenditure, thus constituting a heavy burden on the budget. Thus, future plans for the commercialization of activities staffed by established employees are clouded by the uncertainty of the government liability for pension costs. In the absence of a clarification of this issue, severance payments associated with further commercialization are likely to be so high as to make it not cost-effective.

5.27 The personnel information systems are fairly basic for the needs of Grenada and the implementation of serious public sector reform. The information system that usually contains such staff particulars as date of hiring, date of increments and movements between salary scales, training received, performance evaluation reports, and the date of retirement is inadequate for a modern public sector. It does not contain the information required for manpower planning, professional development, and the design and implementation of a public service reform.

5.28 Moreover, the Grenada government lacks a human resource strategy. The Commonwealth Secretariat carried out a detailed assessment of the training needs of the public service in early 2000.⁵⁵ Based on the results of questionnaires filled out by public servants, the consultants identified required competencies and training needs. For top management, the key competency areas indicated were: leadership; strategic planning and management; managing people; and expertise and professional competence. The areas needing development were: strategic planning and policy formulation; team building skills; target setting; general management; reporting; project planning; information technology; change management; interpersonal and communications skills; and negotiation skills. Top management saw an urgent need for Executive Development Programs. Middle management emphasized the need to develop the following skills: leadership and management; interpersonal relations; information technology; and people management. Lower management called for: self-awareness and personal development; information technology; pre-service training; and mandatory promotion courses. The non-management group highlighted: communication skills; general skills and abilities; tact in handling people; supervisory skills; and basic management. The Commonwealth Secretariat consultants made specific recommendations for strengthening training in the public service. These included a call to expand the Training Division in the Human Resource Development Department, which is responsible for training. It is now more than two years since the training needs report was prepared and no action seems to have taken place. There is still no training plan for individual employees to enable them to advance along their career paths. Training is still offered in an unsystematic way, and depends on the availability of donor financing. And afterwards, trained individuals are often not well utilized and as a result may leave the public service. A good example of this is the course in public sector investment planning sponsored by one of the donors. Most of the people who took the course left the public service shortly afterwards.

5.29 It should not be surprising that, given the small size of its population, Grenada suffers from serious deficiencies in human resources, which include specifically shortages of qualified administrators and policy advisors, and technical experts. While many people from Grenada attend the University of the West Indies and universities in the United Kingdom, the United States and Canada, it is difficult to recruit and retain such highly educated individuals in the public sector. The government of Grenada is run by an executive core of relatively few career senior public servants. While some of the public servants got their jobs as a result of their professional qualifications, others rose to the top based on seniority and lack of generally applicable skills and knowledge. Below the top level, there is a high degree of turnover among middle management, leaving the small executive core responsible for administration and policy formulation and implementation.

⁵⁵ See "Report on the Training Needs", Commonwealth Secretariat, February 2000.

5.30 **The issue of performance appraisal and incentives needs to be revisited.** The system in place obviously does not work as intended. The increments are too large, and almost everyone (95 per cent) qualifies for them based on performance. According to some, the close island society makes it very difficult or impossible to critically appraise staff. Public officials need to be educated about the importance of frank and objective appraisals for improving the delivery of public service. If this can be done, then some sort of performance bonus that is not built into the pay scale might provide a useful incentive.

5.31 **Grenada presents some fragmentation and duplication of work between ministries, departments, and agencies leading to a diffusion of responsibilities.** The survey of public officials, carried out for the OECS Institutional and Organizational Capacity Review (IOCR) in 2001, noticed a duplication of functions and that such overlap adversely affected the public service. This suggests that missions, objectives, and functions of the different ministries need to be reviewed to determine the most effective and efficient organizational structure. Opportunities to pool resources and realize lower unit costs through greater collaboration extend to almost all areas of public sector activity, including international relations, economic and social policy, and policing. The benefits of common organizational arrangements for tax administration, customs, audit services, police services, magistracy, and environmental protection was discussed in the OECS IOCR.

6. THE HEALTH SECTOR

6.1 On average during the period 1993-2002, Grenada's recurrent and capital public spending on health as a share of GDP was about 3.9 percent. This level of expenditure place Grenada in the middle of the OECS countries, with St. Lucia and St. Kitts and Nevis spending less and Dominica, Antigua and Barbuda, and St. Vincent and the Grenadines, spending more as a share of GDP.

6.2 Public financing and public provision of health care dominate Grenada's health system. The system has a strong primary health care orientation with a solid nursing base. The public health sector has managed to avoid investments in unsustainable medical equipment and tertiary facilities, and has introduced a policy of contracting out hospital support services and other innovations to improve efficiency. Grenada's health system has served the country well, although the model now needs some redesign to face the challenges of the coming years, given fiscal pressures, exacerbated by the demands on the system from an aging population.

6.3 This chapter reviews the status of health in Grenada, describes the main features of the health delivery system and analyzes the sources and uses of health financing with a view to identifying possible ways to improve efficiency and equity over the short- to medium-term. The main findings and recommendations can be summarized as follows:

Improving and Sustaining Health Outcomes

- **Health promotion and disease control for noncommunicable diseases and injuries.** Like other OECS countries, because of changes in lifestyles, disease patterns and its aging population, Grenada needs to strengthen public health and primary care in noncommunicable diseases and injuries, in order to continue to improve its health indicators and contain costs over time. This means focusing health promotion and disease control activities as effectively as possible on tobacco control, injury prevention, control of obesity through diet and physical activity, and screening and early treatment of diabetes and hypertension.
- **Epidemiological Surveillance.** Health statistics are not up-to-date and health districts report that they provide information but rarely get feedback from the central level. The timeliness and coverage of health indicators and service statistics needs to be improved to better guide policymaking and district health activities. Given changing disease patterns, the government needs to support sentinel surveillance for HIV/AIDS, like the recent survey of pregnant women, rather than passive surveillance, to better understand the epidemic. It also needs to improve its surveillance of noncommunicable diseases and monitoring of behavioral risk factors.

Improving Efficiency in the Delivery of Services

- **Configuration and roles of medical stations/health centers/district hospitals.** Given Grenada's changing age distribution of the population, disease profile, and demands from the population, it would be useful to reexamine the functions of Grenada's extensive network of medical stations, health centers, and district hospitals and their staffing to see if some medical stations might be eliminated or moved, if health centers should be eliminated or upgraded, and if district hospitals should be upgraded or changed in other ways to improve service efficiency and quality. The district hospitals are of particular concern as their resolute capacity is low given their infrastructure and staffing. Some health centers in St. George's need to stay open longer hours and be upgraded in order to relieve the congestion at the General Hospital. It is also recommended that the government allow facilities to retain some of the user fees collected in order to reinvest in maintenance and other areas.

- **Human Resources.** Presently the government has a professional nurse-to-nurse assistant ratio of approximately 1 to 1. The government could consider increasing the share of nurse assistants/aides to increase efficiency as it is reported that many professional nurses are doing tasks that could be performed by aides. Nurse assistants/aides are cheaper to train, easier to retain, and can fulfill an important role in efficient service delivery.
- **The productivity of district medical officers in public service.** Most district medical officers do not work for more than three or four hours a day in public service—devoting early morning and/or evening hours to private patients to supplement their public salary. If the public clinic model is to work well, the problems of low productivity of district medical officers (at least in their public service) need to be addressed and hours of work enforced. The demand for private consultations also signals a need for change in quality of service in public clinics: more convenient hours of operation, greater privacy conditions, and more respectful treatment of patients.
- **Maintenance.** Maintenance problems appear widespread in public facilities. Ensuring adequate funding in the budget and decentralizing the control of some maintenance funds are ways to improve the situation.
- **Hospital Autonomy.** In the late 1990s, the government appointed a Board of Directors to manage the public hospitals as part of a long run plan to convert the hospitals to statutory bodies. This plan encountered difficulties--both on the legal framework and in the dialogue with the trade unions. The government is now in the very early stages of making the General Hospital an executive agency as an intermediary step to its full transformation to a statutory body. The intention is to give the hospital more management control—over human resources, supplies, contracting out, and maintenance. It is recommended that this process be pursued to achieve improvements in hospital efficiency.
- **Achieving economies of scale.** Grenada achieves economies of scale in drug procurement by participating in the well-run OECS Drug Procurement Service. There may be scope to achieve economies of scale in other areas of the health sector—purchasing supplies, laboratory services, and health service delivery through regional arrangements with neighboring countries.
- **Regulation of private health insurance.** Given the demand for supplemental coverage policies, the market for private health insurance is growing but is largely unregulated. The Ministry of Finance is now planning to strengthen regulation of this aspect of the insurance market. In doing so, there may be ways to encourage standardization of packages that promote efficiency in the market. The Ministry needs to start monitoring private insurance—both coverage numbers and what is offered—as part of its broad oversight of the health sector.

Improving Equity in Access to Services

- **Equity of access to elective surgery in the National Hospital.** The Grenada health system appears to be fairly equitable with good access by the poor to health services. This said, there are distinct patterns in the use of services, as the poor use public facilities more than the nonpoor. Within the public system, there is indication that private patients tend to jump waiting lists for elective surgery in the General Hospital. A review is needed of wait times for elective surgery by private patient/public patient status to see the extent of the problem and in order to find solutions to resolve this inequity.

Improving Financial Protection and Health Financing Issues

- **User Fees.** Related to the issue of hospital autonomy is the issue of user fees. The General Hospital is not permitted to retain user fees and so has weak incentives to collect. With greater hospital autonomy, it is recommended that the government allow the General Hospital to retain some fees. To have an impact on revenue, the Hospital would have to revamp its admissions and billing procedures to enhance collection. The user fee policy needs to be reviewed as well. It would be important to

retain and possibly strengthen exemptions for the indigent. Care should also be taken to ensure that fees do not become financially catastrophic for the non-poor, but they could be increased for some services both to raise revenue and for efficiency purposes. Hospital fees can be used to give people incentives, for example, not to bypass health centers in favor of the hospital for problems that could be addressed, at no charge, at the health center. It is recommended that the private ward of the hospital have 100 percent cost recovery.

A. HEALTH OUTCOMES IN GRENADA

6.4 Although there are problems with the timeliness and coverage of health indicators in Grenada, the indicators that do exist show good progress in improving health outcomes, particularly given the country's income level. As Table 6.1 shows, infant mortality was estimated at 14 per 1000 in 2000. This low level compares well with other countries in the Caribbean region and other countries in the world of similar income levels. The total fertility rate has declined considerably over the past 25 years and was estimated at 3.0 births per woman in 2002. Interestingly, despite the steady decline since the 1970s, this rate is still the highest among the OECS countries. The International Planned Parenthood Federation concludes that the unmet need for family planning is high, even with a contraceptive prevalence rate of over 50 percent. Life expectancy is relatively high at 73 years.

Table 6.1 Health Indicators in Grenada compared with Barbados, Jamaica and other OECS, 2002

| | Total Population Estimate 2002 | GDP per capita 2002 (current \$, PPP) | Infant Mortality Rate 2002 (per 1,000 live births) | Total Fertility Rate Birth per women 2002 | Life Expectancy at birth 2002 |
|--------------------------------|---|--|---|---|-------------------------------------|
| Grenada | 101,700 | 6,330 | 14 | 3.0 | 73 |
| Antigua and Barbuda | 68,890 | 9,960 | 15 | NA | NA |
| Barbados | 269,380 | NA | 17 | 1.7 | 75 |
| Dominica | 71,800 | 4,840 | NA | 1.9 | 77 |
| Jamaica | 2,617,930 | 3,550 | 20 | 2.3 | 76 |
| St. Kitts and Nevis | 45,980 | 9,780 | 19* | 2.1 | 71 |
| St. Lucia | 158,520 | 5,138 | 13 | 2.1 | 72 |
| St. Vincent and the Grenadines | 116,720 | 5,100 | 20 | 2.1 | 73 |

Source: World Bank, World Development Indicators. Ministry of Health, Grenada

Note: For St. Kitts and Nevis, the comparable IMR number in 2001 is much lower, 12.5 per 1,000 due to a sharp decline in neonatal mortality that year.

6.5 **Maternal and Child Health.** The main reason behind the relatively low infant mortality rate is the fact that almost 100 percent of births are attended by trained personnel. As Table 6.2 shows, another factor contributing to the good child health indicators is the immunization program, which achieves excellent coverage, with rates above 95 percent for DPT, polio, and measles, mumps, and rubella. Moreover, the 1998 Grenada Survey of Living Conditions showed that poor and non-poor immunization rates were very similar, reflective of the high coverage and broad access by the population to primary care. Over half of all infant deaths occur in the neonatal period, which would be expected given Grenada's relatively low infant mortality rate.

Table 6.2 Selected Maternal and Child Health Indicators, Grenada 2001
(as percentage)

| | |
|---|-------|
| Birth attended in hospitals | 100.0 |
| Neo-natal death rate (per 1,000 live births) | 10.3 |
| Babies low birth weight (<2500 grams) | 8.4 |
| Cesarean Section Rate | 2.1 |
| Teenage Birth Rate | 17.0 |
| Immunization Coverage | |
| DPT | 96.0 |
| Polio | 96.0 |
| Measles, Mumps, and Rubella | 99.0 |

Source: Community Health Services Report, 2001.

6.6 Teen Pregnancy. The share of births to teens is slightly less than 1 in 5, and has remained fairly constant from 1994 to 2000. This level is a concern as teen pregnancies can be associated with high-risk pregnancies and poverty. A study based on data from the maternity unit at the National General Hospital concluded that young, pregnant teenagers (aged 15 and under) had increased risks of pre-term labor, cesarean section deliveries, pre-maturity, low birth weight babies, asphyxia, and pre-natal mortality. Pregnant girls aged 16 and under are required to drop out of school, thereby reducing their long run earning opportunities and increasing their risk of poverty.

6.7 Water and Sanitation. Access to water and sanitation is fairly good, with differences between the poor and non-poor only for sanitation access. The 1998 Grenada Survey of Living Conditions reported that 66 percent of the poor used a pit latrine, compared to 51 percent of the non-poor. About 31 percent of the poor had access to a water closet, compared to 47 percent of the non-poor. Access to water was more similar across poor/non-poor in that survey. About equal numbers (77-78 percent) of the poor and non-poor had private or public water piped into the house or yard (Table 6.3).

Table 6.3 Water and Sanitation Facilities by Poor and Non-poor, 1998
(as percentage)

| | Poor | Non poor |
|-----------------------------|------------|------------|
| Type of Toilet | 100 | 100 |
| Pit Latrine | 66 | 51 |
| Water Closet | 31 | 47 |
| Other | 3 | 2 |
| Sources of Water | 98* | 100 |
| Private, piped into house | 14 | 13 |
| Public, piped into yard | 55 | 59 |
| Public, piped into dwelling | 8 | 6 |
| Other | 21 | 22 |

Source: Grenada Survey of Living Conditions, 1998

* The figures presented in the Poverty Assessment do not add to 100.

6.8 Changing Disease Profile. As is the trend in the Caribbean as a whole, non-communicable diseases have replaced infectious diseases as the main cause of health problems. Diabetes and hypertension are particularly common problems. The main problems for which adults and the elderly sought care at community health services in 2001 included diabetes, hypertension, respiratory tract infections, arthritis, eye infections, and home injuries. The leading causes of death in the late 1990s were malignant neoplasms, diseases of pulmonary circulation and other forms of heart disease, and cerebrovascular diseases. As can be seen in the age-population pyramids presented in Figure 6.1, Grenada is moving through the demographic transition, from a young population in 2000 (median age, 20) to an older population in 2025 (projected median age, 29) and even older population in 2050 (projected median age, 40). This has profound implications for the health system, as non-communicable diseases will dominate health problems. Cost-effective non-communicable disease control and prevention programs will need to be supported strongly to maintain the health of the population and to avoid costly care.

6.9 Endemic Diseases and Substance Abuse. Dengue is endemic and is the main tropical disease problem in Grenada. Cocaine and marijuana use are problems and the public system has a substance abuse rehabilitation center, Carlton House, to treat people.

6.10 HIV/AIDS. The Caribbean has the second highest rate of HIV prevalence following Sub-Saharan Africa. HIV was first diagnosed in Grenada in 1984. Since then, the number of infected persons has steadily increased. By 2001 there had been 216 reported cases of which 138 were males and 78 females. Of these, 106 had died, leaving 110 persons living with HIV/AIDS. This certainly is an underestimate of the prevalence of HIV/AIDS in Grenada given problems with reporting. Surveys and other social indicators reveal that the sexually active population of Grenada does not usually follow safe sex practices. Results from a recent survey on HIV and sexual practice in Grenada show that approximately one-third of the people have their first sexual encounter before the age of fifteen, multiple sex partners is a more common practice than one lifetime partner, and condoms are reportedly used by less than 25 percent of the sexually active population. The main mode of HIV transmission is sexual.

Grenada does not face a serious issue of intravenous drug users, however needle sharing is a concern among people who self-administer tattoos.

Box 6.1 Relevance of the Health Millennium Development Goals for Grenada

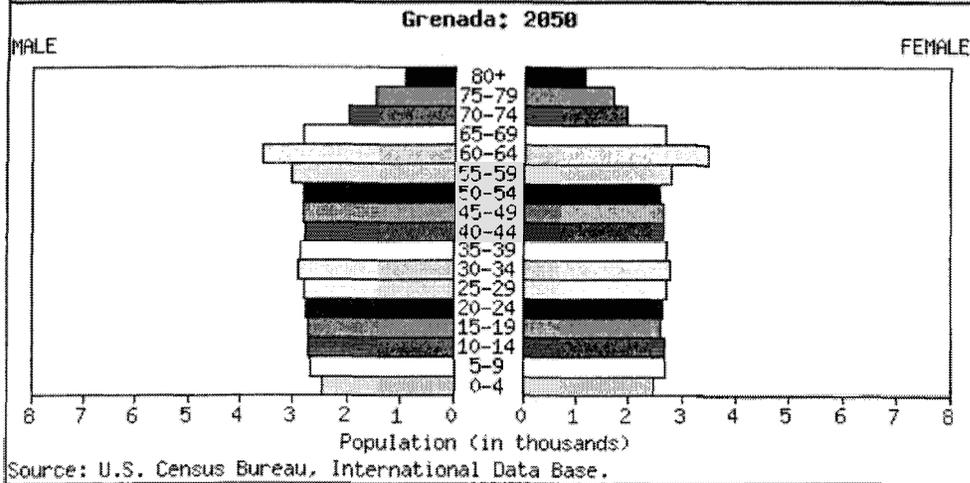
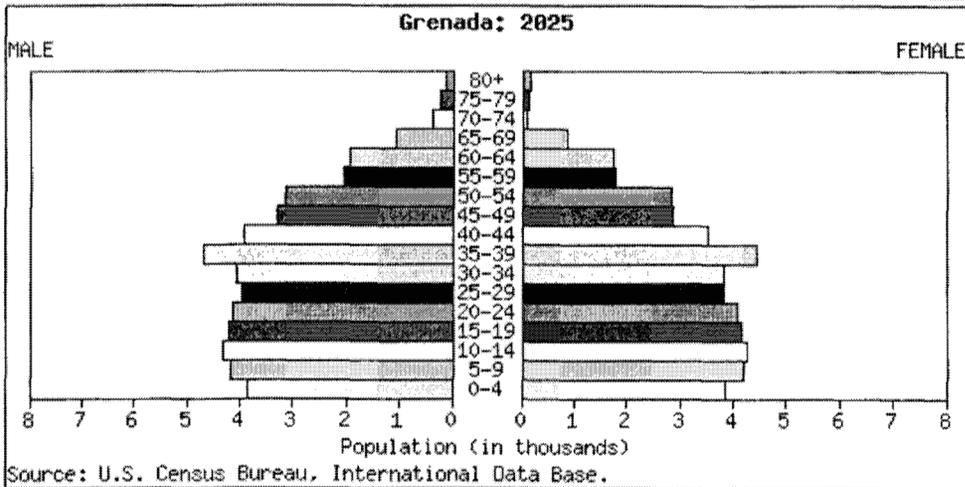
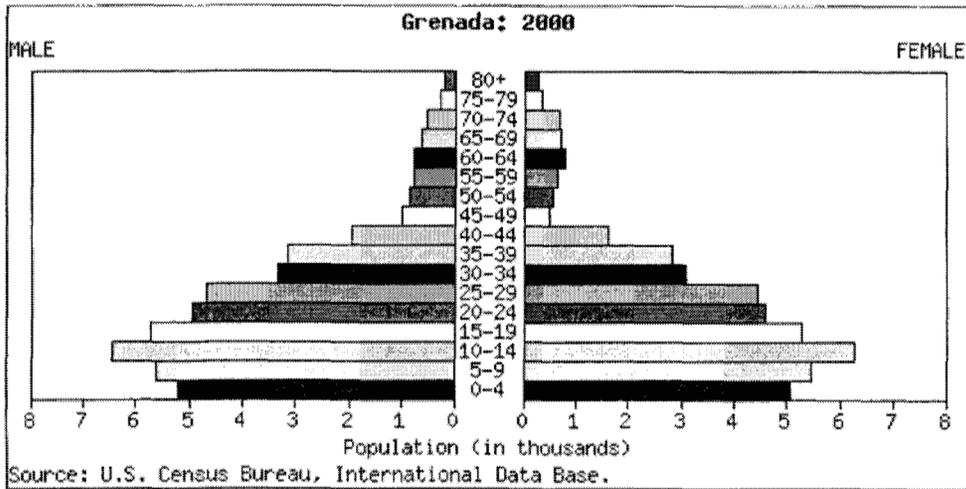
The under-5 mortality and HIV/AIDS targets of the Millennium Development Goals (MDGs) are the most applicable to Grenada of all the health-related MDGs. Malnutrition (defined as the prevalence of underweight children), maternal mortality, and tropical diseases (other than dengue, which is endemic) are not major health issues in the country.

The under-five mortality rate in Grenada dropped from an estimated 37 per 1,000 in 1990 to 26 per 1,000 in 2000. This is a decline of about 3.9 percent per year. The MDG target – a reduction of two-thirds from 1990 to 2015 - would require that the rate fall to about 13 per 1,000 habitants by 2015, or about 4.2 percent per year over the period. So, strictly speaking, Grenada is not “on track” for meeting the under-five mortality MDG. At the same time, it is important to recognize that the MDG goals get harder and harder to achieve as countries move towards relatively low mortality rates, and for this reason some of the health-related MDGs are often criticized as not being relevant to countries with relatively low maternal and child mortality.

It is difficult to assess the likelihood of reaching the HIV/AIDS targets, as baseline data on HIV prevalence and incidence are poor. However, given the size of the epidemic in the Caribbean, the target (reversing the epidemic) is very relevant for Grenada and should be achievable if the country supports vigorous and effective HIV prevention measures.

6.11 According to the UNAIDS Epidemiological Update of December 2003, HIV prevalence among pregnant women reached or exceeded 2 percent in six countries in the Caribbean Basin: the Bahamas, Belize, the Dominican Republic, Guyana, Haiti, and Trinidad and Tobago. These levels of HIV prevalence indicate that the epidemic has moved from a concentration in high-risk groups to a generalized spread into the population in these countries. Good estimates of HIV prevalence do not exist for Grenada. Given the magnitude of the HIV problem in the Caribbean, Grenada needs to ensure that it carefully monitors HIV/AIDS trends through active surveillance (such as the recent effort to test a large group of pregnant women that resulted in zero HIV cases), and that it strongly supports the most effective prevention activities, including behavior change targeted at high-risk groups, voluntary counseling and testing, and condom distribution.

Figure 6.1 Grenada's Changing Population Structure: 2000, 2025, and 2050



B. THE HEALTH SYSTEM: FINANCING, COVERAGE AND DELIVERY

6.12 As in other OECS countries, the health system of Grenada is predominantly publicly-provided and publicly financed. Provision can be largely public, private, or a mix. In an international context, health systems can be dominated by public finance, either through general revenue (for example, the United Kingdom) or social insurance (Germany), by private finance (China), by a hybrid of the two (the United States). There is no ideal model of health system financing and delivery.

Delivery

6.13 Grenada's health system includes both public and private providers but it is dominated by public provision. Most hospital beds are public—the three private hospitals are very small. In the public system, the country is divided into six health districts, made up of a network of health centers and medical stations (see Table 6.4). Medical stations and health centers perform community outreach activities as well as provide care in the facility. There are two small, poorly equipped public district hospitals--Princess Alice Hospital (60 beds) and Princess Royal Hospital in Petite Martinique (40 beds). While they are referred to as hospitals, they do not have laboratory or diagnostic services, other than limited hematology. They can handle uncomplicated deliveries. The 192-bed General Hospital in St. George's is the country's main hospital. It is being rebuilt and the first phase is completed. It plays the role of a secondary hospital (there is no tertiary care in Grenada). It has laboratory and radiology services. It does not have the capacity to perform, for example, dialysis or mammography. In addition to the small private hospitals, there are many private clinics, often run by physicians who work in the public sector and supplement their public pay with privately-generated income. The largest NGO in the health sector is the Grenada Planned Parenthood Association. It provides contraceptive and other reproductive health services at two clinics.

6.14 Given Grenada's changing age distribution of the population, disease profile, and demands from the population, it is recommended that the functions of these facilities and their staffing be re-examined. In particular, determine if a) some medical stations might be eliminated or moved, b) health centers should be eliminated or upgraded, and c) district hospitals should be upgraded or changed in other ways. The district hospitals are a particular concern as their resolute capacity is low given their infrastructure and staffing. In particular, Princess Royal Hospital has an extremely low occupancy rate of 12 to 15 percent. The government might consider reducing the number of beds and staffing at the Princess Royal Hospital and upgrading the services provided at other facilities, especially health centers in St. George's (including opening for afternoon hours), in order to relieve the congestion at the General Hospital. It is also recommended that the government allow facilities to retain some of the user fees collected in order to reinvest in maintenance.

Table 6.4 Public and Private Health Facilities and Functions in Grenada, 2003

| | Level of Care | Public | Private |
|----------------|---|--|--|
| Primary Care | First level | Community outreach by environmental Health Officers, Community Health Nurses, Community Health Aides, Doctors, and other personnel | |
| | Second Level Health Centers and Medical Stations | Six health districts, five on the main island and the sixth for the islands of Carriacou and Petite Martinique. The districts have at least one health center and four to five medical stations. There are 34 functioning medical stations throughout the country. Every district has a community health nurse. Health centers have at least one district medical officer, 1 pharmacist, 2 district nurses, one environmental health officer, and a social worker. Medical stations ideally staffed by a district nurse, a community nurse aide, and a caretaker. Medical stations have regular hours during the week when they are attended by a district medical officer and pharmacist. | Private clinics throughout country. Two clinics run by the Grenada Planned Parenthood Association, one in St. George's, one in Grenville. Public sector doctors typically run a private clinic before or after they work in the public sector. |
| | Third Level District hospitals | 60 bed Princess Alice Hospital (no diagnostic services) 40-bed Princess Royal Hospital (no diagnostic services) | |
| Secondary Care | Fourth Level | 192 bed National General hospital, St. George's. Of these beds, 12 are private. Most comprehensive public care available, including medicine, surgery, obstetrics, gynecology, pediatrics, ophthalmology and psychiatry. | |
| | Emergency Transport | Five public ambulances equipped with a radio communication system. | |
| | Other | 20 bed psychiatric unit on grounds on National Hospital. 80-bed Mt. Gay psychiatric hospital for chronic psychiatric patients Carlton House for treatment of substance abuse Richmond home--120-bed geriatric facility Kennedy home—for mentally disabled children | 3 very small private hospitals |
| | Labs | Laboratory at General Hospital | 2 private labs |

Source: Ministry of Health

6.15 Maintenance problems appear widespread in public health facilities. Since 1993, the allocation of recurrent expenditures to maintenance and other overhead expenditures has steadily decreased (see Figure 6.5). In 1993, 9.6 percent of recurrent health expenditures was allocated to maintenance and in 2002 only 3.5 percent of recurrent health expenditures. In addition, the process in place to access these funds by the health centers seems cumbersome and slow. Ensuring adequate funding in the budget and decentralizing the control of some maintenance funds might be one way to improve the situation.

6.16 **The Grenada health system appears to be fairly equitable with fairly good access by the poor to health services.** This said, there are distinct patterns in the use of services, as the poor use public facilities more than the non poor (Table 6.5). Within the public system, there is one problem repeatedly mentioned by health staff. Patients who come into the General Hospital as private patients, defined as someone who sees the doctor in his or her private practice before being referred to the hospital, tend to jump waiting lists for elective surgery. A review is needed of wait times for elective surgery by private patient/public patient status to see the extent of the problem and find solutions to resolve this inequity.

Table 6.5 Use of Health Facilities in Grenada, 1998
(as percentage)

| Place Visited | Poor | Non Poor | Total |
|----------------------|------|----------|-------|
| Public Hospital | 24 | 9 | 13 |
| Public Health Center | 37 | 29 | 30 |
| Pharmacy | - | 2 | 2 |
| Private Clinic | - | 5 | 4 |
| Private Doctor | 32 | 46 | 43 |
| Other | 2 | 3 | 3 |
| Not stated | 5 | 6 | 5 |
| Total | 100 | 100 | 100 |
| N | 79 | 289 | 368 |

Source: Grenada Survey of Living Conditions, 1998.

6.17 **Grenada achieves economies of scale in drug procurement by participating in the well-run OECS Drug Procurement Service.**

While some of the OECS countries are struggling with fiscal crises and payment of suppliers, Grenada has a good record of timely payment of vendors. Drug stock-outs are, admirably, a rarity in the public system. There may be scope to achieve economies of scale in other areas of the health sector—purchasing supplies, laboratory services, and health service delivery through regional arrangements with neighboring countries.

Financing

6.18 **Almost all of public spending on health is financed by general revenue. User fees in public facilities are not a significant share of total public spending on health.** The government collected about EC\$1,032,000 in user fees in public facilities in 2002 (1995 EC\$), about US\$4 per capita. That same year, user fees were the equivalent of 10 percent of the General Hospital spending, and 3 percent of total recurrent spending by the Ministry of Health. In 2002, the Ministry of Health's expenditures totaled about EC \$320 per capita (1995 EC\$) or US\$135.

6.19 **User fees are charged in the General Hospital for X rays, lab tests, and in government pharmacies for prescriptions. Those under 16 years of age, over 60 years of age, the indigent (determined by social services), and police officers are exempt.** As can be seen in Table 6.6, the largest sources of fees are lab tests and X-rays. Hospital fees have fallen steadily since 1993 as a share of total fees. The General Hospital has a private block with 12 beds, where patients pay EC\$100 per day. This does not cover the full cost of care. Furthermore, doctors bring private patients into the hospital and other wards, but the hospital does not collect fees, even though the publicly-employed physician is collecting from the patient.

6.20 **The fees collected by the hospitals and pharmacies go into the government's consolidated account.** As occurs in health facilities in many countries, when fees are not retained at the facility level, there is little incentive to put much effort into collection. The hospital billing department is only open from 8 AM to 4 PM. It cannot collect when it is not open. It has problems collecting from the emergency department and it has great difficulty collecting from private insurance companies.

Table 6.6 User Fees in Public Facilities by Type and as Share of Total Fees Collected 1993-2002
(in constant EC\$ 95)

| | Fees by Type and as Share of Total Fees Collected | | | | | | User Fees (as percentage) | |
|-------------|---|----------------|----------------|----------------|----------------|-------------------|---------------------------------|--------------------------|
| | Hospital | Prescriptions | X Rays | Labs | Other | Total | General Hospital Spending | Total MoH Spending |
| 1993 | 111,478 17% | 47,376 7% | 165,383 26% | 208,443 32% | 115,485 18% | 648,165 100% | 7 | 3 |
| 1994 | 161,332 22% | 71,313 10% | 156,020 21% | 255,332 34% | 97,790 13% | 741,787 100% | 8 | 3 |
| 1995 | 174,218 21% | 77,009 9% | 168,481 21% | 275,725 34% | 116,891 14% | 812,324 100% | 9 | 4 |
| 1996 | 97,246 14% | 127,404 18% | 164,766 24% | 228,714 33% | 80,908 12% | 699,037 100% | 7 | 3 |
| 1997 | 102,723 13% | 174,551 22% | 184,204 23% | 258,139 32% | 91,657 11% | 811,274 100% | 8 | 3 |
| 1998 | 143,402 14% | 203,877 19% | 182,179 17% | 388,538 37% | 135,056 13% | 1,053,053 100% | NA* | 3 |
| 1999 | 115,865 12% | 170,189 18% | 156,198 17% | 391,951 42% | 107,643 11% | 941,846 100% | 8 | 3 |
| 2000 | 25,643 3% | 153,506 17% | 184,470 20% | 433,637 48% | 110,568 12% | 907,824 100% | 8 | 3 |
| 2001 | 12,216 1% | 134,140 12% | 202,748 18% | 575,122 52% | 175,485 16% | 1,099,711 100% | 11 | 3 |
| 2002 | 11,460 1% | 125,844 12% | 190,210 18% | 539,556 52% | 164,633 16% | 1,031,703 100% | 10 | 3 |

Source: Grenada Revenue and Expenditure Yearbooks, various years.

* Not available for this year as general hospital spending was collapsed in another category in that year.

6.21 The government recognizes that the user fee system has problems and it is under review. In revising the fee schedule, several factors need to be considered. First, exemptions for individuals and for types of services are needed so that the poor are not deterred from getting service and individuals are not deterred from getting services with large externalities (such as immunizations, tuberculosis treatment). Second, fees need to be kept affordable for reasons of financial protection—for services offered in the publicly-financed health service, fees should not become a catastrophic burden even on the nonpoor. Third, fees can be used to improve efficiency, for example, by charging people a fee when they go to the overcrowded emergency room for a problem that should be addressed in a health center. Fourth, it is recommended that the General Hospital be allowed to retain fees, as an incentive to collect and reinvest in the hospital. With the proper incentives, the Hospital could keep Admissions and Billing open 24 hours, with all people routed through admissions, with deposits for people on private wards, among other measures, in order to increase collections.

6.22 The Grenada National insurance Scheme covers public sector workers and formal sector workers but it does not provide significant medical benefits. It is mentioned here because in some OECS countries, the National Insurance Scheme provides still limited, but somewhat broader medical benefits. For example, in St. Lucia, the National Insurance Scheme makes a lump-sum contribution to the Ministry of Health each year. In return, workers covered by the scheme are exempt from user fees. In Grenada, the total contribution is 9 percent of wages up to a cap, with 4 percent deducted from the wages

of the employee and 5 percent paid by the employer. The scheme provides medical expenses in the case of employment-related injuries, in which case it covers medical care in Grenada as well as the cost of overseas care. In addition, the scheme sometimes supports requests on a case-by-case basis for other medical expenses, for example, airfare for overseas care.

6.23 Public sector workers have a voluntary private insurance plan to which the government contributes 50 percent of the cost of that insurance for participating employees. Private health insurance generally pays for private consultations, user fees at the General Hospital (however the General Hospital by and large does not manage to collect), overseas medical care, and airfare. There are several private health insurance firms, with the health plans largely unregulated to date. There are no good estimates of the proportion of the population with private insurance—but the Bank team, based on discussions with private insurers, estimates that between 12 to 20 percent of the population has private insurance. Recognizing the demand for supplemental coverage, it is recommended that the government start to regulate this market to ensure that it is working efficiently and fairly.

6.24 The country has debated for some time whether it should adopt a national health insurance system based on payroll taxes. For such a small country, working with the existing financing system, but finding ways to improve efficiency to ensure that the country is getting better value for money may be a better choice in the long run. Assuming that the government continued to finance general health services, the introduction of a social security tax system would have the advantage of generating additional funds for the health system and this is important given that some groups in the population are willing to pay for additional coverage given their purchase of private insurance and of private services out-of-pocket. Furthermore, the existing National Insurance Scheme already collects revenue from payroll taxes so that mechanism is already in place. However, there are disadvantages. Payroll taxes are a tax on labor. In addition, given that many households are outside the formal sector, a national health insurance system would not cover the full population—the government would need to cover those outside the formal sector from general revenues. There are administrative costs to the system. Collecting contributions from those who have the ability to pay, but who are outside the formal sector, would be a challenge. Workers/employers contributing to national health insurance would expect differentiated services from what they can already obtain through the existing system. If the government cut its contributions to health from the general tax base over time, it would have consequences for the poorer segments of the population dependent on government financing.

Human Resources

6.25 **The Grenada health system is staffed with a large core of nurses, including nurses, nurse practitioners, nurse assistants, and community health aides** (Table 6.7). The public health sector has a very high nurse to physician ratio of seven to one. Retention of staff at the nursing, physician, and skilled engineer/technician level is a considerable problem in the public sector. Nurses are being actively recruited from Grenada to the U.K. and the United States. Staff sent overseas to study specialized skills such as biomedical engineering often do not return. Cuban nurses and physicians make up a significant share of the nurse and physician base, as well as physicians from other countries. Most public sector physicians also have a private practice, which has resulted in a number of abuses, principally the problem of low hours of attendance in public facilities and private patients getting better access to services at public hospitals. In the public sector, some senior positions have been vacant for lengthy periods, resulting in much weakened leadership and supervision of publicly-provided health services. In particular, the position of Medical Officer of Health, which is the key figure responsible for community health services, has been vacant for years at a time. One efficiency measure that could be introduced over the short term would be to increase the proportion of nurse assistants to professional nurses. Nurse assistants are cheaper to train, easier to retain, and can fulfill an important role in efficient service delivery.

Table 6.7 Personnel Employed in Public Health Services 1997-2001

| | 1997 | 1998 | 1999 | 2000 | 2001 | Personnel per 10,000 habitants, 2001 |
|---|-------|-------|-------|-------|-------|--------------------------------------|
| Physicians | 59 | 59 | 59 | 58 | 58 | 6 |
| Dentists | 9 | 9 | 9 | 9 | 9 | 1 |
| Nurses | 195 | 242 | 249 | 215 | 215 | 21 |
| Nurse Practitioner | 7 | 6 | 5 | 5 | 5 | 0.5 |
| Nurse Assistants | 124 | 84 | 140 | 146 | 146 | 14 |
| Community Health Aides | 45 | 40 | 45 | 45 | 45 | 4 |
| Pharmacists | 22 | 22 | 22 | 22 | 22 | 2 |
| Hospital Administrators | 3 | 3 | 3 | 4 | 4 | 0.4 |
| Lab Technicians | 17 | 17 | 17 | 13 | 13 | 1 |
| Radiographers | 9 | 9 | 9 | 7 | 7 | 0.7 |
| Nurse (all types) to Physician Ratio | 6.3 | 6.3 | 7.4 | 7.1 | 7.1 | |
| Community Health Aide and Nurse Assistant to Nurse and Nurse Practitioner Ratio | 0.8:1 | 0.5:1 | 0.7:1 | 0.9:1 | 0.9:1 | |

Source: Community Health Services Report, 2001

6.26 **Another issue to be addressed is the low productivity of district medical officers in their public jobs.** Most district medical officers do not work for more than three or four hours a day in public service—devoting instead early morning and/or evening hours to private patients to supplement their public salary. People report that they prefer seeing the district medical officer in his or her private clinic because (1) physician spends more time in the private consultation, (2) private clinic hours are convenient to many people (early in the morning and late in the day/early evening), and (3) patients are treated with more respect and are given more privacy. If the public clinic model is to work well, the problems of low productivity of district medical officers (at least in their public service) need to be addressed. Physicians need to be required to work for a specified number of hours and to report to work promptly in their public sector employment. Also, the demand for private consultations signals changes in quality that are needed in public clinics: more convenient hours of operation, greater privacy conditions, and more respectful treatment of patients.

Recent Changes in the Health System

6.27 **The government implemented several changes in the health system in the past few years to modernize the system and increase efficiency but the pace of change has recently slowed.** The government will need to define its vision, strategy, and implementation plan to continue to adapt the system to best address the changing health conditions and demands of the population in the coming years. It has several excellent reports to draw on in developing its plan, including the 1997 Value for Money Study of the Ministry of Health and Environment and the Analysis of District Health Services in Grenada Study prepared in 2000.

6.28 **The General Hospital is being rebuilt under a three-phase plan and phase one is now finished. The reconstruction to date has been financed by a loan from Grenada Cable and Wireless and from donations. Phase II has begun but the financing plan is incomplete.**

The government intends to make dialysis services and a CT scan available in Phase II. Phase III would expand to offer mammography screening, among other things. The General Hospital has reduced the average-length-of-stay recently in part by reducing the waiting time for diagnostic services with its more up-to-date equipment. Average length of stay

Table 6.8 General Hospital Statistics, 2002

| Departments | Admissions | Average Length of Stay (days) | Occupancy Rate (as percentage) |
|--------------|--------------|-------------------------------|--------------------------------|
| Medical | 1,885 | 6.9 | 61 |
| Surgical | 2,320 | 7.4 | |
| Pediatric | 1,103 | 4.6 | 41 |
| Ophthalmic | 268 | 3.8 | 31 |
| Obstetrical | 1,593 | 5.4 | 77 |
| Total | 7,169 | 6.2 | 59 |

Source: Medical Record Office, General Hospital.
*Medical and Surgical Combined.

(ALOS) was 6.2 days for the hospital overall in 2002 (Table 6.8). The occupancy rate was 59 percent. There is scope for greater improvements in efficiency by a further reduction in ALOS to 4-5 days and by increasing the occupancy rate to at least 75 or 80 percent (although some improvements are likely to occur as the rehabilitation continues). Emergency transport has also been expanded and improved, with five ambulances equipped with a radio communication system.

6.29 **Progress in Hospital Autonomy. In the late 1990s, the government appointed a Board of Directors to manage the public hospitals as part of a long run plan to convert the hospitals to statutory bodies.** This encountered difficulties--both in the legal framework and in the dialogue with the trade unions. The government is now in the very early stages of making the General Hospital an executive agency as an intermediary step to its full transformation to a statutory body. The intention is to give the hospital more management control—over human resources, supplies, contracting out, and maintenance. Greater autonomy would also mean that the hospital could retain and reinvest user fees. The hospital has already been given more authority to purchase goods. Many countries are experimenting with or supporting greater autonomy for public hospitals as a measure to improve efficiency. In the OECS countries, St. Lucia has considerable experience as one of its public hospitals has been a statutory body for many years, and it is in the process of converting its main hospital to a statutory body. Over the short- to medium- term, this is one way that Grenada could potentially achieve significant improvements in hospital efficiency.

6.30 **The government has been testing contracting out in the health sector.** Security in the General Hospital was contracted out at the end of 2002. Part of laundry services has been contracted out, starting in January 2003, and part of housekeeping has been contracted, in March 2003. These efforts need to be evaluated in terms of cost, quality and flexibility of service provided to determine if they should be continued, scaled up, or cut back. The report “ An assessment of Commercialization in Grenada” prepared for the World Bank in July 2003 does not review the quality of the services delivered in the health sector after was contracted out because at the time of the field work for the report these services were still

delivered by the CG. However, the report discusses the potential benefits and costs of outsourcing security and grounds maintenance in St. George's Hospital concluding that it is unlikely that the savings of outsourcing would be sufficient to offset the projected increases in operating expenses plus the outlay for pensions.

6.31 **Disease Prevention and Control.** The government is stepping up its efforts in HIV/AIDS prevention, care, and treatment and has developed a strategy whose implementation is supported by a World Bank-financed loan and credit. It is also establishing a National Advisory Committee on Chronic Diseases and Noncommunicable Diseases in order to address disease prevention and control in a more prominent and multisectoral way.

C. SOURCES AND USES OF HEALTH SPENDING IN GRENADA 1993-2003

6.32 **The World Health Organization (WHO) estimates that the public share of total spending on health in Grenada is about 72 percent, with private spending making up the balance.⁵⁶ This estimate is the highest public share of total health expenditures among the OECS countries.** As Table 6.9 indicates, Grenada's share of spending on health, at 5.3 percent of GDP, places it in the middle of OECS countries—with St. Lucia and St. Kitts and Nevis spending less, and Dominica, Antigua and Barbuda, and St. Vincent and the Grenadines, spending more as a share of GDP.

Table 6.9 Total, Public, and Private Health Spending in Grenada compared to Barbados, Jamaica and other OECS countries, 2001

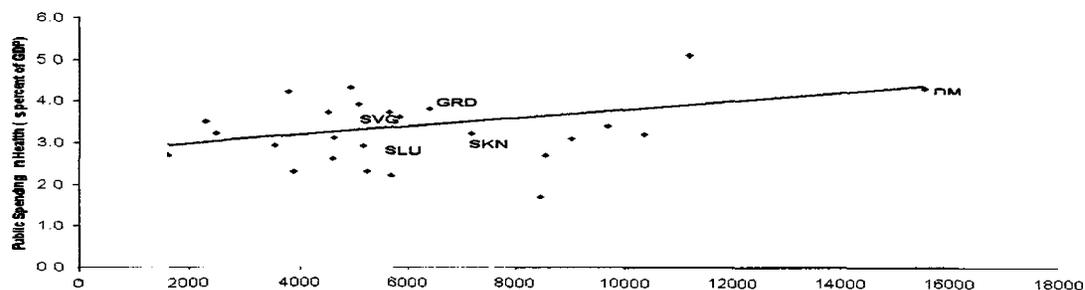
| | Health Spending Per Capita (current US\$) | Health Spending as Share of GDP | Public Spending as Share of Total Health | Private Spending as Share of Total Health Spending |
|--------------------------------|---|---------------------------------------|---|--|
| Grenada | 262 | 5.3 | 72 | 28 |
| Antigua and Barbuda | 531 | 5.6 | 61 | 39 |
| Barbados | 613 | 6.5 | 66 | 34 |
| Dominica | 203 | 6.0 | 71 | 29 |
| Jamaica | 191 | 6.8 | 42 | 58 |
| St. Kitts and Nevis | 393 | 4.8 | 66 | 34 |
| St. Lucia | 199 | 4.5 | 65 | 35 |
| St. Vincent and the Grenadines | 178 | 6.1 | 63 | 37 |

Source: WHO

6.33 **Grenada's public spending on health as a share of GDP is just slightly more than would be expected for a country of its income level.** As Figure 6.2 shows, Grenada's, as well as St. Vincent and the Grenadines, public spending on health as share of GDP is above the level of spending expected for their income levels. This is the opposite of St. Kitts and Nevis and St. Lucia.

⁵⁶ Private spending consists of (1) user fees at public facilities, (2) out-of-pocket payment for care at private clinics and hospitals in Grenada and overseas, and, (3) contributions to private insurance.

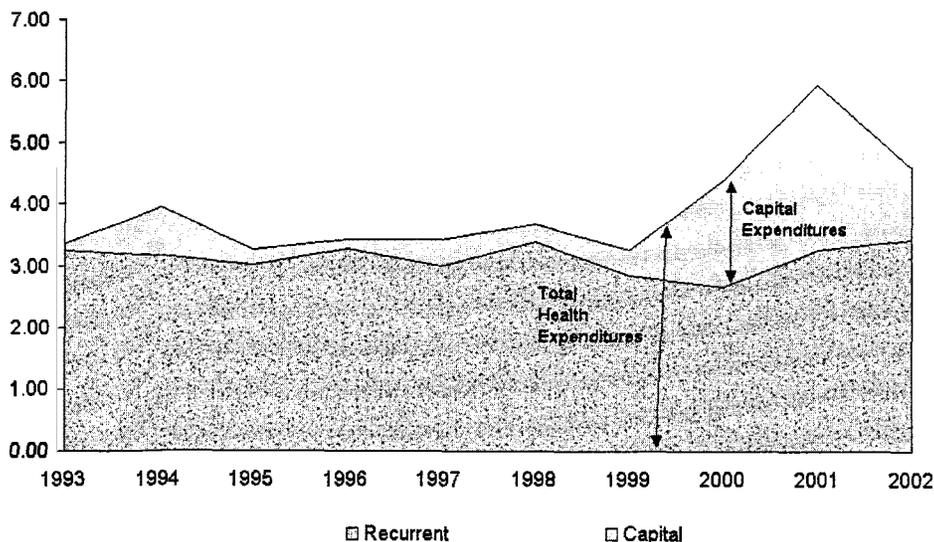
**Figure 6.2 Relationship between Income Per Capita and Public Spending on Health
Latin America and the Caribbean, 2001**



Source: World Development Indicators

6.34 On average, from 1993-2002, the share of public recurrent and capital health spending in GDP was about 3.9 percent with Grenada’s health sector receiving, on average, 12.5 percent of the government recurrent spending. In the same period, average recurrent public spending on health was about 3.1 percent of GDP. As Figure 6.3 shows, Grenada’s health spending as a share of GDP has increased over the period 1993 to 2002. In particular, the large increase observed since 2000 corresponds to an increase in capital expenditures. Capital investments were modest over the period 1993 to 1999, but rose sharply in 2000 with the first phase of the reconstruction of the General Hospital.

Figure 6.3 Share of Recurrent and Capital Health Expenditures in GDP 1993-200
(as percentage)



Source: Grenada Estimates of Revenue and Expenditure. All figures are actual except 2002, which is estimated outturn.

6.35 On average, from 1998 to 2002, three fourths of capital expenditures originated from loans, and the balance comes in the form of local revenue and grants from donors. As Table 6.10 shows, the share of capital expenditures financed by loans has been rapidly rising throughout the period with the reconstruction of the General Hospital. The General Hospital reconstruction is being financed primarily from a loan from Grenada Cable and Wireless and, secondarily, from donations. The reconstruction was of high priority, given how deteriorated the hospital had become. Some of these capital investments have already generated efficiency improvements, such as the reduction in average length of stay. The hospital reconstruction is planned over three phases, and appears to be prudent, especially on decisions regarding investments in specialized equipment. Beyond the General Hospital, Grenada needs to develop a medium term plan for how it will deliver services efficiently given the changing needs of the population. This will most likely require changes in other health facilities--either in terms of capital investment to upgrade facilities to change their functions, or closing some facilities. Implementing such a medium term plan can require significant capital investment but could generate important efficiency gains and health improvements over the long run.

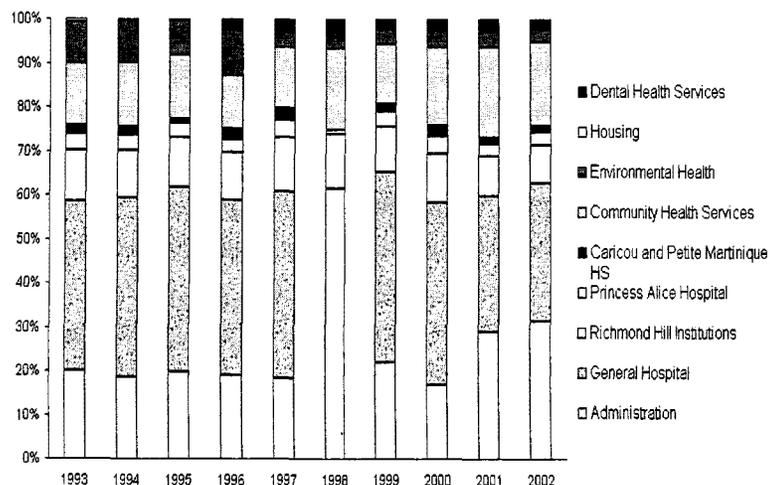
Table 6.10 Sources of Financing of Health Capital Expenditures
(as percentage of total health capital expenditures)

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Local | 30.0 | 17.0 | 34.1 | 52.5 | 86.9 | 35.8 | 16.5 | 7.6 | 11.8 | 4.1 |
| Grant | | | | | | 14.9 | 15.7 | 2.6 | 4.1 | 9.9 |
| Loan | 70.0 | 83.0 | 65.9 | 47.5 | 13.1 | 49.3 | 67.8 | 89.9 | 84.1 | 86.0 |
| Total | 100.0 |

Source: Grenada Estimates of Revenue and Expenditure.

6.36 Expenditures on administration increased as a share of the total recurrent health budget from 20 percent in 1993 to 31 percent in 2002 (Figure 6.4). This increase is in large part due to introduction of more contracting out the General Hospital and the classification of those expenditures under the category 'administration'. Broadly speaking, in comparison with other countries, Grenada has done well in containing overall public expenditure on hospitals. In 2002, the General Hospital absorbed about 31 percent of all spending down from 41 percent in the 1993-99 period. Moreover, there is some indication that efficiency has improved in the General Hospital with the decline of the average length of stay. Including the Richmond Hill institutions and Princess Alice Hospital, the figure for hospitals was about 42 percent in 2002, roughly 10 percent less than its average in the 1993-1999 period. The share of spending on environmental health decreased steadily over the period, from about 10 percent to 3 percent and the share for community health services increased from 14 percent of the total in 1993 to 19 percent.

Figure 6.4 Share of Health Programs in Recurrent Health Expenditures 1993-2002
(as percentage)

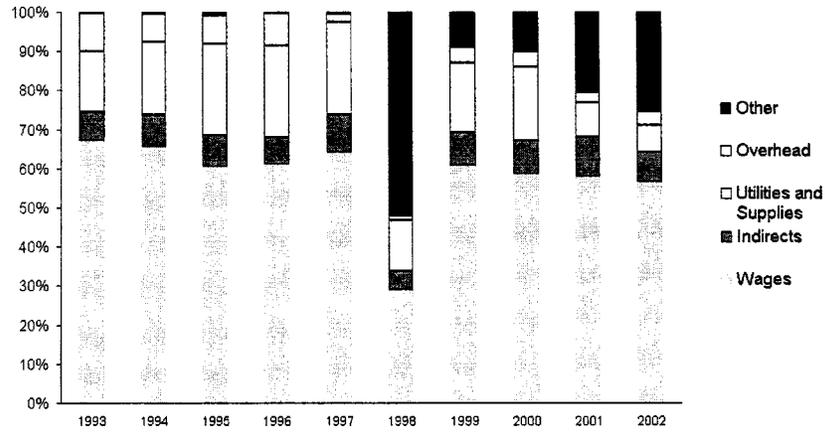


Source: Grenada Estimates of Revenue and Expenditure. All figures are actual except 2002, which is estimated outturn.

Note: General hospital spending was not available for 1998 because it was collapsed in another category in that year.

6.37 The government has been successful in containing the share of health spending allocated to wages (below 60 percent, one of the lowest share in the OECS countries. This has allowed expenditures on non-wage inputs such as pharmaceuticals. As Figure 6.5 shows, wages in 2002 made up 56 percent of the total recurrent expenditures of the Ministry. Utilities and supplies made up 19 percent. Some of the changes in shares over time probably reflect changes in the categorization of certain budget items, rather than actual increases or declines in certain expenditures. Drug stock outs—a common problem in many countries—are reported to be infrequent by health personnel. The public sector purchases most of its drugs—85 to 90 percent—through the OECS drug procurement service, in order to achieve economies of scale and good prices. Grenada has a good payment record—paying its bills relatively quickly compared to other OECS countries in the procurement service. Indirect costs (allowance, travel and subsistence, hosting and training) have been constant at about 8 percent of recurrent health spending during the period 1993-2002. In the same period, the increase observed in the category ‘others’ reflects an increase in ‘grants and contributions’.

Figure 6.5 Share in Recurrent Health Expenditures by Budget Categories 1993-2002
(as percentage)



Source: Grenada Estimates of Revenue and Expenditure. All figures are actual except 2002, which are, estimated outturn.

Notes: a) Wage spending in 1998 is not comparable to other years because it was collapsed in another category in that year. b) Overhead expenditures include communication expenses, maintenance services, rental of assets, professional and other services, and insurance.

7. THE EDUCATION SECTOR

7.1 Education is fundamental for economic and social development. The knowledge and skills taught in the education system are highly valued commodities in the labor market. For example, in Grenada, attainment of secondary education, five years of additional schooling after primary education, allows an individual to increase earnings by 80 percent for the entire period of labor market participation. Completing tertiary education, additional four years of schooling after secondary education, increases labor market income by 314 percent compared to a worker with primary education. Furthermore, better-educated people are less likely to experience unemployment. From the society's perspective, human capital investment improves societal outcomes, such as less youth delinquency and better health outcomes. Hence, there are strong economic and social motives for the individual and the government to invest in education.

7.2 The Grenadian government invested on average about 5.7 percent of GDP in education from 1996-2002.⁵⁷ This level of expenditure is significantly higher than the ratio in the Latin American and Caribbean Region (4.1 percent of GDP), but below the average for English-speaking Caribbean countries (6.6 percent of GDP). The high investment in education provides a tremendous opportunity for skill building and economic growth in the country. However, as this chapter shows, this high level of expenditure fails to translate into adequate educational outcomes due to inefficiencies at all levels of the educational system.

7.3 The government is to be commended by the reform efforts, initiated in the 1990s, in the education sector. These reforms have produced improvements in educational outcomes, including increases in enrollment into pre-primary and secondary education. However, the Grenadian education system faces two main challenges that require strong policy actions to be overcome: (i) the cohorts entering the education system since the late 1990s are smaller. Without a gradual reduction in the number of schools and teachers in pre-primary and primary education, unit cost will rise. Therefore, it is recommended that this adjustment starts immediately in order to free up resources that can be used to achieve universal secondary education. A continual adjustment will allow Grenada to avoid the costly mistakes of other OECS countries such as Dominica—where 12 primary schools enrolled less than fifty pupils in 2002—and St. Kitts and Nevis, where the pupil-teacher ratio in primary education declined to 1:13 in 2002; (ii) the education system needs to improve learning outcomes of the students. The low quality of education substantially reduces the value of the invested resources. Raising the quality of education will require additional training and programs that need to be financed by reallocating resources within the Ministry of Education's budget.

7.4 This chapter reviews education outcomes in Grenada, discusses how education services are organized, financed, and delivered, and suggests interventions to improve outcomes, efficiency, and equity. The main findings and recommendations can be summarized as follows:

Improving Education Outcomes

The government needs to strongly emphasize improvements in quality of education. Exam results at both the primary level (Minimum Competency Test) and at the secondary level (CXC exam) are unacceptably low. The government could consider:

⁵⁷ This figure includes recurrent and capital expenditures.

- ***Rethinking teacher training and teacher hiring regulations.*** To ensure that all new teachers have received at least two years of training before commencing full time teaching, only certified teachers should qualify for open positions. This would prevent the quality of the teacher corps from deteriorating further. This would equally imply significant savings from a reduction in the number of teachers on study leave. In 2001, teachers on study leave cost the government EC\$ 2.9 million (6.1 percent of the 2001 recurrent education budget).
- ***Scaling up of the existing in-service teacher-training program following the above rethinking of teacher training and hiring.*** This would be key to continual up grading of pedagogical and technical skills of the teacher force. A ten-fold increase in the allocation to in-service teacher training would imply an additional EC\$ 130,000 (0.2 percent of the 2003 recurrent education budget).
- ***Increasing attention to schools with low-performing students.*** There exist considerable disparities in test results among schools. The reasons behind the large disparity are not well understood and should be further investigated in order to design counter measures. Possible programs could be additional training for teachers and principals, improved counseling, and increased resources for special classes.
- ***Increasing the share of funding allocated to didactic material.*** Although funding to learning material has increased over the last five years, the current level of 5 percent of recurrent education expenditures is still insufficient. These inputs—textbooks, material for woodwork, and chemicals for science classes and the like—are crucial for learning and an increment in their availability would increase the efficiency of the education budget. Increasing the share for didactic material should come about by a reduction in the share allocated to salaries for teachers and administrative personal.

Improving Efficiency in the Delivery of Education Services

- ***The government needs to proactively re-allocate the recurrent expenditure budget to promote improvements in the education sector.*** The sectoral distribution of the recurrent budget has practically not changed in the last 8 years. Resources should to a greater extent be directed from lesser-stated priorities towards high priority areas (secondary education) accompanied by greater emphasis on monitoring and evaluation.
- ***The government can increase the efficiency of education delivery at the primary and secondary level through an increase in the pupil–teacher ratio.*** Increasing the pupil-teacher ratio at the primary level from 25 to 30 would generate costs savings of EC\$ 9.5 million (18 percent of the recurrent education budget in 2002) through a gradually diminishing of the teacher force by 384 positions. Raising the secondary pupil-teacher ratio from the current 23 to 30 would eliminate the need to hire new teachers to teach the growing pupil population in secondary education and would entail a potential fiscal saving of EC\$ 2.9 million (5.4 percent of the 2002 recurrent education budget). Among the initiatives that the government could consider to increase the pupil–teacher ratio are: a) Merging of primary schools. Smaller primary schools persistently have higher unit costs due to a low pupil-teacher ratio. A merging of schools based on the school mapping would exploit economies of scale in the education system and reduce cost, while increasing quality; b) Instituting a curriculum reform of secondary education. A common core curriculum for the first three forms of secondary education would reduce the excessive offering of subjects of a specialized nature, such as typewriting, auto mechanics, and metalwork, and lead to larger classes and c) Mandating of a minimum floor on class size at the primary and secondary level. Many schools, in particular at the secondary level, offer subjects with low demand, leading to small class sizes and high costs. Mandating a minimum class size of, say, 15 students, a rule in many developed countries, would increase efficiency.
- ***Increase enrollment into tertiary education through greater cost–recovery.*** Grenada recovers through tuition and fees around 10 percent of the full cost of tertiary education, which is the average

cost-recovery share in the OECS countries. A further increase in enrollment cannot be financed without raising the tuition fees. It is recommended that such a tuition policy be implemented in parallel with a reform of the student loan scheme operated by the Grenada Development Bank to ensure availability of student loans for students from low-income families. Raising the fee by EC\$ 750 per student would endow the public community college with EC\$ 1.1 million extra per year, which at the current unit costs would suffice to instruct a further 274 students.

- ***The government needs to reduce administration costs through deeper cooperation at the OECS sub-regional level.*** The development of exams, information systems, strategy development, monitoring of programs, research, program development and curricula need to take place at a sub-regional level. This would reduce duplication of work and lead to further efficiency gains through common curricula, common regional exams, and collective purchases of material and sharing of teachers. A 25 percent efficiency gain in administration costs would free up EC\$ 1.3 million (2.5 percent of the recurrent education budget) that can be used for quality investment at the school level.
- ***Increasing regional cooperation among colleges.*** This could pave the way for quality and efficiency improvements through achieving economies of scale, networking and specialization in particular fields.

Improving Equity in the Access to Education

- **Better targeting of the School Feeding and Textbook Programs.** The School Feeding Program is substantially subsidized. It covers around 90 percent of the primary school population, but with little or no targeting of the subsidies towards students from low-income families. Reducing the subsidy to school meals to children from the most affluent half of the population would approximately reduce education spending by EC\$1.0 million. In addition, only 44 percent of pupils in public primary and secondary schools that come from poor backgrounds have access to some of the required textbooks, while 10 percent have none. Lack of textbooks is a serious impediment to improve learning especially for students from low-income households, which tend to provide less academic support to the children. Therefore, the planned scaling up of the rental book scheme should be implemented quickly with a clear prioritization of pupils from low-income households.
- **It is recommended that an evaluation of the student loan scheme operated by the Grenadian Development Bank be undertaken to assess the equity and efficiency of the scheme.** Available information suggests that the student loan scheme benefits a few number of student with a high amount and without strong targeting of the financial aid towards low-income families. Depending upon the findings of such an evaluation, it is advisable that (i) loans be directed towards students from low-income families studying in national programs, in particular to finance an increase in cost-recovery of the T.A. Marryshaw Community College (TAMCC) courses, and (ii) action be taken to strengthen recovery of outstanding loans.

A. THE GRENADIAN EDUCATIONAL SYSTEM

7.5 The education system in Grenada consists of five levels: pre-primary, primary, senior primary, secondary, and tertiary education (Table 7.1). The government is expected to phase out senior primary by the year 2010, but until now, there is no plan on how to implement this objective. At the end of primary education, a student's result at the Common Entrance Exam (CEE) determines whether he/she will enter the five-year secondary cycle or continue education in the three-year senior primary cycle.⁵⁸ This parallel system implies an expensive duplication of structures with partial success

⁵⁸ Students can join secondary education, if they complete senior primary education and pass the School Leaving Certificate Exam (SLCE) at the end of Grade 8 or 9. However, actual transition rate of students sitting SLCE to secondary schools is low.

of outcomes. In accordance with the government's objective of achieving universal enrollment in secondary, it is recommended that the government start to outline a plan for the complete phasing out of the program. At the end of Form 5, the Caribbean Examination Council exam (CXC) is administered. This exam is the door to higher education and to some professional entry-level jobs. Additionally, the system has technical school centers and adult continued education.

Table 7.1 The Grenadian Education System, 2001

| Cycle | Pre-Primary | Primary | | | | | | | | E x a m | Secondary | | | | | E x a m | Tertiary |
|---------------------|-------------|---------|------|------|------|------|------|------|-------------|------------------|----------------------------|------|------|--------------|-------------|------------------|----------|
| | | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | | 13 | 14 | 15 | 16 | | | |
| Expected Age | 2-4 | | | | | | | | | | | | | | | | 17-24 |
| Grade | | K | G1 | G2 | G3 | G4 | G5 | G6 | C E E | F1 | F2 | F3 | F4 | F5 | C X C | | |
| Enrollment | 3006 | 1978 | 2146 | 2283 | 2352 | 2317 | 2424 | 2474 | | 2090 | 2118 | 2085 | 1947 | 1651 | | 1475 | |
| Net Enrollment rate | 100* % | 99 % | | | | | | | | | Senior Primary G7 G8 G9 | | | Exam SLCE | | 62%** | 13% |

Source: Grenada Educational Statistical Digest 2002 and "Monitoring Educational Performance in the Caribbean", The World Bank, 2003

Notes: K, Kindergarten; G, Grade; and F, Form. * Corresponds to Gross Enrollment Rate. ** The figure does not include Senior Primary students; otherwise the net enrollment rate will increase to 87 percent.

7.6 From pre-primary to tertiary education, the government is the main provider of education in Grenada. Although non-governmental schools exist at all educational levels, they only play a minor role in the provision of education. As Table 7.2 shows, in pre-primary education, where the number of private educational institutions is the largest, less than 30 percent of children are enrolled in non-governmental schools.⁵⁹ This provision structure differs from other OECS countries, which have a majority of non-governmental provision at the pre-primary level. For instance, in St. Kitts and Nevis, non-governmental institutions enroll 70 percent of the pre-primary cohort.

Table 7.2 Educational Institutions in Grenada by Ownership, 2001

| | Number of Institutions | | Enrollment (%) | |
|-------------|------------------------|---------|----------------|---------|
| | Public | Private | Public | Private |
| Pre-Primary | 70 | 28 | 70.4 | 29.6 |
| Primary | 58 | 13 | 92.4 | 7.6 |
| Secondary | 19* | 1 | 98.8 | 1.2 |
| Tertiary | 1 | 1 | 93.6 | 6.4 |

Source: Grenada Educational Statistical Digest 2002 and 2003 (forthcoming).

*Nine secondary schools are owned and administered by religious affiliated organizations, but fully financed by the government.

B. EDUCATIONAL OUTCOMES IN GRENADA

Pre-primary

7.7 Almost all children in the ages of three to four years are enrolled in pre-primary school. However, a recent survey by the Ministry of Education shows that many early childhood centers do not provide the minimum quality expected, despite the fact that most centers are well equipped with the furniture for routine play and learning. Diagnostics from the Ministry of Education finds that 95 percent of children who enter primary schools have attended some kind of pre-primary education. A

⁵⁹ Unless, explicitly stated, senior primary education is included as part of primary education, since this education cycle is taught at primary school buildings.

simple estimation of the enrollment rate—no official enrollment rate exists—indicates a gross enrollment rate of around 100 percent.⁶⁰ This high percentage is significantly better than its neighboring OECS countries—Dominica (70 percent), St. Kitts and Nevis (80 percent), and St. Vincent and the Grenadines (50 percent)—and is a very important step in the preparation and socialization of the Grenadian children for further education. According to the available statistics, there is no difference in attendance between boys and girls. Enrollment in public pre-primary education decreased from over 3,400 pupils in 1996 to 2,100 pupils in 2003 with six centers being closed in the last 5 years. There is no time series data for non-governmental provision.

Primary

7.8 Grenada has reached the Millennium Development Goal of universal completion of primary education.⁶¹ Both the Gross Enrollment Rate (GER) and the Gross Completion Rate (GCR) in primary school are above 100 percent. In 2001 the GER was 121 and the CGR 110. As Table 7.3 shows, the GER declined from 133 in 1997 to 118 in 2003, indicating a declining trend in repetition and over-aged pupils in primary schools. The repetition rate declined from 10 percent in 1997 to 6.4 percent in 2003 and the dropout rate decreased from 0.8 percent in 1997 to 0.6 percent in 2002. These are the lowest repetition and dropout rates in the OECS countries. Boys are around 25 percent more likely to repeat or dropout of primary school than girls.

Table 7.3 Educational Outcomes Indicators in Primary Education
(as percentage)

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|-----------------------|------|------|------|------|------|------|------|
| Gross Enrollment Rate | 133 | 131 | 125 | 122 | 121 | 120 | 118 |
| Dropout Rate | 0.8 | 1.1 | 1.0 | 0.7 | 0.6 | 0.6 | NA |
| Repetition Rate | 10.0 | 8.4 | 8.4 | 5.2 | 5.2 | 6.9 | 6.4 |

Source: Grenada Educational Statistical Digest 2002 and 2003 (forthcoming)

7.9 However, the Minimum Competency Test, administered to students in grade 4 and designed to determine whether students at that grade level had acquired the expected knowledge and skills reveals the need to improve the quality of primary education. The test was introduced in 1999 as part of the overall education reform process and its results have showed major shortcomings in the learning outcomes. In 2003, only 21 percent of students obtained the minimum pass level (50 percent score) in Math, and 26 percent in English. These early learning deficiencies propagate throughout the education system and seriously reduce future learning of the children. To address this urgent issue the government is currently designing numeracy and literacy programs.⁶²

⁶⁰ In 2001, 3,006 children attended pre-primary centers and based on population figures from the Grenada Central Statistics Division, it is estimated that the population of three to five year old is 2,971, which suggests a gross enrollment rate of 102 percent.

⁶¹ The GER and GCR used in this chapter were constructed from national statistics and differed from the estimated by UNESCO Institute of Statistics.

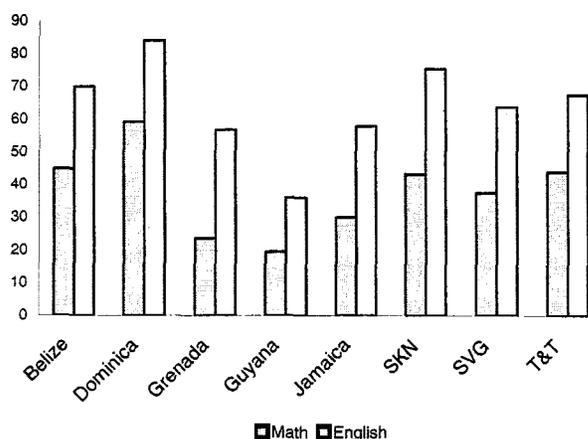
⁶² Other OECS countries administer a test to 4th graders. But the design of the test differs among countries; consequently, the test scores may not be comparable. In 2001, St. Lucian 4th graders scored better than their Grenadian peers: 47 and 38 percent pass English and Math, respectively.

Secondary

7.10 **The government has placed expansion of secondary schools as its top priority. School capacity increased from 7,291 pupils in 1996 to 9,891 pupils in 2001, which translated in an increase of the GER from 67 percent in 1996 to 88 percent in 2001.** This capacity expansion allowed the intake in Form 1 (first year of secondary education) relative to the number of six Graders (last grade in primary education) to increase from 51 percent in 1996 to 78 percent in 2001. Nevertheless, the GER rate is still lower than other OECS countries.⁶³ For example, in Dominica the GER was 91 percent in 1999 (excluding the JPS program) and in St. Kitts and Nevis 100 percent. The Grenada Net Enrollment Rate in 2001 was 62 percent with marked differences by gender. In 2001, 72 percent of 12-16 years old girls attended secondary education, while only 52 percent of the boys attended. The government has begun undertaking the final expansion of secondary school capacity that will allow universal secondary education.

7.11 **In the Caribbean wide CXC-exam, that measures learning outcomes for graduates of secondary education, Grenadian pupils scored the lowest among its OECS peers in 2001, with a pass rate of 24 in Math and 57 in English (Figure 7.1).** Nevertheless, some progress has taken place, since the pass rate for all subjects increased from 56 percent in the mid-nineties to 66 in 2002. This improvement, nevertheless, should be taken with caution because it could stem from a tendency to switch towards subjects with higher passing rates. The so-called hard subjects, such as Math, Chemistry and Physics all had a pass rate below 45 percent in 2001, while more than nine students out of ten pass softer topics, such as Home Economics and Food and Nutrition. The low pass rate is cause for concern, since tertiary education institutions in the Caribbean generally require 4 CXC passes, including English and Math, as conditions for entry; only 12 percent of those that sat complied with this requirement. Hence, less than one in eight graduates are deemed eligible for tertiary studies.

Figure 7.1 CXC Exam Pass Rates in Math and English, 2001
(as percentage)



Source: Monitoring Educational Performance in the Caribbean”, The World Bank, 2003

7.12 **The Grenadian secondary system has an exceptionally low drop out and repetition rate.** In the last five years, less than 1 percent of the children have dropped out and less than 1 percent repeated. Girls perform far better than boys; repetition among male students was 2.1 percent in 2001 compared to 0.8 percent for females. The repetition rate in Grenada is the second lowest repetition rate in the Caribbean—only St. Lucia youth repeat less—and compares favorably to the 2001 Caribbean average of

⁶³ The CEE pass rate is lower than the actual transition rate since both graduates from primary education and pupils in senior primary contest the CEE. It is not uncommon that pupils in senior primary contest the CEE two to three times. Further, the secondary school system suffers from a serious problem with over-aged pupils, 23 percent of the student population is over-aged (above 16 years). This inflates the gross enrollment rate of secondary schools to 88 percent in 2001.

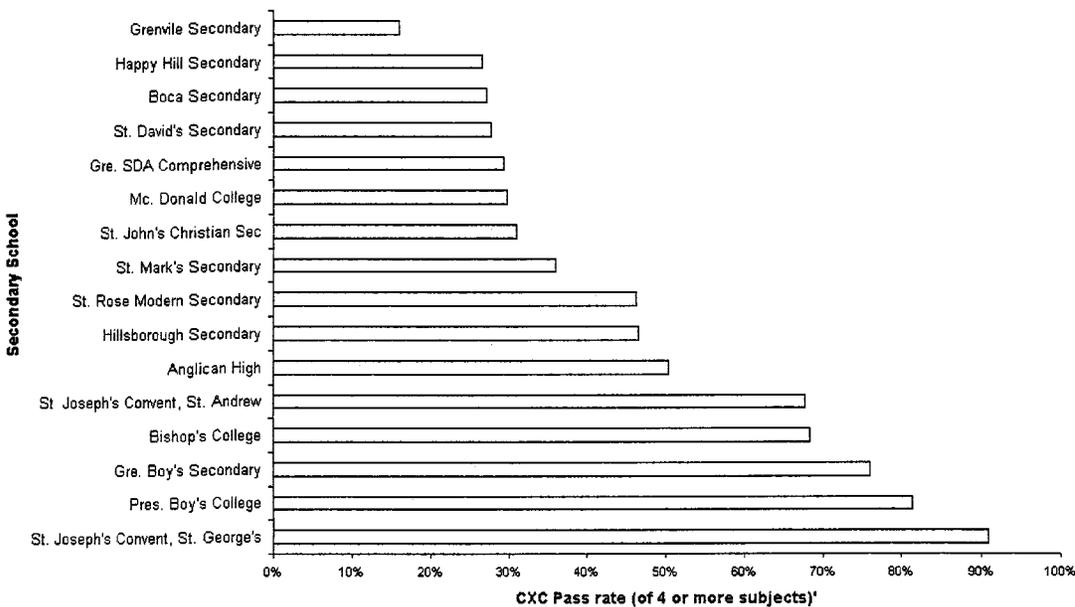
5 percent. However, taking poor educational achievement at the primary and secondary level into consideration, the low repetition rate does not necessarily imply a positive sign. The low repetition and high completion may be with detriment to learning. If the system advances the pupil despite the lack of the required skills, the promotion is likely to harm the development of the student. The available information on quality of graduates suggests that this is taking place.

7.13 There exist considerable disparities in test results between schools. For primary schools the CEE pass rate in 1999 ranges from less than 15 percent for one school to 100 percent for another. A similar pattern is evident in the Minimum Competency Test, where the pass rate spans from 13 to 77 percent. A similar gap exists for repetition rates among primary schools: in 1999, in grade one, twelve schools had zero percent repetition rates, while three schools had over ten percent rates. In secondary schools, the performance gap can be measured in the pass rates in CXC. As Figure 7.2 shows, while 20 percent of pupils from some secondary schools only passed 4 or more subjects at the CXC exams in 2002, 80 percent of pupils from other secondary schools passed a similar number of exams.

7.14 This disparity suggests that increased targeted interventions to low performing schools could yield high returns. This is important for the future of the Grenadian education system where all pupils will continue into secondary education and especially for those students that come from lower performing primary schools and less enabling family backgrounds. The learning disparities do not only stem from a difference in school performance. Parental guidance, individual learning ability and prior learning likely explain a significant part of the disparity. The government should ensure that schools accommodate children with greater learning challenges receive additional attention.⁶⁴ The reasons for the large inequity should be further investigated, which would provide information for the design of counter measures. Possible interventions could be additional training for teachers and principals, improved counseling, and increased resources for special classes. Importantly, the increased attention should be accompanied with increased accountability for the additional resources in order to monitor progress.

⁶⁴ It was not possible to identify the per-pupil funding to each school from the government budget. In neighboring countries, the budget allocations have traditionally favored top schools, which received the best-qualified pupils, with a higher per pupil funding. It is important for educators and policymakers to examine whether a similar unfortunate funding practice exists in Grenada.

Figure 7.2 CXC Pass Rate Distribution among Secondary Schools, 2002
(as percentage)



Source: Grenada Educational Statistical Digest 2002.

Tertiary

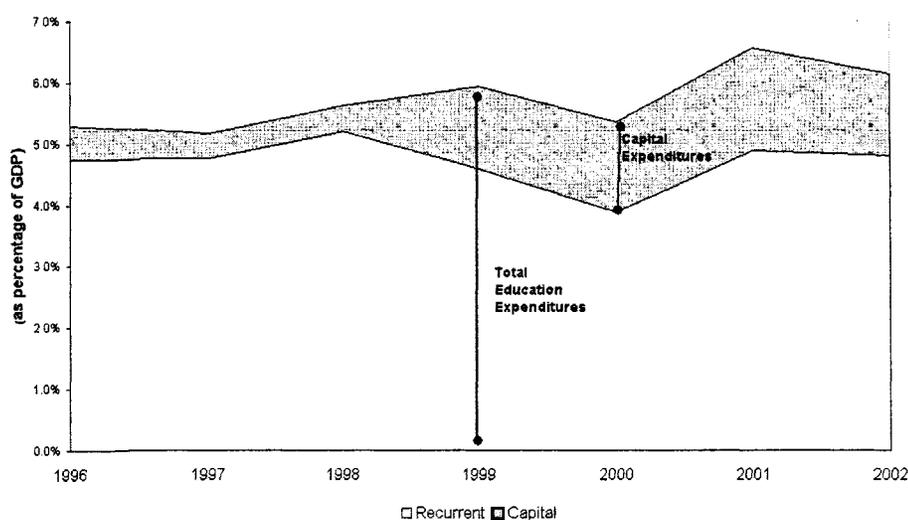
7.15 Grenada provision of tertiary education is below of what it would be expected of a country of similar GDP. The public community college, T.A. Marrayshow Community College (TAMCC), enrolled 1,475 pupils in 2002, a noticeable increase from its student population in 1997 of 872 students (11 percent annual growth rate). The private provider, University of St. George, mostly a medical school, caters for 2,600 students of which around 100 are nationals. In addition, UNESCO (2002) estimates that approximately 220 Grenadians study abroad in OECD countries.⁶⁵ The information suggests a ballpark estimate of gross enrollment rate in tertiary education of 13 percent; a disturbingly low enrollment rate for a country with Grenada's income level. The low enrollment in tertiary education is a common problem in the English speaking Caribbean, but particularly pronounced in the OECS countries. For instance, only around 16 percent of St. Kitts and Nevis' youth and 7 percent of Dominica's youth attend tertiary education. Compared to its level of GDP, Grenada would be expected to enroll around 25 percent (at least twice as much). The enrollment gap implies a less than optimal investment into high-valued advanced human capital, diminishing the competitiveness of the country and draining the public budget for expensive long-term in-service training of public employees. Consequently, there is a need for policies that foster private investments into tertiary education.

⁶⁵ No time series data exist for enrollment in tertiary education.

C. USES OF EDUCATION EXPENDITURE IN GRENADA⁶⁶

7.16 On average, the Grenadian government spent in education (recurrent and capital) about 5.7 percent of GDP from 1996-2002. Recurrent expenditures represented about 80 percent of this spending (Figure 7.3). This level of expenditure is significantly higher than the ratio in the Latin American and Caribbean Region (4.1 percent of GDP), but below the average for English-speaking Caribbean countries (6.6 percent of GDP). The high investment in education provides a tremendous opportunity for skill building and economic growth in the country. However, as this chapter shows, this high level of expenditure fails to translate into adequate educational outcomes due to inefficiencies at all levels of the educational system.

Figure 7.3 Share of Education Expenditures in GDP, Grenada 1996-2002
(as percentage of GDP)



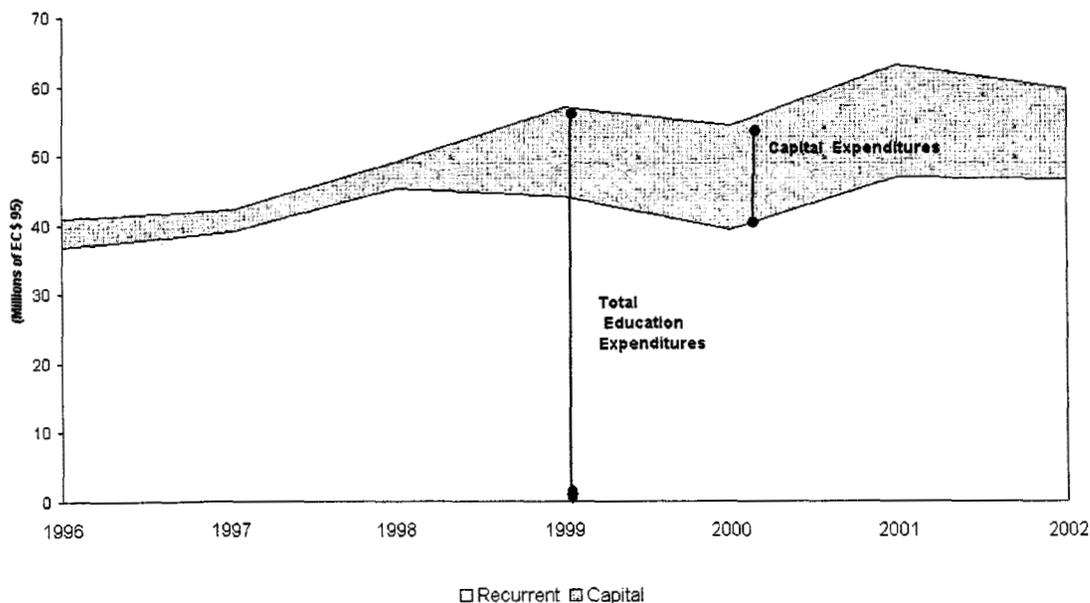
Source: Grenada Estimates of Revenue and Expenditure.

7.17 During the same period, capital expenditures increased three fold in real terms or 21 percent per year, while recurrent expenditures increased by about 4 percent per year. As Figure 7.4 shows, in 1996, capital expenditures in education amounted to EC\$ 4.2 million (1995-prices) and rose to EC\$ 13.0 million in 2002. Capital expenditures were mainly allocated to six broad areas: (i) improvement of educational management, (ii) school feeding, (iii) computerization of secondary schools, (iv) expansion of secondary schools, (v) expansion of tertiary education, and (vi) many small maintenance and some larger rehabilitation work mainly in primary schools. The World Bank-financed Basic Education Project formed a central pillar in the education capital budget; it cost a total US\$ 11.1 million (US\$ 7.0 million financed by a loan from the WB) with disbursement in the period 1996-2001. The project focused on (i) strengthening of management (US\$ 2.6 million); (ii) qualitative improvements in basic education (US\$ 2.6 million), and (iii) expansion of access to secondary education (US\$ 5.9 million).

⁶⁶ This Public Expenditure Review for education analyzes the budget envelope for the Ministry of Education from 1996-2002. For the relevant years, the calculations exclude the allocation to the labor department, which operated under the Ministry of Education until 1997. All amounts are actual expenditures, with the exception of 2002 (estimated outturn).

The school feeding program has been financed since 1998 by Taiwan, China.⁶⁷ In 2001, the program cost EC\$ 2.0 million. Moving forward, given the change in demographics the country has the adequate level of investment in education infrastructure in pre-primary and primary education. The ongoing expansion of secondary schools to achieve universal enrollment will complete the required level of infrastructure in secondary education. Therefore, any new expenditure needs to focus on improving the quality of education rather than infrastructure.

Figure 7.4 Education Expenditures in Grenada 1996-2002
(millions of EC\$ 1995)



Source: Grenada Estimates of Revenue and Expenditure.

7.18 On average, from 1996 to 2002, three tens of capital expenditures originated from own resources, four tens from loans, and the balance came in the form of grants from donors. The share of capital expenditures financed by grants has been rapidly rising throughout the period. Although grants come with no repayment obligations, it is critical for the government not to finance strategic projects with grant without evaluating the possibility that the government will have to take over the financing in the future if grants are reduced. (Table 7.4).

Table 7.4 Sources of Financing of Education Capital Expenditures
(as percentage of total education capital expenditures)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Local | 55.1 | 82.7 | 37.8 | 39.1 | 29.2 | 33.6 | 27.9 |
| Grant | 44.9 | 17.3 | 13.3 | 12.4 | 28.1 | 38.2 | 53.4 |
| Loan | | | 48.9 | 48.5 | 42.7 | 28.2 | 18.7 |
| Total | 100.0 |

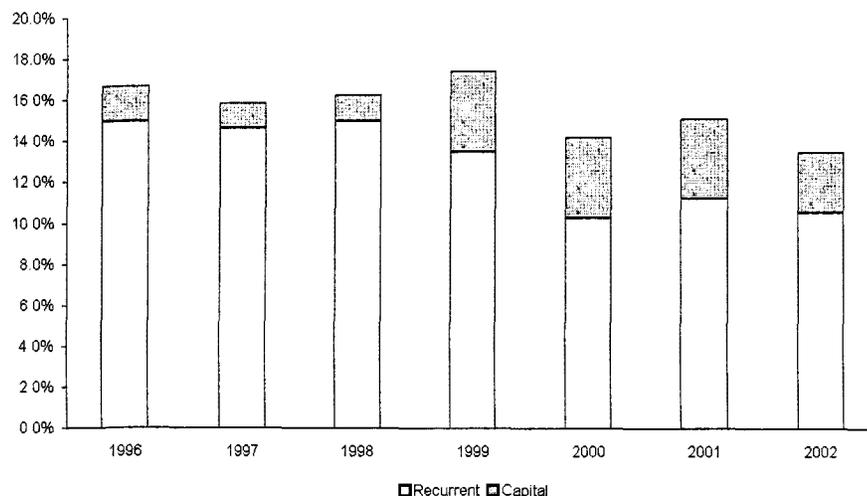
Source: Grenada Estimates of Revenue and Expenditure.

7.19 During the period 1996-2002, the share of the budget (recurrent and capital) allocated to education has showed a decreasing trend. In 1996, the share allocated to education was 16.7 percent and decreased to 14.9 percent in 2002 (Figure 7.5). This decline is not due to an increased efficiency in

⁶⁷ As it was discussed in chapter 4, the school feeding program ought to be classified as a recurrent expenditure in the budget even though it is funded by grants.

the provision of education, rather it reflects a larger increase in the government's total budget envelope to other votes in budget.

Figure 7.5 Education Expenditures in Grenada 1996-2002
(as percentage of total education expenditures)



Source: Grenada Estimates of Revenue and Expenditure.

Expenditure By Sub-sector

7.20 The allocation of recurrent expenditures by educational level has remained fairly stable since 1996. This inertia partially reflects a failure of the budget to foster progress in the education system. As Table 7.5 shows, in 2002 the primary education system continues to receive the lion's share of the budget, 47 percent, with secondary schools as the second largest recipient with 25 percent. Thereafter follow the sub-sectors administration (10 percent), tertiary education (8.5 percent), pre-primary (6 percent) and other (3.5 percent).⁶⁸ This report argues that policymakers could to a greater extent have shifted resources away from lesser-stated priorities towards the top priorities in the system (secondary education). For example, the government could have shifted expenditures away from pre-primary and primary levels, where the pupil population was declining, towards the top priority of expansion secondary education. Such shifts have not taken place in the recurrent budget, which indicates that better coordination between stated education policies and budget allocations and execution could improve the value of the sizeable level of expenditure in education.

Table 7.5 Grenada Recurrent Expenditures by Subsector 1996-2002
(as percentage)

| Level | 1996 | 1999 | 2002 |
|----------------|------|------|------|
| Administration | 10.7 | 10.9 | 10.0 |
| Pre-primary | 5.7 | 5.7 | 6.1 |
| Primary | 47.6 | 48.0 | 47.1 |
| Secondary | 24.8 | 23.7 | 24.8 |
| Tertiary | 8.1 | 8.0 | 8.5 |
| Other | 3.1 | 3.7 | 3.5 |
| | 100 | 100 | 100 |

Source: Grenada Estimates of Revenue and Expenditure.

7.21 The government needs to evaluate the educational reforms implemented and link the results to budget allocation. For example, expansion of secondary education has been the top priority

⁶⁸ Taking into account the government's contribution to the University of the West Indies—EC\$ 1 million in 2002—the allocation to tertiary education rises by 22 percent, and the share devoted to tertiary education increases from 8.5 percent to 10.5 percent.

announced in the budget from 2000 to 2004, but no achievements have been reported in the budget. The indicator framework developed in the Strategic Plan for Educational Enhancement and Development (SPEED) would be a suitable instrument for measuring and reporting the impact of education policies. The public announcement of the evaluation results and award for outstanding performance would help the government to remain focused and reach policy goals. Furthermore, it is recommended that the government establish reasonable criteria, guarantee a transparent evaluation process, and link the evaluation results to budget allocation.

7.22 Administration expenditures in Grenada take up twice the resources compared to larger countries. The way forward to overcome economies-of-scale is to increase sub-regional cooperation. Grenada spends one dollar on administration out of each ten-education dollars. This is slightly below the average among its OECS neighbors, but double that of the average Latin American country. The OECS difference is explained by the high degree of fixed costs in administration in small states, for example in the development of curriculums and information systems, and elaboration of new programs and guidelines in general. As a result, innovation in the provision of education is infrequent and ministerial staff is overloaded with little time to supervise and reform the system; all factors that contribute to an inefficient and occasionally outdated modus operandi of the Education Ministries in the OECS countries. The way forward to overcome economies-of-scale is to increase sub-regional cooperation. One such example is the development of new curriculum for secondary education, where the OECS countries through the OECS Education Reform Unit have agreed to develop and implement a common curriculum. Despite the existence of a new curriculum, the OECS countries, including Grenada, have been reluctant to implement the new curriculum. Enhanced cooperation could take place in many other areas of educational management, such as information system, monitoring and evaluation of programs, examination and testing at the primary level, teacher training, and development of new programs and guidelines. A 25 percent efficiency gain in administration costs would free up EC\$ 1.3 million (2.5 percent of the recurrent education budget) for quality investment at the school level.

7.23 There is a strong case for raising cost recovery at TAMCC by raising tuition and fees. In financial year 2003 (ending July 2003) TAMCC generated a revenue of EC\$ 1.65 million of which EC\$ 0.65 million corresponds to tuition and fees and EC\$1.0 million stems from the sale of teaching services to the University of St. George.⁶⁹ Thus, cost-recovery from tuition and fees is about 8.7 percent of TAMCC's total expenditures.⁷⁰ Within the OECS, this is an average cost-recovery rate. Dominica community college recuperated 13 percent in 2002, while Clarence Fitzroy Bryant College in St. Kitts and Nevis charged the equivalent of 5 percent of total costs in 2002. However, internationally many public tertiary education systems charge 20-30 percent of the costs, such as Chile, Colombia, Jamaica, Korea and USA. Increasing the cost-recovery ratio would imply a reduction of the subsidy to a few relatively well-off students and pave the way to increase enrollment in tertiary education. Raising the fee from EC\$ 350 to EC\$ 1,100 will bring the total student contribution to 26 percent of the full cost and would endow TAMCC with EC\$ 1.1 million extra per year (2.1 percent of the recurrent education budget in 2002), which at the current unit cost would be enough to teach additional 274 students. Key for a successful increase of tuition and fees is an accompanying student loan facility that allows all talented students to enter tertiary education, regardless of family income. Such a tuition policy could be implemented with a re-orientation of the student loan scheme operated by the Grenada Development Bank to ensure full availability of loans to cover tuition of students in TAMCC (See Box 7.1). The large amount of self-generated income from the sale of teaching services to University of St. George is an

⁶⁹ The revenue of EC\$1.65 million is not recorded in the government budget, since TAMCC is currently in the process of becoming a statutory body with limited autonomy and financial independence.

⁷⁰ The cost-recovery share of 8.7 percent is estimated as tuition and registration fees from TAMCC students (EC\$ 0.6 million) in relation to total costs of operation (EC\$ 6.9 million). This does not take into account the sale of teacher services to the University of St. George (EC\$ 1.0 million), if this is considered, then the cost-recovery rate will increase to 23.2 percent.

excellent example of public-private partnership and the potential gains for tertiary education institutions from pursuing revenue outside of the government's budget.

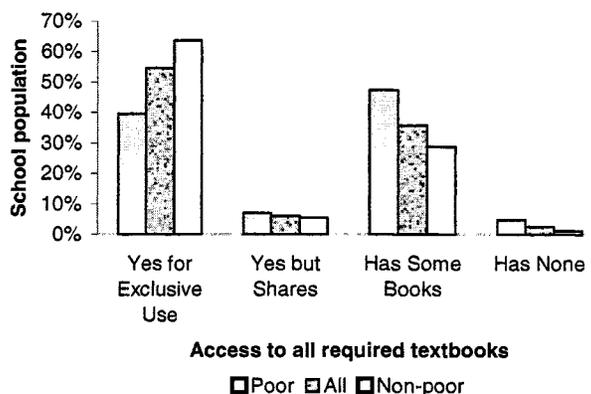
Equity of spending

Income

7.24 The School Feeding Program in Grenada is substantially subsidized and covers the majority of the primary school population without been adequately targeted. According to the 1998 Survey of Living Conditions, the School Feeding Program reaches 90 percent of the public primary school population and 25 percent of the public secondary school population. This is a significantly larger share than in Dominica (where only 7 public schools are covered) and slightly larger than in St. Kitts and Nevis (86 percent of public primary schools and 16 percent of public secondary schools). A School Feeding Program has at least two purposes: (a) stimulates demand for schooling, which has proven critical for the attendance and learning of low-income students, whose parents tend to underestimate the value of education for the future of the child, and (b) provides important nutrition that improves health outcomes and educational learning. For both purposes, the primary target group is children from poor families. For other income groups, school feeding is convenient, but not necessary for either learning or nutrition. Almost all families contribute to the financing of the program through a co-payment. The Survey of Living Conditions indicates that less than 5 percent of children are exempted from the payment. The targeting of resources towards children from poor families seems ineffective: 41 percent of children from poor households receive free meals compared to 59 percent from non-poor households. Despite the co-payment, the cost of the school feeding program is substantial, EC\$ 2.1 million in 2002. The program is hence strongly subsidized. In 2002, the program was primarily financed by external donors and accounted as a capital expenditure item. The government could thereby increase cost recovery. For instance, eliminating the subsidy to school meals to children from the most affluent half of the population. It is also recommended that these expenditures be reclassified as recurrent expenditures.

7.25 Access to all required textbooks by children in poor households will improve equity of education expenditures. According to the Survey of Living Conditions, 54 percent of pupils in the public primary and secondary school system have all required texts for their exclusive use; 6 percent of pupils have all required texts but only through sharing; 36 percent have access to only some of the texts, while 2 percent have none (see Figure 7.6). Lack of textbooks is a serious impediment to improved learning especially for students from low-income households, which tend to provide less academic support to the children. Schools and the government provide limited help to the pupils: 6 percent of the pupils in public primary and secondary education receive

Figure 7.6 Access to Required Textbooks by Poor and Non-poor students, 1998
(as percentage)



Source: Grenada Survey of Living Conditions, 1998

books free of charge. However, data from the survey of living conditions indicate that pupils from affluent households are just as likely to receive free books as children from poor families. Hence, similarly to the school feeding, there is a need to better targeting of assistance in order to improve learning conditions for the students from poor backgrounds. The Survey of Living Conditions shows that

poor families are more than twice as likely to rent: 18 percent of poor households currently rent books compared to 9 percent of non-poor households. Therefore, it is recommended that the planned scaling up of the rental book scheme be implemented swiftly with a clear prioritization of pupils from low-income households. This would facilitate full availability of textbooks to pupils from poor families at a low cost to the government and ensure a more equitable learning outcome.

Gender

7.26 There exists a large gender disparity in outcomes. Girls consistently outperform boys. The gender difference is established very early in the educational system. On average 17 percent of boys passed the 4th grade tests compared to about 32 percent of girls. In 2002, about 60 percent of those who entered secondary school were girls, moreover girls are less likely to prematurely leave school and repeat. Consequently, they graduate at a higher percentage rate than boys. Women also dominate tertiary education enrollment (56 percent of enrollment). Suggestions to reduce the poor performance of boys are intensely debated. The traditional gender roles in the Caribbean society are likely to be the main reason for the inverted gender problem in education, and remedies such as parents' education, training of teachers and creating role models, could improve the situation.

Box 7.1 The Grenadian Experience with Student loans

University education is clearly a good investment for many secondary school graduates. One might therefore expect the private sector to offer student loans. However, private sector provision of student loans is often very limited due to credit market imperfections, such as (i) information asymmetries between the lender and borrower (for example about a student's ability to pay) and (ii) the absence of sizable collateral—unlike mortgage loans, education can not be re-possessed by a bank. Public interventions to ameliorate these credit market imperfections might yield substantial benefits in terms of accessibility to higher education. However, public provision of student credits can be a serious drain on the public money if not implemented carefully and continually evaluated.

A recent study, Johnson (2003), examines Grenada's experience with the country's student loan scheme executed by the Grenada Development Bank and funded from 1985 to 2002 by the Caribbean Development Bank totalling US\$ 5,548,000. The scheme has supported 528 students in this period with a total average amount of US\$ 10,500 to cover tuition fees, travel and living costs. The loans have predominantly financed students studying abroad. The average loan amount has reportedly increased markedly over the period. In 2001, 65 students were supported by an average loan of US\$ 15,500 for that year. This is unusually high support, given that the average expenditure on tertiary education is EC\$ 3,100 (US\$ 1,110). Administrative data show that 23 percent of the portfolio is in more than 12 months of arrears, which suggests that a non-negligible share of the government support is (unintended) a grant.

Given that around half of the beneficiaries have not reported household income, the financial aid is not well targeted to poor students. These findings are suggestive of a regressive student loan scheme benefiting few with a high amount. This report recommends the undertaking of a thorough evaluation of the loan scheme based on equity and efficiency criteria. Depending upon the findings of the report, it proposes that (i) loans could be directed towards students from low-income families studying in national programs, in particular to finance an increase in cost-recovery of the TAMCC courses, and (ii) action be taken to strengthen recovery of outstanding loans.

Efficiency of Spending

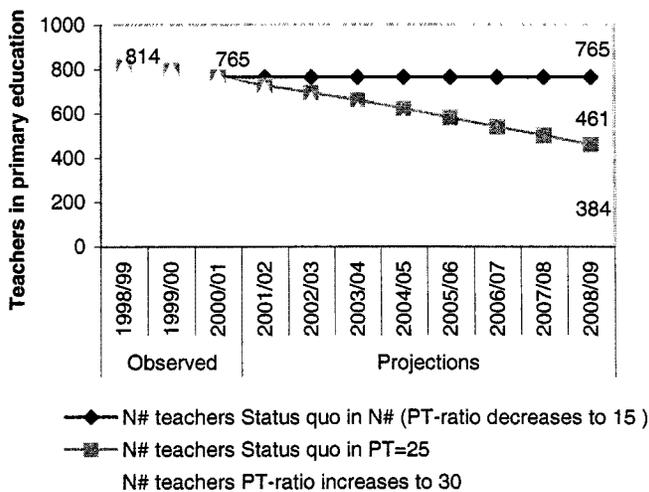
7.27 As is the case in all education systems, teacher salaries consume the lion's share of recurrent expenditures in education. However, in Grenada the salaries share is the lowest of all the OECS countries. Salaries share in recurrent education expenditures decreased from an average of 90 percent in the mid-nineties to 82 percent in 2002. This compare very favorably with a ratio of above 95 percent in

St. Kitts and Nevis (2000) and Dominica (FY 2001/02). Other expenses such as learning material, funds for communications, and maintenance have hence steadily increased. However, once maintenance and communication costs are deducted, only 4-5 percent remains for learning supplies. Given the crucial importance of inputs such as textbooks, didactic material, material for woodwork, and chemicals for science classes and the like, continued increments in the allocation for learning material would increase the efficiency of the education budget.

7.28 The main reason for the lower share of salaries in recurrent expenditures is that Grenada is among the Caribbean states that employ their teacher force most efficiently. As discussed above, salaries represent about eighty percent of recurrent education expenditures. Hence, the cost of provision of the education system depends chiefly upon two factors: (i) the average salary of the teacher staff; and (ii) the number of pupils taught by each teacher. The latter is measured by the pupil: teacher ratio (PTR). A low PTR implies a greater number of teachers employed making the provision of education more expensive. In 2001, in primary and secondary education the PTR reached 25 and 23, respectively. Only Jamaica and the Dominican Republic have a higher PTR in the Caribbean.⁷¹ The available statistical data does not indicate whether the PTR has been rising or falling over time. The increased intake of pupils into secondary education without a significant rise in the budget allocation to secondary education is indicative of a slightly increasing PTR. This development is likely to have increased the system's efficiency and is in line with international best practice that strongly indicates that the marginal value for money on other budget lines is higher than keeping an inefficient PTR. A discussion of government salaries is presented in chapter 5 of this report.

7.29 However, there is room for efficiency and fiscal gains by increasing the PTR in primary and secondary education. At the primary level, a decline in births over the 1990s and the expected elimination of senior primary education will substantially reduce enrollment into primary education and the size of the required teacher force. Hence, policymakers should plan for the concurrent need to reduce the teacher staff. Projections show that a failure to adjust—implying a constant teacher force of 765—implies a significant increase in the unit costs. Maintaining a status quo in PTR (25) implies a reduction of the primary teacher corps by 304 teachers, a saving of EC\$ 7.6 million (14 percent of the recurrent education budget in 2002). Increasing the PTR to 30 enables costs savings of EC\$ 9.5 million (18 percent of the recurrent education budget in 2002) through a diminishing of the teacher force by 384 positions (see Figure 7.7). The projections estimate that the reduction in teacher position can come about through attrition and redeployment of primary teachers. Raising the secondary PTR from the current 23 to 30 would eliminate the need to hire new teachers to teach the growing pupil population in secondary education—entering as a consequence of universal secondary education. Moreover, compared to the required teacher force at a PTR equal to 23, raising the

Figure 7.7 Number of Teachers Needed in the Grenada Primary Educational System 1998/99-2008/09



Source: Author's calculations.

⁷¹ Jamaica's pupil teacher ratio in primary and secondary education is 30 and 18 respectively, while that of the Dominican Republic is 36 in primary and 28 in secondary education.

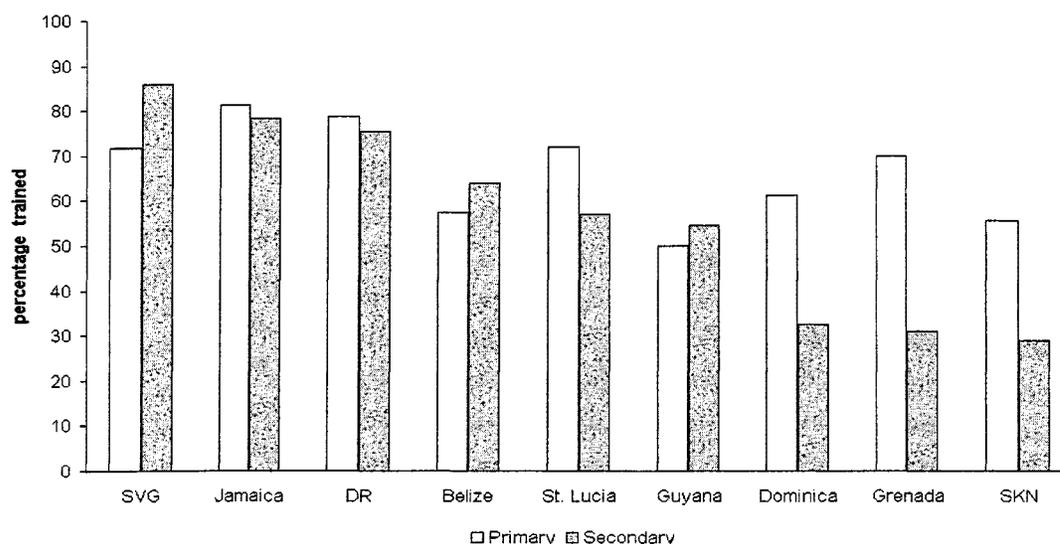
PTR to 30 would reduce the number of teacher positions by 112 in 2008 corresponding to a potential fiscal saving of EC\$ 2.9 million (5.4 percent of the 2002 recurrent education budget).

7.30 The actions needed to reach these important efficiency and fiscal gains are:

- Merging of primary schools. Inefficient utilization of teachers predominantly takes place at smaller primary schools. A merging of schools based on the existing school mapping exercise would allow the system to exploit the economies of scale in the education system and reduce cost, while increasing quality;
- Instituting a curriculum reform of secondary education. A common core curriculum for the first three forms in secondary would reduce the excessive offering of subjects of a specialized nature, such as type-writing, auto-mechanics and metal work, and lead to larger classes; and
- Mandating of a minimum floor on class size at the primary and secondary level. Many schools, in particular at the secondary level, offer subjects with low demand leading to small class sizes and high costs. Mandating a minimum class size of for instance 15, —a rule that is in vigor in many developed countries—would increase efficiency.

7.31 Although, the teacher corps is efficiently deployed, the training that they have received is limited, in particular for secondary teachers. As Figure 7.8 shows, the percentage of teachers with at least two years of qualifications after the CXC exam is 70 percent and 31 percent in primary schools and secondary schools respectively. Compared to their Caribbean colleagues, the primary teachers are relatively well qualified—in average 66 of every 100 teachers are trained in the Caribbean—while the country’s secondary teachers stand out as insufficiently trained; 56 of every 100 secondary teachers in the region have received training. The implication in terms of low quality of instruction is expected to be significant. International evidence shows that low teacher qualification leads to deteriorating learning outcomes.

Figure 7.8 Share of Trained Teachers in Primary and Secondary Education, Grenada and the Caribbean, 2001
(as percentage)



Source: Monitoring Educational Performance in the Caribbean”, The World Bank, 2003

7.32 The continued hiring of untrained teachers lies at the root of the problem of insufficient teacher qualification. Grenada was the first OECS country to initiate a pre-service teacher-training program. However, the pre-service training is only a two-week introduction course that endows teachers—destined for both primary and secondary education—with only a hint of the basic understanding of the teaching profession. For the majority of teachers, this course is the first professional teacher training before commencing teaching in the classroom. Although the pre-service program is a step forward in the right direction, it is not enough to overcome the limited teacher qualifications. To remedy the lack of training among the teacher staff, the government provides fully salaried study leaves for untrained teachers plus tuition and fees. In 2001, 11 percent of the teacher force was on study leave: 65 teachers in primary education (out of 765) and 62 teachers in secondary education (out of 439). Thus, the government pays not only the full two to three year costs of tertiary education for the teachers on study leave, but in addition provides a full-time salary during their studies. In 2003, this generous tradition cost the government EC\$ 2.9 million (5.3 percent of the 2003 recurrent education budget). In contrast to the large sum spent for study leaves, the investment in in-service teacher training is insignificant. The government started budgeting for teacher training in 1999, and it reached EC\$13,000 in 2002 (0.02 percent of recurrent expenditure).

7.33 The low-quality and expensive teacher training-hiring system is perpetuating itself with a high cost. It is recommended that system be changed drastically. Hired teachers are prioritized for the limited number of seats in the teacher college, which limits the number of seats for other students. Consequently, the system becomes obliged to fill vacant positions with untrained teachers, thus perpetuating the situation. There is an urgent need to break the vicious circle by establishing a new set of rules that: (i) stipulate that only trained teachers can be hired, and (ii) ensure that the system's future need of teachers will be met by available trained graduates. Available trained teachers could come about by prioritizing entry into teacher training to students that are not teaching. This would (i) save the government the salary of the replacement teachers, and (ii) contain the long-term problem of hiring of untrained teachers.⁷² In addition, it is recommended that the existing in-service teacher-training program be scaled up to ensure the continual upgrading of pedagogical and technical skills of the teacher force. Training would imply an additional EC\$ 130,000 (0.2 percent of the 2003 recurrent education budget).

⁷² In 2001, the teacher college enrolled 80 students in the last year of schooling. With a high success rate at the graduation exam, this would be more than sufficient to fill the estimated replacement needs of the system. Ministry of Education (2003) estimates that the replacement needs in primary and secondary education in 2003 is 18 and 33, respectively.

8. SOCIAL PROTECTION PROGRAMS IN GRENADA

8.1 Social protection programs are public interventions to assist the most vulnerable groups of society with the objective of ensuring a minimum level of welfare for individuals, households, and communities. The most common social protection tools to address the social risks of vulnerable groups are social insurance and social assistance.

- Social insurance consists of mechanisms that pool social risks across population groups, for example pension, unemployment, or health insurance programs.
- Social assistance programs are designed to help poor and vulnerable individuals and households cope with temporary or chronic poverty by providing income support and access to basic services. It includes a variety of programs such as cash and in-kind transfers, subsidies, workfare, housing programs, and social funds. Social assistance programs aim to address the specific needs of groups at risk.

8.2 Grenada implements a range of social insurance and social assistance programs, which in combination attempt to address the critical risks and vulnerabilities faced by the population. However, programs targeted to the poor are not linked to any requirements, such as school or health clinic attendance that could help to break the cycle of poverty and are not well poised to respond to income volatility originated either from significant economic downturns or natural disasters and therefore mitigate transient spells of poverty. In addition, the National Insurance Scheme (NIS) does not cover a significant share of the population and faces long-term sustainability issues that will need to be addressed in the future.

8.3 The most important features of the Grenada's social protection structure are a) the large number of agencies involved and the array of programs – many of which target the same groups but with different targeting mechanisms and criteria. The government implements, through at least ten different line ministries and statutory organizations, over twenty-five social protection programs; b) the number of social protection programs not reported as separate items in the government's budget. Although some program administrators provided expenditure data, time series data for the majority of programs was not provided. Therefore the Bank team was forced to rely on ministry level expenditure data for the analysis of social protection. This approach does not permit an in-depth analysis of the composition of social protection expenditure, but allows us to overcome the difficulty of identifying and collecting expenditures and beneficiary data by program; and c) a significant number of social protection programs are funded through the capital budget. This reduces the transparency of decision making for social protection and also raises concerns about the sustainability of social protection initiatives.

8.4 On average Grenada spent on social protection programs (including social security) about 2.8 percent of GDP between 1997-2001. This figure is below the average for Latin America and the Caribbean region, and other OECS countries. For example, during the same period, Dominica spent on average about 5.0 percent of GDP on social protection programs and St. Kitts and Nevis around 3.5 percent of GDP.⁷³ The combination of relatively low allocations to social protection and large numbers of overlapping programs and administrative structures increases the cost of services provision and thinly spreads the already limited resources available for social expenditures from the government.

⁷³ The figures for Dominica and Grenada include capital expenditures, but for St. Kitts and Nevis include only recurrent expenditures.

8.5 This chapter reviews social assistance and social insurance spending and presents policy recommendations for strengthening social protection in Grenada. The main recommendations to strengthen social protection programs can be summarized as follows:

On Social Protection Programs

- Consolidate programs, expand coverage and improve targeting of means tested programs with receipt of benefits conditional on health clinic or school attendance. This expansion could be budget neutral if programs are targeted to the most indigent and if these initiatives are combined with parallel initiatives to gradually reduce the value of education scholarships based on academic performance and with increased targeting of health services to the poorest and cost recovery from those who can afford to pay;
- Identify labor market strategies that combine a mix of approaches targeted to new labor market entrants and to retrenched workers and other unemployed persons;
- Rationalize and strengthen services for the elderly, especially the elderly poor.

On Institutional Reforms

- Build on work already started through the “pro-poor” budget analysis commissioned by government in 2001 to initiate consultation among the ministries and agencies responsible for implementing social protection programs with the objective of developing a comprehensive social protection strategy and rationalizing and coordinating programs;
- Implement a more effective and efficient system of identifying beneficiaries that can be used for all programs targeted to the poor. The system should apply uniform and objective criteria, screening instruments and procedures for approval so that all persons or households are measured with the same standards and criteria;⁷⁴
- Enhance fiscal accountability through introduction of program budgeting for social protection activities not currently identified as programs in the budget, including, inter alia, transfer programs, education based programs, and the road maintenance program.
- To ensure fiscal sustainability of the social protection programs, the government should reclassify social programs that are now in the capital budget, but that are recurrent in nature, to the recurrent budget. These include education based transfers, school feeding, and training programs;
- Develop computerized information systems to strengthen monitoring and evaluation and, thus, accountability;
- Implement regular household surveys to assess poverty levels, the incidence and coverage of social protection programs and that could be used to inform modernized targeting systems;
- Improve labor market data and enhanced employer inputs to ensure that education and training programs are directed to emerging labor market opportunities; and
- Target health services to the poorest with increased cost recovery from those who can afford to pay.

⁷⁴ A list of programs to be considered for inclusion in a unified targeting system is given in Annex C.

A. GRENADA SOCIAL PROTECTION STRATEGY AND PROGRAMS

Social Protection Strategy in Grenada

8.6 **The government of Grenada does not have yet a clearly articulated social protection strategy. Priority areas for action include poverty reduction through human resource development – particularly through expanded access to early childhood and secondary education with government provision targeted to the poor.** The government provides free primary, tertiary and accident/emergency care for all persons treated in the public health system and subsidized pharmaceuticals, laboratory/x-rays, and dental care and overseas medical treatment for children, the elderly and persons who are poor. A National Insurance program provides retirement, disability and sickness benefits to contributors. The government maintains price controls on foodstuffs and other basic commodities. The government also intends to review the minimum wage that was introduced in 1969. This is seen as a poverty reduction strategy. The main target groups for these social protection initiatives are children, youth, and the elderly. Government relies heavily on NGOs to implement social programs. Box 8.1 presents an overview of Grenada’s social protection landscape.

8.7 **Frequent ministerial shifts in portfolio responsibility for social protection programs and frequent personnel shifts – particularly at the level of Permanent Secretary – have resulted in duplication and fragmentation of programs and a loss of institutional memory.** As a result of the lack of a coordinated social protection strategy and clearly identified social protection priorities, there are no mechanisms for fiscal prioritization of programs. This is reflected in the budgeting process during which budgets are essentially determined by previous budget allocations and not in response to changing needs and priorities.

Box 8.1 Grenada’s Social Protection Landscape

- Eight ministries and two statutory bodies implement social protection programs.
- The Ministry of Housing, Social Services and Cooperatives implements ten targeted cash and in-kind transfer programs plus subsidized day care and elder care programs.
- Four ministries implement grant programs for needy students. All rely on different means testing criteria and procedures.
- There are six social assistance programs targeted to the elderly.
- Grenada and Carriacou and Petite Martinique implement three parallel means tested programs: public assistance, children’s allowance, and housing repairs programs.

This landscape of overlapping programs and administrative structures increases the cost of providing services and strains the already limited resources available to social expenditures from the Government.

8.8 **The Government has initiated a process to strengthen social protection programs. An audit of social sector programs and national poverty reduction workshops was recently conducted.** Stakeholders in the social development arena agreed on a process for the development of a poverty reduction strategy that includes undertaking a “pro-poor” budget analysis and a study to determine data requirements to support the poverty reduction strategy. This process, headed by the Ministry of Finance and Planning with support from the UNDP and the OECS Secretariat, began in 2001 and will be completed in the first quarter of 2004. A draft report is to be reviewed by donor organizations after which

a formal request will be made by the government to fund some of the initiatives proposed in the document.

Social Protection Programs and Expenditures in Grenada

8.9 Grenada implements an array of social protection programs including:

- Social insurance programs: National Insurance, a contributory pension, disability and sickness fund;
- Social assistance programs, including more than twenty-five income support, education based, health based and labor market programs.

A list of all the social protection programs identified in 2001 with information on expenditures and beneficiaries is presented in Table 8.1.

Social Insurance

8.10 The National Insurance Scheme (NIS) accounts for approximately half of the total social protection expenditures. The NIS came into effect in 1983 for the purpose of providing social security benefits for nationals of Grenada, Carriacou, and Petite Martinique. In 2001, the NIS expenditures were about EC\$ 19.4 million. The National Insurance is funded by a mandatory 9 percent payroll tax (4 percent employer contribution and 5 percent employee contribution) levied on wages of all employed and self-employed persons, including public employees. Approximately 15 percent of the elderly receive pensions. ILO actuarial analysis indicates that the number of people contributing at least once in 1999 was approximately 26,800 or 73 percent of the employed labor force. Coverage of self-employed persons is not mandatory and only a small percentage of the self-employed participate. Also of concern are seasonal, domestic and informal sector workers for whom contributions are not made. The 1999 Actuarial Review found that the National Insurance Scheme was adequately funded. Although immediate measures are not needed to extend the life of the NIS reserves, long-term sustainability will require increases in contribution rates and/or reform of benefits, payment of government arrears to the system and strengthening of investment policies to ensure risk diversification.⁷⁵

Social Assistance Programs

8.11 Grenada implements an array of cash and in-kind transfer programs. In 2001, these programs represented about 23 percent of total social assistance. The Public Assistance Program, implemented by the Ministry of Housing, Social Services and Cooperatives (MoHSSC), is targeted to the elderly poor and disabled with eligibility determined by a means test based on criteria approved by Cabinet. As Table 8.1 shows, in 2001 the Public Assistance Program served 2,963 beneficiaries with expenditures equal to EC\$3.5 million. The Necessitous Fund targets poor families with children and in 2001, provided benefits to 311 beneficiaries at a cost of EC\$211,460. The size of the benefit for these programs varies according to need and/or size of family and ranges from EC\$50 – EC\$100/month or between 17 percent and 35 percent of the adult equivalent poverty line. Other programs administered by the MoHSSC include the Veterans Assistance program, the Disaster Fund, the Burial Assistance program and the Transportation Voucher Initiative for the Elderly.⁷⁶ The Ministry of Carriacou and Petit Martinique (MoCPM) administers parallel Public Assistance and Children's Allowances programs. In 2001 there were 215 beneficiaries of the Public Assistance Program at a total cost of EC\$258,000 and 22 Children's Allowance beneficiaries at a cost of EC\$26,400. All these cash and in kind transfer programs are part of the recurrent expenditures.

⁷⁵ ILO, 1999 Actuarial Review of the Grenada National Insurance Scheme.

⁷⁶ The Transportation Voucher Initiative for the Elderly was scheduled to start at the end of 2001.

Table 8.1 Social Protection Programs, Expenditures, and Beneficiaries in 2001
(in thousands EC\$)

| | Expenditures | Beneficiaries |
|--|---------------------|----------------------|
| Social Protection | 38,300.3 | |
| Social Insurance | 19,450.5 | |
| National Insurance | 19,450.5 | 6,406 |
| Social Assistance | 18,849.8 | |
| Cash and in kind Transfers | | |
| Public Assistance | 3,555.4 | 2,963 |
| Necessitous Fund for Needy Families | 211.4 | 311 |
| Burial Assistance | 155.3 | 55 |
| Disaster Fund | 79.0 | 46 |
| Veterans Assistance | 5.0 | NA |
| Public Assistance - Carriacou and Petit Martinique | 258.0 | 215 |
| Children's Allowance - Carriacou and Petit Martinique | 26.4 | 22 |
| Education | | |
| School Feeding Program | 857.8 | 9,400 |
| Needy Students Program for Uniforms, Books and Lunches | 736.7 | 2,500 |
| Human Resource Development Program | 644.2 | |
| Needy Students Assistance Program | 479.9 | |
| Subvention for Homes for the Aged and Day Care Centers | 1,306.4 | |
| Student Assistance and Other Needy Cases | 10.0 | 256 |
| Establishment of Day Care Centers | 208.2 | |
| Health | | |
| Off-Island Medical Care | 188.3 | 48 |
| Labor Market Programs | | |
| Road Maintenance | 1,831.5 | |
| 3 R's Program | 20.0 | 131 |
| Community Development Program | 1,000.0 | |
| Microenterprise Development Project | 400.0 | |
| National Training and Employment Program | 123.8 | |
| Multiple Projects and General Education | 63.1 | |
| LMIS/Labor Exchange | 145.0 | |
| Summer Youth Program for Children | 54.8 | |
| Housing | | |
| Housing Repairs Program (MoHSCC) | 1,742.1 | 605 |
| House Repair Program (PMM) | 1,900.0 | |
| House Repairs Program- Carriacou and Petit Martinique | 228.2 | 193 |
| Shelter Development Project | 50.0 | |
| Basic Needs Trust Fund | 340.2 | |
| Disabled | | |
| Multiple Projects for Disabled Persons | 75.5 | |
| Training of Young Offenders/Handicapped | 72.5 | |
| Others | | |
| Poverty Reduction Strategy | 81.1 | |

Source: Author's calculations

8.12 Eligibility for cash and in-kind transfer programs is subject to a means test and home visit. Criteria for eligibility vary between programs. Social workers determine eligibility, level, and type of benefits and are also responsible for distribution of cash benefits. There is no information on the

incidence of programs. Program coverage is uneven. For example, while coverage of the Public Assistance program is potentially adequate, the Necessitous Fund reaches only a small share of households with children. The lack of data about the demographic characteristics of beneficiaries and on the incidence of programs makes it impossible to draw any definitive conclusions.

8.13 The government implements seven education based social protection programs, about 22 percent of total social assistance, through three different ministries. The School Feeding Program and the Needy Students Program for Uniforms, Books and Lunches are implemented by the Ministry of Education (MoE); the Human Resource Development Program and Needy Students Assistance Program are implemented by the Prime Minister's Ministry (PMM); and the Student Assistance and Other Needy Cases, Establishment of Day Care Centers, and subsidized Day Care Centers are implemented by the MoHSSC.

8.14 The School Feeding Program started in 1991 with funding from the World Food Program, and is now financed by local revenues and a grant from Taiwan, China. The program provides a cooked lunch to approximately 9,400 students in all primary and four secondary schools. The total cost of the program in 2001 was EC\$0.8 million. Students pay EC\$1.00 per day for meals. Principals have the discretion of waiving the fee for needy students and there is no limit on the number of students who can receive a free meal. However, the central ministry reports that most children pay for lunches.

8.15 The MoE also administers the Needy Students Program for Uniforms, Books and Lunches. Primary School principals, Department of Social Services representatives and Ministers of Parliament identify needy students who have been awarded places in secondary schools. Eligibility is subject to a means test. Between June 2001-2002 approximately 2,500 students received assistance at a cost of approximately EC\$736,600 in 2001.

8.16 The Prime Minister's Ministry implements the Human Resource Development Program and Needy Students Assistance Program, which are funded with local revenues, a grant from Taiwan, China and loans. These means tested programs provide assistance with books and uniforms to needy students at primary and tertiary levels. In 2001 EC\$1.1 million was allocated to tertiary students and primary students. Approximately 230 tertiary level students received assistance in that year. Information on the number of primary students receiving assistance was not provided.

8.17 The Ministry of Housing, Social Services and Cooperatives has oversight responsibility for day care services targeted to low-income families. There are 31 daycare centers in Grenada -- four are government owned, seven receive government subventions and the remaining centers receive technical assistance from the MoHSSC. An estimated 4 percent of the age cohort is covered by day care centers. The combined expenditures for subventions for homes for the aged and day care centers were EC\$ 1.3 million in 2001. The government also spent EC\$208,207 on the establishment of day care centers. Also, the MoHSSC administers the Student Assistance Program and other Needy Cases. A total of EC\$10,000 was allocated to the program in 2000 and 2001.⁷⁷ Between June 2000 and June 2001, 256 children of needy families received assistance to attend school.⁷⁸

8.18 Grenada implements several health based social protection programs. Outpatient medical care, in-patient care in public wards and in-patient psychiatric and substance abuse treatment are free of cost to all persons regardless of income. Pharmaceuticals from public pharmacies are also free to all persons under 16 or over 60. There is no information on the cost of these exemptions for the government. The Ministry of Health and the Environment does impose a fee for laboratory, x-ray, pharmaceuticals, use

⁷⁷ Ministry of Housing, Social Services and Cooperatives.

⁷⁸ Grenada Government at Work, June 2000 – June 2001.

of operating theatre and eye ward. Determination of eligibility for a fee waiver or fee reduction is based on a means test administered by a hospital social worker or through referrals from the Department of Social Services.

8.19 The Ministry of Health and the Environment (MoHE) provides assistance to needy persons who require overseas medical treatment. Determination of eligibility for assistance is based on means test administered by a hospital social worker or through referrals from the Department of Social Services. Between June 2000 and June 2001, 48 persons received support for overseas medical care at a cost of EC\$188,270.⁷⁹ The Department of Social Services provides assistance for transportation to receive overseas medical care and in some cases for the medical care itself. In 2001, the Department of Social Services allocated EC\$10,000 for this program.

8.20 The Ministry of Housing, Social Services and Cooperatives provides subsidized dental and optical care through the Necessitous Fund and initiated the Pharmaceutical Program for Needy Persons in October 2001. The Ministry identifies needy persons who then receive their prescriptions free at government pharmacies or dental and optical care through private providers.

8.21 Grenada implements a number of labor market programs, including public employment, training and micro-enterprise development programs. All these programs represent about 19 percent of total social assistance. The Ministry of Works administers the Road Maintenance Program, a short-term employment program. The Ministry contracts approximately 165 work crews comprised of 6-7 persons plus a supervisor. Crews are hired three times per year for approximately two weeks and may be rehired. The work assignment is bushing of roadways. Mechanisms for selection of eligible workers are not clear. Crews are paid EC\$3,700 in total with each crew dividing this total among the workers and the supervisor. Estimated annual costs of the program are EC\$1.8 million (9.7 percent of total social assistance).⁸⁰

8.22 The Ministry of Education provides skills training for persons 16 and over who completed school at Grade 9 or who dropped out of secondary school, at the T. A. Maryshaw Community College (TAMCC) and at three skills training centers. Between June 2000 and 2001, 650 participants enrolled in skills training centers and approximately 350 in vocational and or remedial programs at TAMCC. Expenditure data on these programs could not be obtained. The Ministry of Youth and Community Development implements skills training programs on an ad hoc basis as part of its more general community development initiatives with a cost EC\$ 1.0 million in 2001.

8.23 The Ministry of Tourism, Civil Aviation, Culture, Social Security, Gender and Family Affairs implements the Multiple Projects and General Education program funded mainly through the capital budget, to assist low-income persons become self-employed. The Program provides support for community-based skills training and grants for business start-up (primarily to groups) of between EC\$1,000 and EC\$10,000. The primary beneficiaries are groups of women. In 2001, 170 persons received training at a cost of EC\$63,146. The Ministry also implements the 3R's Program., designed to create an avenue for participants to achieve functional literacy and basic certification. Training is provided in community centers or in private homes. In 2001, 131 participants enrolled at a total cost of EC\$20,000.

8.24 The Small Enterprise Development Unit (SEDU) provides managerial and administrative support to small and micro businesses, including legal registration of business, location of inputs, marketing, secretarial services, web-site design and Internet access. SEDU also provides training in

⁷⁹ Grenada Government at Work, June 2000 – June 2001.

⁸⁰ Calculated as follows: EC\$3,700 per crew x 165 crews x 3 hiring periods per year

small and micro business management to students in secondary and tertiary schools. The Grenada Development Bank (GDB) on-lends to micro businesses via the National Development Foundation (NDF), an NGO. The average annual value of on-lending to NDF is EC\$0.5 million. The GDB also loans directly to micro and small businesses with loan size between EC\$20,000 and EC\$30,000. Because of the size of the possible loan, the NDF tends to serve more micro businesses than those served directly by the GDB. SEDU receives a grant from government (through the Ministry of Finance) for operation. The Microenterprise Development Project is implemented by the MoF, at a cost of EC\$400,000 in 2001. The CDB is providing loan funding and a grant for technical assistance.

8.25 The government implements other labor market programs. In addition to a small summer youth training program at a cost of EC\$ 54,760, the Labor Department is in the process of developing a labor market information system and a labor exchange service. At a cost of EC\$ 145,000, the labor exchange will help to match unemployed persons with jobs.

8.26 Government implements several housing initiatives for low-income persons and represent about 23 percent of total social assistance. The Ministry of Housing, Social Services and Cooperatives administers the House Repairs Program. The program provides loans and grants to needy families. In 2001, the maximum value of loans was EC\$4,000 per family. Families that cannot afford to repay loans are given grants with a maximum value of EC\$1,000 per grant. The total cost of the program in 2001 was EC\$1.7 million and is part of the MoHSSC recurrent expenditures. Between June 2000 and June 2001, 829 families received loans.⁸¹ The Ministry of Carriacou and Petit Martinique also administers a House Repairs Program for low-income residents at a cost of EC\$0.2 million in 2001. Between June 2000 and June 2001, 53 grants were provided and 48 loans were approved.⁸² The Prime Minister's Ministry also implements a House Repair Program that in 2001 cost about EC\$1.9 million.

8.27 The Assistance with Water Initiative was initiated in 2002 and is targeted to needy families who are connected to water mains for the first time but who are unable to pay their water bills. The Ministry of Housing, Social Services and Cooperatives administers the program. As of July 2002, 124 applications had been approved. The Water Authority is responsible for informing beneficiaries that they have been accepted and the Ministry of Works is responsible for payment of water bills. Expenditure data on this program could not be obtained.

8.28 In addition, the Ministry of Health and the Environment operates the Richmond Home for elderly and infirm patients who require long-term residential care. Care is provided free of cost to all persons. The Ministry of Housing, Social Services and Cooperatives operates 3 residential homes for the elderly and provides subventions to 5 private homes. In order to receive government assistance, private homes are required to have a governing Board of Directors on which the Ministry is represented. No information on the cost of these programs was obtained.

8.29 The National Insurance Scheme administers a Housing Loan Program targeted to low and middle-income households who might not qualify for private financing. Interest on loans is equal to 8 percent per year up to a loan value of EC\$100,000. One half percent interest is added for every EC\$50,000 above EC\$100,000. While there is no official loan ceiling, after EC\$300,000 the interest rate is no longer competitive with private banks. Since 1994, a total of 545 loans have been issued for a total value of EC\$50,360,532 with the average value of loans equal to EC\$92,400. As of November 2000, there were 477 active loans, 16 delinquent loans, and 6 loans in foreclosure.

⁸¹Grenada Government at Work, June 2000 – June 2001.

⁸²Grenada Government at Work, June 2000 – June 2001.

8.30 **The Basic Needs Trust Fund (BNTF) is an ongoing multi-purpose project aimed at improving community infrastructure.** BNTF has refurbished roads, schools and medical stations with an estimated expenditure equal to EC\$0.3 million in 2001. In 2000, BNTF added skills training for low-income groups.

8.31 **Government funds various programs for persons with disabilities.** A School for the Deaf is operated under the auspices of the Ministry of Education; the Dorothy Hopkins Home for Handicapped and Disabled Children and the Richmond Home for Elderly and Disabled Persons provide residential care for disabled persons. Government, through The Ministry of Housing, Social Services and Cooperatives, provides subventions to various non-governmental programs that provide services to the disabled. In 2001, the MoHSSC spent EC\$1.4 million on Multiple Projects for Disabled Persons and Training of Young Offenders and Handicapped.

B. COMPOSITION AND EVOLUTION OF SOCIAL PROTECTION SPENDING IN GRENADA 1997-2001⁸³

8.32 **It is difficult to disaggregate the amount of the national budget that is allocated to social protection.** Expenditure information for all social protection programs was not available. In most cases, we had to rely on expenditures for the departments that house social protection programs. However, ministerial responsibility for departments changed over time. Efforts have been made to track expenditures for departments no matter in which ministry the department was housed. Where available, program level expenditure data is reported. Using this methodology, we estimate that in 2001 public expenditures on social protection (including National Insurance) were EC\$36.4 million or approximately 3.4 percent of GDP or 9.9 percent of central government expenditures. (Table 8.2)

8.33 **Average expenditures on social protection (including National Insurance) are somewhat lower in Grenada (2.8 percent of GDP) than in Latin America and the Caribbean region (4.7 percent of GDP) and other OECS countries.** For example, during the same period the average social protection expenditures in Dominica were 5.0 percent of GDP and in St. Kitts and Nevis, 3.5 percent of GDP. This compares with expenditures on social protection of 11 to 12 percent of GDP in Western Europe, North America and East and Central Europe and 1 to 2 percent in Sub-Saharan Africa and South Asia. As Figure 8.1 shows, during the period 1997-2001, social protection expenditures fluctuated between 2.5 percent of GDP in 2000 and 3.4 percent of GDP in 2001

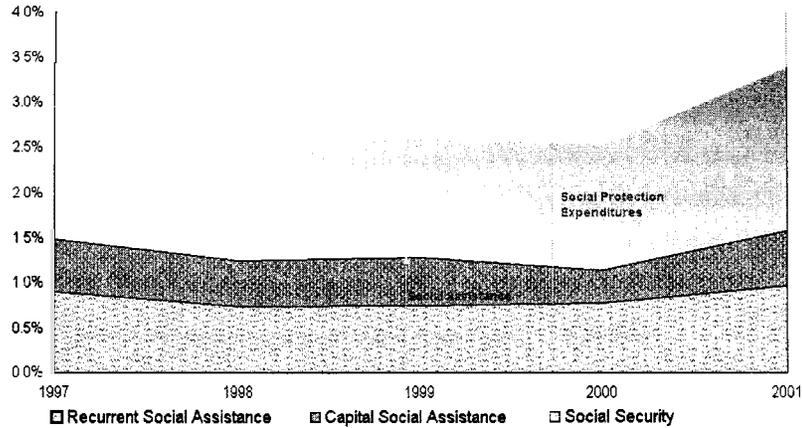
⁸³ Given the number of agencies and programs involved, time series data could only be provided for the period 1997 to 2001.

Table 8.2 Social Protection Expenditures in Grenada, 1997-2001
(in thousands EC\$)

| | 1997 | | 1998 | | 1999 | | 2000 | | 2001 |
|--|-----------------|-------|------------------|-------|-----------------|-------|-----------------|-------|----------------------|
| | Actual | Prov. | Actual | Prov. | Actual | Prov. | Actual | Prov. | Estimated Outturn |
| TOTAL SOCIAL PROTECTION | 24,181.9 | | 23,389.4 | | 26,535.6 | | 27,657.8 | | 36,376.4 |
| Social Insurance | 11,990.5 | | 11,636.3 | | 13,471.3 | | 15,207.2 | | 19,450.5 |
| National Insurance | 11,990.5 | | 11,636.3 | | 13,471.3 | | 15,207.2 | | 19,450.5 |
| Social Assistance | 12,191.5 | | 11,753.21 | | 13,064.3 | | 12,450.6 | | 16,925.8 |
| Recurrent Expenditures | 7,383.1 | | 6,948.7 | | 7,625.3 | | 8,499.8 | | 10,409.6 |
| Ministry of Legal Affairs, Local Government and Labor | | | | | | | | | |
| 081 Labor Department | 314.2 | | 388.9 | | 329.8 | | 275.6 | | 319.9 |
| Ministry of Tourism, Civil Aviation, Gender Affairs and Family Affairs, and Social Security | | | | | | | | | |
| 072 Women, Gender, Family Affairs | 365.3 | | 346.0 | | 368.0 | | 337.4 | | 795.8 |
| Ministry of Youth, Sports and Community Development | | | | | | | | | |
| 047 Youth (includes Sports up to 1997) | 1,410.8 | | 483.3 | | 495.4 | | 279.4 | | 275.4 |
| 045 Community Development | 755.0 | | 785.4 | | 774.5 | | 6425.4 | | 558.6 |
| Ministry of Housing, Social Services, Culture and Cooperatives | | | | | | | | | |
| 070 Housing | 323.5 | | 322.5 | | 363.0 | | 314.9 | | 653.0 |
| 071 Social Security/Social Services | 3,839.3 | | 3,658.5 | | 4,381.5 | | 5,344.1 | | 6,249.6 |
| Ministry of Carriacou and Petite Martinique Affairs | | | | | | | | | |
| 032 Housing, Women's Affairs, So. Sec. | | | 391.0 | | 440.6 | | 546.0 | | 611.0 |
| 017 Youth, Sports, Culture, Comm.Dev. | | | 124.6 | | 172.6 | | 194.5 | | 209.7 |
| Ministry of Education | | | | | | | | | |
| MOE Needy Students Fund | 375.0 | | 425.0 | | 300.0 | | 565.0 | | 736.7 |
| MOE School Feeding program | - | | 23.6 | | - | | - | | - |
| Capital Expenditures | 4,808.3 | | 4,804.4 | | 5,439.0 | | 3,950.9 | | 6,516.2 |
| Prime Minister's Ministry | 0 | | 455.3 | | 731.0 | | 2,733.6 | | 3,147.9 |
| House Repair Program | 0 | | 0 | | 0 | | 1,800.0 | | 1,900.0 |
| Human Resource Development Program | 0 | | 455.3 | | 709.0 | | 859.1 | | 644.2 |
| Needy Students Assistance Program | 0 | | 0 | | 0 | | 0 | | 479.9 |
| National Training and Employment Program | 0 | | 0 | | 22.0 | | 74.5 | | 123.8 |
| Ministry of Tourism, Civil Aviation, Gender Affairs and Family Affairs, and Social Security | 0 | | 0 | | 90.0 | | 323.8 | | 83.1 |
| Cedars Halfway Home Project | 0 | | 0 | | 0 | | 150.0 | | 0 |
| Multiple Projects and General Education | 0 | | 0 | | 0 | | 38.8 | | 63.1 |
| 3 R's Program | 0 | | 0 | | 90.0 | | 45.0 | | 20.0 |
| Program for Adolescent Mothers | 0 | | 0 | | 0 | | 90.0 | | 0 |
| Ministry of Youth, Sports and Community Development | 691.4 | | 1,639.3 | | 578.0 | | 101.7 | | 1,000.0 |
| Training Program | 0 | | 0 | | 0 | | 1.9 | | 0 |
| Community Development Program | 691.4 | | 1,639.3 | | 578.0 | | 99.7 | | 1,000.0 |
| Ministry of Housing, Social Services, Culture and Cooperatives | 939.1 | | 573.8 | | 224.0 | | 239.0 | | 410.9 |
| House Repair Program | 700.0 | | 0 | | 50.0 | | 0 | | 0 |
| Multiple Projects for Disabled Persons | 308 | | 5.0 | | 0 | | 0.1 | | 75.5 |
| Training of Young Offenders/Handicapped | 27.4 | | 38.8 | | 5.0 | | 96.5 | | 72.5 |
| Summer Youth Program for Children | 30.0 | | 50.0 | | 0 | | 30.0 | | 54.8 |
| Establishment of Day Care Centers | 0 | | 0 | | 0 | | 7.5 | | 208.2 |
| Multiple Projects and General Education | 111.0 | | 182.0 | | 23.0 | | 0 | | 0 |
| Good Hope Project | 5.0 | | 15.0 | | 15.0 | | 15.0 | | 0 |
| Cedars Half Way Home Project | 0 | | 61.0 | | 36.0 | | 0 | | 0 |
| Program for Adolescent Mothers | 35.0 | | 222.0 | | 95.0 | | 90.0 | | 0 |
| Ministry of Education (MoE) | 1,379.7 | | 0 | | 1,146.0 | | 1.3 | | 857.8 |
| School Feeding Program | 25.0 | | 0 | | 1,146.0 | | 1.3 | | 857.8 |
| Human Resource Development | 1,154.7 | | 0 | | 0 | | 0 | | 0 |
| Books & Uniform Program | 200.0 | | 0 | | 0 | | 0 | | 0 |
| Ministry of Legal Affairs, Labor and Local Government | 0 | | 0 | | 0 | | 0 | | 145.0 |
| LMIS/Labor Exchange (New in 2001) | 0 | | 0 | | 0 | | 0 | | 145.0 |
| Ministry of Communications, Works and Public Utilities | 598.2 | | 626.0 | | 2,670.0 | | 551.4 | | 340.2 |
| Basic Needs Trust Fund | 598.2 | | 626.0 | | 2,670.0 | | 551.4 | | 340.2 |
| Ministry of Finance | 1,200.0 | | 1,510.0 | | 0 | | 0 | | 531.1 |
| Microenterprise Development Project | 1,200.0 | | 1,510.0 | | 0 | | 0 | | 400.0 |
| Poverty Reduction Strategy | 0 | | 0 | | 0 | | 0 | | 81.1 |
| Shelter Development Project | 0 | | 0 | | 0 | | 0 | | 50.0 |

Source: Program Managers and Ministry of Finance Estimates of Expenditure.

Figure 8.1 Social Protection Expenditures in Grenada 1997-2001
(as percentage of GDP)

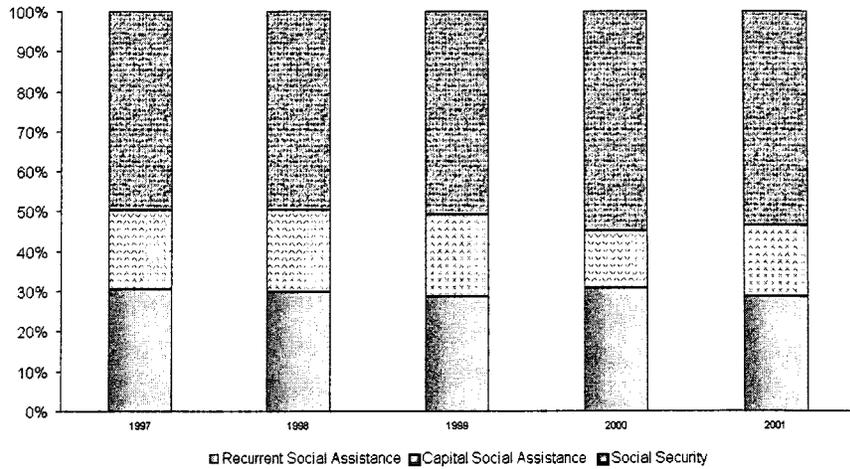


Source: Author's calculations

8.34 **National Insurance accounts for over one-half of all social protection expenditures (Figure 8.2).** Also, approximately 20 percent of all social protection expenditures and almost 40 percent of social assistance expenditures are funded from the capital budget, mostly by donor funding. This distribution remained relatively constant during the time period 1997-2001 and raises concerns about the sustainability of social protection initiatives.

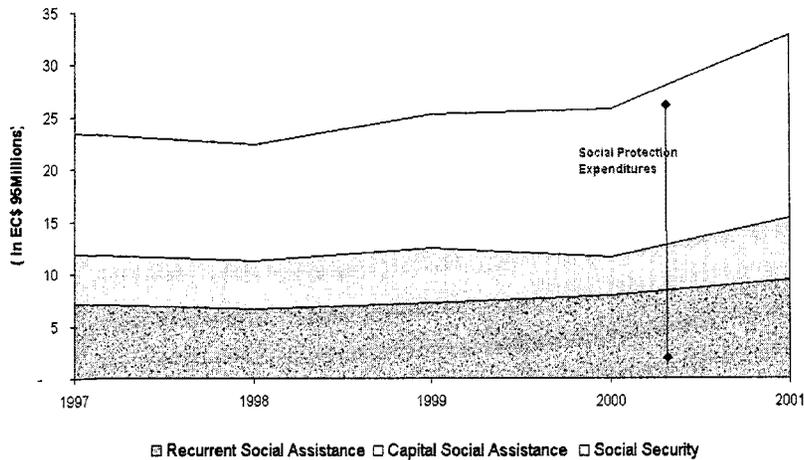
8.35 **Expenditures on Social Assistance Programs increased by 6.7 percent per year in real terms between 1997 and 2001 compared to 10.9 percent per year for Social Security.** As Figure 8.3 shows, the increase in social assistance was similar for recurrent (7.0 percent per year) and capital (6.0 percent per year) expenditures. The increase is the outcome of the explicit policy of the government to be more involved in social protection. However, the large increase in social security obeys to the normal maturity of the system and the recognition, in December 1999, of pensions to long-term agricultural workers that came from the old social security system.

Figure 8.2 Composition of Social Protection Expenditures in Grenada 1997-2001
(as percentage of total social protection expenditures)



Source: Author's calculations

Figure 8.3 Social Protection Expenditures in Grenada 1997-2001
(in Mill. EC\$ 1995)



Source: Author's calculations

C. SOCIAL PROTECTION AND RISK MANAGEMENT IN GRENADA

8.36 Is Grenada's social protection system addressing the key risk factors faced by the population? Table 8.3 identifies the poverty and poverty related risks. National 1999 survey data indicate that approximately 32.1 percent of the population is poor. Further, approximately 12.9 percent of the population is indigent; i.e., they do not have sufficient resources to meet their basic dietary needs.⁸⁴ However, as discussed in section A of this chapter the array of social assistance programs implemented by the government suffer from serious limitations in coverage and targeting of the poor.

⁸⁴ In 1999, the adult equivalent poverty and indigence lines were equal to EC\$1,831 and EC\$1,431, respectively.

8.37 **Poverty, however, is not the only source of vulnerability in Grenada. We also identified other sources of vulnerability by identifying risks indicators throughout the life cycle.** Table 8.4 presents a matrix of risks, programs and suggested interventions. Analysis of Table 8.4 suggests that Grenada has a generally appropriate range of programs (transfers, education, health, and housing). However, in spite of the diversity of programs currently in place, programs are not designed to address the critical risks of different age cohorts.

8.38 **Social assistance programs do not address the concerns related to the health risks of young children.** In addition, participation in early childhood education programs, which have considerable potential of promoting human capital development among poor children, is low. The critical risk factor for school age children is irregular school attendance and dropping out of school. Although there is a multiplicity of programs for school age children, these programs are not sufficiently linked to behaviors that promote human capital development as Bolsa Escola in Brazil and PROGRESA in Mexico. Making benefits conditional on school attendance could help to improve both school attendance and learning outcomes. This is especially relevant as government expands access to secondary education. Improving targeting of the school feeding program could also address the risks of the school age population.

8.39 **Social protection programs for the working age population need to address the related risks of low human capital development and unemployment.** Existing training programs could be consolidated and, consistent with international best practices, reoriented to focus on literacy and numeracy objectives. Unemployment risks could be better addressed by reconfiguring the Road Maintenance Program so that it can be scaled up and down rapidly in response to external shocks and by introducing better targeting mechanisms, including poverty maps and below market wage rates. Increase attention to employment generation through BNTF project would enhance the social protection function of the BNTF sub-projects. Loss of income and health are the critical risk factors for the elderly.⁸⁵ Expanding coverage of the National Insurance and ensuring the long-term sustainability of the scheme are critical to addressing the risks of this age group. Linking the benefits of social assistance programs to health clinic attendance would address both health and income risks for the elderly.

Table 8.3 Incidence of Poverty and Other Related Indicators, 1998

| | |
|--|------|
| Poor Individuals | 32.1 |
| Indigent Individuals | 12.9 |
| Poor Households | 23.8 |
| Indigent Households | 10.5 |
| Youth | 30.2 |
| Elderly | 22.5 |
| Females as a Percent of All Poor | 51.3 |
| Incidence of Poverty Among Females | 31.5 |
| Incidence of Poverty Among Males | 32.7 |
| Unemployment Rate Among Poor Females | 20.5 |
| Unemployment Rate Among Poor Males | 18.6 |
| Household Heads in Primary Occupations | 14.3 |
| With no Educational Certification | 70.2 |
| In Ill-Health | 76.8 |
| Poor in Wooden Dwellings | 54.9 |
| Poor with Outdoor Kitchens | 16.0 |
| Poor with Pit Latrines | 66.1 |
| Poor with Outdoor Baths | 55.1 |

Source: Caribbean Development Bank, Grenada: Poverty Assessment Report, 1999.

8.40 **With respect to risks not related to age, consolidation of transfer programs for persons with disabilities, ensuring persons who are poor and who have HIV/AIDS have access to pharmaceuticals and improved targeting would promote the social protection function of these programs.** Housing related concerns can be addressed through better targeting of existing repair programs and by reorienting the BNTF so that sub-projects can be used for housing repairs.

⁸⁵ Indeed one of the objectives of the proposed structural surplus fiscal rule in the medium-term, discussed in chapter 2, is to make easier the gear up of social protection programs needed when the economy slow down and are most needed.

Planning and Executing Capacity for Social Protection Programs

8.41 **Effective planning is limited by the array of programs with overlapping constituencies and administrative systems.** Duplication of administrative systems increases the cost of services provision. Further, as discussed above, frequent changes in portfolio responsibility and program leadership, increases fragmentation and decreases institutional memory and limits effective planning. Moreover, effective planning requires regularly updated poverty and labor market information. The absence of this information hampers planning, monitoring and evaluation of social protection programs.

8.42 **Targeting and distribution systems are weak.** Introduction of a simple and transparent targeting system that could be used to identify beneficiaries for all programs targeted to the poor should be considered. Modern distribution systems that can be adapted quickly to increase coverage during crisis are required to ensure that programs can respond to the need of households vulnerable to economic shocks.

8.43 **Budgeting systems need to be strengthened and Management Information Systems (MIS) to be computerized.** Several programs, including cash transfer programs and labor market programs, are not identified in the government's budgets as separate programs. This limits effective planning and weakens fiscal accountability. Elevating social protection programs to program status would mean that expenditures, including expenditures by object code, could be easily tracked over time and evaluated with respect to program inputs and outcomes. Moreover, the lack of computerization reduces the ability of government to monitor and evaluate programs and increases the time required for simple administrative tasks.

8.44 **Regional initiatives to build information systems, data collection and analysis capacity could address the human resource constraints and reduce the overall costs of development and implementation of monitoring and information systems.** Inadequate MIS systems and capacity constraints with respect to data collection, monitoring and evaluation are common across the OECS. Regional approaches to MIS development and monitoring and evaluation capacity building would address the human resource constraints in individual countries and would be more cost effective than developing systems on a country by country basis.

Table 8.4 Grenada Risk Indicators by Age Cohort, Existing Programs and Suggested Interventions

| Age Group | Risk Indicator | Existing Program | Suggested Interventions | |
|------------|--|--|--|--|
| | | | Risk Prevention/Mitigation | Risk Coping |
| Birth to 4 | Infant mortality, low birth weight malnutrition, acute respiratory infection, gastroenteritis, incomplete immunization Not participating in early childhood development program | Maternal and child health programs (MoHE) Fee waivers for medical care (MoHE) Off-Island Medical Care (MoHE) Day care programs (MoHSSC) | Increase pre- and post-natal attendance and attendance at well-baby clinics. Increase access to early childhood development programs. | Consolidate existing transfer programs and make benefits conditional on clinic attendance. |
| 5 - 9 | Acute respiratory infection, gastroenteritis, incomplete immunization Irregular school attendance | Child health programs (MoHE) Fee waivers for medical care (MoHE) Off-Island Medical Care (MoHE) Necessitous Fund (MoHSSC) School Feeding (MoE) Student Assistance and Other Needy Cases Program (MoHSSC) Needy Students Program (MoE) Children's Allowances (MoCPM) Human Resource Development Program (PMM) | Increase clinic attendance. | Consolidate existing transfer programs and make benefits conditional on school attendance. Improve targeting of school feeding program. |
| 10 -14 | Not enrolled in secondary school Irregular school attendance Low academic achievement among boys | Necessitous Fund (MoHSSC) Student Assistance and Other Needy Cases Program (MoHSSC) School Feeding (MoE) Needy Students Program (MoE) Children's Allowances (MoCPM) Human Resource Development Program (PMM) | Expand access to secondary education. | Consolidate existing transfer programs and make benefits conditional on school attendance. Improve targeting of school feeding program. |

Table 8.4 Grenada Risk Indicators by Age Cohort, Existing Programs and Suggested Interventions

| | | Suggested Interventions | | |
|-------------|--|--|---------------------------------------|---|
| 15 - 24 | Does not/did not attend secondary school Unemployment Substance abuse Teenage pregnancy | Necessitous Fund (MoHSSC) Student Assistance and Other Needy Cases Program (MoHSSC) School Feeding (MoE) Needy Students Program (MoE) Children's Allowances (MoCPM) Human Resource Development Program (PMM) Road Maintenance Program (MoW) 3Rs Program (MoTCAGACSS) Self Employment Promotion Program(MoTCAGACSS) Small Viable Projects Skills Training (MoTCAGACSS) Micro Enterprise Development (SEDU) Substance Abuse Prevention and Treatment Programs (MoHE) Program for Adolescent Mothers (MoHSSC) Training Programs (MoTCAGACSS) | Expand access to secondary education. | Consolidate existing transfer programs and make benefits conditional on school attendance. Expand Short Term Employment Program. Consolidate training programs with increased focus on literacy and numeracy. |
| 25 - 59 | Low levels of human capital development Unemployment Chronic diseases | 3Rs Program Self Employment Promotion Program Small Viable Projects Skills Training Road Maintenance Program (MoW) Micro Enterprise Development (SEDU) Health Promotion Programs (MoHE) Off-Island Medical Care (MoHE) | | Consolidate training programs with increased focus on literacy and numeracy Expand Short Term Employment Program. |
| 60 and over | Loss of Income Disability and chronic diseases Social isolation | National Insurance (NIS) Public Assistance (MoHSSCD and MoCPM) Veterans Assistance (MoHSSC) National Insurance (NIS) Fee Waivers for Medical Care (MoHE) Fee Waivers for Pharmaceuticals (MoHSSC) Off-Island Medical Care (MoHE) Aged/Eldercare (MoHSSC) Social Transportation Initiative (MoHSSC) Richmond House (MoHE) Homes for the elderly (MoHSSC) | Expand coverage of NIS. | Consolidate existing transfer programs and make benefits conditional on clinic attendance. |

Table 8.4 Grenada Risk Indicators by Age Cohort, Existing Programs and Suggested Interventions

| | | | Suggested Interventions | |
|--------------------------|---------------------|---|--|--|
| Risks Not Related to Age | HIV/AIDS | Health promotion and prevention programs | Expand health promotion and prevention programs. | Ensure access to pharmaceuticals for persons who are poor. |
| | Substandard housing | Housing Repairs Programs (MoHSSC and MOCPM) | | Utilize Basic Needs Trust Fund for housing repairs and introduce short term employment objectives for housing repairs. |
| | Disability | Assistance With Water Initiative (MoHSSC) Housing Loan Program (NIS) Public Assistance (MoHSSC) Fee Waivers for Medical Care (MoHE) Fee Waivers for Pharmaceuticals (MoHSSC) Social Transportation Initiative (MoHSSC) | | Consolidate existing transfer programs, target the disable poor and make benefits conditional on clinic attendance. |

Source: Based on author's discussions with ministry and project staff and review of secondary documents.

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APPENDIX A

There are several alternative methods to describe the cyclical properties of any economic variable. The literature on business cycle usually defined a cycle, for example in output as $Y_t = Y_t^* + Y_t^c$, where Y_t is actual output, Y_t^c is the cyclical component of output and, Y_t^* is some output benchmark (trend). A number of benchmarks can be the basis of a measure of the business cycle:

- The level of potential output;
- The trend in output defined by a linear trend in its logarithm;
- The trend in output as defined by Hodrick and Prescott (1997);
- The permanent component in output as defined by the Beveridge and Nelson (1981) decomposition;
- The Baxter-King filter; and
- The trend in output as defined by a peak-to-peak trend line.

Each of these decomposition methods entails some relatively arbitrary decisions and has advantages and drawbacks.⁸⁶ Chapter 2 in this report uses the Hodrick and Prescott filter (HP filter) to detrend GDP and revenue and expenditure categories. The HP filter has been selected because of its simplicity and transparency. Moreover, it continues to be the most commonly used filter in empirical studies and policy analysis to identify trend components in macroeconomic series. The HP filter proposes the following minimization procedure to calculate the trend y_t^* :

$$\sum_{t=1}^T (y_t - y_t^*)^2 + \lambda \sum_{t=2}^{T-1} [(y_{t+1}^* - y_t^*) - (y_t^* - y_{t-1}^*)]^2.$$

This procedure implies extracting the trend from the original series by minimizing the sum of the deviation of y_t from its trend (the first term) and the variability of the trend itself (the second term). The relative weight of the second goal (variability) is represented by the smoothing parameter λ . The higher the preference for a smoother trend, the higher one should chose λ .

In empirical applications of the HP filter, different values for λ have been used. For quarterly data, a value of 1600, recommended by Hodrick and Prescott in their original work, is commonly employed. For annual data, current empirical practice is to use $\lambda = 400$ or 100. However, Ravn and Uhlig (2001) have shown using frequency domain analysis that a value of 1600 for quarterly data corresponds to a value of 6 to 8 for annual data. In this report, we use a value of $\lambda = 8$.

⁸⁶ See Baxter and King (1995) for a discussion of how alternative filtering methods affect the measurement of business cycles.

APPENDIX B

The literature on adjusted budget surplus measures can be traced back to the paper by Brown (1956), where he argued that to measure the stance of fiscal policy correctly one had to distinguish between “automatic” and “discretionary” policies. Brown’s paper did not propose an adjusted measure of the budget surplus, because he explicitly argued in favor of the differential treatment of the various components of revenue and expenditure with reference to an explicit Keynesian model of the economy.

Since Brown’s paper economists have sought a single indicator of the stance of fiscal policy, similar to the budget surplus as a percentage of GDP, but adjusted for the business cycle. A number of government and international agencies produce these sorts of measures including the OECD, the World Bank, the International Monetary Fund (IMF), the European Community (EC), and their various member governments. A number of indicators have been suggested. Chouraqui, Hagemann, and Sartor (1990) and Price and Muller (1994) present good discussions of the various indicators. Blanchard (1990) and Buiter (1993) provide arguments against using single indicators.

Cyclical adjustment of the budget usually begins with the decomposition of output into some trend, or potential, component and its cyclical component. The appendix A describes several methods to detrend GDP, but the method used here is the same as the one the EC uses. It simply uses the HP filter-based trend in GDP as the measure of potential output.

To compute cyclically adjusted surplus measures the EC, IMF, and OECD estimate the elasticities of various components of revenue and expenditure with respect to output. They use the estimated elasticities to make cyclical adjustments to these components of the budget. At this stage an important set of assumptions must be made: one must decide which revenue and expenditure components fall into the automatic category and which fall into the discretionary category. Because the assumption is that the business cycle causes those that fall into the automatic category, while those in the discretionary category potentially cause the cycle, only those components that fall into the automatic category should be adjusted.

To illustrate the method of adjustment, take as an example income and profit tax revenue, T_t^Y , typically thought of as an automatic category. Its elasticity with respect to output, e_{T^Y} is given by

$$(1) \quad e_{T^Y} = \frac{\partial \ln(T_t^Y)}{\partial \ln(Y_t)}$$

The elasticities are sometimes estimated using purely statistical models of the relationship between income tax revenue and GDP. In other cases they are obtained with reference to statutory tax rates, and a statistical model of the relationship between personal income and GDP, as in the method employed by the Bureau of Economic Analysis of the U.S Department of Commerce. Given an estimate of the elasticity, revenue is adjusted by the amount

$$(2) \quad -T_t^Y [\exp(e_{T^Y} y_t^c) - 1]$$

where y_t^c is the cyclical component of output in logarithmic percentage terms. If the cyclical component is zero, clearly no adjustment to tax revenue is made. If the cyclical component is positive and the

elasticity is positive, then the adjustment will be negative. This makes intuitive sense: during a cyclical upturn tax revenues rise simply because the economy is expanding. To adjust for this effect, tax revenue should be adjusted downward.

In general, with a method such as this the adjusted budget surplus is easy to compute. Any standard budget surplus measure, Δ_t is defined as the difference between revenue, R_t , and expenditure, X_t . To adjust the budget surplus for the business cycle and create a new budget surplus measure denoted Δ_t^A , one uses data on the cyclical component of output, y_t^c , along with estimates of the revenue and expenditure elasticities. Suppose there are N revenue categories, $\{R_{1t}, \dots, R_{Nt}\}$, and M expenditure categories, $\{X_{1t}, \dots, X_{Mt}\}$, to be adjusted. Suppose the elasticity of R_{jt} with respect to output is given by e_{Rj} , while the elasticity of X_{jt} with respect to output is given by e_{Xj} . The adjusted surplus measure is given by

$$(3) \quad \begin{aligned} \Delta_t^A &= \Delta_t + \text{adjustment} \\ &= (R_t - X_t) - \left(\sum_{j=1}^N R_{jt} [\exp(e_{Rj} y_t^c) - 1] - \sum_{j=1}^M X_{jt} [\exp(e_{Xj} y_t^c) - 1] \right). \end{aligned}$$

For the purposes of chapter two of this report, the following revenue and expenditure categories in Grenada data were considered for adjustment:

- Income and Profit Taxes, R_{1t}
- Domestic Good and Service Taxes, R_{2t}
- International Trade Taxes, R_{3t}
- Transfers, R_{4t}

Estimates of the elasticities of these budgetary items with respect to the output gap were estimated using the following statistical model, illustrated in the case of income taxes:

$$(4) \quad r_{1t}^c = e_{R1} y_t^c + \varepsilon_t,$$

where r_{1t}^c and y_t^c represent the cyclical components of income and profit taxes and output, respectively, as measured using the HP filter. Estimates of the elasticities are found in Table 1. As the only significant elasticity was for international trade taxes, no adjustment was made for the other categories considered.

Thus, the adjusted surplus measure is given by

$$(5) \quad \Delta_t^A = R_t - X_t - \sum_{j=1}^3 R_{jt} [\exp(e_{Rj} y_t^c) - 1].$$

Table 1 Estimates of Revenue and Expenditure Elasticities

| | Elasticity |
|---------------------------------|------------|
| Revenue Category | |
| Income and Profit Taxes | 1.51 |
| Domestic good and service Taxes | 1.96 |
| International Trade Taxes | 1.63** |
| Expenditure Category | |
| Transfers | 0.73 |

Source: Author's calculations

Notes: The estimates were computed using ordinary least squares.

** significant at 1 percent, * significant at 10 percent

Table A1 Central Government Fiscal Accounts Grenada 1983-2002 (continued)

| Year | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Current Revenue | 81.00 | 87.10 | 100.90 | 90.40 | 102.50 | 120.20 | 129.30 | 146.90 | 162.18 | 158.87 | 171.17 | 185.70 |
| Tax Revenue | 70.10 | 77.00 | 91.50 | 76.80 | 91.90 | 106.90 | 118.70 | 133.30 | 146.68 | 144.51 | 154.12 | 167.66 |
| Non-Tax Revenue | 10.90 | 10.10 | 9.40 | 13.60 | 10.60 | 13.30 | 10.60 | 13.60 | 15.50 | 14.36 | 17.05 | 18.04 |
| Current Expenditure | 85.00 | 96.20 | 104.60 | 101.30 | 119.40 | 112.50 | 171.40 | 153.70 | 164.20 | 166.00 | 162.40 | 162.95 |
| Current Primary Expenditures | 77.60 | 85.40 | 96.00 | 90.70 | 108.80 | 101.90 | 150.00 | 139.70 | 144.30 | 148.70 | 144.90 | 146.35 |
| Personal Emoluments and Wages | 38.90 | 47.00 | 55.40 | 52.20 | 58.90 | 62.40 | 92.80 | 82.80 | 83.30 | 89.00 | 87.40 | 84.67 |
| Other Goods and Services | 16.10 | 16.00 | 14.50 | 22.00 | 25.40 | 19.80 | 32.00 | 26.40 | 30.70 | 26.40 | 23.50 | 28.31 |
| Transfers and Subsidies | 22.60 | 22.40 | 26.10 | 16.50 | 24.50 | 19.70 | 25.20 | 30.50 | 30.30 | 33.30 | 34.00 | 33.37 |
| Interest Payments | 7.40 | 10.80 | 8.60 | 10.60 | 10.60 | 10.60 | 21.40 | 14.00 | 19.90 | 17.30 | 17.50 | 16.60 |
| Capital Revenue | 0.80 | 0.10 | 0.00 | 0.10 | 0.10 | 0.20 | 0.20 | 0.80 | 0.10 | 11.30 | 0.10 | 17.90 |
| Grants | 34.60 | 68.70 | 81.50 | 64.40 | 17.40 | 8.10 | 24.60 | 14.70 | 22.51 | 17.35 | 18.30 | 32.00 |
| Capital Expenditure | 81.40 | 58.00 | 75.00 | 76.70 | 37.80 | 58.20 | 34.40 | 70.60 | 46.10 | 25.00 | 32.07 | 69.10 |
| Current Fiscal Balance | -4.00 | -9.10 | -3.70 | -10.90 | -16.90 | 7.70 | -42.10 | -6.80 | -2.02 | -7.13 | 8.77 | 22.75 |
| Primary Fiscal Balance (after grants) | -42.60 | 12.50 | 11.40 | -12.50 | -26.60 | -31.60 | -30.30 | -47.90 | -5.61 | 13.82 | 12.60 | 20.15 |
| Overall Fiscal Balance (after grants) | -50.00 | 1.70 | 2.80 | -23.10 | -37.20 | -42.20 | -51.70 | -61.90 | -25.51 | -3.48 | -4.90 | 3.55 |
| Primary Balance (before grants) | -77.20 | -56.20 | -70.10 | -76.90 | -44.00 | -39.70 | -54.90 | -62.60 | -28.12 | -3.53 | -5.70 | -11.85 |
| Overall Balance (before grants) | -84.60 | -67.00 | -78.70 | -87.50 | -54.60 | -50.30 | -76.30 | -76.60 | -48.02 | -20.83 | -23.20 | -28.45 |
| Total Expenditure | 166.40 | 154.20 | 179.60 | 178.00 | 157.20 | 170.70 | 205.80 | 224.30 | 210.30 | 191.00 | 194.47 | 232.05 |
| Total Primary Expenditure | 159.00 | 143.40 | 171.00 | 167.40 | 146.60 | 160.10 | 184.40 | 210.30 | 190.40 | 173.70 | 176.97 | 215.45 |

Source: ECCB and IMF

Table A1 Central Government Fiscal Accounts Grenada 1983-2002

| Year | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|--------|--------|--------|--------|--------|--------|---------|---------|
| Current Revenue | 185.19 | 198.84 | 205.91 | 230.12 | 267.30 | 297.24 | 284.85 | 292.48 |
| Tax Revenue | 168.60 | 180.83 | 185.82 | 206.98 | 232.00 | 265.15 | 256.65 | 262.38 |
| Non-Tax Revenue | 16.59 | 18.01 | 20.09 | 23.14 | 35.30 | 32.09 | 28.20 | 30.10 |
| Current Expenditure | 168.63 | 181.87 | 199.87 | 220.95 | 218.58 | 230.53 | 258.00 | 285.39 |
| Current Primary Expenditures | 151.08 | 164.22 | 180.52 | 206.15 | 195.62 | 206.37 | 230.12 | 233.60 |
| Personal Emoluments and Wages | 89.07 | 97.94 | 110.65 | 115.32 | 119.30 | 114.40 | 127.58 | 124.63 |
| Other Goods and Services | 29.48 | 31.64 | 32.06 | 36.70 | 30.25 | 43.80 | 52.66 | 47.53 |
| Transfers and Subsidies | 32.53 | 34.64 | 37.81 | 54.13 | 46.08 | 48.17 | 49.88 | 61.44 |
| Interest Payments | 17.55 | 17.65 | 19.35 | 14.80 | 22.96 | 24.16 | 27.88 | 51.78 |
| Capital Revenue | 16.60 | 0.34 | 24.30 | 16.10 | 0.00 | 0.70 | 0.50 | 2.74 |
| Grants | 21.05 | 29.74 | 21.60 | 26.60 | 19.60 | 32.55 | 45.15 | 23.54 |
| Capital Expenditure | 51.70 | 68.68 | 70.70 | 80.00 | 104.20 | 135.15 | 162.55 | 244.43 |
| Current Fiscal Balance | 16.56 | 16.97 | 6.04 | 9.17 | 48.72 | 66.71 | 26.85 | 7.09 |
| Primary Fiscal Balance (after grants) | 20.06 | -3.98 | 0.59 | -13.33 | -12.92 | -11.03 | -62.17 | -159.28 |
| Overall Fiscal Balance (after grants) | 2.51 | -21.63 | -18.76 | -28.13 | -35.88 | -35.19 | -90.05 | -211.06 |
| Primary Balance (before grants) | -0.99 | -33.72 | -21.01 | -39.93 | -32.52 | -43.58 | -107.32 | -182.82 |
| Overall Balance (before grants) | -18.54 | -51.37 | -40.36 | -54.73 | -55.48 | -67.74 | -135.20 | -234.60 |
| Total Expenditure | 220.33 | 250.55 | 270.57 | 300.95 | 322.78 | 365.69 | 420.55 | 529.82 |
| Total Primary Expenditure | 202.78 | 232.90 | 251.22 | 286.15 | 299.82 | 341.52 | 392.67 | 478.04 |

Source: ECCB and IMF

Table A2 Central Government Fiscal Accounts Grenada 1983-2002 (continued)
(In Millions EC\$ 95)

| Year | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 |
|--|---------|--------|---------|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| Current Revenue | 114.20 | 116.22 | 131.35 | 117.03 | 133.86 | 150.94 | 153.77 | 168.70 | 181.41 | 170.65 | 179.53 | 189.85 |
| Tax Revenue | 98.83 | 102.74 | 119.11 | 99.42 | 120.02 | 134.24 | 141.16 | 153.08 | 164.07 | 155.22 | 161.65 | 171.41 |
| Non-Tax Revenue | 15.37 | 13.48 | 12.24 | 17.61 | 13.84 | 16.70 | 12.61 | 15.62 | 17.34 | 15.42 | 17.88 | 18.44 |
| Current Expenditure | 119.84 | 128.36 | 136.17 | 131.14 | 155.93 | 141.27 | 203.83 | 176.51 | 183.67 | 178.31 | 170.33 | 166.59 |
| Current Primary Expenditures | 109.41 | 113.95 | 124.97 | 117.42 | 142.09 | 127.96 | 178.38 | 160.43 | 161.41 | 159.72 | 151.98 | 149.62 |
| Personal Emoluments and Wages | 54.84 | 62.71 | 72.12 | 67.58 | 76.92 | 78.36 | 110.36 | 95.09 | 93.18 | 95.60 | 91.67 | 86.56 |
| Other Goods and Services | 22.70 | 21.35 | 18.88 | 28.48 | 33.17 | 24.86 | 38.05 | 30.32 | 34.34 | 28.36 | 24.65 | 28.94 |
| Transfers and Subsidies | 31.86 | 29.89 | 33.98 | 21.36 | 32.00 | 24.74 | 29.97 | 35.03 | 33.89 | 35.77 | 35.66 | 34.12 |
| Interest Payments | 10.43 | 14.41 | 11.20 | 13.72 | 13.84 | 13.31 | 25.45 | 16.08 | 22.26 | 18.58 | 18.35 | 16.97 |
| Capital Revenue | 1.13 | 0.13 | 0.00 | 0.13 | 0.13 | 0.25 | 0.24 | 0.92 | 0.11 | 12.14 | 0.10 | 18.30 |
| Grants | 48.78 | 91.67 | 106.09 | 83.37 | 22.72 | 10.17 | 29.25 | 16.88 | 25.18 | 18.64 | 19.19 | 32.72 |
| Capital Expenditure | 114.76 | 77.39 | 97.63 | 99.29 | 49.37 | 73.08 | 40.91 | 81.08 | 51.57 | 26.85 | 33.64 | 70.64 |
| Current Fiscal Balance | -5.64 | -12.14 | -4.82 | -14.11 | -22.07 | 9.67 | -50.07 | -7.81 | -2.26 | -7.66 | 9.20 | 23.26 |
| Primary Fiscal Balance (after grants) | -60.06 | 16.68 | 14.84 | -16.18 | -34.74 | -39.68 | -36.03 | -55.01 | -6.28 | 14.84 | 13.22 | 20.60 |
| Overall Fiscal Balance (after grants) | -70.49 | 2.27 | 3.64 | -29.90 | -48.58 | -52.99 | -61.48 | -71.09 | -28.53 | -3.74 | -5.14 | 3.63 |
| Primary Balance (before grants) | -108.84 | -74.99 | -91.25 | -99.55 | -57.46 | -49.85 | -65.29 | -71.89 | -31.45 | -3.79 | -5.98 | -12.11 |
| Overall Balance (before grants) | -119.27 | -89.40 | -102.45 | -113.27 | -71.31 | -63.16 | -90.74 | -87.97 | -53.71 | -22.37 | -24.33 | -29.09 |
| Total Expenditure | 234.60 | 205.76 | 233.80 | 230.43 | 205.30 | 214.35 | 244.74 | 257.58 | 235.23 | 205.16 | 203.97 | 237.24 |
| Total Primary Expenditure | 224.17 | 191.34 | 222.60 | 216.71 | 191.45 | 201.04 | 219.29 | 241.51 | 212.97 | 186.58 | 185.61 | 220.27 |

Source: ECCB and IMF

Table A2 Central Government Fiscal Accounts Grenada 1983-2002
(In Millions EC\$ '95)

| Year | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|--------|--------|--------|--------|--------|--------|---------|---------|
| Current Revenue | 185.19 | 193.44 | 197.77 | 217.95 | 251.88 | 274.11 | 254.54 | 256.90 |
| Tax Revenue | 168.60 | 175.92 | 178.47 | 196.04 | 218.61 | 244.52 | 229.34 | 230.45 |
| Non-Tax Revenue | 16.59 | 17.52 | 19.30 | 21.92 | 33.26 | 29.59 | 25.20 | 26.44 |
| Current Expenditure | 168.63 | 176.93 | 191.97 | 209.27 | 205.97 | 212.59 | 230.54 | 250.67 |
| Current Primary Expenditures | 151.08 | 159.76 | 173.38 | 195.25 | 184.34 | 190.31 | 205.63 | 205.18 |
| Personal Emoluments and Wages | 89.07 | 95.28 | 106.28 | 109.22 | 112.42 | 105.50 | 114.00 | 109.47 |
| Other Goods and Services | 29.48 | 30.78 | 30.79 | 34.76 | 28.50 | 40.39 | 47.06 | 41.75 |
| Transfers and Subsidies | 32.53 | 33.70 | 36.32 | 51.27 | 43.42 | 44.42 | 44.57 | 53.97 |
| Interest Payments | 17.55 | 17.17 | 18.58 | 14.02 | 21.64 | 22.28 | 24.92 | 45.48 |
| Capital Revenue | 16.60 | 0.33 | 23.34 | 15.25 | 0.00 | 0.65 | 0.45 | 2.41 |
| Grants | 21.05 | 28.93 | 20.75 | 25.19 | 18.47 | 30.02 | 40.34 | 20.67 |
| Capital Expenditure | 51.70 | 66.81 | 67.90 | 75.77 | 98.19 | 124.63 | 145.25 | 214.69 |
| Current Fiscal Balance | 16.56 | 16.51 | 5.80 | 8.69 | 45.90 | 61.52 | 23.99 | 6.23 |
| Primary Fiscal Balance (after grants) | 20.06 | -3.87 | 0.57 | -12.63 | -12.18 | -10.17 | -55.55 | -139.90 |
| Overall Fiscal Balance (after grants) | 2.51 | -21.04 | -18.02 | -26.64 | -33.81 | -32.45 | -80.46 | -185.38 |
| Primary Balance (before grants) | -0.99 | -32.80 | -20.18 | -37.82 | -30.65 | -40.19 | -95.89 | -160.57 |
| Overall Balance (before grants) | -18.54 | -49.98 | -38.76 | -51.84 | -52.28 | -62.47 | -120.81 | -206.06 |
| Total Expenditure | 220.33 | 243.75 | 259.87 | 285.04 | 304.16 | 337.23 | 375.79 | 465.36 |
| Total Primary Expenditure | 202.78 | 226.58 | 241.29 | 271.02 | 282.52 | 314.95 | 350.88 | 419.88 |

Source: ECCB and IMF

Table A3 Central Government Fiscal Accounts Grenada 1983-2002 (continued)

| Year | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|-------|-------|
| Current Revenue | 29.64 | 29.30 | 29.15 | 23.25 | 22.70 | 24.12 | 22.48 | 24.61 | 24.87 | 23.45 | 25.35 | 26.15 |
| Tax Revenue | 25.65 | 25.90 | 26.43 | 19.75 | 20.35 | 21.46 | 20.63 | 22.33 | 22.49 | 21.33 | 22.83 | 23.61 |
| Non-Tax Revenue | 3.99 | 3.40 | 2.72 | 3.50 | 2.35 | 2.67 | 1.84 | 2.28 | 2.38 | 2.12 | 2.53 | 2.54 |
| Current Expenditure | 31.10 | 32.36 | 30.22 | 26.05 | 26.44 | 22.58 | 29.79 | 25.75 | 25.17 | 24.50 | 24.06 | 22.95 |
| Current Primary Expenditures | 28.40 | 28.73 | 27.73 | 23.33 | 24.10 | 20.45 | 26.07 | 23.40 | 22.12 | 21.95 | 21.46 | 20.61 |
| Personal Emoluments and Wages | 14.24 | 15.81 | 16.00 | 13.42 | 13.04 | 12.52 | 16.13 | 13.87 | 12.77 | 13.14 | 12.95 | 11.92 |
| Other Goods and Services | 5.89 | 5.38 | 4.19 | 5.66 | 5.63 | 3.97 | 5.56 | 4.42 | 4.71 | 3.90 | 3.48 | 3.99 |
| Transfers and Subsidies | 8.27 | 7.54 | 7.54 | 4.24 | 5.43 | 3.95 | 4.38 | 5.11 | 4.65 | 4.92 | 5.04 | 4.70 |
| Interest Payments | 0.86 | 1.25 | 0.99 | 1.23 | 1.23 | 1.23 | 2.47 | 2.35 | 3.05 | 2.55 | 2.59 | 2.34 |
| Capital Revenue | 0.29 | 0.03 | 0.00 | 0.03 | 0.02 | 0.04 | 0.03 | 0.13 | 0.02 | 1.67 | 0.01 | 2.52 |
| Grants | 12.66 | 23.11 | 23.54 | 16.56 | 3.85 | 1.63 | 4.28 | 2.46 | 3.45 | 2.56 | 2.71 | 4.51 |
| Capital Expenditure | 29.79 | 19.51 | 21.67 | 19.73 | 8.37 | 11.68 | 5.98 | 11.83 | 7.07 | 3.69 | 4.75 | 9.73 |
| Current Fiscal Balance | -1.46 | -3.06 | -1.07 | -2.80 | -3.74 | 1.55 | -7.32 | -1.14 | -0.31 | -1.05 | 1.30 | 3.20 |
| Primary Fiscal Balance (after grants) | -15.59 | 4.20 | 3.29 | -3.21 | -5.89 | -6.34 | -5.27 | -8.02 | -0.86 | 2.04 | 1.87 | 2.84 |
| Overall Fiscal Balance (after grants) | -18.30 | 0.57 | 0.81 | -5.94 | -8.24 | -8.47 | -8.99 | -10.37 | -3.91 | -0.51 | -0.73 | 0.50 |
| Primary Balance (before grants) | -28.25 | -18.91 | -20.25 | -19.78 | -9.74 | -7.97 | -9.54 | -10.49 | -4.31 | -0.52 | -0.84 | -1.67 |
| Overall Balance (before grants) | -30.96 | -22.54 | -22.73 | -22.50 | -12.09 | -10.10 | -13.26 | -12.83 | -7.36 | -3.07 | -3.44 | -4.01 |
| Total Expenditure | 60.89 | 51.87 | 51.88 | 45.78 | 34.82 | 34.26 | 35.77 | 37.58 | 32.24 | 28.19 | 28.81 | 32.68 |
| Total Primary Expenditure | 14.40 | 12.99 | 15.49 | 15.16 | 13.28 | 14.50 | 16.70 | 35.23 | 29.19 | 25.64 | 26.21 | 30.34 |

Source: ECCB and IMF

Table A3 Central Government Fiscal Accounts Grenada 1983-2002
(As percentage of GDP)

| Year | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|-------|-------|-------|-------|-------|-------|--------|--------|
| Current Revenue | 24.75 | 24.70 | 23.80 | 24.31 | 26.20 | 26.92 | 26.62 | 26.99 |
| Tax Revenue | 22.54 | 22.46 | 21.48 | 21.86 | 22.74 | 24.01 | 23.99 | 24.21 |
| Non-Tax Revenue | 2.22 | 2.24 | 2.32 | 2.44 | 3.46 | 2.91 | 2.64 | 2.78 |
| Current Expenditure | 22.54 | 22.59 | 23.10 | 23.34 | 21.42 | 20.88 | 24.11 | 26.33 |
| Current Primary Expenditures | 20.19 | 20.40 | 20.86 | 21.78 | 19.17 | 18.69 | 21.51 | 21.55 |
| Personal Emoluments and Wages | 11.91 | 12.16 | 12.79 | 12.18 | 11.69 | 10.36 | 11.92 | 11.50 |
| Other Goods and Services | 3.94 | 3.93 | 3.71 | 3.88 | 2.96 | 3.97 | 4.92 | 4.39 |
| Transfers and Subsidies | 4.35 | 4.30 | 4.37 | 5.72 | 4.52 | 4.36 | 4.66 | 5.67 |
| Interest Payments | 2.35 | 2.19 | 2.24 | 1.56 | 2.25 | 2.19 | 2.61 | 4.78 |
| Capital Revenue | 2.22 | 0.04 | 2.81 | 1.70 | 0.00 | 0.06 | 0.05 | 0.25 |
| Grants | 2.81 | 3.69 | 2.50 | 2.81 | 1.92 | 2.95 | 4.22 | 2.17 |
| Capital Expenditure | 6.91 | 8.53 | 8.17 | 8.45 | 10.21 | 12.24 | 15.19 | 22.55 |
| Current Fiscal Balance | 2.21 | 2.11 | 0.70 | 0.97 | 4.77 | 6.04 | 2.51 | 0.65 |
| Primary Fiscal Balance (after grants) | 2.68 | -0.49 | 0.07 | -1.41 | -1.27 | -1.00 | -5.81 | -14.70 |
| Overall Fiscal Balance (after grants) | 0.34 | -2.69 | -2.17 | -2.97 | -3.52 | -3.19 | -8.42 | -19.47 |
| Primary Balance (before grants) | -0.13 | -4.19 | -2.43 | -4.22 | -3.19 | -3.95 | -10.03 | -16.87 |
| Overall Balance (before grants) | -2.48 | -6.38 | -4.66 | -5.78 | -5.44 | -6.14 | -12.64 | -21.65 |
| Total Expenditure | 29.45 | 31.12 | 31.27 | 31.79 | 31.64 | 33.12 | 39.31 | 48.88 |
| Total Primary Expenditure | 27.10 | 28.93 | 29.03 | 30.23 | 29.39 | 30.93 | 35.56 | 43.29 |

Source: ECCB and IMF

Table A4 Main Economic Indicators Grenada 1983-2002 (continued)

| Year | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 |
|--------------------------------------|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| GDP at Market Prices | 273.27 | 297.27 | 346.17 | 388.83 | 451.52 | 498.24 | 575.27 | 596.89 | 652.24 | 677.47 | 675.10 | 710.08 |
| | (In Current Millions EC\$) | | | | | | | | | | | |
| GDP at Market Price | 360.72 | 380.30 | 414.13 | 451.85 | 504.73 | 527.66 | 568.97 | 596.89 | 618.48 | 621.01 | 613.40 | 633.83 |
| | (In Constant Millions EC\$ 1990) | | | | | | | | | | | |
| GDP at Market Price | 3.0 | 5.4 | 8.9 | 9.1 | 11.7 | 4.5 | 7.8 | 4.9 | 3.6 | 0.4 | -1.2 | 3.3 |
| | (Real Growth Rate) | | | | | | | | | | | |
| CPI | 70.93 | 74.94 | 76.82 | 77.25 | 76.57 | 79.64 | 84.09 | 87.08 | 89.40 | 93.10 | 95.34 | 97.81 |
| | (1995=100) | | | | | | | | | | | |
| Total Central Government Debt | (as percentage of GDP) | | | | | | | | | | | |
| Domestic | | | | | | | | | | | | |
| External | | | | | | | | | | | | |

Source: IMF and ECCB

Table A4 Main Economic Indicators Grenada 1993-2002

| Year | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|--------------------------------------|----------------------------------|--------|--------|--------|----------|----------|----------|----------|
| GDP at Market Prices | 748.14 | 805.10 | 865.28 | 946.65 | 1,020.31 | 1,104.16 | 1,069.97 | 1,083.81 |
| | (In Current Millions EC\$) | | | | | | | |
| GDP at Market Price | 653.42 | 672.08 | 700.36 | 751.61 | 808.29 | 866.15 | 833.34 | 824.01 |
| | (In Constant Millions EC\$ 1990) | | | | | | | |
| GDP at Market Price | 3.1 | 2.9 | 4.2 | 7.3 | 7.5 | 7.2 | -3.8 | -1.1 |
| | (Real Growth Rate) | | | | | | | |
| CPI | 100.00 | 102.79 | 104.12 | 105.58 | 106.12 | 108.44 | 111.91 | 113.85 |
| | (1995=100) | | | | | | | |
| Total Central Government Debt | (as percentage of GDP) | | | | | | | |
| Domestic | | | | 48.1 | 47.8 | 49.2 | 54.9 | 83.9 |
| External | | | | 21.7 | 20.6 | 18.3 | 17.3 | 19.4 |
| | | | | 26.4 | 27.2 | 30.9 | 37.5 | 64.5 |

Source: ECCB and IMF