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**Letter of Development Policy**

**Third Programmatic Resilience Building Development Policy**

**Credit and Loan**

November 10<sup>th</sup>, 2016

Dr. Jim Yong Kim  
President  
World Bank  
Washington DC 20433

**UNITED STATES OF AMERICA**

Dear Dr. Kim

The Government of Grenada is in the final year of implementation of its Home Grown Structural Adjustment Programme supported by the World Bank and other partners.

We have continued to make significant progress towards achieving our objectives of restoring macroeconomic stability in the short term and promoting strong sustainable and inclusive growth in the medium to long term. Specifically, we are well on our way to restoring fiscal and debt sustainability; building a durable and fortified fiscal framework, including through the passage of fiscal responsibility legislation; strengthening the foundations of the economy to support stronger growth and safeguarding financial safety & stability.

These achievements would not have been possible without the generous financial and technical support from the World Bank since the commencement of the Programme in 2014.

We are continuing to implement our Growth and Poverty Reduction Strategy 2014 - 2018 while at the same time working towards the development of a long term development strategy - the National Sustainable Development Plan (NSDP) 2030.

The Government of Grenada would like to sincerely thank the World Bank for the support thus far and look forward to even stronger collaboration going forward in the development of our people.

### **Background**

Successive macroeconomic shocks to our economy culminated in a full blown crisis in 2012-2013 as evidenced by years of little or no growth, high unemployment, huge fiscal imbalances and spiraling debt and debt service payments.

In the five year preceding the Home Grown Structural Adjustment Programme, the economy declined on average by 1.3%. Grenada's economy was among the hardest-hit by the global financial crisis, with Gross Domestic Product (GDP) contracting by 6.7 percent in 2009 with further contractions for most of the period 2010 - 2013.

In 2013, the unemployment rate stood at 32.2%. Unemployment among the younger persons was particularly acute, with more than half of our youth of working age unemployed.

Our fiscal and debt situation were unsustainable. Grenada's debt to GDP ratio was among the highest in the Eastern Caribbean Currency Union (ECCU) at 110% of GDP. Interest payments accounted for 3.5% of GDP and around 17% of current revenues. Government also faced payment difficulties and accumulated significant arrears.

When my Government took Office in February 2013, decisive response was needed to tackle the challenges faced by the economy.

We embarked on an ambitious reform programme aimed at supporting sustained and inclusive growth and achieving fiscal and debt sustainability.

The main pillars of the Programme could be broadly categorized as follows:

- Structural reforms to promote a business friendly environment, growth and job creation
- Ambitious fiscal adjustment supported by a new improved fiscal framework, including the enactment of fiscal rules and better social safety net targeting.
- Debt restructuring
- Building resilience to natural disasters and financial system safety and stability.

### ***(1) Improved Conditions for Private Investment***

Since 2014, the Government has taken deliberate steps to support competitiveness, growth and employment creation.

We continue to put systems in place to ensure the successful implementation of the Growth and Poverty Reduction Strategy (GPRS) 2014 – 2018. The GPRS will be the cornerstone for the NSDP 2030 which is expected to be finalized by the third quarter of next year.

Actions taken to improve the business environment and enhance Grenada’s investment readiness include the enactment of a new Investment Promotion Act and reforms at the investment promotion agency (the Grenada Industrial Development Corporation) including the tabling of a new Act in Parliament and the introduction of a rules based incentives regime to support investment in priority sectors such as tourism, agriculture and energy. A new Labour Code was also introduced in Parliament and will be enacted into law shortly to support labour mobility and remove existing bottlenecks to employment.

Other important reforms include:

- The completion of the commercialization of the three Government run estates through long term lease arrangements;
- The enactment of a new legal framework to govern the electricity sector to achieve lower prices and facilitate the transition toward renewable energy;
- The establishment of a framework to facilitate PPP development to support infrastructure development and reduce the risk to public sector;

- The continued implementation of the Marketing and National Importing Board (MNIB) Strategic Plan 2020 to drive exports and value added production
- The institutional strengthening of the Grenada Bureau of Standards to improve quality standards in products and services.
- The enactment and implementation of a Food Safety Act
- The enactment of a Bankruptcy and Insolvency Act.

While these reforms have started to bear fruits, we expect to see their full impact on growth and employment in the coming years.

## **(2) Enhancing public resource management**

To correct the fiscal imbalances existing at the time, Government introduced a number of fiscal measures to stabilize the fiscal position and to put Government finances on a firm track going forward.

Two key elements of Bank's support in this regard include the better targeting of social safety net spending and the reform of statutory bodies and state owned enterprises to improve financial and operational performance. With respect to the former, the proxy means testing of all beneficiaries is perhaps the single most important achievement in this reform. This will play an important role in improving the efficiency of spending while at the same time ensuring that Government is able to satisfy the unmet needs of the poor and vulnerable.

Furthermore, the Government put in place a new fiscal framework aimed at building a robust and durable architecture for public finance management. These include the passage of a new Public Finance Management Legislation, a new Procurement Law, Fiscal Responsibility Legislation and a new Public Debt Management Act, among others.

The Government of Grenada remains fully committed to modernizing its public procurement systems and has recently appointed a Chief Procurement Officer, operationalized the Public Procurement Board, the Public Procurement Review Commission, and the Public Procurement Disposal Committee. These actions build upon the reforms the Government introduced earlier,

with the passage of the 2014 Public Procurement and Disposal of Public Property Act, which aligned Grenada's legal framework for procurement with international best practices. The Government continued its reform efforts for the sector in 2015 with the elaboration of regulations necessary to implement the new Public Procurement Act. In an effort to continue making progress on this important reform area, the Government of Grenada is committed to addressing any inconsistencies in the regulations associated with the 2014 Public Procurement Act by June 2017.

### **(3) Debt Restructuring**

In March of 2013, we announced a comprehensive and collaborative restructuring of our debts. This was seen as a critical pillar in our efforts to restore fiscal and debt sustainability.

### **(4) Enhancing Preparedness Against Natural Disasters and Stability of the Financial Sector**

#### *Building resilience to natural disasters*

With support from the World Bank, Grenada is implementing a Regional Disaster and Vulnerability Reduction Programme aimed at improving resilience through critical infrastructure and enhanced disaster management capacity.

Further, we have enacted (i) the Grenada Building Code and (ii) the Physical Planning and Development Control Legislation to ensure greater resilience to natural disasters. We continue to participate in regional insurance facility (CCRIF) to support immediate cash flow requirement in the immediate aftermath of a disaster.

#### *Financial Sector Stability*

Our Government is committed to the stability of the financial system, and supports ongoing regional efforts to strengthen financial regulation and supervision. In this regard, a new Banking law was approved in Parliament in April 2015, and amendments to the ECCB and Asset Management Company legislation will soon be passed. An Asset Quality Review of all banks was completed by end April 2015. This has been followed by a Dynamic Modeling exercise to ascertain capitalization needs and guide the bank resolution strategy in the Eastern Caribbean

Currency Union. The ECCB has undertaken an assessment of the debt restructuring on the banks and we are guided by these findings.

### **Key results and Challenges**

Thanks to the sacrifice and resilience of our people and the support of the World Bank and other partners, we have been able to weather the storm and improve the lives of ordinary Grenadians.

Our economy has rebounded strongly since 2014 and is on track to record positive growth for the third consecutive year under the Programme averaging in excess of 5%. The main drivers of growth have been tourism, agriculture, education and more recently, construction. Over the medium term, growth is expected to average 3% per annum. Government will continue to undertake reforms to boost growth and competitiveness.

Despite some layoffs in some sectors including the banking sector, more jobs were created during the period than were lost. Unemployment fell from 32.2% in 2013 to 29% at the end of 2015. Youth unemployment fell by 11% from 53% to 42% during the same period. I wish to sincerely thank the World Bank for its support in validating the Labour Force results and the capacity building support in this regard. A new Labour Force Survey is underway and the preliminary results should be available before the end of this year. Notwithstanding this, unemployment is unacceptably high and remains a key challenge for Government going forward.

Government's fiscal situation has shown significant improvement although challenges remain. The first primary balance in more than a decade was recorded in 2015. This year, we are on track to record a primary surplus of at least 3.5 % of GDP. Interest payments as a percentage of GDP and Government revenues will fall from 3.5% of GDP and 17% in 2013 to under 3.0% and 14% respectively by the end of this year. Our Debt to GDP ratio has fallen from its high of over 100% of GDP to 94% by the end of 2015. This ratio is expected to fall further to 85% by the end

of this year. We remain committed to maintaining fiscal discipline while at the same time undertaking critical investments to support strong, sustainable and job rich growth.

***Government's Commitment***

The Government of Grenada continues to work steadfastly to implement the Homegrown Programme. We have successfully completed four of the six reviews and the results are very positive. We remain committed to successfully completing the Programme. Once again, Grenada sincerely appreciates the partnership of the World Bank Group in the growth and development of our people and look forward to our continued collaboration.

Yours faithfully

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