

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

<March 12, 2014>
Report No.: AB7542

Operation Name	First Programmatic Resilience Building Development Policy Loan
Region	Latin America and Caribbean
Country	Grenada
Sector	
Operation ID	P147152
Lending Instrument	Development Policy Lending
Borrower(s)	Government of Grenada
Implementing Agency	Ministry of Finance, Planning, Economy, Energy and Cooperatives Government of Grenada St. George's, Grenada Tel: (473) 440-2928
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I. Key development issues and rationale for Bank involvement

As a small, open and highly indebted middle-income island state, Grenada faces significant systemic vulnerabilities and structural challenges. Between 2009 and 2012, the country suffered a deep recession as tourism revenues and foreign direct investment flows collapsed subsequent to the global financial crisis. GDP contracted by a cumulative 8.2 percent during this period. Economic activity finally started to recover in 2013, with a GDP growth rate of 1.5 percent, the best performance since 2007.

Following the global crisis and deteriorating macroeconomic situation, Grenada's public debt increased sharply in 2012 and continued to worsen, culminating in the announcement of a restructuring of the public debt in March 2013. The public debt-to-GDP ratio increased from 100.9 percent of GDP in 2010 to 113.4 percent of GDP by end-2013. External debt service has significantly picked up, especially to commercial creditors, putting upward pressure on interest rates. The unsustainability of the public debt and a solvency crisis led Grenada's government to announce a "comprehensive and collaborative restructuring of its public debt" in March 2013.

While social indicators have historically been strong, poverty has worsened over the last decade. At this stage, the limited availability of disaggregated poverty and socio-economic data does not allow to measure the effectiveness of national and regional policies to reduce poverty and support shared prosperity. The latest Country Poverty Assessment, conducted by the Caribbean Development Bank in 2008, showed that around 38 percent of the population in

Grenada was poor, 2.4 percent of whom were indigent or extremely poor. Inequality in the country was low relative to both the remaining OECS member states and the LAC average, with a Gini coefficient of 0.37. Compared to the previous analysis conducted in 1998, the poverty rate has increased by around 17 percent, while the indigence level fell by more than 80 percent between 1998 and 2008. Notwithstanding the increase in the poverty rate, Grenada has shown improvement in some social areas such as the percentage of the malnourished population (decreased from 30.9 percent in 1999 to 17.9 percent in 2011), the under-5 mortality rate (decreased slightly from 15.7 percent in 2000 to 12.8 percent in 2011), the net enrollment level in primary and secondary education (above 90 percent for boys and girls), and the literacy rate (98 percent in 2011 compared to 94 percent in 2002).

In response to the challenges faced by the country over the past several years, the Government outlined the New Economy initiative in the 2013 budget speech, which includes the strategy for growth, fiscal sustainability, social development and debt management. The initiative emphasizes tourism, agriculture and fisheries, energy development, including renewable energies, and a dynamic export sector as drivers of future economic growth, and address public sector management, vocational training, sustainable development, and private sector development, including promoting micro and small businesses through the development of ICT as well as improving competitiveness as a central part of the plan. In order to overhaul the tourism sector, as part of the growth strategy, the Government has developed the Tourism Strategic Plan for 2011-2014, which focuses on infrastructure planning, working through national and regional tourism clusters to improve and expand product standards, and include the small enterprises in the overall strategic effort. In addition, to improve trade logistics, the Government adopted a computerized customs management system (ASYCUDA World) at end-2010 that allows a web-based submission of customs declaration.

The strategy for fiscal sustainability focuses on the Government moving from a deficit position on its primary balance to a surplus position, with the aim of putting the high debt-to-GDP ratio on a downward path. This will require an increased tax effort as well as increased efficiency of Government expenditures, including managing the wage bill and reducing wastage in the spending system. The Government has shown continuous efforts to improve public services. During 2012-2013, the Government implemented human resource audits in three ministries and one department, with the objective to align public sector positions and employee skills with the functions and programs for which these organizations are responsible. In addition, the Department of Public Administration has been working to improve the quality of personnel records and align those with the payroll records. Lastly, the Cabinet Office has led a strategic planning initiative and has introduced performance agreements between the government and senior officials over the recent years.

The strategy for debt management is to first address the debt overhang through a comprehensive and collaborative debt restructuring. The Government expects the debt restructuring talks with private creditors to be launched in March and continued in April 2014. On debt-related capacity building, several initiatives have been undertaken with the assistance of the Eastern Caribbean Central Bank's Debt Management Advisory Services, which include debt record validations, development of guarantee guidelines, setting up of the front- middle- and back-offices and comprehensive training and skill building activities for debt staff.

The strategy for social development and empowerment of the population aims to improve

training and employment opportunities for the youth, facilitate better access and quality of education, improve health care services and facilities and provide affordable housing to low income families. The Government recently articulated a Social Safety Net Policy Framework which provides guidelines for operationalizing the recommendations from the 2009 Social Safety Net Assessment as well as strengthening social safety nets overall. A further strengthening of the flagship social safety net program “Support for Education, Empowerment and Development” is envisaged as well to ensure that the benefits provided under the program reach the neediest.

II. Proposed Objective(s)

The Program Development Objective of the proposed DPL series is to support the Government of Grenada to implement a program of policy and institutional reforms to build resilience against systemic vulnerabilities and lay the foundations for private sector-led growth. The operation supports four aspects of resilience: fiscal, financial, social and disaster risk management.

III. Preliminary Description

The proposed DPL is the first in a programmatic series of three DPLs. The operation is structured around four pillars, namely (1) promoting private sector-led growth; (2) reducing fiscal, financial, and social vulnerability; (3) building resilience to natural disasters; and (4) facilitating debt portfolio restructuring and enhancing debt management.

The first pillar supports economy-wide investment climate reforms in the areas of trade, SME development, and Public-Private Partnerships, along with industry-specific policy interventions in priority sectors such as tourism, agribusiness, and energy sectors. These measures are expected to stimulate private sector-led growth and economic diversification.

The second pillar supports structural reforms in the area of fiscal management, the financial sector and social safety nets, which include public service modernization, improvements in the regulation and supervision of the financial sector, and better targeting mechanisms for social safety net programs. These reforms will help the Government strengthen fiscal management, and lower financial sector risks, and reduce social vulnerability.

The third pillar supports the Government’s efforts to reduce both its physical and fiscal vulnerability to natural disasters and better manage its impacts through a development of a national Disaster Risk Financing and Insurance framework with the aim of the improvement of the physical planning regulatory system and the development of a comprehensive risk financing strategy. These measures are expected to improve the government’s fiscal management of natural disasters and capacity to effectively allocate resources and monitor investments following a disaster event, by identifying cost-effective financial protection measures and insurance instruments.

The fourth pillar supports the Government’s efforts to strengthen institutional capacity on debt management, through the development of an in-house detailed Medium-Term Debt Management Strategy, aligned with budget discussions to give a clear signal to markets and creditors of the country’s medium-term commitment to its debt management strategy. These measures are expected to lead to changes in the debt portfolio that will contribute to the long-term debt sustainability of Government operations.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The poverty and social impact of the policy measures supported by this DPL series is expected to be positive or neutral; the policy measures supported under Pillar 1 are expected to have a positive poverty and social impact. An improved functioning of the commercial estates is likely to increase employment and possibly the income of the employed staff. The Tourism Authority Act can be expected to improve linkages between agriculture and tourism, thereby increasing the revenue of agricultural producers, offering new employment possibilities and reducing poverty.

The impact of the reforms supported under Pillar 2 is expected to be positive in the medium to long term. While the approval of the Public Sector Modernization Plan and the Social Safety Net Policy Framework does not have an immediate impact on poverty, their implementation can be expected to have a direct positive impact. Particularly, the implementation of the Social Safety Net Policy Framework will contribute to an improved approach to the delivery of social safety nets and is meant to ensure that Grenada's poor and vulnerable population receives adequate assistance. The expected outputs include, for example, the development of different social protection programs, the consolidation of existing programs, improved access to health care and an improvement in the delivery of health care programs, and increased training and employment initiatives for the youth.

The impact of reforms supported under Pillar 3 and 4 are expected to be neutral in the short term, but have a positive impact in the long term. A safer construction of roads, bridges and buildings, which is more resilient to natural disasters, will prevent the loss of lives and destruction of property, thereby having a positive impact on the livelihood of the population exposed to natural shocks. Building financial resilience to natural disasters will free up fiscal space for spending that could contribute to the reduction of poverty. Similarly, a decreased debt level would reduce interest payments and fiscal pressure on the government budget.

Environmental Aspects

The specific policies supported by this DPL series are not expected to have significant impacts on Grenada's environment, forests, or other natural resources. The reforms supported under Pillar 3 will contribute to an improved regulatory framework with a positive impact on environmental management. As a result of the regulatory acts adopted and subsequent regulatory enforcement, environmental impact assessments would be required by law before physical works could commence. This would result in the mitigation of environmental impacts associated with publicly and privately financed civil works projects.

V. Tentative financing

Source:	(\$million)
Borrower	0
International Development Association	10
Total	10

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