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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 20.9 MILLION
(EQUIVALENT TO US$30 MILLION)

TO

GRENADA

FOR THE

First Fiscal Resilience and Blue Growth Development Policy Credit

May 23, 2018

Macroeconomics, Trade and Investment Global Practice
Environment and Natural Resources Global Practice
Latin America and Caribbean Region

Public Disclosure Authorized

GRENADA

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 30, 2018)

Currency Unit

US$1.00 = EC$ 2.70

ABBREVIATIONS AND ACRONYMS

ASYCUDA	Automated System for Customs Data
CARICOM	Caribbean Community
CARTAC	Caribbean Regional Technical Assistance Centre
CBI	Citizenship-by-Investment
CBF	Caribbean Biodiversity Fund
CCI	Caribbean Challenge Initiative
CDB	Caribbean Development Bank
CED	Customs and Excise Divisions
CCORAL	Climate Change Online Risk Adaptation Tool
CROP	Caribbean Regional Oceanscape Project
EC$	Eastern Caribbean Dollar
ECF	Extended Credit Facility
ECCU	Eastern Caribbean Currency Union
EEZ	Exclusive Economic Zone
DPC	Development Policy Credit
FDI	Foreign Direct Investment
FRA	Fiscal Responsibility Act
FROC	Fiscal Responsibility Oversight Committee
GCEPC	Grenada Concrete and Emulsion Production Corporation
GDP	Gross Domestic Product
GHG	Green House Gases
GPRS	Growth and Poverty Reduction Strategy
GoG	Government of Grenada
HSAP	Homegrown Structural Adjustment Program
ICR	Implementation Completion and Results
ICZM	Integrated Coastal Zone Management
IDA	International Development Association
IMF	International Monetary Fund
KPI	Key Performance Indicator
LAC	Latin America and the Caribbean
MoF	Ministry of Finance, Planning, Economic Development and Physical Development
MPA	Marine Protected Area
NCCPAP	National Climate Change Policy and Action Plan
NDC	Nationally Determined Contribution
NEP	New Economy Plan
OECS	Organisation of Eastern Caribbean States
PFM	Public Financial Management
PPG	Public and Publicly Guaranteed
PPP	Public-Private Partnership
PSIP	Public Sector Investment Programs
PSMR	Public Sector Management Reform Strategy
SDR	Special Drawing Rights
SDTF	Sustainable Development Trust Fund
SEMCAR	Support for Economic Management in Caribbean
SOE/SB	State-owned Enterprise/Statutory Body
TA	Technical Assistance
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
WBG	World Bank Group

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GRENADA

GRENADA FIRST FISCAL RESILIENCE AND BLUE GROWTH DEVELOPMENT POLICY CREDIT

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P164289	Yes	1st in a series of 2

Proposed Development Objective(s)

The series' Program Development Objectives are to: (i) Support fiscal measures and compliance with the Fiscal Responsibility Law; and (ii) Support Grenada's transition to a Blue Economy by strengthening marine and coastal management, marine ecosystem health, and climate resilience.

Organizations

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

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**30.00**

DETAILS

International Development Association (IDA)	30.00
IDA Credit	30.00

INSTITUTIONAL DATA

Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results Indicators

Indicator Name	Baseline	Target
Pillar 1: Support fiscal measures and compliance with the Fiscal Responsibility Law		
• Wage Bill as ratio of GDP in adherence to the Fiscal Responsibility Act.	Fiscal Rules (2016): Wage bill (9.0 percent of GDP).	(2020): Wage bill ratio will remain aligned with fiscal rule (e.g. below 9 percent of GDP).
• Improved effectiveness and increased compliance in customs as measured by the increase in number of successfully targeted post-clearance audits per year.	(2016): 3.	(2020): 5
• Proportion of SOEs that are in compliance with the new monitoring and reporting framework produced by the Ministry of Finance.	(2016): 0 percent.	(2020): 100 percent.
Pillar 2: Support Grenada's transition to a Blue Economy by strengthening marine and coastal management, marine ecosystem health, and climate resilience		
• Increased protection and management of coastal and marine biodiversity as measured by the percentage of Marine Protected Area.	(2016): 3 percent.	(2020): 20 percent
• Import volume of Styrofoam food containers; single use plastic shopping bags, and disposable plastic plates, spoons and forks.	(2016): Styrofoam food containers: 3007 pallets; single use plastic bags: 6,975,308; disposable plastic plates: 2697 pallets; forks and spoons: 1838 pallets.	(2020): 20 percent reduction relative to the baseline.
• Percentage of annual Public Sector Investment Programs (PSIP) infrastructure project proposals screened with the Climate Change Online Risk Adaptation Tool (CCORAL).	(2016): 0 percent.	(2020): 60 percent.
• Percentage of annual government contracts that are governed by sustainability requirements.	(2016): 0 percent.	(2020): 25 percent.

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) PROGRAM DOCUMENT FOR A PROPOSED DEVELOPMENT POLICY CREDIT (DPC) TO GRENADA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document presents the first operation in a programmatic series of two Development Policy Credits (DPC) for Grenada.** The First Fiscal Resilience and Blue Growth Development Policy Credit, in the amount of US$30 million, supports the implementation of policy and institutional reforms set out in the Government's long-term development strategy, the New Economy Plan (NEP), the Growth and Poverty Reduction Strategy (GPRS) for 2014-18, and Grenada's Blue Growth and Coastal Master Plan. The Government's programs prioritize fiscal sustainability, strengthening resilience against natural disasters, and harnessing the "blue economy" as a way to fuel sustainable growth.[1] This DPC series supports key aspects of that broad program.

2. **This DPC series supports a more comprehensive approach to strengthen sustainability and resilience in the context of a small island state**. Grenada is a small country (with around 107,000 people) facing structural challenges, high volatility stemming from external factors, and significant exposure to natural disasters. Striking examples include the devastation of Hurricane Ivan in 2004 and Hurricane Emily in 2005 that caused damages estimated at 148 percent and 30 percent of Gross Domestic Product (GDP), respectively. Grenada also suffered a protracted recession during 2009-12, during which real GDP contracted by 8 percent from peak to trough. Combined with a sustained pro-cyclical fiscal policy stance, this led to a steep rise in public debt. This operation takes a comprehensive approach to strengthen macroeconomic, fiscal and environmental sustainability, and resilience to shocks. It does so by supporting the implementation of fiscal reforms that keep public debt on a downward trajectory and support fiscal consolidation. Additionally, it takes a more balanced and sustainable growth approach that safeguards natural resources and measures to better deal with climate change and natural disaster shocks.

3. **An adequate macroeconomic policy framework has been supporting Grenada's recovery.** In 2013, with the support of the World Bank Group (WBG), the International Monetary Fund (IMF) and the Caribbean Development Bank (CDB), the Government of Grenada (GoG) developed a Homegrown Structural Adjustment Program (HSAP) that put the country back on a path of recovery. Growth has subsequently rebounded, averaging 5.5 percent since 2014. A strengthening economy, strong fiscal discipline – underpinned by a new rules-based fiscal framework established by the 2015 Fiscal Responsibility Act (FRA) – and successful debt restructuring have led to a reduction of nearly 30 percentage points in public debt to GDP ratio since 2014, to 71.0 percent at end-2017.[2]

4. **Welfare indicators point to gains in social development over the past 15 years.** The poverty rate

[1]The "blue economy' refers to the ocean assets and marine resources of a country, and covers traditional ocean industries such as fisheries, tourism, and maritime transport and new and emerging activities such as offshore renewable energy, aquaculture, seabed extractive activities, and marine biotechnology and bioprospecting. See World Bank and United Nations Department of Economic and Social Affairs. 2017. *The Potential of the Blue Economy: Increasing Long-term Benefits of the Sustainable Use of Marine Resources for Small Island Developing States and Coastal Least Developed Countries*. World Bank, Washington DC.
[2] Source: Government of Grenada, Eastern Caribbean Central Bank.

was 37.7 percent in 2008, the latest year for which figures are available, at which time 2.4 percent of the population lived in extreme poverty.[3] However progress has been made on a number of Millennium Development Goals over the past 15 years. For example, the under-5 mortality rate decreased from 15.9 per 1,000 live births in 2000 to 11.8 in 2013, and the maternal mortality ratio per 100,000 live births declined from 29 in 1990 to 27 in 2015. The population has near-universal access to drinking water and sanitation, access to electricity, and mobile phone service, and very high net primary school enrollment rates. Still, gender disparities remain significant, especially in terms of employment and labor force participation. Inequality is also relatively high in Grenada, with a Gini coefficient of 0.45 in 2006.

5. **This DPC series supports policy and institutional actions that are part of implementation of the new rules-based fiscal framework.** The currency peg to the U.S. Dollar means that the burden of adjustment to economic shocks falls squarely on the fiscal side. In this context, the fiscal rule adopted in 2015 will provide a critical anchor for macroeconomic sustainability in the context of frequent shocks. The FRA aims to restore and maintain debt sustainability, and establishes a debt ceiling of 55 percent of GDP. To ensure adherence to the rules, the FRA also sets a public wage-bill ceiling of 9 percent of GDP and provides for a share of monthly Citizenship-by-Investment (CBI) inflows (set to 40 percent) to be saved to finance future budgetary or natural-disaster contingencies.[4] Oversight and monitoring institutions and mechanisms will be critical for ensuring adherence, as will spending and revenue reforms. The first pillar of this DPC focuses on these critical implementation and compliance aspects.

6. **This DPC series also supports measures geared to implement the "blue growth" approach envisaged by the authorities, which aims at fostering sustainable growth while protecting livelihoods and reducing vulnerability to disasters and climate change**. For Grenada, an effective transition to a blue economy is synonymous with balancing the environmental health and resilience of coastal and marine ecosystems with the high economic returns these natural assets provide. Grenada is witnessing a rise in the total contribution of coastal tourism to GDP (to 25 percent of GDP in 2015 from less than 15 percent in 2005). The share of tourism-related jobs has also increased from 14 percent to 23.3 percent (equivalent to 11,500 jobs) over the same period. At the same time, high vulnerability to natural disasters calls for a strengthened institutional approach to disaster risk management and prevention. The second pillar in this DPC series supports Grenada's transition to a "Blue Economy" by supporting selected measures geared to strengthen ocean governance, marine ecosystem health, and climate resilience.

7. **The two pillars supported by this DPC series complement and reinforce each other.** Compliance with and adequate implementation of the fiscal rules framework would help support macroeconomic stability and debt sustainability, which in turn will translate into investor interest in the island, lower borrowing costs, and improved growth prospects over the medium term. Added to this, the "blue growth" approach to development will help to differentiate Grenada and attract a growing share of investors and tourism committed to this strategy. Growth, in turn, would improve fiscal and debt dynamics. Moreover, as economic activity is sustained over the medium term, the population in the island is committed to maintaining a sustainable growth model that is mindful of the environment. These measures will also help improve resilience to external and weather-related shocks and long-term climate impacts.

2. MACROECONOMIC POLICY FRAMEWORK

[3] The Caribbean Development Bank (CDB, 2007/2008) "Country Poverty Assessment - Grenada, Carriacou, and Petit Martinique."
[4] Introduced in 2013, the CBI scheme yielded revenues of US$30 million (as of October 2013), about 3 percent of GDP.

2.1. RECENT ECONOMIC DEVELOPMENTS

8. **Grenada's economic performance has improved considerably in recent years.** Real GDP growth rebounded strongly in 2014-15, to over 6 percent, on the back of stronger tourism, investment and agricultural sector growth (Table 1). It has since moderated, to 3.7 and 4.5 percent (preliminary estimates) in 2016 and 2017 respectively, as output gaps were closed and agricultural output fell due to drought. Economic activity remains supported by robust manufacturing, construction and service sector growth. Although the number of visitors to Grenada in 2017 remained flat at 2016 levels, overall spending by tourists rose by 4 percent. Increased tourism-related and private-sector commercial investments, together with major public-sector investments led to a sharp acceleration in construction activity.

9. **Stronger economic activity has led to improvements in the labor market.** The unemployment rate fell markedly, to 23.4 percent in 2017 from 28 percent in 2016. Youth unemployment remains high at 40.2 percent, however, though significantly improved from 50.4 percent in 2016. Furthermore, structural labor market problems persist, including a private sector perceived skills mismatch, high wage reservation prices due to remittances, and strong unionization.

10. **The current account deficit widened, but remains fully financed by foreign direct investment (FDI) inflows.** Stronger domestic demand contributed to a 3.4 percentage point increase in the current account deficit to an estimated 6.6 percent of GDP in 2017. In addition, merchandise exports fell by 15 percent in 2017, mainly reflecting a 19 percent drop in agricultural exports, which account for two-thirds of goods exports. Strong construction activity contributed to higher imports, including of machinery and transport equipment. This took place notwithstanding a 3.7 percent depreciation in the real effective exchange rate. FDI inflows of an estimated 8.6 percent of GDP helped finance the current account deficit. International reserves covered 3.4 months of imports in 2017. External debt financing declined, reflecting the GoG's continued reforms to reduce its public debt stock.

11. **Inflation has remained subdued.** Inflation slowed to 0.9 percent in 2017 (from 1.6 percent in 2016), mainly due to favorable base effects and due to low food and energy inflation. Under the supervision of the ECCB, the Eastern Caribbean Dollar (EC$) is pegged to the U.S. dollar. The ECCB's benchmark policy rate has remained unchanged at 6.5 percent, even as the U.S. Federal Reserve Bank has gradually raised interest rates since December 2015.

12. **The banking sector remains sound, but credit growth continues to be weak.** Having undergone significant balance sheet shore up, banks are profitable and adequately capitalized. Ample liquidity conditions in 2016 resulted in a comfortable liquidity coverage ratio of approximately 40 percent of deposits. Low demand for money balances led to increased net foreign assets and a further accumulation of reserves at the ECCB. With a return on average assets (ROAA) of 1.25 percent, banks remain profitable, allowing for better provisioning of impaired assets. Non-performing loans decreased from a peak of 13.8 percent of gross loans in 2013 to 4.6 percent in Q3 2017, resulting in substantial improvement in asset quality. [5]With an average capital-asset ratio of 14 percent and a Tier-1 capital ratio of 12.5 percent, capital remains comfortably above the 8 percent regulatory minimum and is highly loss absorbing. Aggregate

[5] Source: Eastern Caribbean Central Bank.

credit growth to the private sector turned modestly positive (0.6 percent) in 2017.

13. **Continued fiscal discipline and tax reforms have strengthened Grenada's fiscal stance.** The fiscal balance shifted into surplus of 2.3 percent of GDP in 2016– the first in a decade, with a 3.2 percent surplus for 2017 (Tables 1 and 2). Meanwhile a primary surplus of 5.8 percent of GDP was achieved in 2017, by far exceeding the target of 3.5 percent set by the FRA. Just over half of the 9.8 percentage points of GDP improvement in the primary balance since 2013 has been driven by an improvement in revenues, reflecting cyclical factors as well as substantive tax policy and administration reforms.[6] As a result, the share of tax revenues in GDP has increased from 18.2 percent in 2014 to 21.7 percent in 2017.

Table 1. Grenada: Key Macroeconomic Indicators (2014-2021)

	2014	2015	2016	2017a	2018[b]	2019[b]	2020[b]	2021b
Real Sector	*Annual percentage change, unless otherwise specified*							
Real GDP	7.3	6.4	3.7	4.5	3.3	2.8	2.8	2.8
CPI (average)	-1.0	-0.5	1.6	0.9	2.8	2.5	2.0	2.0
Fiscal Accounts (Central Government)	*Percent of GDP, unless otherwise indicated*							
Revenue	24.5	24.1	26.4	25.9	27.2	25.0	24.7	24.7
Expenditure	29.2	25.6	24.0	22.7	24.7	22.5	21.6	21.6
General Government Balance	-4.7	-1.5	2.3	3.2	2.5	2.5	3.1	3.1
Primary Balance	-1.2	1.9	5.2	5.8	4.8	4.6	4.8	4.8
PPG Debt	101.8	90.1	82.0	71.0	65.5	59.8	53.1	51.6
Selected Monetary Accounts	*Annual percentage change, unless otherwise indicated*							
Broad money (M2)	4.1	5.2	5.5	5.2	4.5	4.4	4.6	4.6
Credit to private sector	-5.1	-3.8	-0.2	-2.5	3.0	6.0	6.0	5.5
External Sector	*Percent of GDP, unless otherwise indicated*							
Current account balance, o/w:	-4.4	-3.8	-3.2	-6.6	-7.2	-6.5	-6.2	-6.0
Exports	60.2	58.0	56.1	56.5	57.5	57.9	58.4	58.4
Imports	58.9	56.7	52.4	56.3	57.4	57.2	57.3	57.1
Foreign Direct Investment	6.4	8.9	8.6	8.6	8.7	9.3	9.4	9.4
International reserves (months of imports)	3.4	4.1	3.9	3.4	3.3	3.3	3.2	3.4
External debt	143.0	133.2	126.3	116.6	113.6	197.6	101.1	99.1
of which: public and publicly guaranteed (PPG)	67.7	61.4	56.9	48.2	48.2	44.7	40.1	39.8
Terms of Trade	-9.4	15.8	4.2	-0.4	0.2	-0.4	-0.1	0.1
Exchange Rate	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Memorandum items								
Nominal GDP (EC$ million)	2,461	2,692	2,852	3,004	3,153	3,269	3,418	3,584

Sources and Notes: GoG, IMF, World Bank. a/ Preliminary; b/ Projected; c/ Projections are based on joint World Bank- IMF Debt Sustainability Analysis conducted in May 2018.

[6] Tax measures since 2014 have included a broadening of the VAT base through the elimination of exemptions, lowering of personal income tax thresholds (which were the highest in the region), and tax and customs administration reforms.

Table 2. Grenada: Key Fiscal Indicators for the Central Government, 2014-2021 (Percent of GDP)

	2014	2015	2016	2017[a]	2018[b]	2019[b]	2020[b]	2021[b]
Total Revenue and Grants	**24.5**	**24.1**	**26.4**	**25.9**	**27.2**	**25.0**	**24.7**	**24.7**
Tax Revenue	18.2	19.0	21.1	21.7	20.9	20.8	20.7	20.7
Taxes on goods and services	4.2	4.3	4.9	4.9	4.7	4.8	5.0	5.0
Taxes on income and profits	3.7	3.8	4.5	4.7	4.3	4.6	4.5	4.5
Taxes on property	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Taxes on international trade	9.5	10.1	10.8	11.3	11.1	10.6	10.5	10.5
Non-Tax Revenue	2.2	2.2	1.8	1.6	1.7	1.6	1.6	1.6
Grants	4.1	2.9	3.5	2.6	4.7	2.6	2.3	2.3
Total Expenditures	**29.2**	**25.6**	**24.0**	**22.7**	**24.7**	**22.5**	**21.6**	**21.6**
Current expenditure	20.0	17.4	19.8	20.0	19.3	19.0	18.0	18.0
Wages and salaries	9.9	8.0	8.4	8.2	8.4	8.3	8.1	8.1
Goods and services	2.1	1.8	1.8	2.1	2.2	2.4	2.5	2.5
Interest	3.5	3.4	2.9	2.6	2.3	2.1	1.7	1.7
Transfers	3.2	2.8	4.0	4.4	4.6	4.7	4.5	4.5
Pensions and NIS contributions	2.1	1.8	1.8	2.1	2.0	2.0	2.0	2.0
Capital expenditures	9.2	8.2	4.2	2.7	5.4	3.5	3.6	3.6
Grant-financed	3.7	2.9	2.6	2.1	4.5	2.4	2.3	2.3
Non-grant-financed	5.5	5.1	0.8	0.5	0.9	1.0	1.3	1.3
Primary balance	-1.2	1.9	5.2	5.8	4.8	4.6	4.8	4.8
Overall fiscal balance	**-4.7**	**-1.5**	**2.3**	**3.2**	**2.5**	**2.5**	**3.1**	**3.1**
Public sector debt	**101.8**	**90.6**	**82.0**	**71.0**	**65.5**	**59.8**	**53.1**	**51.6**
of which: Foreign-currency denominated	67.7	61.8	56.9	48.2	48.2	44.7	40.1	39.8
Domestic	34.1	28.7	25.1	22.8	17.3	15.1	13.0	11.8

Sources and Notes: GoG, IMF, World Bank. a/ Preliminary; b/ Projected; c/ Preliminary projections from World Bank- IMF Debt Sustainability Analysis conducted in May 2018.

14. **The Government's outlays are down nearly 6 percent relative to 2014 levels in nominal terms.** Public sector wages are the largest component of spending, and their share has declined from 38.1 percent in 2013 to 36.2 percent in 2017, helped by a wage freeze in 2015 and 2016, alongside strict adherence to a policy of attrition aimed at controlling headcount. 2017 saw the first increase in public sector wages on account of a 3 percent increase negotiated with public sector unions and the payment of deferred salary increments. Nevertheless, the public-sector wage bill amounted to 8.2 percent of GDP, below the 9 percent ceiling indicated by the fiscal rule. Capital expenditures in 2017 were 12 percent less than in 2016, mainly reflecting delays in the implementation of grant-financed projects. Budgeting practices have improved with the use of medium term fiscal frameworks.

15. **The authorities have been proactively managing public debt through a combination of debt restructuring and fiscal consolidation.** Debt restructuring which began in 2013, has resulted in the successful renegotiation of debt obligations with major Paris Club and domestic creditors, and international bond holders, with principal reductions of 50 percent of the nominal face value of the debt, the insertion of hurricane clauses (for Paris Club debt), and lengthening of maturities. This has significantly improved the post-restructuring redemption profile of Grenada's debt and lowered interest costs. Since 2014, US$ 137 million (or 12.4 percent of 2017 GDP) has been restructured. Nominal GDP growth and strong fiscal consolidation have also contributed to approximately half of the 30 percentage points decline

in public debt since 2014 to 71.0 percent in 2017.

Table 3. Grenada: Balance of Payments Financing Requirements and Sources, 2014-2021 (US$mn)

	2014	2015	2016	2017	2018	2019	2020	2021
Financing requirements	64.0	66.4	47.2	70.1	93.7	88.4	84.2	84.5
Current Account Deficit	40.4	38.3	33.9	73.3	83.6	79.8	78.0	79.2
Amortization	2.8	0.7	2.3	3.3	2.5	2.2	2.3	2.3
Change in Reserves	21.9	28.5	10.1	-6.5	7.5	6.4	3.9	3.0
Errors and Omissions	-1.1	-1.1	0.9	0.0	0.0	0.0	0.0	0.0
Financing Sources	64.0	66.4	47.2	70.1	93.7	88.4	84.2	84.5
Capital Transfers a/	65.1	89.4	36.9	96.8	59.8	62.1	62.3	55.0
FDI	58.4	88.6	90.8	95.2	101.5	113.6	119.4	125.2
Portfolio investment	1.7	-123.1	-64.7	-69.3	-103.0	-96.8	-80.1	-74.7
Other investment	-47.9	4.8	-22.7	-61.0	10.5	-7.6	-15.5	-20.0
Change in existing arrears	-16.8	-19.3	-3.6	0.0	0.0	0.0	0.0	0.0
Change in reserve position with the IMF	3.4	-4.5	-5.0	-4.4	-5.0	-2.9	-2.0	-1.0
Exceptional Financing (inc. IMF, WB)	0.0	30.6	15.6	12.7	30.0	20.0	0.0	0.0
memorandum								
Public sector borrowing (net)	40.1	-38.3	-29.5	-83.8	2.6	-12.4	-19.4	-19.0
NFA of Commercial Banks	-62.2	-69.9	9.4	10.0	3.4	3.7	3.9	3.8
Financing gap	0	30.6	15.6	12.7	30.0	20.0	0.0	0.0

Sources and Notes: GoG, IMF, World Bank. a/ Includes debt forgiveness

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

16. **Grenada's economy is expected to maintain a moderate pace of economic expansion over the medium term.** Real GDP growth is projected to ease from 4.5 percent in 2017 to 3.3 percent in 2018, in the context of softer domestic demand under the needed fiscal restraint. Over the medium term, it is expected to average 2.8 percent in line with potential growth. Investor uncertainty has waned with the incumbent Government winning all parliamentary seats in the national elections in March 2018, and the country is expected to attract new private investment as economic conditions continue to improve, credit growth resumes and reforms are implemented. Growth will also be buoyed by public infrastructure development and tourism. Farm output is projected to recover, assuming better weather conditions.

17. **The current account deficit is expected to narrow moderately over the medium term and to remain fully covered by FDI** (Table 3). Lower imports as construction projects are completed, along with sustained fiscal consolidation, are expected to translate into a modest narrowing of the current account deficit to about 6 percent of GDP in 2021. The deficit is expected to remain fully financed by FDI flows, which are projected to rise to over 9 percent of GDP in 2021, and proceeds of the CBI program.

18. **Inflation is expected to remain low.** Given the peg to the US Dollar, monetary policy is expected to tighten over the next few years, in tandem with the United States. Average inflation is expected, as a result, to remain moderate at around 2 percent by the end of the projection period.

19. **Grenada's fiscal balance is projected to continue to improve.** Under the FRA, Grenada is expected to maintain fiscal surpluses over the medium term. The primary balance target of 3.5 percent of GDP is expected to be consistently exceeded. Fiscal revenues are expected to remain buoyant, supported by efforts to improve tax administration and compliance. The wage bill cost is projected to be below the fiscal rule ceiling of 9.0 percent of GDP. A number of public investment projects support the "blue economy" initiatives. These include efforts to strengthen biodiversity and eco-system management and infrastructure projects with significant climate change adaptation and resilience components. These have the potential to raise productivity and, thereby, potential growth.

20. **Debt dynamics will continue their downward trajectory.** The 2018 debt sustainability analysis (DSA)[7] indicates that, under a baseline scenario of strict adherence to the FRA and taking into account debt restructuring anticipated for that year, the total public and publicly guaranteed (PPG) debt-to-GDP ratio is projected at 65.5 percent in 2018, further declining to 50.9 percent by 2022. In present value terms, total PPG debt ratios would fall from just 52.7 percent in 2018 to 37.9 percent in 2022 (Figure 1). A key objective of the 2020 Medium Term Debt Strategy, is to replace short term costly (mostly domestic) debt with relatively cheaper financing. In line with this, the share of external financing – mostly concessional – is projected to increase from 68 percent in 2017 to 78 percent in 2013. Nevertheless, sensitivity analysis for external debt and debt service indicators highlight Grenada's large exposure to developments in export markets and terms of trade, with indicators displaying a breach of threshold upon simulation of more-adverse conditions. And as in the previous DSA, a substantial breach of threshold for debt service to revenue due to an external trade (exports) shock is sufficient to continue assessment of Grenada's risk of external debt distress as 'high.' A return to lax fiscal policies would also have an adverse impact on the outlook for total PPG debt as would a return to non-concessional costly borrowing. Both could delay the achievement of the debt target by 2020. While unresolved arrears have decreased significantly in recent years, approximately US$1.3 million in domestic debt interest arrears and some US$15.7 million in principal on external debt remain outstanding.[8] Accordingly, the external debt risk classification (i.e., in "debt distress") remains. Negotiations on arrears are ongoing and the Government is taking concrete steps to resolve these.

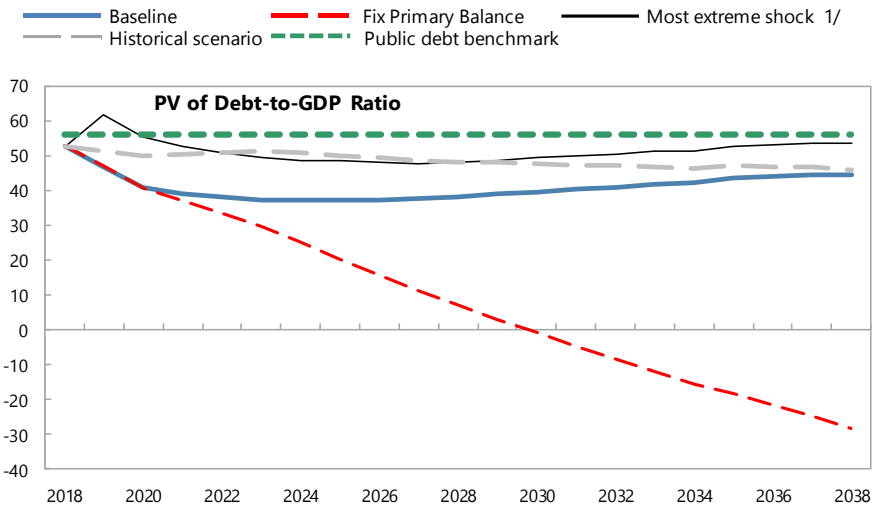
21. **Grenada's macroeconomic policy framework is sustainable and adequate for the proposed operation.** The rate of GDP growth is projected to remain moderate and stable over the medium term, with low inflation, and improvements in the fiscal and external balances. Sound macroeconomic policies have enabled investor confidence and a robust expansion in the real sector driven by tourism, agriculture, and construction, which has been supported by external demand. Progress made under the debt restructuring and fiscal consolidation programs have generated consistent primary surpluses since 2015, placing the debt burden on a downward trajectory. Under the fiscal-rules framework, Grenada is successfully on the path to long-term fiscal and debt sustainability.

22. **However, the outlook is subject to some downside risks.** Being a small open economy, Grenada is vulnerable to external shocks and natural hazards. Uncertainty surrounding immigration and trade policies of the United States and Europe could negatively affect external demand and key sources of foreign exchange, namely tourism services, remittance inflows, and revenues from the CBI program. Fiscal

[7] Preliminary estimates from joint IMF-World Bank DSA conducted in May 2018.
[8] These include with Trinidad and Tobago, Algeria and Libya.

targets for 2018-20 could be at risk if the capital grants inflows from donors such as the EU fall below the projections. Fiscal contingencies could also emanate from contractual issues between the monopoly energy provider[9] and a foreign tourism operator, and from cost overruns from public sector pensions. There is a risk of fiscal slippage if implementation of the new fiscal framework is not sustained. Several of the reforms supported by this DPC series will help build fiscal resilience to these shocks and mitigate risks to the fiscal accounts. The implementation of the rule-based fiscal policy framework (supported by this operation) provides scope for counter-cyclical fiscal policy, while the inclusion of natural disaster clauses in the debt restructuring agreements should help mitigate the risk to fiscal stability in the event of natural disasters.[10] Measures supported by this DPC series will also help promote resilience and sustainability, while enhancing diversification and productivity in the real sector through development of the blue economy. In addition, blue economy policies that help to improve climate resilience should help to reduce the fiscal and economic impacts of extreme weather and climate shocks.

Figure 1. Present Value (PV) of Public Debt under Alternative Scenarios



Sources and Notes: IMF, World Bank DSA analysis.

2.3. IMF RELATIONS

23. **The IMF Executive Board approved the sixth and final review of Grenada's performance under the 36-month Extended Credit Facility (ECF) arrangement in May 2017.** The arrangement, in the amount of Special Drawing Rights (SDR)14.04 million (about US$19.4 million), was approved by the IMF Board in June 2014. The review concluded that Grenada had achieved the core objectives of the ECF-supported macroeconomic program of restoring fiscal sustainability, strengthening the financial sector and creating conditions for sustainable growth.[11] In addition to satisfactorily meeting all performance criteria and structural benchmarks, the GoG also accomplished important legislative reforms to strengthen the fiscal policy framework. This created the fiscal space for the Government to increase social spending and fine-

[9] The dispute has been submitted for resolution to the International Center for the Settlement of Investment Disputes.
[10] These allow for a specified moratorium in debt service following a qualifying natural disaster (GoG 2017).
11 IMF (2017), Ibid.

tune the targeting of social transfers. Program reforms also strengthened the banking sector and improved financial stability. Following the conclusion of the ECF arrangement, the GoG has moved to a surveillance-only engagement with the IMF, with the May 2018 Article IV.

3. GOVERNMENT PROGRAM

24. **The Government's broad-based economic reform program, guided by its 2014-18 GPRS and NEP aims to achieve a more rapid, sustainable, and equitable growth trajectory.** The GPRS is the country's first comprehensive economic growth and poverty reduction strategy and focuses on establishing the institutional framework and policy conditions necessary for achieving sustainable growth and poverty reduction by improving the investment climate, restoring fiscal sustainability, accelerating social development, and building resilience against natural disasters. The GPRS is aligned with the country's NEP, a long-term development agenda targeting accelerated economic growth, fiscal sustainability, social development, and debt management. In January 2014, the GoG committed to an ambitious fiscal and structural reform program. The main objectives of the three-year HSAP included: (i) boosting inclusive growth and job creation; and (ii) restoring fiscal and debt sustainability.[12] Building on this, the Public Service Management Reform Strategy (PSMR) 2017-19 was developed to secure realized gains, and further strengthen economic performance. The Reform strategy is built on the following four pillars: (i) re-engineering the public service; (ii) strategic human resource management; (iii) strategic compensation management; and (iv) integrated information and communication technology.

25. **Aligned with the objective of boosting inclusive growth and job creation, the GoG initiated a national strategy for implementing its vision of a diversified economy based on blue growth**. The Grenada Blue Growth Coastal Master Plan identifies opportunities for blue growth development in areas, such as fisheries and aquaculture, blue biotechnology, renewable energy, research, and innovation.[13] The health of the marine ecosystems and associated biodiversity are of critical importance for these sectors to flourish, both now and into the long term. Recognizing the rich marine ecosystem and increasing environmental pressures, Grenada has created marine protected areas and committed to expand their size in support of regional and global agreements. It has also established the National Ocean Governance Committee, which oversees the development of blue economy initiatives across government. Another important element is a Blue Innovation Institute which will serve as a center of excellence and think-tank on the blue economy. Policies and programs have also been implemented to meet renewable energy and energy efficiency goals.[14]

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

[12] Two other explicit objectives were: (i) Strengthening the financial sector and (ii) building resilience by enhancing the efficiency of social expenditure and improving the social safety net system to better protect the poorest and most vulnerable.
[13] World Bank (2016) *Grenada: Blue Growth Coastal Master Plan*, Report No: AUS20778, Washington D.C
[14] For example, the Government Energy Efficiency Program targets a 10 percent reduction in government electricity use.

26. **The First Fiscal Resilience and Blue Growth DPC series aims to support Grenada's efforts to maintain fiscal discipline and support the transition to and development of its blue economy**. The DPC series builds on the success of the Government's reform efforts to regain fiscal discipline and macroeconomic stability, and to strengthen long term macroeconomic and fiscal sustainability, supported by the World Bank (through the previous DPC series[15]) and the IMF.[16] In addition, this new programmatic series supports critical policy and institutional reforms to help Grenada harness the potential of its blue economy. The series' Program Development Objectives are to: (i) support fiscal measures and compliance with the Fiscal Responsibility Law; and (ii) support Grenada's transition to a Blue Economy by strengthening coastal and marine management, marine ecosystem health, and climate resilience. The reforms under these two objectives are expected to make Grenada's economy more resilient to economic and climate-related shocks. They are also essential to reap the benefits of the most abundant natural resource available to Grenada in an economic and environmentally sustainable way. The proposed DPC series is aligned with key policy and institutional reforms defined in the GoG's development strategies and plans and is aligned with the World Bank's OECS Regional Partnership Strategy (RPS).

27. **The design of the programmatic series, including the proposed operation, incorporates lessons learned from previous World Bank operations.** The 2011 Implementation Completion and Results Report (ICR) for the Economic and Social Development Policy Loan and Credit (P117000) that was approved by the Executive Directors on June 8, 2010, determined that a programmatic approach supporting a multi-year program could have a stronger development impact than a one-year stand-alone program in the case of Grenada since the country has already built a strong track record. The 2011 ICR also found that limited implementation capacity in small states requires that program design be simple and selective, and that programs should be augmented by intensive technical assistance and support during the implementation phase. Based on these lessons, the current programmatic DPC series focuses on a range of precisely defined reforms in critical policy areas, and is being complemented by technical assistance supported by related IDA investment projects.[17]

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

28. **In line with its Program Development Objectives, the programmatic DPC series has two pillars encompassing nine prior actions and nine triggers.** In the current DPC, the first pillar includes five prior actions covering key fiscal reforms that support the implementation of the FRA, customs reforms and strengthened monitoring and oversight of state-owned enterprises (SOEs). The second pillar includes measures to strengthen marine and coastal management, and to strengthen climate change resilience.

Pillar 1: Support fiscal measures and compliance with the Fiscal Responsibility Law

Implementation of rules based fiscal framework (2 prior actions, 2 triggers)

[15] Grenada First, Second and Third Programmatic Resilience Building Development Policy Credits (P147152, P151821, and P156761 respectively).
[16] Through the ECF arrangement that expired in May 2017.
[17] The ICR report for the previous programmatic DPC series is due to be completed in FY19. This should provide further insights into key lessons on program design.

29. **Grenada's landmark fiscal responsibility legislation has allowed the country to transition to a rules-based fiscal framework**. The FRA, which came into force on January 1, 2016, represents a new paradigm in the conduct of fiscal policy, and a transformative shift in policies, practices and institutional arrangements that govern public financial management. Grenada is the only Eastern Caribbean Currency Union (ECCU) country and the second among Caribbean Community (CARICOM) nations (after Jamaica) to have adopted a comprehensive rules-based fiscal framework and fiscal responsibility legislation. This DPC series supports key policy and institutional measures for the implementation of the FRA.

30. **Grenada's rules-based fiscal framework has facilitated the return to a sustainable fiscal position**. The FRA defines a debt ceiling of 55 percent of GDP for the general government, which is more ambitious than the regional ECCU target of 60 percent by 2030. The debt target is to be achieved via a primary balance target of 3.5 percent of GDP on average over the business cycle implemented in conjunction with an expenditure rule. The fiscal rule is broadly appropriate for a small state context as it allows for the use of counter-cyclical fiscal policy while overcoming the difficulties associated with estimating a structural primary balance. However, it will only be effective if supported by the appropriate policy and institutional reforms that keep public sector spending in check.

Prior Action #1: *In accordance with, and to implement the existing Fiscal Responsibility Act, the Recipient has: (a) operationalized the Fiscal Responsibility Oversight Committee (FROC) with the responsibility to undertake monitoring of the fiscal rules and key parameters of the Law and the release of the FROC 2016 Annual Report; and (b) caused FROC to present said report to Parliament.*

31. **Rationale.** The FROC is a crucial institutional pillar underpinning Grenada's rules-based fiscal responsibility framework that in effect works as a fiscal council. The establishment of fiscal councils, implemented adequately, can have positive effects in monitoring and enhancing compliance of fiscal rules.[18] Their main contribution is fostering transparency and promoting a culture of stability in the oversight, and by doing so they can raise reputational and electoral costs of undesirable policies and broken commitments.[19] In the context of a new era of rules-based fiscal policy in Grenada, this independent institution would help the system be more sustainable over time. The presentation of the annual report by FROC would be indicative of its ability to discharge its monitoring and oversight responsibilities as an independent body.

32. **Substance of the prior action.** In line with the FRA, the prior action supports implementation of a FROC with the specific objectives to (i) monitor compliance with the fiscal rule and targets under Sections 7 and 8 of the FRA; and (ii) lay before the House of Representatives for consideration, an annual report on the status of implementation of the FRA. The FROC was established in August 2017 and is now fully functional. It comprises five members, four of which were nominated by Parliament and a fifth by the Governor of the ECCB. The FRA requires that the annual report of the FROC analyze, among other issues, the progress made towards compliance with the fiscal rules and targets, to provide advice on measures needed to ensure compliance and to report on progress made in the period of adjustment. The first report was laid before the House of Representatives in November 2017. As mandated, it reports

[18] Fiscal rules and Economic Size in Size in Latin America and the Caribbean (LAC), 2018.
[19] See IMF (2013), The Functions and Impacts of Fiscal Councils, Washington, D.C.

comprehensively on the areas required by the FRA.

Trigger #1: *The Recipient has operationalized a contingency fund to strengthen the response to emergencies and natural disasters, by: (a) defining the criteria for the use of the contingency fund; and (b) establishing overall governance framework, including the reporting and public accountability mechanisms of the fund, in alignment with the PFM Act and the Fiscal Responsibility Act.*

33. **The build-up of adequate fiscal buffers over the medium term could provide a source of liquidity for disaster relief in the aftermath of a disaster or other external shocks.** Grenada has the legal framework to institute contingency funding measures, but defining a framework to operationalize the fund, with strong links to the fiscal framework, will be critical to achieve counter cyclical fiscal policy, debt sustainability, and other targeted outcomes. The GoG intends to capitalize its contingency fund with annual revenue contributions. In particular, it is planning to deposit 40 percent of CBI receipts into the fund and to ensure that spending and contingency allowances are integrated into a multi-year budget process.

Prior action #2: *The Recipient's Cabinet of Ministers has approved the Compensation Management Policy Framework for the public sector in line with the parameters of the Fiscal Responsibility Act.*

34. **Rationale**. The GoG is committed to improve public sector productivity within fiscally sustainable parameters. It has reduced the cost of the public-sector wage bill to 8.2 percent of GDP in 2017 from 10.7 percent in 2013. However, as the GoG has acknowledged, several aspects of public sector pay and management structures threaten fiscal sustainability beyond 2017. These include: (i) an outdated pay and grade system which could make it difficult to attract and retain skilled personnel; (ii) wage negotiation practices characterized by retroactive wage settlements; and (iii) the absence of formally documented policy and operational guidelines. To this end, in April 2017, the Cabinet approved the overarching PSMR strategy that provides a roadmap of reforms.

35. **Substance of the prior action.** The endorsement by Cabinet of the Compensation Management Policy Framework[20] supported by this operation builds on the assessment and interventions identified in the PSMR. Compensation reform will involve setting parameters for Public Service compensation within a sustainable and affordable wage bill and rationalizing and standardizing disparities in compensation, and strengthen the alignment of pay to performance. The framework will be used to guide the roll-out of key antecedent activities for these reforms, namely, a functional review, and job analysis and evaluation. Technical assistance has already been secured for the functional review from the World Bank.[21] Discussion is ongoing for additional support for the job analysis and evaluation.

Trigger #2: *The Recipient has operationalized the Compensation Management Policy Framework by: (a) adopting guidelines and standards for payroll management and wage negotiation for public sector workers in line with the parameters of the wage bill rule; and (b) conducting an audit of the payroll.*

36. The second operation in the current DPC series will support the GoG to design and adopt regulations to fully implement the Compensation Management Policy Framework. A key action will

[20] Compensation includes includes, but is not limited to wages and salaries and other cash compensation such as increment awards, pension, paid leave and allowances.
[21] OECS and Jamaica Strengthening Public Expenditure Management and Digital Governance Project (ID: P161942).

include regulating the payroll system, which necessitates payroll audits geared at reducing irregularities in the payroll system. The Government is in discussions with the World Bank Group to secure technical assistance on digital governance to support these reforms.

37. *Expected results.* The combination of the FROC, the fiscal contingency fund and new compensation policy are expected to ensure continued adherence to the fiscal rules established in line with identified targets. Jointly these reforms are part of the institutional and structural reforms needed to support the fiscal rule. Indicator: Wage Bill as ratio of GDP in adherence to the FRA. Baseline Fiscal Rules (2016): Wage bill (9.0 percent of GDP). Target (2020): Wage bill ratio will remain aligned with fiscal rule (e.g. below 9 percent of GDP).

Customs Administration (2 prior actions, 1 trigger)

38. **The Government has undertaken measures at the Inland Revenue and Customs and Excise Divisions (CED) to strengthen tax administration and compliance, but further reform efforts are needed**. In 2015, the Internal Revenue Department was restructured. A Large and Medium Taxpayers Unit, and Small and Micro Taxpayers Unit became operational in January 2016. The strategic restructuring was aimed at improving taxpayer compliance, as well as strengthening compliance risk management, and strengthening performance and accountability. The GoG has also been effectively working with international development partners such as the IMF, the Caribbean Regional Technical Assistance Centre (CARTAC), the CDB, the World Bank Group and the United Nations Conference on Trade and Development (UNCTAD) in strengthening capacity and institution building. They have implemented compliance strategies and enhanced risk management alongside efforts to improve taxpayer education and inter-agency co-ordination and collaboration. This work is credited with contributing to higher tax revenue collection over the past two years (Table 2). Yet growing demands for improved customer service and revenue mobilization require further administrative reforms.

Prior action #3. *The Recipient has established an Appeals Commission for the Customs and Excise Division with a view to improving trader services and enhancing compliance.*

39. **Rationale.** Dispute resolution is a pressing shortcoming. The CED has lacked a dedicated and independent authority to adjudicate and settle disputes that occurred between importers/brokers and customs officers. In the absence of a formal appeals process, the outcomes of dispute cases are subject to the discretion of customs comptrollers. An Appeals Commission is necessary to build investor confidence, support tax compliance for higher revenue mobilization, and strengthen the business climate.

40. **Substance of the prior action.** This is an implementation derived from the 2015 Customs Act. The Commission is an independent body empowered to ensure a formal and just process for the appeal of discretionary decisions, and thereby provides traders with due process. The Commission is comprised of a minimum of four persons, and is represented by stakeholders from the legal system, business sector, and civil society. A key focus will be resolving disputes between individuals and customs officers over the valuation of imported goods. The Commission's establishment is in alignment with international best practices and international agreements. It is expected to enable greater transparency and resolution, and self-compliance, and in turn, greater resource mobilization.

Prior action #4. *The Recipient has amended the Customs Act No. 9 of 2015 with a view to strengthen*

customs administration and improve the adoption of electronic declarations and other automatic processes.

41. **Rationale.** The CED suffers from shortcomings in its tax administration processes, ineffective information sharing between units, limited avenue to reduce compliance costs, and fragmented and vulnerable information systems that hinder compliance and enforcement. For effective trade facilitation, private traders need to be informed about the norms, criteria and level of service under which ports are operating. Moreover, having the ability to file customs declarations electronically would reduce compliance costs and build tax information for better monitoring. Customs transactions data would support the utilization of risk management tools at CED and Inland Revenue.

42. **Substance of the prior action**: The new legal framework supports the improvements described above. The GoG has executed a contract with UNCTAD for the upgrade of the Automated System for Customs Data (ASYCUDA) which will include the expansion of the ASYCUDA World Licenses and Permits module to incorporate three additional trade-related governmental agencies into the automated electronic clearance processing of import and export consignments (Single Window system); the implementation of an exemption module to assist in the processing of conditional duty relief, exemptions, concessions and waivers; and implementation of e-payment services with financial institutions. Field work for the ASYCUDA upgrade began in April 2017. Risk management has since improved in some areas such as revenue leakage at duty free shops/bonded warehouses. A Joint Risk Management Committee was also created that has boosted inter-agency cooperation. The CED has commenced industry stakeholder engagement with brokers, warehouses and shipping agents and developed a compliance plan.

Trigger #3. *The Recipient has undertaken operational reforms of the Customs and Excise Division by: (a) restructuring the Division, to include among other functions, a new Marine Unit to increase border security and compliance, as well as to reduce health risks; (b) decreasing clearance time and strengthening post clearance audits and enforcement capabilities; and (c) improving and coordinating risk management.*

43. The second operation in the current DPC series will support the implementation of the amendments to Customs Act of 2015 and associated operational reforms including the establishment of the Marine Unit, upgrading of ASYCUDA to include electronic signature and payment, and the effective use of risk management selection coordinated with the internal revenue service. These operational improvements will create a more robust risk management system that will be able to detect instances of noncompliance with greater precision.

44. *Expected results.* The Customs Appeal Commission, whose decisions will be publicly available, is expected to contribute to improved service delivery and transparency. The host of automated procedures that the amended Customs Law cites are expected to improve the efficiency of the clearance process and reduce wait times at the border. Improvements in inter-agency coordination and communication will allow for more robust enforcement through, for example, successfully targeted post-clearance audits (i.e. those that have resulted in clear outcomes such as fines and penalties). The Government expects to attain improved effectiveness in compliance and increased transparency in customs. As proxy, the number of successfully targeted post-clearance audits are expected to increase to 5 per year relative to the 2016 baseline of 3 successfully targeted post-clearance audits.

SOE Monitoring (1 prior action, 1 trigger)

45. **The Government is committed to improving the management and accountability of SOEs as well as associated fiscal risks**. Contingent liabilities associated with SOEs and statutory bodies (SBs) are an important source of fiscal risk in Grenada, and could potentially jeopardize compliance with the fiscal rule.[22] A two-phase reform program has been underway since 2015. A new regulatory framework, regarded as the strongest in the sub-region, has been developed. With CARTAC assistance, the government has implemented a Performance Monitoring Framework, which jointly with new PFM legislation, provides a legal basis to the oversight of SOEs and to directives on salary levels and dividend requirements. Progress has also been made in developing reporting formats and in obtaining quarterly data on composition of SOE assets, expenditure, and debt. The GoG is also pursuing reforms aimed at strengthening the financial position of targeted SOEs, including through PPPs.[23] The second phase of the reform plan is now under implementation, with selected measures supported by this DPC series.

Prior Action #5: *The Recipient, through its Ministry of Finance, has established a report card system to track key performance indicators (KPIs) of the commercial SOEs.*

46. **Rationale**. Some SOEs have large future capital spending plans, funding for which is uncertain and beyond their own capacities. Others also face commercial risks or have large unfunded pension liabilities. Given, the attendant fiscal risks, the Ministry of Finance, Planning, Economic Development and Physical Development (MoF) is enhancing its monitoring operations.

47. **Substance of the prior action.** The operation supports the SOE monitoring unit within MoF to strengthen its supervision of SOEs by mandating the establishment of a system to track key performance indicators (KPIs) in priority sectors such as water. Non-compliance with these requirements may lead to the withholding of subsidies or other transfers from the Government.

Trigger #4. *The Recipient has conducted a review of the tariff structures of selected SOEs, to identify cost inefficiencies and future capital investment needs*.

48. Tariff structures are critical to ensure a healthy and efficient revenue stream for SOEs. Forgone revenue and the build-up of implicit or explicit subsidies place additional fiscal pressures and risk on the government. In Grenada, for some SOEs, poorly designed tariff structures and associated revenue losses have led to the postponement of critical capital maintenance and expansion needs in recent years (CARTAC, 2014). In this context, Government is committed to conduct a tariff review for selected SOEs, particularly the Grenada National Water and Sewerage Authority and Grenada Solid Waste Management utilities. This will be part of the broader company level restructuring reform program to assess cost inefficiencies and future capital investment needs in SOEs.

Trigger #5. *The Recipient has presented an assessment of contingency risks in the Annual Fiscal Risk Report produced by the FROC.*

49. It is critical to closely monitor contingent risks and liabilities to prevent their materialization or to adequately prepare the fiscal space for that event. In addition to the annual report, the FROC will need to submit quarterly reports to the Cabinet on budget performance, a mid-year report to Parliament and

[22] For example, Grenada Concrete and Emulsion Production Corporation (GCEPC), which is one of the largest SOEs in terms of net worth, defaulted on its commercial debt in 2010, forcing the Government to partially assume its debt servicing costs.
[23] A new PPP Policy was introduced in July 2014 with the support of the World Bank through the previous DPC series.

an annual fiscal risk report. This trigger aims to strengthen the understanding and quantification of fiscal risks in the fiscal risk report, by including an explicit analysis of contingencies associated with SOEs, based on the quarterly information submitted to the MoF.

50. *Expected results.* The Government is expecting that the proposed measures will enhance the transparency of SOE financial accounts through their compliance with mandatory monitoring and reporting requirements. The MoF is expected to produce several reports a year on SOE performance and all SOEs are expected to be in compliance with the requirement to submit information on KPIs by 2020.

Pillar 2: Support Grenada's transition to a Blue Economy by strengthening marine and coastal management, marine ecosystem health, and climate resilience

Marine and coastal management (1 prior action, 2 triggers)

51. **Grenada's extensive coastline and sea area offer significant resources for driving economic growth**. While Grenada, Carriacou, and Petite Martinique have a land mass of over 400 square kilometers its Exclusive Economic Zone (EEZ) covers 26,000 square kilometers. Grenada's marine and coastal ecosystems provide a wide array of goods and services that help fuel the economy including, among others, seafood, tourism and recreation, and coastal protection and resilience from reefs and mangroves. These assets also help reduce vulnerability to natural disasters, build resilience and contribute to sustainable livelihoods. These, however, are undermined by unsustainable practices and events including poorly planned coastal development, pollution, beach sand mining, unsustainable fishing, saline intrusion, invasive species and climate change and natural disasters (National Biodiversity Strategy and Action Plan 2016-20). In addition, coral reefs and sea grass beds are under severe stress, while coastal ecosystems are often a prime target for unsustainable agricultural, energy, tourism and construction activities.

Prior Action #6: *The Recipient has: (a) established the Grand Anse Marine Protected Area; and (b) established the Blue Innovation Institute.*

52. **Rationale.** Grenada has embarked on a series of policy reforms in line with its Blue Growth Vision and Coastal Master Plan. As such, Grenada is at the forefront of blue innovation, including campaigns promoting the country's still attractive marine and coastal environments and the economic activities that they can support sustainably. The rationale behind this prior action is to: (i) protect and enhance the area as a habitat for aquatic flora and fauna; (ii) enhance and maintain the quality of the marine resources for sustainable livelihoods; and (iii) improve and maintain user experiences in the marine protected area. [24] The *Blue Innovation Institute* is also a key component of Grenada's Blue Growth and Coastal Master Plan. It aims to be a center of excellence and a think-tank on blue economy as well as seek to develop innovative 'blue' financing instruments such as debt-for-nature swaps, blue bonds, blue insurance and blue impact investment schemes. It will house leading global ocean research, knowledge and innovation, and promote its vision to optimize the coastal, marine, and ocean resources for Grenada and around the Caribbean. Innovations in this area will be a global good well beyond Grenada.

53. **Substance of the prior action.** The establishment of the Grand Anse Marine Protected Area (MPA) follows Grenada's commitment to preserve its natural ocean capital through long-term sustainable

[24] Homer, F. 2016. *Grand Anse Marine Protected Area Management Plan, 2016-2020*. The Nature Conservancy. February 21, 2016.

practices, both in its Blue Growth vision and in line with its 2016-20 National Biodiversity Strategy and Action Plan 2016-20. Under the Caribbean Challenge Initiative (CCI), Grenada has committed to placing under management 20 percent of its coastal and marine ecosystems by 2020 (CCI, 2013), linked to its obligations under the Convention of Biological Diversity (CBD). The Grand Anse MPA is 19.7km^2 in size, and with its establishment, the percentage of coastal and marine ecosystems under protection increases to 15 percent. These objectives will be achieved through the implementation of the MPA Management Plan including the establishment of zones within the MPA, specific uses and prohibitions; and the management of activities to promote blue growth in balance with the protection of natural assets. The establishment of the Blue Institute was approved by Cabinet on September 5, 2017. The Cabinet submission (August 28, 2017) included provisions for: (i) the legal registration of the Institute, (ii) appointment of an Interim Board of Directors to serve as an entrepreneurial "start-up" team, and (iii) mandated the Interim Board to proceed with an FAO training contract for aquaculture and undertake activities to raise a further US$5 million for the second phase of the Institute's development. The Institute addresses the twin challenge of climate change and ocean degradation by promoting policy and technology innovation to help meet targets for Sustainable Development Goal (SDG)#14 on Oceans.

Trigger #6: *The Partnership Agreement between Sustainable Development Trust Fund (SDTF) and the Caribbean Biodiversity Fund (CBF) has been signed.*

54. **Given the need to adopt sustainable financing mechanisms to sustain ocean and marine resources in the long term, Grenada will operationalize its national SDTF.** A *Partnership Agreement* will be signed between the SDTF and the CBF allowing Grenada to receive regular financing from the regional CBF, which was established in 2012 with a capital endowment of more than US$34 million.

Trigger #7: *To strengthen management of its coastal and marine assets, the Recipient's Cabinet of Ministers has: (a) enacted the Integrated Coastal Zone Management (ICZM) Act; and (b) approved the Nagoya Policy.*

55. **Building on Grenada's efforts to manage its coastal resources in an integrated way, the GoG expects to approve the *ICZM Act*.** Grenada has initiated major efforts to increase the resilience of marine and mangrove ecosystems and to ensure habitats, species and fish stocks are preserved (GoG 2015). The ICZM Act will establish the enabling framework to facilitate the integrated management of the coastal resources of Grenada, Carriacou and Petite Martinique for the conservation and enhancement of those resources. It will provide for the establishment of a coastal zone management area and associated authority, the development of an ICZM Plan, and the adoption of regulations and policies for the preservation, protection and enhancement of coastal resources. The GOG will also be working on a national policy on Access and Benefit Sharing (ABS) in support of the *Nagoya Protocol*, in accordance with the CBD. Grenada has advanced key steps in updating its national measures to meet the Protocol's obligations in preparation for ratification (Jacobs 2017). Overall, the Nagoya Policy seeks to increase Grenada's attractiveness for biotechnology development and investment through well-structured regimes, while strengthening the case for more assertive biodiversity conservation.[25]

56. *Expected Results.* With the gazettement of the Grand Anse MPA combined with the long-term financing mechanism for protected areas and other blue growth-enabling policy actions, Grenada is

[25] https://www.cbd.int/abs/

expected to reach its commitment under the Caribbean Challenge Initiative 2020 to place 20 percent of its marine and coastal area under protection. This will help restore the health and management of the marine and coastal areas, including valuable natural capital, avoid further degradation, and offer sites for income generation through tourism, biotechnology, and sustainable fisheries. Indicator: Increased protection and management of Grenada's coastal and marine ecosystems as measured by the percentage of Marine Protected Area. Baseline (2016): 3 percent; Target (2020): 20 percent.

Marine ecosystem health (1 prior action)

Prior Action #7: *The Recipient's Cabinet of Ministers has approved: (a) a total ban on Styrofoam food containers; and (b) a total ban on plastic shopping bags (single use bags), disposable plastic plates, spoons and forks, with a view to facilitating optimal conditions for ecosystem restoration, rehabilitation and recovery and improving the quality of the marine environment.*

57. **Rationale.** The watersheds, coastal areas and ocean have become a repository for waste and debris, which constitute human-made solid material that are disposed of or abandoned in coastal areas, and in and near drainage systems and waterways that lead to the ocean. This ultimately erodes natural capital and compromises the benefits that can be harnessed from the coastal and marine environment. Grenada's solid waste management system includes a disposal facility that has in the past experienced operational deficiencies and is rapidly reaching its capacity with its expansion challenged by the availability of land on the island.

58. **The reduction of waste into the marine and coastal environment is critical, given its impact on human health and on tourism.** During the rainy season, the discarded waste creates a breeding ground for mosquito vectors which cause the spread of the dengue, chikungunya and Zika viruses.[26] Outbreaks have occurred on average every other year since 2010 directly impacting the tourism industry as visitors avoid affected countries. Evidence indicates that marine litter, globally, has contributed to the accumulation of plastic in the ocean, with negative impacts on fisheries, marine biodiversity and tourism. Some 50 countries have introduced legislation that levies a tax, a partial tax, or ban on use on plastic bags or related items at the national or sub-national levels. [27]

59. **Substance of the prior action.** The ban has been adopted through a Cabinet Conclusion and is expected to come into force on August 1, 2018 for Styrofoam, and on February 1, 2019 for single-use plastic bags, disposable plates, forks and spoons. As part of the phased approach, firms affected by the ban will be offered a zero rate on the VAT for 1 year on the alternative to the Styrofoam, and a six-month grace period to deplete their stock of the banned plastic products. This PA also supports the establishment

[26] The costs to health and productivity in the Caribbean are estimated to be US$317 million per year for dengue and US$716 million for Zika. Chikungunya which had a major outbreak in 2014 in Grenada (with 60 percent of the population affected), is estimated to cost the region over US30 billion annually. See Shepard et. al. (2011). *Economic Impact of Dengue Illness in the Americas*. Journal of Tropical Medicine and Hygeine, 84(2, and Heath et. al. (2018).*The Identification of Risk Factors for Chronic Chikungunya Arthralgia in Grenada, West Indies: A Cross-Sectional Cohort Study*. Open Forum Infectious Diseases.

[27] Policy measures have included full or partial import bans on plastics and plastic utensils. Most recently, such a ban came into effect in the Republic of Seychelles without WTO objection (Committee of Barriers to Trade, Notification: Seychelles – Plastic Bags G/TBT/N/SYC/3 (July 2, 2017). Within the Caribbean, 10 countries have imposed partial or full bans or taxes on plastics that contribute to marine litter. These include Guyana that banned Styrofoam 2016 and will seek to ban plastic bags in 2018; Haiti and Antigua and Barbuda, which banned Styrofoam and plastic bags in 2013 and 2016 respectively as well The Bahamas that recently announced an upcoming ban on plastic bags.

of a National Sustainable Waste Management Task Group. The group, which includes members of the private and public sector, guided the development of the Cabinet Conclusion, specifying the non-biodegradable materials to be banned.

60. *Expected results.* This prior action addresses the harmful effects of non-biodegradable products on the marine and coastal environment. Using the import of banned items as proxy for domestic use, the prior action is expected to lead to a 20 percent reduction in imports. Baseline (2016): pallets of Styrofoam food containers: 3007; number of single use plastic bags: 6,975,308; pallets of disposable plastic plates: 2697; pallets of forks and spoons: 1838. Target (2020): 20 percent reduction (relative to the baseline).

Climate resilience (2 prior actions, 2 triggers)

Prior Action #8: *The Recipient has updated its National Climate Change Policy and National Adaptation Plan, with a view to reiterating its commitment to the NDCs.*

61. **Rationale.** As recognized in Grenada's blue growth agenda, the ocean and its ecosystems are under threat from climate change and other human-induced threats. Ecosystems such as coral reefs help protect Grenada's coastal communities from storm surge and wave damage, while mangroves, sea grasses, and salt marshes are significant natural carbon sinks. However, Grenada's blue economy potential is directly exposed to rising GHG emissions, emerging impacts of climate change and other threats, such as overfishing, coastal development and marine pollution. While Grenada's GHG emissions are globally insignificant, it has committed to the Paris Agreement with specific targets captured in its Nationally Determined Contributions (NDCs).[28] These require it to protect 17 percent of its terrestrial areas as part of the *Aichi* target and to reduce its GHG emissions.[29] However, existing measures – as set out in the 2007-11 National Climate Change Policy and Action Plan (NCCPAP), the 2011 National Energy Policy and Grenada's 2012 Protected Area Systems Plan – are either outdated or insufficient to realize its Paris Agreement commitments.

62. **Substance of the prior action.** As part of its NDCs, Grenada has updated its 2007-11 National Climate Change Adaptation Plan (NAP). The NAP process is focused on mainstreaming climate change adaptation activities into Grenada's national development planning. The NCCPAP for 2017-21, and future revision for 2022-27, will be informed by the ongoing NAP process. These policies will contribute to a key principle for investment in the Caribbean's blue economy; i.e. the development of ocean solutions that reduce climate change risks and allow the development of climate change-related opportunities.

Trigger #8. In order to implement the amended climate change policy, the Recipient has adopted a system for screening PSIP investment proposals for climate resilience.

63. **This supports the implementation of the NCCPAP for 2017-21 with the enforcement of climate screening of PSIP proposals *(approval targeted for FY18)*.** A key feature of the NAP process is the climate proofing of national development activities. Grenada, amongst other Caribbean countries, is using the Climate Change Online Risk Adaptation Tool (CCORAL) to develop its capacity to mainstream climate change in its national development planning. This is helping Grenada to understand the impact of climate

[28] Grenada's NDCs submitted to the UNFCCC were adopted on December 12, 2015 in Paris, and nationally ratified in April 2016.
[29] By 30 percent of 2010 levels, to be achieved by 2025.

risks in its development scenarios, and build sector-specific capacity to climate proof its policies, projects and programs. CCORAL will also assist with the full integration of adaptation considerations in related investments projects, to the extent that they consider spatial data management and risk modelling.

64. ***Expected results.*** A key measure of the effectiveness of the 2017-21 NCCPAP will be ensuring that adaptation considerations are integrated into PSIP proposal project design with high climate change relevance. It is expected that, annually, 60 percent of annual PSIP infrastructure project proposals will have advanced climate screening using CCORAL by 2020, relative to a baseline of no screening in 2016.

Prior Action #9*. The Recipient has modified its building codes with a view to improve resilience of housing infrastructure.*

65. **Rationale**. In addition to the country's NDCs, Grenada's blue growth vision is guided by the 2015-2030 Sendai Framework for Disaster Risk Reduction, which, amongst other resilience policy guidelines, calls for the strengthening and better enforcement of building codes. This is relevant for Grenada given the vulnerability of the country's built environment (particularly communities, households and tourism facilities) and livelihoods (agriculture, fishing, trade) to recurrent natural disasters intensified by climate change. These measures would complement the proposed internalization of the likelihood of disasters as part of Grenada's fiscal planning and blue growth efforts, including updating its NCCPAP. Furthermore, for disaster risk and climate adaptation financing to be effective, it must be complemented by building codes that support climate resilient investment. While the 2015 OECS Building Code was adopted by Grenada in June 2015, the GoG recognizes that need for nationally-relevant regulations.

66. **Substance of the prior action.** The Grenada Building Code (Physical Planning and Development Act no. 23 of 2016), as amended in October 2017 (through Physical Planning and Development Control Act no. 23 of 2017) introduced additional regulations to make infrastructure design, including for housing, more resilient to extreme weather events. The new building codes apply to new as well as existing buildings. In addition to strengthening the resilience of roads, bridges and overall built environment to torrential rains, tropical storms and hurricanes (from category 1-3, to category 4-5 strengths), the codes will also contribute to GHG emission reductions. Energy efficiency improvements in lighting, appliances and equipment, with the retrofit of existing buildings through architectural or building changes will enable the reduction of energy consumption.

Trigger #9: *The Recipient has adopted a Policy on Sustainable Public Procurement and implemented standards, specifications and contractual conditions which enforce sustainability requirements in publicly-funded contracts.*

67. **Energy efficiency and climate resilience in public services will be further enhanced with sustainable procurement practices.** A Procurement Spending Analysis for Grenada is planned with WBG assistance. This will inform GoG decisions regarding the rollout of the policy, which is initially expected to cover consumer goods (for which sustainability requirements are easy to define due to globally-recognized standards) and later more complex contracts (such as construction works).

68. *Expected results.* At least 25 percent, annually, of GoG contracts should be governed by sustainability requirements by 2020.

Table 4. Prior Actions and Analytical Underpinnings

Prior Actions for DPC1	Analytical Underpinnings
Pillar 1: Support Fiscal Measures and Compliance with the Fiscal Responsibility Law	
Prior Action #1: In accordance with, and to implement the existing Fiscal Responsibility Act, the Recipient has: (a) operationalized the Fiscal Responsibility Oversight Committee (FROC) with the responsibility to undertake monitoring of the fiscal rules and key parameters of the Law as evidenced by the adoption and publication of the Notice of Appointment for said FROC (Grenada Government Gazette dated August 18, 2017 and the release of the FROC 2016 Annual Report dated November 10, 2017 as published on the following website: http://www.gov.gd/egov/docs/reports/froc-report.pdf ; and (b) caused FROC to present said report to Parliament, as evidenced by the letter dated November 21, 2017 sent by FROC Chairman to the Clerk of Parliament to submit the FROC 2016 report, published on page 3 of said report.	Carneiro, F.G. and R. Odawara (2016). *Taming Volatility: Fiscal Policy and Financial Development for Growth in the Eastern Caribbean States* World Bank (2018). *Fiscal Rules and Economic Size in Latin America and the Caribbean*
Prior Action #2: The Recipient's Cabinet of Ministers has approved the Compensation Management Policy Framework for the public sector in line with the parameters of the Fiscal Responsibility Act, as evidenced by the Advance Cabinet Conclusion dated April 3, 2018.	GoG Public Service Management Reform Strategy 2017-2019 IMF, 2016. *Managing the Public Wage Bill. Technical Assistance Report for Grenada*. September 2016. Washington, D.C. IMF.
Prior Action #3: The Recipient has established an Appeals Commission for the Customs and Excise Division with a view to improving trader services and enhancing compliance, as evidenced by the Cabinet Conclusion [No. 273] dated February 27, 2017.	CARTAC Annual Report 2018 *Tax Administration Reforms in the Caribbean: Challenges, Achievements, and Next Steps*, 2017. S. Schlotterbeck (Ed). IMF, Washington, D.C.
Prior Action #4: The Recipient has amended the Customs Act No. 9 of 2015 with a view to strengthen customs administration and improve the adoption of electronic declarations and other automatic processes, as evidenced by the enactment of Act No. 32 of 2017 dated December 22, 2017 and Act No. 35 of 2017 dated December 28, 2017, both published in the Grenada Government Gazette on December 29, 2017 ; as well as the enactment of Act No. 6 of May 8, 2017, as published in the Grenada Government Gazette on May 19, 2017.	CARTAC Annual Report 2018 *Tax Administration Reforms in the Caribbean: Challenges, Achievements, and Next Steps*, 2017. S. Schlotterbeck (Ed). IMF, Washington, D.C.

Prior Action #5: The Recipient, through its Ministry of Finance, has established a report card system to track key performance indicators (KPIs) of the commercial SOEs, as evidenced by the Cabinet Conclusion [No.297] dated March 5, 2018.	SOE Sector Assessment Policy Note, WB, 2018 CARTAC Annual Report 2018 SEMCAR Water utility benchmarking CARTAC 2014. *Review of the Financial Performance of SOEs and Analysis of Restructuring Options*.
Pillar 2: Support Grenada's transition to a Blue Economy by strengthening marine and coastal management, marine ecosystem health, and climate resilience	
Prior Action #6: The Recipient has: (a) established the Grand Anse Marine Protected Area as evidenced by the Advance Cabinet Conclusion dated March 5, 2018; and (b) established the Blue Innovation Institute, as evidenced by the Cabinet Conclusion [No. 1245] dated August 28, 2017.	Patil, P. Diez, S.. 2016. Grenada - *Blue growth coastal master plan.* Washington, D.C. World Bank Group. Patil, P., Virdin, J., Diez, S., Roberts, J., Singh, A. 2016. *Toward a Blue Economy: A Promise for Sustainable Growth in the Caribbean*. World Bank, Washington, DC. Grenada: National Biodiversity Strategy and Action Plan 2016-2020; Spencer T.s. June 30, 2016. Homer, F. 2016. *Grand Anse Marine Protected Area Management Plan*, 2016-2020. The Nature Conservancy. February 21, 2016 Caribbean Challenge Initiative (CCI). 2013. Summary of CCI Summit Outcomes. Summit Secretariat. June 27, 2013. GIZ. 2017. *Coastal Zone Management in Grenada, Carriacou, and Petite Martinique*. Jacobs, N. 2017. *Advancing the Nagoya Protocol in Countries of the Caribbean Region*. UNEP. September 2017.
Prior Action #7: The Recipient's Cabinet of Ministers has approved: (a) a total ban on Styrofoam food containers; and (b) a total ban on plastic shopping bags (single use bags), disposable plastic plates, spoons and forks, with a view to facilitating optimal conditions for ecosystem restoration, rehabilitation and recovery and improving the quality of the marine environment, as evidenced by the Advance Cabinet Conclusion, dated March 5, 2018.	GIZ 2017. Financing Diversity: Identification and Analysis of Financial Sector Instruments and Initiatives for Biodiversity.

Prior Action #8: The Recipient has updated its National Climate Change Policy and National Adaptation Plan, with a view to reiterating its commitment to the NDCs, as evidenced by the Cabinet Conclusion [No. 1568] dated October 30, 2017.	Grenada (2015) Intended Nationally Determined Contributions to the United Nations Framework Convention for Climate Change 21th Conference of the Parties Patil, P. Diez, S.. 2016. Grenada - Blue growth coastal master plan. Washington, D.C. World Bank Group. Patil, P., Virdin, J., Diez, S., Roberts, J., Singh, A. 2016. *Toward a Blue Economy: A Promise for Sustainable Growth in the Caribbean.* World Bank, Washington, DC.
Prior Action #9: The Recipient has improved its building codes with a view to improve resilience of housing infrastructure, as evidenced by the enactment of Act No. 23 of 2017 dated September 29, 2017 amending the Physical Planning and Development Control Act No. 23 of 2016, published in the Grenada Government Gazette on October 6, 2017.	UNISDR (2015) The Sendai Framework for Disaster Risk Reduction 2015-2030 Grenada (2016) Physical Planning and Development Control Act/(Adoption of Building Code) Order Carneiro, F.G., Odawara, R. 2016. *Taming Volatility: Fiscal Policy and Financial Development for Growth in the Eastern Caribbean*. World Bank, Washington, DC. Hallegatte, S., Adrien Vogt-Schilb, M.B., Rozenberg, J. (2017) *Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters*.

4.3. LINK TO RPS, OTHER BANK OPERATIONS AND THE WBG STRATEGY

69. **This DPC series is envisaged in the OECS RPS for the OECS, as discussed by the Board of Executive Directors on November 13, 2014, and is being complemented by other World Bank financed operations.** The DPC series contributes to the following RPS (Report No. 85156-LAC) objectives: (i) improved budget management and transparency; (ii) strengthened capacity to manage PPPs; and (iii) increased capacity to manage natural hazards. The RPS is aligned with the Government's objectives, and is designed to provide focused, demand-driven support to advance its development goals. Moreover, the pillars of the DPC series are consistent with the World Bank's own twin goals of ending extreme poverty and sustainably increasing shared prosperity. Reforms under pillar 1 are partly supported under the Support for Economic Management in the Caribbean (SEMCAR) Program (with Canadian funding).[30] Under SEMCAR Phase I (closed in August 2017), support has been provided in the region more broadly and particularly in Grenada to advance SOE, tax and customs reforms, on which the DPC policy matrix is building on. In addition, Phase II of the Program (EFO funding[31] approved in September 2017) will focus on building resilience to natural disasters by strengthening PFM capacity through custom-made tools and technical assistance, aligned with

[30] Inclusive Economic Management in the Caribbean Program (SEMCAR Phase II) (P160774).
[31] This refers to small trust funds amounting to around US$2 million.

best practices. More specifically, proposed technical assistance (TA) will be provided to help Grenada build its contingency funding, advance the sustainable procurement agenda, and achieve climate resilient public investments, in addition to continuing tax and SOE reforms.

70. **Reforms supported under pillar 2 of the DPC series are also complemented by different instruments**. The Caribbean Regional Oceanscape Project (CROP)[32] provides support to strengthen the capacity needed by the GoG to establish a coordinated and integrated policy framework in support of the country's blue growth vision. Through marine spatial analysis, mapping, improved data, and knowledge services, CROP will build the region's and Grenada's capacity to develop, implement, monitor, and adjust marine/coastal policies in line with the Blue Growth and Coastal Master Plan. The Program includes 3 pillars: 1) Blue Solutions: Knowledge, Learning, South-South Exchange; 2) Blue Economy Strategies, Vision to Action; and 3) "Crowding-In" Investment and Innovation. Since its inception, a related non-lending technical assistance program has supported Grenada in the development of the *Blue Growth Vision and Coastal Master Plan* In addition, Grenada will benefit from the Caribbean Oceans and Aquaculture Sustainability Facility (COAST) which is being designed as a climate risk parametric insurance product designed specifically for vulnerable fishing communities. Fishing is central to the livelihoods of Caribbean coastal communities and the resilience of fisheries, their ability to recover following catastrophic storms, is a function of their sustainable management. COAST, currently in a design phase, is building partnerships among local, regional and international stakeholders public and private, and working with governments and fishing communities to develop this innovative mechanism for financing more sustainable fisheries management.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

Consultations

71. **The DPC series supports the Government's reform agenda, which was developed in consultation with a wide range of stakeholders.** As with all legislative measures and reforms in Grenada, the Government's program was subject to a thorough consultative process involving the private sector, civil society, and groups likely to be impacted by policy changes. The consultative process is an important institutional feature of Grenada's Government. The Prime Minister chairs a monthly meeting of the Committee of Social Partners, which includes the private sector, labor unions, entrepreneurs, Government officials, churches, and nongovernmental organizations. The Committee discusses issues affecting the economy and assesses possible solutions. When viable, these suggestions are incorporated in policies, laws, and strategies. Other consultative methods include public hearings, ad-hoc meetings on specific topics, citizen panels, surveys, Internet forums, and media outlets.

Collaboration with Other Development Partners

72. **The content of this DPC series is aligned with the programs of the country's active development partners.** Grenada collaborates with several bilateral and multilateral agencies, including the European Union, the Canadian International Development Agency, the United Kingdom's Department for International Development, the U.S. Agency for International Development, the Pan-American Health Organization, and the CDB, which lends Inter-American Development Bank (IDB) funds in addition to its

[32] Caribbean Regional Oceanscape Project (P159653).

own resources. These agencies and the World Bank are active participants in the Eastern Caribbean Donors and Partners Group. The World Bank and the Government work to promote donor coordination and to exploit programmatic synergies. The World Bank and the IMF collaborated closely in the preparation of this operation, and the proposed prior actions associated with the first pillar represent the continued commitment of the GoG to stay the course of fiscal discipline that was an area of focus of past World Bank and IMF programs.

73. **Technical assistance (TA) in various areas has been (and will continue to be) provided to support the reforms supported by this programmatic series.** A US$402,000 grant from the World Bank's Institutional Development Fund (IDF) supported the development of accountability mechanisms for capital projects, including oversight by the Public Accounts Committees of Parliament and audits by the Audit Directorates of selected Caribbean countries.[33] This IDF grant was provided to the Caribbean Organization of Supreme Audit Institutions (CAROSAI), and Grenada is one of the program's pilot countries. Additional TA has been provided by the IMF in the areas of public financial management, tax reform, and SOE reform.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

74. **The poverty and social impacts of the policy measures supported by this DPC series are expected to be positive in the medium term.** Lack of updated poverty data limits the quantitative accuracy of poverty impact projections. As a result, the analysis relies on information from 2015 labor force survey, and qualitative analysis is used to assess possible poverty and distributional impacts.[34]

75. **Prior actions under Pillar 1 are not expected to have significant direct impacts on poverty in the short term, but to have positive effects on poverty and distribution in the medium term through labor market mechanisms.** Payroll management will be implemented through attrition i.e. not replacing workers whose contracts are ending or who are retiring. Over the medium term, positive labor market impacts that can be expected, and that will also be beneficial for women. Large public-private sector wage gaps exist so that public-sector wage increases can contribute to cost-push inflation and a disparity between real wages and productivity in the economy.[35] Better compensation management, therefore, could improve the correspondence between workers' compensation and productivity, and lower reservation wages in the private sector (in turn contributing to better labor market outcomes). Improved fiscal management is expected to have indirect impacts on poverty and shared prosperity, in that it reduces the risk of costly fiscal adjustments (in response to a fiscal crisis) that impact social and public investment spending. By freeing up fiscal resources, it can enable higher spending on long term development needs. Enhancing tax payer services and compliance is expected to directly affect relevant parties including the government, manufacturers and importers, but not direct low-income groups.

[33] Strengthening Country Systems for better Investment Results- Caribbean (P149007)..

[34] The next Country Poverty Assessment is expected to be conducted in 2018 under the CDB's Enhanced Country Poverty Assessment Project.

[35]- Public sector employees' income is 37.7 percent higher than the private sector, and 31.1 percent higher than the mean gross income for all population. Also see IMF (2016). *Eastern Caribbean Currency Union: 2016 Discussion on Common Policies of Member Countries-Press Release and Staff Report*. Washington, DC: International Monetary Fund.

Better fiscal management is essential for long-term and sustainable economic growth while improved custom systems could lower prices of imported and manufactured goods by reducing transaction and administrative costs.

76. **Prior actions under Pillar 2 are expected to have positive effects on the poor and the vulnerable by promoting resilience to natural disasters and sustainability of marine ecosystem.** Promoting sustainable use of marine and coastal resources is expected to positively benefit fishing and aquaculture over the medium term, which employs 11.6 percent of the labor force, predominantly low-skilled and low-income workers. However, if regulations such as overfishing limits are imposed, potential negative effects on the poor may arise in the short term. These risks should be mitigated in the short term by social assistance programs, the targeting for which is being strengthened,[36] and by a recovery in fish stocks to healthy levels over the long term. These risks will also be mitigated by ongoing efforts regarding community engagement.[37] This will help in ensuring community and individual incentives are aligned with supporting sustainable marine ecosystems. Policies aimed at decreasing plastic contamination are also expected to improve the welfare of coastal communities, with indirect positive health impacts. Prior actions that improve resilience to climate change, would reduce risks from climate changes such as flooding, storm surge and wave damage. They are expected to have positive effects on the coastal communities and the vulnerable especially those who live in low-lying coastal areas.

77. **While strengthened building codes are expected to have positive impacts on the poor and to generate savings over the longer term**. Typically, post-disaster disruptions in infrastructure services such as electricity, roads and running water affect the poorest and other vulnerable groups (including women and children) the most.[38]According to Grenada's risk disaster profile, wood light unbraced post and beam frame are the buildings most vulnerable to hurricanes and account for approximately 20 percent of average annual loss from hurricanes.[39] Out of the 22.8 percent of households who reported to have their housing made of wooden walls, about one third had household incomes below the median.[40] In addition, the Household Budget Survey 2008 indicates that one-fifth of households from the lowest household consumption quintile reported that their home was rebuilt in 2005 after Hurricane Ivan. Accordingly, better building codes that improve the resilience of housing and other infrastructure to extreme climate events, will have positive impacts for these groups, both tangible (e.g. lower costs of reconstruction because of less damage) and intangible (e.g. less displacement, less disruption to schooling or other activities). These should offset any short-term compliance related costs.

5.2. ENVIRONMENTAL ASPECTS

78. **Policies supported by the proposed DPC are not expected to have significant negative effects on the environment, forests and natural resources.** As per OP 8.60, the World Bank analyzed whether specific policies supported by the DPC are likely to cause significant effects on Grenada's environment,

[36] See IMF (2017) Ibid.
[37] The GoG has been actively engaged in mobilizing local communities in the past. See http://www.adaptation-undp.org/explore/caribbean/grenada?page=1.
[38] Hallegatte, Stephane; Vogt-Schilb, Adrien; Bangalore, Mook; Rozenberg, Julie (2017). *Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters. Climate Change and Development*. Washington, DC: World Bank.
[39] World Bank (2016). *Grenada hurricanes and earthquakes risk profile*. Washington, DC: World Bank.
[40] This is estimated from household income reported in the labor force survey. However, this income is reported by ranges, and thus offers an approximation. More information on income and poverty would be necessary to obtain a more robust indicator.

forests, and natural resources. Policies under Pillar 1 are expected to lead to a more efficient use of public resources, particularly through enhanced tax collection and compensation systems and more resilient public finances. In combination with improved management of fiscal risks stemming from natural hazards, these are expected to have positive, albeit difficult to quantify, effects on the environment.

79. **Under Pillar 2, policies aimed at supporting Grenada's transition to a Blue Economy by strengthening marine and coastal management, marine ecosystem health, and climate resilience are expected to have significant positive environmental effects.** [41]The establishment of Grand Anse MPA is directly expected to protect and enhance the area as a habitat for key species of fish and other aquatic flora and fauna. In addition, the Blue Innovation Institute will seek to develop innovative financing instruments such as debt-for-nature swaps, blue bonds, blue insurance and blue impact investment schemes that will further support conservation and marine and coastal protection efforts. The ban on Styrofoam food containers, plastic bags and other disposable plastic items, which have not been adequately disposed and have polluted watersheds, coastal areas and ocean, will contribute to improved conditions for ecosystem restoration, rehabilitation and recovery. It will also help improve the quality of the marine environment, and reduce the potential for vector-borne diseases like Dengue fever and Zika. Prior Actions #8 and #9 are expected to contribute to mitigation and adaptation to climate change. Grenada's NCCPAP is expected to contribute to one of the key principles for investment in the Caribbean's blue economy; that is, the development of ocean solutions that reduce climate change risks and allow the development of climate change-related opportunities. The new building codes will contribute to improve resilience of housing and public infrastructure to natural disasters, and to GHG emission reductions.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

80. **Grenada's Public Financial Management (PFM) systems have been strengthened in recent years**. Grenada has made positive strides in improving their PFM systems since the 2010 Public Expenditure and Financial Accountability (PEFA) assessment. A comprehensive HSAP was developed in 2014, and is progressively being implemented. Fundamental to this, was the enactment of new acts, regulations, and orders in 2015 (the PFM Act, PFM Regulation, PFM Statutory Rules and Order, the Fiscal Responsibility Act, Public Procurement and Disposal of Public Property Regulations, the Public Debt Management Act, and Tax Administration Acts) to support the ongoing PFM reforms. These acts and regulations were designed to ensure the implementation of medium-term, results-oriented, budget planning and preparation processes, and to strengthen the authorities' ability to establish, and manage within, multi-year fiscal targets. The latest 2015 PEFA assessment concluded that PFM in Grenada has improved, and recommends a continuation of ongoing efforts to strengthen PFM in Grenada. Government budgets are published annually and are available on the MoF website. In April 2016, the IMF completed a Safeguards Assessment of the ECCB that did not identify any significant safeguards risks.[42]

81. **Grenada has an adequate external scrutiny and audit mechanism; however, it needs improvement in some areas**. The areas of external audit, coverage, auditing standards, and timeliness of audits of central Government entities are broadly appropriate. The Director of Audit (DoA) carries out annual audits of the Government's statements of account (SOA), but audit reports are not issued in a timely fashion. The GoG is taking steps to improve the timeliness of producing its SOA in order to enable

[41] Climate change co-benefits have been assessed at 44 percent.
[42] Also see IMF (2017 "ECCB: 2017 Discussion on Common Policies of Member Countries". Country Report No 17/250

the DoA to carry out annual audits. The most recent audited annual SOA is for the financial year ended December 31, 2012. The GoG has only recently finalized its SOAs for the financial years 2014 and 2013, and has submitted them to the DoA for audit. To ensure accountability and promote positive change in PFM in response to external audit findings, timeliness and the issuance of recommendations and follow-up on implementation should be strengthened. Finally, the Public Accounts Committee was reconvened in 2014 and has commenced examination of the SOAs. However, their tasks are made difficult given the outdated SOAs provided to them.

82. **As a member of the ECCU, Grenada uses the EC$ as its national currency.** The currency is managed by the Eastern Caribbean Central Bank (ECCB), which also holds the foreign-exchange reserves of its member states. The ECCB operates a currency board that maintains 100 percent foreign-exchange backing for all issued currency.

83. **Disbursement and Auditing Arrangements.** The proposed credit will follow the World Bank's standard disbursement procedures for development policy support for disbursement and auditing arrangements. The proceeds of the credit will be disbursed against satisfactory implementation of the program (specified prior actions achieved) and maintenance of an adequate macroeconomic policy framework. The World Bank will disburse the credit proceeds, denominated in U.S. dollars, into the Government's foreign exchange account at the ECCB: this account forms part of the country's foreign exchange reserves at the ECCB. The ECCB will then immediately ensure that, upon deposit in said account, an equivalent amount in Eastern Caribbean dollars will be credited into the Government's account, which will become available to finance budgeted expenditures. Within 30 days of the funds transfer, the GoG, through its MoF, will provide the World Bank with written confirmation of the amount deposited into the foreign currency account at the ECCB, and that the equivalent amount has been credited in the recipient's accounting system, to an account that finances budget expenditures. The ECCB financial management risk is assessed as moderate and no specific audit of the deposit of the credit proceeds will be required.

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

84. **The monitoring, evaluation, and results framework is being supported by the MoF, which is responsible for coordinating actions by other relevant ministries and agencies for the programmatic series.** A number of other agencies are involved in implementing the reform program supported by this DPC series, including the Ministry of Social Development, Housing and Community Empowerment, the Ministry of Agriculture and Lands, the Ministry of Tourism and Civil Aviation, the Department of Public Administration, and the Ministry of Works (MoW). The World Bank has discussed the importance of developing a monitoring and evaluation process and stock takes with the relevant institutions and stakeholders to ensure adequate feedback to policy makers. Monitoring and evaluation capacity is traditionally weak in Grenada, and the Government recognizes the need to strengthen these mechanisms. The results framework agreed to by the Government and the World Bank is presented in Annex 1. It includes indicators to be assessed at the end of the DPC series in 2020. These indicators represent agreed-upon benchmarks for evaluating the program supported by this DPC series. The World Bank will maintain an ongoing dialogue with counterparts in the MoF regarding the monitoring and evaluation of reforms supported by the DPC series.

85. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche-release conditions under a World Bank

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

6. SUMMARY OF RISKS AND MITIGATION

86. **There are substantial risks to the achievement of the objectives of this DPC operation.** Areas of particular concern include macroeconomic risks, institutional-capacity risks, and other risks associated with Grenada's vulnerability to extreme weather events (Table 5).

87. **While Grenada's macroeconomic outlook is generally positive, and the Government has adopted strong mitigation measures, important downside risks remain, and the macroeconomic risk rating for this operation is substantial.** Exogenous macroeconomic risks to the outcomes of the operation are tied to Grenada's small economy, which is highly vulnerable to shifts in external demand, and to its geographical location, which exposes it to very high risks of extreme climate and weather-related shocks. Worsening global economic conditions, or a downturn in the United States, could negatively affect tourism exports, remittances, and foreign direct investment (FDI) inflows, potentially slowing economic growth, and causing fiscal and current accounts to deteriorate. The appreciation of the U.S. dollar, due to the further tightening of U.S. monetary policy, could negatively impact tourism. Likewise, negative oil price shocks would directly impact inflation and the current account balance. Depending on their severity, such shocks could take Grenada off the path of fiscal sustainability and jeopardize adherence to the fiscal rule, which are key objectives of this DPC. Fiscal sustainability could also be affected if large domestic fiscal contingencies associated with public pensions or the monopoly energy provider are realized. These risks, however, are mitigated by the GoG's reforms supporting the implementation of a rules-based policy framework to restore and maintain debt sustainability, and which is expected to enhance macroeconomic management going forward. Ongoing structural reforms will further mitigate these risks.

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

89. **Grenada is inherently vulnerable to natural disasters and climate change, which could have adverse effects on certain aspects of the project.** The high costs of disaster mitigation and response could strain the public resource envelope, delaying the country's progress toward fiscal sustainability and diverting scarce financing away from long-term development objectives, or increasing indebtedness. To mitigate against these risks, the Government is strengthening its capacity to manage disasters and evaluate environmental risks in collaboration with its development partners. In particular, this operation, complemented the World Bank-financed Regional Disaster Vulnerability Reduction Project[43] and ongoing United Nations programs,[44] will help strengthen the Government's capacity to manage disasters and mitigate environmental risks. The adoption of the fiscal rule and the capitalization of the contingency fund will provide sufficient policy flexibility to address extreme events to help mitigate this risk, as should the inclusion of natural disaster clauses for restructured debt.

[43] Regional Disaster Vulnerability Reduction APL1- Grenada and St Vincent and the Grenadines (P117871).

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

Table 5. Systematic Operations Risk-Rating Tool (SORT)

Risk Categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Low
9. Other	High
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers		Results		
Prior Actions under DPC 1	**Triggers for DPC 2**	**Indicator Name**	**Baseline**	**Target**
Pillar 1: Support Fiscal Measures and Compliance with the Fiscal Responsibility Law				
Prior Action #1: In accordance with, and to implement the existing Fiscal Responsibility Act, the Recipient has: (a) operationalized the Fiscal Responsibility Oversight Committee (FROC) with the responsibility to undertake monitoring of the fiscal rules and key parameters of the Law as evidenced by the adoption and publication of the Notice of Appointment for said FROC (Grenada Government Gazette dated August 18, 2017 and the release of the FROC 2016 Annual Report dated November 10, 2017 as published on the following website: http://www.gov.gd/egov/docs/reports/froc-report.pdf ; and (b) caused FROC to present said report to Parliament, as evidenced by the letter dated November 21, 2017 sent by FROC Chairman to the Clerk of Parliament to submit the FROC 2016 report, published on page 3 of said report. **Prior Action #2:** The Recipient's Cabinet of Ministers has approved the Compensation Management Policy Framework for the public sector in line with the parameters of the Fiscal Responsibility Act, as evidenced by the Advance Cabinet Conclusion dated April 3, 2018.	**Trigger #1:** The Recipient has operationalized a contingency fund to strengthen the response to emergencies and natural disasters, by: (a) defining the criteria for the use of the contingency fund; and (b) establishing overall governance framework, including the reporting and public accountability mechanisms of the fund, in alignment with the PFM Act and the Fiscal Responsibility Act. **Trigger #2:** The Recipient has implemented a Compensation Management Policy Framework by (a) adopting guidelines and standards for payroll management and wage negotiation for public sector workers in line with the parameters of the wage bill rule; and (b) conducted an audit of the payroll.	**Results Indicator**: Primary Wage Bill as ratios of GDP in adherence to the Fiscal Responsibility Act.	Baseline Fiscal Rules (2016): Wage bill (9.0 percent of GDP).	Target (2020): Wage bill ratio will remain aligned with fiscal rule (e.g below 9 percent of GDP).

Prior actions and Triggers		Results		
Prior Action #3: The Recipient has established an Appeals Commission for the Customs and Excise Division with a view to improving trader services and enhancing compliance, as evidenced by the Cabinet Conclusion [No. 273] dated February 27, 2017. **Prior Action #4:** The Recipient has amended the Customs Act No. 9 of 2015 with a view to strengthen customs administration and improve the adoption of electronic declarations and other automatic processes, as evidenced by the enactment of Act No. 32 of 2017 dated December 22, 2017 and Act No. 35 of 2017 dated December 28, 2017, both published in the Grenada Government Gazette on December 29, 2017 ; as well as the enactment of Act No. 6 of May 8, 2017, as published in the Grenada Government Gazette on May 19, 2017.	**Trigger #3:** The Recipient has undertaken operational reforms of the Customs and Excise Division by: (a) restructuring the Division, to include among other functions, a new Marine Unit to increase border security and compliance, as well as to reduce health risks; (b) decreasing clearance time and strengthening post clearance audits and enforcement capabilities; and (c) improving and coordinating risk management.	**Result Indicator:** Improved effectiveness and increased compliance in customs as measured by the increase in number of successfully targeted post-clearance audits per year.	Baseline (2016): 3	Target (2020):5
Prior Action #5: The Recipient, through its Ministry of Finance, has established a report card system to track key performance indicators (KPIs) of the commercial SOEs, as evidenced by the Cabinet Conclusion [No.297] dated March 5, 2018.	**Trigger #4** The Recipient has conducted a review of the tariff structures of selected SOEs, to identify cost inefficiencies and future capital investment needs. **Trigger #5** The Recipient has presented an assessment of contingency risks in the Annual Fiscal Risk Report produced by the FROC.	**Result Indicators:** Proportion of SOEs that are in compliance with the new monitoring and reporting framework produced by the Ministry of Finance.	Baseline (2016): 0 percent.	Target (2020): 100 percent.

Prior actions and Triggers		Results		
Pillar 2: Support Grenada's transition to a Blue Economy by strengthening marine and coastal management, marine ecosystem hea lth, and climate resilience				
Prior Action #6: The Recipient has: (a) established the Grand Anse Marine Protected Area as evidenced by the Advance Cabinet Conclusion, dated March 5 2018; and (b) established the Blue Innovation Institute, as evidenced by the Cabinet Conclusion [No. 1245] dated August 28, 2017.	**Trigger #6:** The Partnership Agreement between Sustainable Development Trust Fund (SDTF) and the Caribbean Biodiversity Fund (CBF) has been signed. **Trigger #7:** The Recipient's Cabinet of Ministers has: (a) enacted the Integrated Coastal Zone Management (ICZM) Act; and (b) approved the Nagoya Policy with a view to strengthen management of its coastal and marine assets.	**Result Indicator**: Increased protection and management of coastal and marine biodiversity as measured by the percentage of Marine Protected Area.	Baseline (2016): 3 percent.	Target (2020): 20 percent.
Prior Action #7: The Recipient's Cabinet of Ministers has approved: (a) a total ban on Styrofoam food containers; and (b) a total ban on plastic shopping bags (single use bags), disposable plastic plates, spoons and forks, with a view to facilitating optimal conditions for ecosystem restoration, rehabilitation and recovery and improving the quality of the marine environment, as evidenced by the Advance Cabinet Conclusion, dated March 5, 2018.		**Result Indicator:** Import volume of Styrofoam food containers, single use plastic bags, and disposable plastic plates, forks and spoons.	Baseline (2016): Styrofoam food containers: 3007 pallets; single use plastic bags: 6,975,308; disposable plastic plates: 2697 pallets; forks and spoons: 1838 pallets.	Target (2020): 20 percent reduction relative to the baseline.
Prior Action #8: The Recipient has updated its National Climate Change Policy and National Adaptation Plan, with a view to reiterating its commitment to the NDCs, as evidenced by the Cabinet Conclusion [No. 1568] dated October 30, 2017.	**Trigger #8:** The Recipient has adopted a system for screening PSIP investment proposals for climate resilience.	**Result Indicator:** Percentage of annual PSIP infrastructure project proposals screened with the Climate Change Online Risk Adaptation Tool (CCORAL).	Baseline (2016): 0 percent.	Target (2020): 60 percent.

Prior actions and Triggers		Results		
Prior Action #9: The Recipient has modified its building codes with a view to improve resilience of housing infrastructure, as evidenced by the enactment of Act No. 23 of 2017 dated September 29, 2017 amending the Physical Planning and Development Control Act No. 23 of 2016, published in the Grenada Government Gazette on October 6, 2017.	**Trigger #9:** The Recipient has adopted a Policy on Sustainable Public Procurement and implemented standards, specifications and contractual conditions which enforce sustainability requirements in publicly-funded contracts.	**Result Indicator:** Percentage of annual government contracts that are governed by sustainability requirements.	Baseline (2016): 0 percent.	Target (2020): 25 percent.

ANNEX 2: FUND RELATIONS ANNEX

Grenada—Assessment Letter for the World Bank
May 8, 2018

Recent Developments and Outlook

1. **Macroeconomic developments**. The Grenadian economy grew by 3½ percent in 2017, driven by strong performance in construction and the tourism sector. Weather-related weaknesses in agriculture has, however, been a headwind. Unemployment, while falling, remains high (23½ percent in 2017). Inflation is low, falling below 1 percent in 2017 supported by the peg to the US dollar and public wage restraint. The current account deficit is estimated to have increased by 3¼ percent of GDP in 2017 to 6½ percent of GDP, reflecting the rapid growth of construction-related imports. FDI was 8.6 percent of GDP, driven by tourism and proceeds from the Citizenship-by-Investment program. Banks maintain solid capital buffers and have experienced improving asset quality, robust deposit expansion, and ample liquidity. Bank lending has been stagnant but credit union lending (which now makes up a quarter of total credit), grew by almost 20 percent in 2017.

2. **Policy developments.** The fiscal situation improved further in 2017, with the government overperforming all targets of the Fiscal Responsibility Law (FRL). The primary surplus increased to almost 6 percent of GDP (relative to the target of 3½ percent of GDP) supported by buoyant tax revenues and subdued spending growth. In particular, a shortfall in grant financing and institutional bottlenecks in project execution combined to constrain capital outlays. Public debt fell to 72 percent of GDP at end-2017 from 82 percent of GDP in 2016 as the final phase of bond restructuring was completed. Progress is also being made in reducing arrears although some arrears to bilateral creditors have yet to be regularized.

3. **Outlook and risks**. In 2018-19, the economy is expected to grow modestly faster than long-term potential rate of 2¾ percent benefiting from improving global economic conditions and a tourism sector that is competitive within the Caribbean. The outlook anticipates continued compliance with the FRL and modest progress on supply-side and structural fiscal reforms. The primary surplus is expected to remain above 5 percent of GDP, supporting continued, rapid debt reduction. There are two-sided external risks linked to uncertainty about the growth outlook for advanced economies and potential shifts in global financial conditions. On the upside, a recently-announced oil and natural gas discovery could represent a positive impetus if it proves to be commercially viable. On the downside, pressures on correspondent banking relationships could affect financial intermediation and natural disasters are an ever-present risk for Grenada. An adverse court judgment in the Grenlec power company case could result in a higher debt path. The authorities continue to reaffirm their commitment to the FRL, but potential implementation of new initiatives on health care and pensions promised during the elections and upcoming new cycle of public wage negotiations could test the authorities' commitment to fiscal discipline.

Policy Framework and Settings

4. **Fiscal policies**. Maintaining the FRL's rules-based framework is essential to support policy credibility. Better alignment of policies between the budget and rules should be supported by improved fiscal forecasting and expenditure allocation and execution. The FRL's 9 percent of GDP wage bill ceiling should be supported through the implementation of the government's Public Sector Management Reform Strategy. Better institutional support for public investment management would improve the quality and focus of public investment and increase its effectiveness. Incorporating future aging costs into the fiscal framework represents a challenge ahead. The targeting of social assistance programs to the poor and vulnerable could be improved and continued reforms of State Owned Enterprises and Statutory Bodies are needed to strengthen productivity and effectiveness and minimize fiscal risks.

5. **Financial sector policies**. The ECCU is taking steps toward the regional harmonization of regulations of the non-bank financial sector and an acceleration of this process would help reduce financial stability risks. This is particularly true for credit unions, whose financial oversight and data exhibit pronounced weaknesses. Supervision of credit unions and insurance companies should be urgently strengthened at the national level while a single regional supervisor is being created.

6. **Supply side policies.** Bottlenecks to growth and job creation need to be addressed. There is scope to enhance links between tourism and other key sectors, including through increasing agri- and medical-tourism, as well as sustainably leverage Grenada's maritime resources for tourist activities. Agriculture productivity would benefit from better land use policies, infrastructure, and logistics. Addressing skills gaps and increasing flexibility in hiring would help reduce employment and raise productivity. Finally, an improved business environment and increasing resilience to natural disasters would help attract investment and support job creation.

7. **IMF Relations.** The sixth and final review of the Extended Credit Facility was concluded by the IMF's Executive Board on May 18, 2017. The mission for the 2018 Article IV consultation with Grenada took place on May 2-15, 2018.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

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

MINISTRY OF FINANCE
AND ENERGY
FINANCIAL COMPLEX,
THE CARENAGE,
ST. GEORGE'S,
GRENADA, W.I.

08 March, 2018

Dr. Jim Yong Kim
President
The World Bank Group
The World Bank
1818 H Street
NW Washington, DC
20433
USA

Letter of Development Policy

Dear President Kim,

On behalf of the Government and people of Grenada, I write to request the approval of the *"Grenada Blue Growth Development Policy Credit"* in support of fiscal sustainability and the transition to a blue economy. This Letter of Development Policy sets out the Government's reform programme, which includes policy actions to be supported by the Development Policy Credit.

Economic Context

Grenada experienced a prolonged period of socioeconomic difficulties in the decade 2003-2012. The economy was buffeted by consecutive hurricanes in 2004 and 2005, the international food and fuel price increases of 2007 and the global economic and financial crisis of 2008. The effects of these exogenous shocks precipitated a period of significant economic weakness, which became especially acute in 2009-2012. The economy contracted by 6.6 percent in 2009 (the largest ever GDP decline since records began in 1977) and at an annual average rate of 0.3 percent in ensuing three years ending 2012.

The economic depression heightened unemployment, with the rate increasing from 18 percent in 2005 to 32.2 percent in 2013. Public finances became increasingly strained as the fiscal imbalances progressively worsened. The primary deficit as a ratio of GDP deteriorated from a surplus of 2.4 percent in 2004 to a deficit of 3.5 percent in 2013, while public debt rose from 94.2 percent of GDP to 107.8 percent of GDP over the same period. The acute fiscal imbalances necessitated a restructuring of public debt, which was officially announced by the Government in March 2014.

Furthermore, in the context of acute macroeconomic weaknesses, financial sector challenges intensified. The rate of growth in credit to the private sector was on a downward spiral from 2007, becoming negative in 2013, while the non-performing loans ratio reached 13.8 percent at end-2013, a 7.6 percentage points increase relative to the ratio at end-December 2004. External imbalances also rose, the financing of which contributed to the build up in external debt from 40.0 percent of GDP in 2007 to 144.5 percent of GDP in 2012.

Grenada's economic and fiscal situation was unsustainable and required urgent and potent policy correction. Therefore, the Government, in collaboration with its social partners, developed a comprehensive home-grown structural adjustment programme (HGSAP), which was completed in November 2013. The HGSAP was officially endorsed by the International Monetary Fund through a three-year Extended Credit Facility (ECF) programme that commenced in January 2014. The HGSAP was also supported by other development partners including the World Bank, the Caribbean Development Bank and the European Union. The broad objectives of the HGSAP were to restore fiscal and debt sustainability, build resilience, improve competitiveness and strengthen the financial sector.

Grenada completed six successful reviews of the ECF programme over the period December 2014 to March 2017 and by its official end in May 2017, there had been a marked turnaround in Grenada's economic and fiscal situation. Economic growth accelerated from 2.4 percent in 2013 to 4.5 percent in 2017 and averaged 4.8 percent over that five-year period. The unemployment rate fell by 8 percentage points to 23.4 percent over the five-year period and public finances improved markedly. In 2015, Grenada recorded its first primary surplus in a decade; primary surpluses were recorded in each year since then, averaging 4.1 percent of GDP over the period 2015-2017. As an upshot, public debt was reduced from its peak of 107.8 percent in 2013 to 81.3 percent in 2017; the successful completion of the debt restructuring exercise also aided the reduction. Financial sector conditions also improved with the ratio of non-performing loans to total loans being halved during the five-year period and growth in private sector credit returning. External imbalances narrowed and the stock of external debt declined by 15.7 percentage points to 127.0 percent over the five-year period.

The Government's Reform Programme

As part of the HGSAP, several reforms (legislative and non-legislative) were implemented to strengthen public finance; boost economic growth, modernise the public sector, enhance social protection, and build resilience to environmental shocks.

Public Finance Reforms

- *Public Finance Management Act No. 17 of 2015* – In broad terms, the main objectives of the Act are to strengthen the fiscal framework and improve transparency and accountability in the management of public finances. The Act came into force in June 2015 and the Regulations were finalised in August 2015.

- *The Fiscal Responsibility Act No. 29 of 2015 (as amended)* - The Act has four main objectives: (a) transparency in fiscal and financial affairs; (b) full and timely disclosure and wide publication of financial transactions and decisions; (c) reduction of public debt to a prudent and sustainable level; and (d) risk monitoring and management. Consistent with these objectives, rules are legislated for the primary balance, public debt, the wage bill, primary expenditure, and contingent liabilities related to public-private partnerships. An independent fiscal oversight body is also legislated. The Act came into force in January 2016 and there have been two amendments since then.

- *Public Debt Management Act No. 28 of 2015 (as amended)* - The Act updates the legislative framework for the management of public debt to be consistent with achieving the requirements of the Fiscal Responsibility Act. The Act provides the legislative support to: (a) increase the efficiency of debt management; (b) better balance the costs and risks trade-offs of public sector borrowing; and (c) support the development of the domestic debt market. The Act was brought into force in June 2015 and there has been one amendment since then. The Regulations were finalised in August 2016.

- *Public Procurement and Disposal of Property Act No. 39 of 2014 (as amended)* - The Act outlines clear policy and procedures for the disposal of Government's assets to improve transparency and accountability. The Act came into force in August 2014 and has been amended once. The Regulations were completed in September 2015.

- *Tax Administration Act No. 14 of 2016* – The main objectives of the Act are to strengthen the operation of tax administration and procedures in Grenada's tax laws and balance the powers of the Inland Revenue Division with the rights of taxpayers. The Act applies to all of the inland taxes. It was brought into force in May 2016.

- *Customs Act No. 9 of 2015 (as amended)* – The broad aims of the Act are to strengthen Customs administration, streamline the tax incentive regime and improve risk management, among other objectives. The Act came into force in February 2015 and there have been three amendments since then. The Regulations were finalised in January 2018.

- *Tax Incentives Legislations:* Several Tax Acts were amended in 2016, with a view to reducing/eliminating the discretionary granting of incentives, as well as incentivising investment and/or activity in certain priority sectors. Amendments were made to the Income Tax Act, the VAT Act, the Excise Tax Act, the Property Transfer Tax Act and the Stamp Tax Act.

- *Revenue-mobilisation measures* – The main revenue reform was the reduction (effective January 2014) of the minimum income tax threshold from $60,000 to $36,000 annually and the introduction of a three-tiered marginal rate structure featuring: (i) a zero percent for persons with annual incomes of $36,000 or less; (ii) a 15.0 percent rate for persons with annual incomes between $36,001 and $60,000; and (iii) a 30.0 percent for income

earners above $60,000. Government lowered the rate for income earners in the $36,001-$60,000 tax bracket to 10.0 percent, effective January 2017. Other revenue-enhancing measures that took effect in 2015 included increases in the Petrol Tax and the Annual Stamp Tax, as well as the broadening of the VAT base to include all forms of accomodations.

- *Attrition Policy* – With the expressed aims of controlling personnel expenditure and reducing the size of the public sector, an attrition policy was introduced in which no more than 3 persons were replaced for every 10 persons who retired from or exited the Public Service. The attrition policy was developed in 2013 following consultations with the Trade Unions and social partners.

- *Public Enterprise Reforms* – In 2015, comprehensive reforms were implemented to (i) improve the oversight and monitoring of state-owned enterprises and statutory bodies; and (ii) strengthen their reporting regimes. The reforms are geared at enhancing operational efficiency, reducing fiscal risks, and improving overall governance. A new Performance Management Framework, which aims to support improved management and disclosure of financial and non-financial information and data, was implemented in 2016. A new dividends policy was also introduced in 2016.

Growth-Enhancing Reforms

With a view to laying a stronger foundation for growth and job creation over the medium term, important reforms were undertaken to improve the doing business environment and strengthen labour market conditions.

With respect to the doing business environment, the Government passed legislation to reform the electricity sector, with the core objectives of: (i) reducing the high cost of electricity to help lower overall business costs; (ii) diversifying the country's energy mix; and (iii) improving the regulatory framework for the sector. The liberalisation of the electricity sector is expected to boosts Grenada's growth and competitiveness and expand opportunities for renewable energy production. The Public Utilities Regulatory Commission Act (2016) and the Electricity Supply Act (2016) were brought into force in August 2016.

The amendment to the Investment Act of 2014, coupled with the amendments to individual Tax Acts made in 2015, were aimed at streamlining investment procedures, with a view to improving the business environment and enhancing Grenada's attractiveness as an investment destination. Additionally, the Grenada Industrial Development Corporation was strategically restructured to strengthen Grenada's investment readiness through improved investment facilitation and promotion. A new Bankruptcy and Insolvency Act was brought into force in August 2016, which is expected to modernise the legislative framework related to bankruptcy and insolvency of individuals and companies and by extension, improve the doing business environment.

Regarding labour market reforms, amendments were made to the 2006 Labour Code with the expressed objectives of promoting workers' rights, encouraging greater workforce participation, fostering good labour relations, and establishing protocols for workplace safety. These are all consistent with increasing labour productivity and by extension, economic growth and development.

Public Sector Reforms

The Public Service Management Reform Strategy 2017 – 2019 was approved by Cabinet in March 2017. The core objectives of the Strategy are to: (i) re-engineer the Public Service to strengthen the machinery of Government towards greater effectiveness and efficiencies; (ii) deploy and utilise human resources in the most optimal manner; (iii) pursue a strategic compensation management policy that is consistent with fiscal sustainability; and (iv) integrate Information and Communication Technology to enhance service delivery and create efficiencies in various Government operations. The Strategy is currently being implemented.

Social Protection Reforms

Grenada's flagship social protection programme- the Support for Education, Empowerment and Development Programme (SEED) was reformed in 2016. A new Management Information System and a beneficiary targeting instrument were introduced in 2016. The systematic means-testing approach has allowed new participants to be entered into the SEED Programme, while those assessed as being ineligible have been transitioned out of the programme. The means-testing approach has increased the efficiency of Government's social spending, as well as its overall social protection and social safety net system.

Resilience Building Reforms

Important reforms were undertaken to build resilience to climate change and environmental shocks. The *National Climate Change Policy for Grenada, Carriacou and Petite Martinique 2017-2021* and the *National Adaptation Plan for Grenada, Carriacou and Petite Martinique 2017-2021* were completed in 2017. The overriding objectives of these strategic policy documents are to build climate resilience and facilitate climate-smart development.

The Physical Planning and Control Act No. 23 of 2016 (as amended), which came into force in August 2016 provides the institutional and regulatory framework for the development of land and the construction of buildings. Accordingly, its provisions are intended to bolster the resilience of Grenada's social and economic infrastructure to natural hazards and climate change risks. The Act was amended once since coming into force.

Grenada also developed a Blue Growth Master Plan and established a Blue Innovation Institute to preserve and enhance the quality and health of coastal ecosystems. Furthermore, key Marine Protected Areas have also been identified. Additionally, important projects were developed and implemented to enhance resilience at the community level with a focus on climate-smart

agriculture, rain water harvesting, recycling, renewable energy options and alternative livelihoods. Currently, a limited number of public investment project proposals are being screened for climate change risks using the CCORAL tool. We are working towards having 60.0 percent of all public infrastructure project proposals undergo advanced screening for climate change risks by 2020.

In January of this year, Cabinet approved a policy to ban the importation of non-biodegradable products to facilitate optimal conditions for ecosystem restoration, rehabilitation and recovery. A ban on Styrofoam containers is to be effective as of August 1, 2018, while a ban on other non-biodegradable products is to take effect from February 1, 2019.

Fiscal Reform Outcomes to Date

Not only have there been marked improvements in key economic, fiscal and social indicators, but there have also been improvements in the institutional arrangements and systems that support public financial management.

In relation to revenue, the Inland Revenue Division was restructured, with a view to enhancing revenue administration, taxpayer compliance and collections. A Large and Medium-size Taxpayer Services Unit, as well as a Small Taxpayers Service Unit were established and became operational in January 2016. This administrative enhancement, coupled with strong economic activity has underpinned the robust growth in current revenue, which averaged 11.7 percent over the period 2015-2017.

With regards to expenditure, it declined by an annual average rate of 1.7 percent over the period 2015-2017. Aiding the expenditure containment has been the tight controls placed on the size of the Civil Service and by extension, the wage bill. Public employment (established and un-established workers plus other project employees) fell from 7,755 at end-December 2013 to 6,486 at end-September 2017.

In keeping with the Government Finance Statistics Manual 2014, the annual Budgets for 2017 and 2018 were prepared in the new Chart of Accounts format. Additionally, the 2017 and 2018 Budgets were prepared within the context of the rules-based fiscal framework and the actual fiscal outturns in 2016 and 2017 were in line with the fiscal rules. Furthermore, the Fiscal Responsibility Oversight Committee became operational in August 2017 and its inaugural compliance report was laid in Parliament on November 27, 2017.

Government's Commitment

Notwithstanding the completion of the HGSAP, the Government remains committed to the principles of sound fiscal and economic management and will continue the implementation of policy and institutional reforms. The Government is particularly committed to deepening the reform agenda to accelerate inclusive growth, expand opportunities for empowerment and

employment, enhance public sector efficiency and effectiveness, reduce vulnerabilities, and strengthen resilience to economic and environmental shocks.

Continued financial and technical support from the World Bank and other development partners is vital for the sustainability of reforms and to ensure that additional development dividends accrue to the people of Grenada over the medium-to-long term. Therefore, we trust that this request will receive the endorsement of the World Bank's Board of Directors.

Yours faithfully,

.....

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

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Pillar 1: Support Fiscal Measures and Compliance with the Fiscal Responsibility Law		
Prior Action #1 In accordance with, and to implement the existing Fiscal Responsibility Act, the Recipient has: (a) operationalized the Fiscal Responsibility Oversight Committee (FROC) with the responsibility to undertake monitoring of the fiscal rules and key parameters of the Law as evidenced by the adoption and publication of the Notice of Appointment for said FROC (Grenada Government Gazette dated August 18, 2017 and the release of the FROC 2016 Annual Report dated November 10, 2017 as published on the following website: http://www.gov.gd/egov/docs/reports/froc-report.pdf ; and (b) caused FROC to present said report to Parliament, as evidenced by the letter dated November 21, 2017 sent by FROC Chairman to the Clerk of Parliament to submit the FROC 2016 report, published on page 3 of said report.	No significant positive or negative effects	No direct poverty or social effect is expected.
Prior Action #2 The Recipient's Cabinet of Ministers has approved the Compensation Management Policy Framework for the public sector in line with the parameters of the Fiscal Responsibility Act, as evidenced by the Cabinet Conclusion, dated April 3, 2018.	No significant environmental effects are likely.	Potential positive distributional effect in the medium term.
Prior Action #3: The Recipient has established an Appeals Commission for the Customs and Excise Division with a view to improving trader services and enhancing compliance, as evidenced by the Cabinet Conclusion [No. 273] dated February 27, 2017.	No significant environmental effects are likely	No significant positive or negative effects on poverty.

Prior Action #4: The Recipient has amended the Customs Act No. 9 of 2015 with a view to strengthen customs administration and improve the adoption of electronic declarations and other automatic processes, as evidenced by the enactment of Act No. 32 of 2017 dated December 22, 2017 and Act No. 35 of 2017 dated December 28, 2017, both published in the Grenada Government Gazette on December 29, 2017 ; as well as the enactment of Act No. 6 of May 8, 2017, as published in the Grenada Government Gazette on May 19, 2017.	No significant environmental effects are likely.	No significant positive or negative effects on poverty.
Prior Action #5: The Recipient, through its Ministry of Finance, has established a report card system to track key performance indicators (KPIs) of the commercial SOEs, as evidenced by the Cabinet Conclusion [No.297] dated March 5, 2018.	No significant environmental effects are likely	No significant positive or negative effects on poverty.
Operation Pillar 2: Support Grenada's transition to a Blue Economy by strengthening marine and coastal management, marine ecosystem health, and climate resilience		
Prior Action #6: The Recipient has: (a) established the Grand Anse Marine Protected Area as evidenced by the Cabinet Conclusion, dated March 5 2018; and (b) established the Blue Innovation Institute, as evidenced by the Cabinet Conclusion [No. 1245] dated August 28, 2017.	Significant positive environmental effects.	No significant negative effects, potential positive effects.
Prior Action #7: The Recipient's Cabinet of Ministers has approved: (a) the total ban on styrofoam food containers; and (b) a total ban on plastic shopping bags (single use bags), disposable plastic plates, spoons and forks, with a view to facilitating optimal conditions for ecosystem restoration, rehabilitation and recovery and improving the quality of the marine environment, as evidenced by the Cabinet Conclusion dated March 5, 2018.	Significant positive environmental effects.	No significant negative effects, potential positive effects.

Prior Action #8: The Recipient has updated its National Climate Change Policy and National Adaptation Plan, with a view to reiterating its commitment to the NDCs, as evidenced by the Cabinet Conclusion [No. 1568] dated October 30, 2017.	Significant positive environmental effects.	No significant negative effects, potential positive effects.
Prior Action #9: The Recipient has modified its building codes with a view to improve resilience of housing infrastructure, as evidenced by the enactment of Act No. 23 of 2017 dated September 29, 2017 amending the Physical Planning and Development Control Act No. 23 of 2016, published in the Grenada Government Gazette on October 6, 2017.	Significant positive environmental effects.	No significant negative effects, potential positive effects.