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November 21, 2019

Closing Date: Monday, December 16, 2019 at 6:00 p.m.

FROM: Vice President and Corporate Secretary

Grenada - Second Fiscal Resilience and Blue Growth Development Policy Credit

Program Document

Attached is the Program Document regarding a proposed credit to Grenada for a Second Fiscal Resilience and Blue Growth Development Policy Credit (IDA/R2019-0323), which is being processed on an absence-of-objection basis.

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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF US$ 20 MILLION TO

GRENADA

FOR THE

Second Fiscal Resilience and Blue Growth Development Policy Credit

December 16, 2019

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

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GRENADA

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of November 30, 2019)

Currency Unit

US$1.00 = EC$ 2.70

ABBREVIATIONS AND ACRONYMS

AGRICOM	OECS Regional Agriculture Competitiveness Project
AML/CFT	Anti-Money-Laundering and Countering Financing of Terrorism
ASYCUDA	Automated System for Customs Data
CAROSAI	Caribbean Organization of Supreme Audit Institutions
CARTAC	Caribbean Regional Technical Assistance Centre
Cat DDO	Catastrophe Deferred Drawdown Option
CBF	Caribbean Biodiversity Fund
CCI	Caribbean Challenge Initiative
CCORAL	Climate Change Online Risk Adaptation Tool
CDB	Caribbean Development Bank
CED	Customs and Excise Division
CPF	Country Partnership Framework
CoA	Chart of Accounts
COAST	Caribbean Oceans and Aquaculture Sustainability Insurance
CRFM	Caribbean Regional Fisheries Mechanism
CROP	Caribbean Regional Oceanscape Project
DPC	Development Policy Credit
DRF	Disaster Risk Financing
ECF	Extended Credit Facility
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EEZ	Exclusive Economic Zone
EFO	Externally Financed Output
FDI	Foreign Direct Investment
FRL	Fiscal Responsibility Law
FROC	Fiscal Responsibility Oversight Committee
GDP	Gross Domestic Product
GIZ	German International Development Agency
GoG	Government of Grenada
GPRS	Growth and Poverty Reduction Strategy
GRS	Grievance Redress Service
GSDTF	Grenada Sustainable Development Trust Fund

HSAP	Homegrown Structural Adjustment Program
IBRD	International Bank for Reconstruction and Development
ICRR	Implementation Completion and Results Report
ICZM	Integrated Coastal Zone Management
IDA	International Development Association
IDF	Institutional Development Fund
IMF	International Monetary Fund
LDP	Letter of Development Policy
MoF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
NAP	National Climate Change Adaptation Plan
NIS	National Insurance Scheme
NCCPAP	National Climate Change Policy and Action Plan
NOCGC	National Ocean and Coastal Governance Committee
NTF	National Transformation Fund
OECD	Organization for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean States
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PLR	Performance and Learning Review
PSIP	Public Sector Investment Programme
PSMR	Public Service Management Reform Strategy
PDO	Program Development Objective
RPS	Regional Partnership Strategy
SAEP	Climate Smart Agriculture and Rural Enterprise Development Program
SEMCAR	Support for Economic Management in the Caribbean
SIDS	Small island developing states
SRD	Systematic Regional Diagnostic
SOE	State-Owned Enterprises
WB	World Bank
WBG	World Bank Group

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GRENADA

GRENADA SECOND 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
P167748	Yes	2nd in a series of 2

Proposed Development Objective(s)

The series' Program Development Objectives are to: (i) support long-term fiscal sustainability and strengthen fiscal resilience; 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 & PHYSICAL DEVELOPMENT

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**20.00**

DETAILS

International Development Association (IDA)	20.00
IDA Credit	20.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

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

Overall Risk Rating

Substantial

Results

Indicator Name	Baseline	Target
Results Indicator #1: Aggregated inflows into the Contingency Fund	Baseline (2019): $0	Target (2020): EC$ 10 million
Results Indicator #2: Real aggregate increase in public wage bill at the central government level	Baseline (2016): EC$ 240.4 million	Target (2020): less than 9 percent real increase
Result Indicator #3: Improved effectiveness and increased compliance in customs as measured by the increase in number of successfully targeted annual post-clearance audits	Baseline (2016): 3	Target (2020):5
Result Indicator #4: Proportion of SOEs that follow the new monitoring and reporting framework produced by the Ministry of Finance	Baseline (2016): 0 percent	Target (2020): 100 percent
Result Indicator #5: The quantification of contingent liabilities is included in the annual Fiscal Risk Statement	Baseline (2016): No	Target (2020): Yes
Result Indicator #6: Increased coverage of Marine Protected Areas	Baseline (2016): 3 percent of Grenada's territory	Target (2020): 20 percent of Grenada's territory
Result Indicator #7: Increased number of the Grenada Sustainable Development Trust Fund's revenue sources	Baseline (2018): 0	Target (2020): 2
Result Indicator #8: Import volume of Styrofoam food containers, single use plastic bags, and disposable plastic plates, forks and spoons	Baseline (2016): Imports of Styrofoam food containers: 3007 pallets; single use plastic bags: 6,975,308; disposable plastic plates: 2697 pallets; forks and spoons: 1838 pallets	Target (2020): Imports volume of Styrofoam food containers; single use plastic bags; and disposable plastic plates, forks and spoons: zero
Result Indicator #9: The share of new building applications approved in accordance with the amended building codes	Baseline (2016): 0 percent	Target (2020): 100 percent
Result Indicator #10: Percentage of annual government contracts for the purchase of goods that are governed by sustainability requirements	Baseline (2016): 0 percent	Target (2020): 25 percent

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) PROGRAM DOCUMENT FOR

A PROPOSED DEVELOPMENT POLICY CREDIT (DPC)

TO GRENADA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Credit (DPC), for an amount of US$20 million, is the second operation in a programmatic series of two, aimed at supporting Grenada's efforts to advance the country's fiscal resilience and diversify to a blue economy growth model.**[1] The operation supports the adoption of policy and institutional reforms set out in the Government's long-term development strategy, the Growth and Poverty Reduction Strategy (GPRS), and Grenada's Blue Growth and Coastal Master Plan. The Government's programs prioritize fiscal sustainability, strengthening resilience against natural disasters, and harnessing the economy to fuel blue growth. The critical policy measures supported by the DPC Program include strengthening fiscal institutions through the creation of the Fiscal Responsibility Oversight Committee, institutionalization of the Contingency Fund, and the adoption of a new public sector wage negotiation policy. With regards to environmental sustainability, the DPC series supports the Government's ban on Styrofoam food containers, single-use plastic shopping bags, and disposable utensils. This measure is critical for Grenada's success in diversifying to a blue growth model, as plastic pollution represents one of the main environmental challenges in the Caribbean region and is a major threat to oceans' biodiversity and tourism development.

2. **Grenada stands out among the small-island Caribbean states in its steadfast reform path and sets an example for the rest of the region and other small island developing states (SIDS).** The country stayed the course on fiscal consolidation: building fiscal buffers and strengthening fiscal resilience as critical elements of a cross-cutting resilience strategy for SIDS. Such an approach is key at this time when the Caribbean region is facing more frequent and more severe weather events, such as Hurricanes Maria and Irma in 2017 and most recently Hurricane Dorian in 2019.

3. **Grenada has made significant progress towards achieving fiscal sustainability.** The global financial crisis of 2007-2009 and the subsequent recession in many high-income countries affected Grenada's economic performance due to its strong reliance on the tourism sector. The country experienced steep declines in real GDP which led to an abrupt rise in public debt. The Government subsequently implemented an economic adjustment program, with support of the World Bank Group, the International Monetary Fund and the Caribbean Development Bank working collaboratively. The adjustment program which focused on fiscal consolidation, in the context of a fixed exchange rate regime,

[1] The blue economy is the sustainable and integrated development of economic activities (such as fisheries, tourism, maritime transport and other emerging activities) in healthy oceans. The blue economy provides social and economic benefits for current and future generations, and restores, protects, and maintains the diversity, productivity, resilience, core functions, and intrinsic value of marine ecosystems. Through a blue economy, the GoG seeks to promote an economic growth model that is based on oceans resources, and is clean, efficient, resilient and inclusive – the blue growth model. 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.

helped to stabilize the economy. Successful debt restructuring and consistent primary surpluses averaging about 5 percent of GDP for four consecutive years have caused the public debt stock to drop from 107 percent of GDP in 2013 to 63 percent in 2018. The fiscal rule adopted in 2015 provides an anchor for macroeconomic sustainability in the context of frequent shocks. With the fiscal adjustment program largely completed, there is a need to consolidate the hard-won fiscal gains and strengthen institutions to continuously promote fiscal sustainability and diversify sources of growth.

4. **Welfare indicators have been improving but both poverty and inequality remain high**. The poverty rate was 37.7 percent in 2008, the latest year for which figures are available, at which time 2.4 percent of the population lived in extreme poverty.[2] 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 primary school enrollment rates exceeding 100 percent.[3]

5. **Grenada's socio-economic performance in the past has shown the importance of diversifying to a blue growth model while strengthening resilience to shocks, including those resulting from climate change.** Grenada is a small island economy with a population of around 107,000 people and GDP per capita of around US$10,517. The country is highly exposed to external volatility stemming from macroeconomic risks as well as weather and climate-change related events**.** Its marine and coastal ecosystems provide a wide array of goods and services that contribute to the country's economy. In addition, the impacts of climate change – such as sea level rise, floods, erosion, and storms – have magnified existing natural and human pressures on Grenada's marine and coastal ecosystems. Grenada is witnessing a rise in the total contribution of coastal, nature-based tourism to GDP (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, the sector is highly vulnerable to natural disasters and other climate change impacts which calls for a strengthened institutional approach to disaster risk management and protection of natural resources. The potential consequences of climate change for Grenada include an increase in average annual temperature, reduced average annual rainfall, potential for an increase in the intensity of tropical storms and increased sea surface temperatures. These effects pose a significant risk to Grenada's economy and exacerbate its development challenges. For example, Hurricane Ivan in 2004 and Hurricane Emily in 2005 caused damages estimated at 148 percent and 30 percent of GDP, respectively.

6. **The proposed operation is prepared parallel to the Grenada Disaster Risk Management Development Policy Credit with a Catastrophe Deferred Drawdown Option (Cat DDO) (P171465) which focuses on enhancing disaster risk resilience.** The two operations support a highly complementary policy agenda aimed at enhancing resilience, consistent with the World Bank's 360º Strategy for a Resilient Caribbean.[4] The policy reforms embedded in the DPC support building adequate fiscal buffers and strengthening environmental sustainability by protecting and leveraging the blue economy's resources,

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[2] Grenada is currently conducting a new round of poverty assessment based on the harmonized regional household survey. The data collection is expected to be completed in 2020.

[3] The primary school enrollment can exceed 100 percent due to the inclusion of over-aged and under-aged students because of early or late school entrance and grade repetition.

[4] https://www.worldbank.org/en/news/infographic/2018/11/19/a-360o-strategy-for-a-resilient-caribbean

while the Cat DDO focuses on enhancing disaster risk resilience through supporting a comprehensive Disaster Risk Management Strategy with related policies aimed at investing in better preparedness, through ex ante disaster risk financing, stronger infrastructure and protecting the most vulnerable.

7. **The scope of the proposed operation is to accompany the country's orientation towards a blue growth model with enhanced fiscal resilience while maintaining fiscal discipline.** In this context, the first pillar of the DPC series supports policy and institutional actions that are aligned with the implementation of the new rules-based fiscal framework. The DPC actions help strengthen oversight and monitoring institutions and mechanisms to ensure adherence to the rule and credibility of the Government's fiscal policy, thereby supporting long-term fiscal sustainability and resilience. The second pillar supports measures geared to diversify the economy towards the blue growth model. This aims to foster sustainable growth that is based on ocean resources, and is clean, efficient, and resilient by supporting policies geared to strengthen ocean and coastal governance, marine ecosystem health, and climate resilience. Pillar 2 also contributes to achieving the Sustainable Development Goal (SDG 14) to conserve and sustainably use the oceans, seas and marine resources for sustainable development.

8. **The two pillars supported by this DPC series complement and reinforce each other.** They are part of a comprehensive approach to promote blue growth, including climate resilience. Compliance with, and the adequate implementation of the fiscal rules would help support macroeconomic stability and debt sustainability by making the country more resilient to frequent shocks. In turn, a more resilient fiscal framework will translate into investor interest in the island, lower borrowing costs, and improve growth prospects over the medium term. Given the high level of exposure and the significant risks to fiscal outcomes arising from climate and environmental vulnerability, strengthening resilience on both the fiscal and climate/environmental fronts concurrently is key. A more resilient natural and physical environment reduces the fiscal burden in the wake of natural disaster events.

9. **Grenada continues to have a sound macroeconomic policy framework, but macroeconomic risks remain substantial.** While Grenada's macroeconomic outlook is generally positive, the exogenous macroeconomic risks 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. External uncertainties, including escalation of trade wars and increasing oil prices, pose potential risks to Grenada through threats to tourism, remittances and foreign direct investment (FDI). 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 pose risks to implementing the reforms supported by the DPC series.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

10. **Grenada remains the fastest growing economy in the Eastern Caribbean Currency Union (ECCU), averaging real GDP growth of 4.8 percent since 2013.** In 2018, real GDP grew by 4.2 percent (Table 1),

primarily fueled by expansions in the construction and tourism sectors.[5] Increased tourism-related and private-sector commercial investments, together with major public-sector investments led to a sharp acceleration in construction activity. Tourist arrivals in 2018 grew by 12.7 percent, accompanied by 10.1 percent growth in receipts. These expansions offset a 6.5 percent decline in the private education sector owing to reduced enrolment at the country's medical university. For 2019, real GDP growth is estimated to moderate to 3.5 percent as several large-scale private construction projects are completed and positive output gaps close.

Table 1. Grenada: Key Macroeconomic Indicators (2015-2022)

	2015	2016	2017	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]
Real Sector	*Annual percentage change, unless otherwise specified*							
Real GDP	6.4	3.7	4.4	4.2	3.5	2.9	2.9	3.2
CPI (average)	-0.5	1.7	0.9	0.8	0.8	1.7	1.9	1.9
Unemployment Rate (percent)	29.0	28.2	23.6	20.9	…	…	…	…
Fiscal Accounts (Central Government)	*Percent of GDP, unless otherwise indicated*							
Revenue	24.5	26.2	25.6	26.5	25.8	25.8	25.7	25.3
Expenditure	25.7	23.9	22.6	21.7	21.7	21.6	21.1	22.4
General Government Balance	-1.2	2.3	3.0	4.8	4.1	4.2	4.6	2.8
Primary balance	2.1	5.2	5.7	6.8	6.0	6.1	6.4	4.5
Public Debt	90.1	81.6	70.0	63.4	58.7	53.7	50.5	48.3
Selected Monetary Accounts	*Annual percentage change, unless otherwise indicated*							
Broad money (M2)	5.2	1.3	4.0	5.9	4.7	4.6	4.8	5.3
Credit to private sector	-3.8	-0.2	0.6	2.8	5.2	4.7	3.6	3.7
External Sector	*Percent of GDP, unless otherwise indicated*							
Current account balance, o/w:	-12.2	-11.0	-12.0	-11.2	-11.2	-10.2	-8.6	-9.1
Exports	51.2	49.3	51.3	54.2	54.3	54.0	54.0	53.9
Imports	50.9	49.8	53.1	55.2	54.9	54.8	54.8	52.8
Foreign Direct Investment	13.5	9.1	12.4	12.8	10.6	10.1	9.6	9.1
Net imputed international reserves (months of Imports)	4.3	4.0	3.6	4.1	4.1	4.0	3.8	3.6
External debt (PPG)	61.4	56.6	47.4	44.5	42.1	39.4	38.6	37.9
Terms of Trade	18.8	4.4	2.2	-6	0.5	1.1	2.2	…
Real Effective Exchange Rate (annual average, depreciation)	2.5	-0.2	-2.6	-2.4	…	…	…	…
Memorandum items								
Nominal GDP (EC$ million)	2691.9	2866.4	3042.6	3202.0	3352.0	3475.6	3609.8	3857.0
Nominal GDP (US$ million)	997.0	1061.6	1126.9	1186.3	1241.6	1287.3	1337.0	1428.0

Sources and Notes: Government of Grenada (GoG), IMF, World Bank. [a] Preliminary; [b] Projected

[5] The Grenadian economy is dominated by the services sector (including tourism and offshore medical education), accounting for about 78 percent of GDP. Industry (mainly construction) and agriculture account for around 16 percent and 6 percent, respectively.

11. **Stronger economic activity has led to improvements in the labor market.** Robust public and private sector investment supported high growth and provided employment opportunities. Albeit still high, the unemployment rate fell to 16.7 percent in the third quarter of 2018 from 23.6 percent in 2017.[6] Nevertheless, the overall labor force participation rate has been declining, from 68.8 percent in 2015 to 65.8 percent in 2017, mainly due to a decrease in participation of older workers (65 years and above). The decline in labor force participation reflects persistent structural labor market problems, including a private sector perceived skills mismatch, high wage reservation prices due to remittances, and strong unionization.

12. **Stronger domestic demand drove up the current account deficit in recent years but was partly offset by inflows of tourism receipts.** The current account deficit narrowed marginally in 2018 to 11.2 percent of GDP, accompanied by a 2.4 percent appreciation in the real effective exchange rate and is estimated to remain at 11.2 percent of GDP in 2019.[7] Overall exports were buoyed by an uptick of 17.9 percent year on year (y/y) in services exports coupled with a 4.3 percent (y/y) increase in merchandise exports in 2018. Meanwhile, robust construction activity contributed to higher imports, including Mineral Fuels & Related Materials and Machinery & Transport Equipment. The current account deficit was fully funded in 2018 by net inflows of FDI of 12.8 percent of GDP. Foreign exchange reserves recovered to 4.1 months of imports at end 2018, after decreasing to 3.6 months in 2017.

13. **Inflation remained subdued.** Inflation edged down to 0.8 percent in 2018 given lower international food prices which partially alleviated the pass-through effect of an uptick in US inflation. For the first half of 2019, average inflation inched up to 1.0 percent, but is expected to remain flat over the full year.

14. **The financial sector continues to strengthen, with soundness indicators reflecting a prudent position.** In 2018, total assets of commercial banks grew by 5.9 percent (y/y), with total loans increasing by 1.9 percent, following consecutive declines during 2014 to 2016. Credit growth has been stronger in credit unions where total assets and loans have both expanded by 14 percent annually on average since 2016. With deposits outpacing the level of credit provided, both banks and credit unions continue to build up excess liquidity. Nonperforming loans continued to decline, moving from 3.9 percent of total loans in 2017 to 2.4 percent in 2018, which is comfortably below the ECCB's prudential benchmark of 5.0 percent. With an average capital-asset ratio of 13.2 percent and a Tier-1 capital ratio of 11.7 percent in 2018, capital remains above the 8 percent regulatory minimum and thus has cushion to absorb losses. The strong rise in credit union lending could pose a risk to financial stability, in a context where non-bank supervision is weak.

15. **Fiscal performance remained strong, supported by adherence to the Fiscal Responsibility Law[8] (FRL).** Buoyant tax revenues accompanied by expenditure containment measures resulted in an overall

[6] 2018 Labor Force Survey.
[7] The current account deficit is estimated to remain at 11.2 percent of GDP in 2019. While relatively high current account deficits are a somewhat common occurrence in highly import-dependent small island states, the IMF 2019 External Sector and Competitiveness Assessment for Grenada suggests that the current account deficit is higher than what would be implied by medium term fundamentals and desirable policies. See also: IMF 2019 Grenada Article IV Consultations.
[8] Fiscal Responsibility Act No. 29 of 2015, August 25, 2015.

fiscal surplus of 4.8 percent in 2018 (Table 1 and 2). The primary surplus increased to 6.8 percent of GDP in 2018 from 5.7 percent in 2017, exceeding the target of 3.5 percent set by the FRL. Over half of the 7.9-percentage-points improvement in the primary balance since 2014 has been driven by an improvement in revenues, reflecting cyclical factors as well as substantive tax policy and administration reforms.[9] As a result, the share of tax revenues in GDP has increased from 18.2 percent in 2014 to 22 percent in 2018. Effective since the start of 2019, the tax rates on the highest personal and corporate income tax brackets were reduced from 30 to 28 percent, which are estimated to result in a marginal loss of 0.2 percent of GDP for the fiscal year.

Table 2. Grenada: Key Fiscal Indicators for the Central Government, 2015-2022 (Percent of GDP)

	2015	2016	2017	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]
Total Revenue and Grants	**24.5**	**26.2**	**25.6**	**26.5**	**25.8**	**25.8**	**25.7**	**25.3**
Tax Revenue	19.0	20.9	21.4	21.9	21.7	21.7	21.7	21.4
Taxes on goods and services	8.0	8.5	8.7	8.6	8.6	8.6	8.6	8.6
Taxes on income and profits	3.8	4.4	4.6	4.8	4.6	4.6	4.6	4.6
Taxes on property	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.7
Taxes on international trade	6.4	7.1	7.3	7.6	7.6	7.6	7.5	7.5
Non-Tax Revenue	2.2	1.8	1.6	1.6	1.6	1.6	1.6	1.6
Grants	3.2	3.5	2.6	2.9	2.4	2.4	2.3	2.2
Total Expenditures	**25.7**	**23.9**	**22.6**	**21.7**	**21.7**	**21.6**	**21.1**	**22.4**
Current expenditure	17.0	19.4	19.3	18.6	18.2	18.2	17.8	18.4
Wages and salaries	8.0	8.4	8.1	7.9	7.8	7.8	7.7	7.9
Goods and services	2.8	4.1	4.2	4.1	3.9	3.9	3.7	3.8
Interest	3.3	2.9	2.7	2.0	1.9	1.9	1.9	1.7
Transfers	2.8	4.0	4.4	4.7	4.5	4.5	4.5	4.5
Pensions and NIS contributions	1.8	1.8	2.0	2.0	1.9	1.9	1.9	1.5
Capital expenditures	8.3	4.2	2.6	2.7	2.8	2.5	2.4	4.0
Grant-financed	3.2	2.6	2.1	2.3	2.3	2.2	2.1	2.0
Non-grant-financed	5.1	1.6	0.5	0.4	0.6	0.3	0.2	2.0
Primary balance	2.1	5.2	5.7	6.8	6.0	6.1	6.4	4.5
Overall fiscal balance	**-1.2**	**2.3**	**3.0**	**4.8**	**4.1**	**4.2**	**4.8**	**2.8**
Public Debt	**90.1**	**81.6**	**70**	**63.4**	**58.7**	**53.7**	**50.5**	**48.3**
External	61.4	56.6	47.4	44.4	42.1	39.2	38.3	37.9
Domestic	28.7	25.0	22.6	19.0	16.6	14.5	12.2	10.4

Sources and Notes: GoG, IMF, World Bank. a/ Preliminary; b/ Projected

16. **The Government's outlays have decreased by around 7 percent of GDP since 2014.** More than one-third of the spending goes to public sector wages, which experienced a 4 percent increase in 2018 per an agreement between the Government and the unions. However, thanks to an attrition policy aimed

[9] 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.

at controlling headcount, the public-sector wage bill in 2018 fell to 7.9 percent of GDP, below the 9 percent ceiling indicated by the fiscal rule. Reduced interest payments following recent debt restructuring also helped to contain expenditure. Capital spending picked up marginally in 2018 with the start of grant-financed projects that were delayed in 2017 but remained below planned budget at 2.7 percent of GDP. Budgeting practices continue to be guided by the medium-term fiscal framework. For 2019, the estimated marginal reduction in tax revenue accompanied by planned increases in capital spending are estimated to reduce the primary surplus slightly to 6.0 percent of GDP, resulting in an overall fiscal surplus of 4.1 percent, the fourth consecutive year of an overall fiscal surplus.

17. **Public debt continued a sustainable downward path, given proactive debt management and fiscal consolidation.** Debt restructuring which began in 2013, has resulted in the successful renegotiation of debt obligations with major external and domestic creditors.[10] This has significantly improved the post-restructuring redemption profile of Grenada's debt and lowered interest costs. Total debt service for 2018 declined by 22 percent (y/y). Nominal GDP growth and strong fiscal consolidation have also contributed to approximately half of the 43-percentage-points decline in public debt as a share of GDP since 2014 to 63.4 percent in 2018. Nonetheless, debt obligations to Petro Caribe, which totaled 11.5 percent of GDP in 2018, are not included in total public debt and pose potential fiscal risks. For 2019, public debt is estimated to fall further to 58.7 percent.

Table 3. Grenada: Balance of Payments Financing Requirements and Sources, 2015-2022 (US$ million)

	2015	2016	2017	2018e	2019f	2020f	2021f	2022f
Financing requirements	181.4	179.0	242.2	201.3	213.4	171.9	163.1	179.9
Current account deficit	122.0	116.5	134.8	132.8	138.8	132.6	117.5	129.9
Amortization medium and long term (MLT) debt	59.4	62.5	107.4	68.5	74.7	39.3	45.6	49.9
- public sector	20.3	33.6	42.4	51.5	30.5	33.8	33.6	34.9
- private sector	39.1	28.9	65.0	16.9	44.2	5.5	12.0	15.0
Financing Sources	181.4	179.0	242.2	201.3	213.4	171.9	163.1	179.9
FDI	134.3	96.9	139.3	151.6	131.5	131.1	130.6	130.4
Capital grants	32.4	49.7	66.9	61.7	51.1	53.2	50.0	50.0
Public sector MLT debt disbursements	82.4	85.1	87.5	96.7	20.0	3.4	36.4	30.2
Private sector	29.7	17.0	55.1	20.0	47.4	8.9	11.1	12.2
Other flows and change in reserves	-65.0	-20.1	-39.7	-67.0	14.5	28.4	-15.1	7.1

Source: World Bank Staff Estimates based on the ECCB
Notes: e-estimate, f-forecast; data on private sector requirements and sources is based on partial information and should be interpreted with caution. Technical assistance from CARTAC is underway to compile and improve private debt data.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

18. **Grenada's economic prospects are positive with growth projected to remain robust, while moderating to below 3 percent over the medium term, around potential.** Public infrastructure

[10] Debt restructuring agreements included 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.

developments as well as continued buoyancy in tourism are expected to drive growth. Major public sector projects commencing in 2019, including the Agricultural Feeder Roads Project (EC $101.8 million) and UK-CIF/Western Road Corridor Project (EC $46.7 million), are anticipated to create 400 jobs directly and have significant spillover effects to other sectors. The tourism sector is projected to grow faster, aided by additional flights and increased room stock, as well as the rehabilitation and expansion of the Maurice Bishop International Airport. Growth in private education is projected to rebound, but expansion over the medium term is expected to be modest, averaging about 2.5 percent (y/y) compared to over 5 percent in previous years. The agriculture sector should continue its recovery but remains vulnerable to abnormal weather patterns. Strategic investments in the sector, including the World Bank-supported AGRICOM project[11] and the Climate-Smart Agriculture and Rural Enterprise Development Program (SAEP) should increase resilience and sustainability.

19. **The current account deficit is projected to narrow over the medium term financed by adequate FDI inflows (Table 3), while inflation remains subdued.** A gradual deceleration in mostly construction-related imports is expected to lower the current account deficit to below 10 percent of GDP by 2021. Projected FDI flows averaging a similar amount, in addition to proceeds from the Citizenship by Investment program, are expected to fully fund the current account deficit. Inflation is estimated to pick up but remain subdued. Strong domestic demand and rising international oil and food prices will impose upward pressure on inflation over the medium term. However, given the peg to the US dollar and expected expansion of global oil production, inflation is projected to stay low at less than 2 percent over the projection period.

20. **Fiscal outcomes are expected to further improve.** Under its Medium-Term Budget Framework, Grenada is expected to maintain fiscal surpluses at around 4.5 percent of GDP over the medium term. Fiscal revenues are projected to remain buoyant, supported by efforts to improve tax administration and compliance. The wage bill cost is anticipated to be below the fiscal rule ceiling of 9.0 percent of GDP, owing to ongoing reforms to curb the public sector wage bill, including reforms to compensation management supported by this development policy operation. Capital expenditure is estimated to receive a boost from several public investment projects supporting blue growth initiatives. Given that these projects are aimed at strengthening biodiversity and building resilience, they have the potential to raise productivity and, thereby, help the fiscal position as a share of GDP. As an upshot of the expected fiscal improvement, public debt is projected to fall below its FRL's target of 55.0 percent of GDP by 2020.

21. **Debt dynamics will continue their downward trajectory, albeit with Grenada remaining in external public debt distress.** The 2019 debt sustainability analysis (DSA)[12] indicates that, under a baseline scenario of strict adherence to the FRL, buoyant economic growth and continued debt restructuring, the total public and publicly guaranteed (PPG) debt-to-GDP ratio is projected at 58.7 percent in 2019, further declining to 44.9 percent by 2023. In present value terms, total PPG debt ratios would fall from 52.1 percent in 2019 to 36.5 percent in 2023 (Figure 1). Ratios for public external debt are projected to follow a similar trajectory. A key objective of the 2020 Medium Term Debt Management 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 70.1 percent in 2019 to 71.3 percent in 2023. Nevertheless, the results of the shock scenarios indicate Grenada's vulnerability to

[11] OECS Regional Agriculture Competitiveness Project (AGRICOM) (P158958)
[12] Estimates from joint IMF-World Bank DSA conducted in May 2019.

exports (tourism sector), natural disasters and contingent liabilities, with indicators displaying a breach of threshold upon simulation of more-adverse conditions. 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. Some bilateral arrears are yet to be regularized, with approximately US$19 million of arrears to non-Paris Club official bilateral creditors outstanding up to early 2019. Accordingly, the external debt risk classification (i.e., in "debt distress") remains.[13] Negotiations on arrears are ongoing and the Government is taking concrete steps to resolve these.

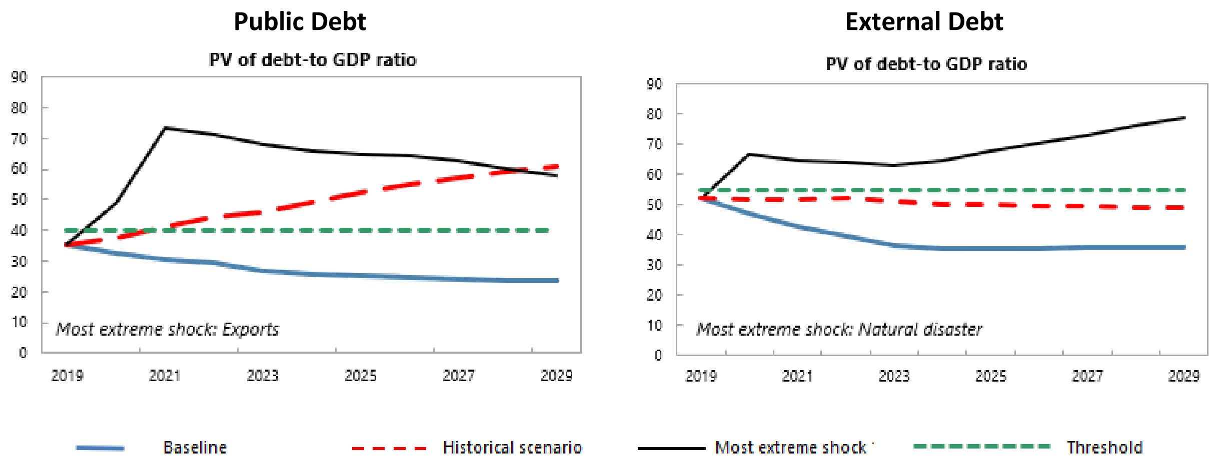
22. **Grenada's macroeconomic policy framework is adequate for the proposed operation.** The rules-based framework and fiscal responsibility legislation that underpin macroeconomic policy in Grenada have led to a strong fiscal position. Recent debt restructuring and consistent primary surpluses since 2015 have put the high public debt on a downward path, on track to achieve the target of 55 percent of GDP by 2020. The long-standing fixed exchange rate regime keeps inflation in check. The economy is projected to remain buoyant and stable over the medium term, with low inflation, and improving fiscal balances. Sound macroeconomic policies have enabled investor confidence and a robust expansion in the real sector driven by tourism, construction, and agriculture, which has been supported by external demand.

23. **However, the macroeconomic outlook is subject to some downside risks.** External uncertainties, including economic slowdown in the United States and Europe, escalation of trade wars and increasing oil prices, pose potential risks to Grenada through threats to tourism, remittances and FDI. Grenada's vulnerability to natural hazards is an inherent risk, which can significantly affect economic activity and fiscal performance. This operation supports efforts to mitigate risks to fiscal sustainability from natural disasters through the operationalization of a contingency fund, as one measure in a comprehensive disaster risk financing strategy. The fiscal outlook can also be affected should the inflows to the National Transformation Fund (NTF) as well as external grants from development partners not continue over the medium term. Furthermore, fiscal risks may materialize should state-owned enterprises (SOEs) fail to remain within their funding constraints or should there be calls on the Central Government's resources if SOEs cannot service their obligations. This DPC, therefore, supports reforms to enhance the fiscal transparency and accountability of SOEs. Capacity and institutional constraints also pose risks to the execution of the capital budget as envisaged in the Medium-term Fiscal Framework and may compromise growth prospects over the medium term, as growth is expected to be more heavily dependent on public investment infrastructure and climate resilience-related projects going forward. Pension reform, as well as the implementation of the National Health Insurance, if not properly managed, can also pose significant risks to public finances. Vulnerable populations, such as the youth and those living in rural areas, face major risks from high rates of unemployment and natural disasters. In the financial sector, regional AML/CFT concerns, could also pose risks to correspondent banking relationships, impacting cross border payments, trade finance and remittances.[14]

[13] Grenada's risk of external debt distress is assessed as "in debt distress" due to outstanding external arrears which are greater than 1 percent of GDP. Without these arrears, the external risk rating would be assessed as "moderate".

[14] In October 2019, the GoG signed vesting orders allowing the Grenadian subsidiary of the Canadian-based Scotiabank to be acquired by Republic Bank Financial Holdings Limited (RBFH) of Trinidad and Tobago. Considering that RBFH already has a subsidiary in Grenada, the merged bank will account for about half of total banking sector assets, which could create a significant concentration risk in the financial system.

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



Sources: IMF, World Bank 2019 DSA analysis.
Notes: The most extreme stress test is the test that yields the highest ratio in or before 2029. The historical scenario produces the path of debt that would result from key macroeconomic variables in the baseline projection being permanently replaced by their 10-year historical average.

2.3. IMF RELATIONS

24. **The IMF Executive Board concluded Grenada's 36-month Extended Credit Facility (ECF) arrangement in May 2017.** The arrangement made available some US$19.4 million to the country. The final review of Grenada's performance under the ECF concluded that Grenada had achieved the core objectives of the economic adjustment program of restoring fiscal sustainability, strengthening the financial sector and creating conditions for sustainable growth.[15] 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-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 moved to a surveillance-only engagement with the IMF on a standard 12-month cycle. The July 2019 Article IV concluded that Grenada continues to exhibit strong economic and fiscal performance and sustained debt reduction, underpinned by sound policies.[16]

3. GOVERNMENT PROGRAM

25. **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

[15] IMF (2017). Grenada: Sixth Review under the Extended Credit Facility Arrangement and Financing Assurances Review- Press Release and Staff Report. Washington DC.
[16] IMF (2019). Grenada: 2019 Article IV Consultation- Press Release and Staff Report. Washington DC.

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.[17] 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 Government of Grenada (GoG) committed to an ambitious fiscal and structural reform program that was backed by the Social Compact between the Government and civil society. The main objectives of the three-year Homegrown Structural Adjustment Program (HSAP) included: (i) boosting inclusive growth and job creation; and (ii) restoring fiscal and debt sustainability.[18] 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.

26. **Aligned with the objective of boosting inclusive growth and job creation, the GoG initiated a national strategy for implementing its vision of blue growth based on a diversified economy**. The Grenada Blue Growth Coastal Master Plan identifies opportunities for economic growth based on oceans resources in areas such as fisheries and aquaculture, blue biotechnology, renewable energy, research, and innovation.[19] The health of the marine ecosystems and associated biodiversity are critical 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. Another important element is a Blue Innovation Institute which will serve as a center of excellence and think-tank on the blue economy sustainability. Policies and programs have also been implemented to meet renewable energy and energy efficiency goals.[20] In addition, the National Adaptation Plan (2017-2021) provides a strategic, coordinating framework for building climate resilience in Grenada, recognizing the need to develop the enabling environment for climate change adaptation as well as programmatic priorities. It also provides the framework for further integration of climate change considerations into planning and budgetary processes to "climate-proof" public and private investments.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

27. **This is the second in a series of two lending operations aimed at supporting Grenada's efforts to maintain fiscal discipline and support the transition to a blue growth model**. 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

[17] The GPRS 2014-18 will be replaced by the National Sustainable Development Plan 2020-2035.
[18] 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.
[19] World Bank (2016) *Grenada: Blue Growth Coastal Master Plan*, Report No: AUS20778, Washington D.C
[20] For example, the Government Energy Efficiency Program targets a 10 percent reduction in government electricity use.

(through a previous DPC series[21]) and the IMF.[22] In this context, the reforms foreseen in this DPC series constitute the continuation of the fiscal reform agenda by putting emphasis on consolidating the gains of fiscal adjustment and supporting implementation of the effective fiscal framework. In addition, this series supports critical policy and institutional reforms to help Grenada harness the potential of its blue economy in a way that promotes economic growth, social inclusion, and the preservation or improvement of livelihoods while at the same time ensuring environmental sustainability of the oceans and coastal areas.

28. **The series' Program Development Objectives (PDOs) are to: (i) support long-term fiscal sustainability and strengthen fiscal resilience; and (ii) support Grenada's transition to a blue economy by strengthening coastal and marine management, marine ecosystem health, and climate resilience**. [23] The proposed DPC is aligned with key policy and institutional reforms defined in the GoG's development strategies and plans. It is also aligned with the World Bank's OECS Regional Partnership Strategy (RPS), and the priorities and recommendations of the WBG Small States Roadmap, including the predictability of affordable financing, measures to support debt sustainability and access to new climate financing, and diversification of small states' economies.

29. **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 (ICRR) for the Economic and Social Development Policy Loan and Credit (P117000) determined that a programmatic approach supporting a multi-year program would 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. The 2019 ICRR from the Programmatic Resilience-Building Development Policy Program reiterated these lessons, and highlighted the need to ensure realistic policy objectives and an incremental approach to difficult reform agendas, especially in light of capacity limitations.

30. **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.** Lessons from the most recent ICRR helped inform the design of the prior actions, especially under Pillar 1. The changes in the indicative triggers to Prior Actions for DPC2 reflect the principles of incremental approach to difficult reforms to ensure alignment with Government's priorities and ensure that sufficient Technical Assistance can be channeled to the Government to support reform implementation and sustainability.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

31. **The DPC-supported policy program was modified at the time of the preparation of the DPC2 due to some adjustments to the scope and timing of the Government's reform agenda as well as complementarities with the forthcoming CAT DDO operation.** Overall, the policy reforms under the DPC2

[21] Grenada First, Second and Third Programmatic Resilience Building Development Policy Credits (P147152, P151821, and P156761 respectively).
[22] Through the three-year Extended Credit Facility arrangement that expired in May 2017.
[23] The first part of the PDO has been revised in the second operation to reflect more precisely the targeted economic outcomes and to tighten the link between the prior actions and the results indicators.

gained momentum, especially under Pillar 2, where most indicative triggers were transformed into the prior actions. In addition, the program was strengthened by incorporating a new policy action – the plastic ban implementation plan (Prior Action 7). One indicative trigger from DPC1 (on public investment screening for resilience criteria) was moved to the CAT DDO operation under preparation due to its strong complementarity with the disaster risk management (DRM) agenda. The respective result indicator was also moved to the policy matrix of the CAT DDO. To ensure the monitoring of the DPC1 actions with respect to resilient infrastructure, a new result indicator was added to the DPC results framework (Result Indicator #9). The implementation of the reforms under Pillar 1 was somewhat slower, mainly due to financial and human resources capacity constraints, which delayed progress across several reform areas, most notably with respect to compensation management and contingent risk monitoring. As a result, the modifications of some indicative triggers were made to put more emphasis on the implementation side and incremental steps to the achievement of the program's PDO, which is in line with the recommendations of the recent ICRR. Modifications to the DPC policy program are summarized in Table 4.

Table 4. Indicative Triggers from DPC1 and Prior Actions for DPC2

Indicative Triggers	Prior Actions for DPC2	Comments and status
Pillar 1: Support long-term fiscal sustainability and strengthen fiscal resilience		
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.	**Prior Action #1:** The Recipient has approved amendments to the NTF Regulations to: (a) define the use criteria for the Contingency Fund; and (b) establish its governance framework, including its reporting and public accountability mechanisms, as evidenced by the National Transformation Fund (Amendment) Regulations, 2019 published in the Recipient's Government Gazette No. 47, Volume 137 of October 31, 2019.	Reworded with no material change to the substance of the policy action.
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.	**Prior Action #2:** The Recipient has adopted the Public Sector Wage Negotiation Policy to operationalize the Compensation Management Policy Framework in alignment with its national budget process and the Fiscal Responsibility Act, as evidenced by Cabinet Conclusion No. 856 dated June 17, 2019.	Amended to align with the Government's implementation timeline in this area.
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.	**Prior Action #3:** The Recipient has established collaboration between the Customs and Excise Division and the Inland Revenue Division with a view towards applying a risk-based approach to conduct post clearance audits, as evidenced by Cabinet Conclusion No. 1028 dated July 29, 2019.	Reformulated to focus on the policy and institutional aspects rather than a particular indicator (as in indicative trigger (b)).
Trigger #4: The Recipient has conducted a review of the tariff structures of selected SOEs, to identify cost inefficiencies and future capital investment needs.		Original trigger amended to align with the Government's implementation timeline in this area.

Trigger #5: The Recipient has presented an assessment of contingency risks in the Annual Fiscal Risk Report produced by the FROC.	**Prior Action #4:** The Recipient has: (a) approved the publication of SOE's aggregate annual financial information to enhance the fiscal transparency and accountability of SOEs; and (b) adopted a fiscal risk framework for quantifying contingent liabilities in SOEs to inform its annual fiscal risk statement, as evidenced by: (i) Cabinet Conclusion No. 721, dated May 27, 2019; and (ii) Cabinet Conclusion No. 695 dated May 27, 2019.	Partially revised to align with the implementation timeline of the Government and strengthen capacity. Technical Assistance was delivered to support the implementation of the policy.
Pillar 2: Support Grenada's transition to a blue economy by strengthening marine and coastal management, marine ecosystem health, and climate resilience		
Trigger #7:[a] 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.	**Prior Action #5:** The Recipient has enacted the Integrated Coastal Zone Management Act to regulate the integrated use, development, and protection of the coastal zone; as evidenced by the Recipient's Act No. 8 of 2019 dated August 22, 2019, as published on the Recipient's Government Gazette on August 23, 2019 (No 36, Volume 137).	Revised to align with the implementation timeline of the Government (Part (b)). GoG decided to conduct additional stakeholder consultations on the contents of the Nagoya Policy. Because of these steps in policy formulation, the proposed trigger would not be approved within the timeframe of the DPC2.
Trigger #6:[a] The Partnership Agreement between Sustainable Development Trust Fund (SDTF) and the Caribbean Biodiversity Fund (CBF) has been signed.	**Prior Action #6:** The Recipient, through the GSDTF, has entered into a partnership agreement with the Caribbean Biodiversity Fund to strengthen the funding arrangements for blue economy initiatives (environmental management, ecosystems conservation and climate resilience), as evidenced by the Partnership Agreement between the GSDTF and the CBF signed on June 17, 2019.	Reworded to elaborate on the substance of the policy action.
	Prior Action #7: The Recipient has approved an implementation schedule for the phase out of single-use plastic food containers, cutlery and plastic straws; as evidenced by the Non-Biodegradable Waste Control (Plastic Food Products) Order, 2019 (S.R.&O. No. 30 of 2019) issued by the Recipient's Minister with Responsibility for the Environment on October 31, 2019 and published in the Recipient's Government Gazette No. 50, Volume 137 of November 8, 2019	New prior action, which introduces specific norms for implementing the reforms initiated under the DPC1.
Trigger #8: The Recipient has adopted a system for screening PSIP investment proposals for climate resilience.		Original trigger was moved to the parallel CAT DDO operation due to its high complementarity with the DRM reform agenda.
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.	**Prior Action #8:** The Recipient has adopted a policy framework on sustainable public procurement introducing environmental sustainability requirements for public procurement contracts, as evidenced by Cabinet Conclusion No. 985, dated July 22, 2019.	Original trigger amended to align with the Government's implementation timeline in this area.

[a/] Order of Trigger 6 and 7 switched when formulating prior actions in DPC2.

32. **As a result, the second operation in the programmatic DPC series has two pillars encompassing eight prior actions.** Pillar 1 includes four prior actions covering key fiscal reforms that support fiscal sustainability and resilience through the implementation of the FRL, customs reforms and strengthened transparency and accountability of state-owned enterprises (SOEs). Pillar 2 includes four policy measures to strengthen environmental sustainability through the adoption of a time-bound plan for the implementation of the plastics ban and improved marine and coastal management.

Pillar 1: Support long-term fiscal sustainability and strengthen fiscal resilience

33. **Supporting fiscal resilience and compliance with the Fiscal Responsibility Law is a key Government priority.** While Grenada has successfully stabilized the economy and maintained fiscal discipline over the past few years, the question of sustainability over the medium and long term remains critical. In this context, the reform measures supported by the DPC2 are geared towards strengthening systems and institutions for fiscal sustainability. Specifically, reforms aim to build fiscal buffers against natural disasters through the operationalization of a contingency fund; strengthen wage bill sustainability through a new public wage negotiation policy that incorporates principles of fiscal sustainability and budget affordability; improve customs and excise operations; and strengthen transparency and risk monitoring of state-owned enterprises.

Prior Action #1: *The Recipient has approved amendments to the NTF Regulations to: (a) define the use criteria for the Contingency Fund; and (b) establish its governance framework, including its reporting and public accountability mechanisms, as evidenced by the National Transformation Fund (Amendment) Regulations, 2019 published in the Recipient's Government Gazette No. 47, Volume 137 of October 31, 2019.*

34. **Rationale.** The build-up of adequate fiscal buffers over the medium term can provide a source of liquidity for disaster relief in the aftermath of a disaster or other external shocks. The Government recognizes the need to strengthen its fiscal framework to make it more resilient to the frequent shocks faced by the island, while ensuring fiscal sustainability. In this context, the GoG has developed a Disaster Risk Financing Strategy, which uses a layered approach towards managing risks from natural disasters. [24] The Contingency Fund is an integral element of this strategy and provides financial resources to cover medium-size natural disasters, where the budget reserve might be insufficient and where insurance relief is not available. Grenada has already created the legal framework to institute contingency funding measures as part of the 2015 National Transformation Fund (NTF) Regulation but defining the rules under which the fund will operate, with strong links to the fiscal framework, is critical to achieve counter cyclical fiscal policy and debt sustainability.

35. **Substance of the prior action:** The prior action provides necessary implementation regulation to

[24] Elements of the DRF Strategy already in place in Grenada include budgetary reserves and parametric sovereign insurance through the Caribbean Catastrophe Risk Insurance Facility (CCRIF). The continency fund and a contingent credit line through the World Bank Catastrophe Deferred Drawdown Option (Cat DDO) are additional elements under development.

operationalize the Contingency Fund.[25] It supports amendments to the NTF Regulations 2015 that established the Contingency Fund, defining: (i) the objectives of the fund, putting emphasis on the use of financial resources for the relief, recovery and reconstruction costs from a national disaster; (ii) the rules of accumulation of the fund; and (iii) the rules of use of the fund in line with the objectives of the fund and the fiscal rules under the FRL. In addition, the regulation defines the governance structure of the Contingency Fund as being aligned with that of the National Transformation Fund. The amendments to the regulation further separate the ownership and management roles of the Contingency Fund assets by designating the ECCB to carry on the operational execution of the investment decisions of the assets on behalf of the owner (the Government of Grenada). The regulation also specifies the transparency and accountability framework for the Contingency Fund, by mandating regular audits and publication of the fund's financial information on the Government's website.

36. *Expected results*. The regulations supporting the Contingency Fund are expected to build fiscal buffers and strengthen fiscal resilience to natural hazards. This is proxied by the aggregated inflows into the Contingency Fund. Baseline (2018): EC$ 0; Target (2020): EC$ 10,000,000.

Prior Action #2: *The Recipient has adopted the Public Sector Wage Negotiation Policy to operationalize the Compensation Management Policy Framework in alignment with its national budget process and the Fiscal Responsibility Act, as evidenced by Cabinet Conclusion No. 856 dated June 17, 2019.*

37. **Rationale:** Effective management of the public sector wage bill has been one of the main priorities of the Government due to its importance to fiscal sustainability and overall public sector productivity. The public sector wage bill-to-GDP ratio was close to 11 percent in 2013, before it was reduced under the IMF Program to around 8.2 percent in 2017. The incorporation of the wage bill expenditure rule into the Fiscal Responsibility Act in 2015 helps to ensure that fiscal discipline will be maintained. Nonetheless, the bulk of the previous adjustment of the wage bill was delivered through a combination of a nominal freeze and hiring restraints without tackling the structural challenges. Supported by the DPC1, the Government approved the Compensation Management Policy Framework, which laid out the key elements of the public employment reform. The guidelines and standards included in DPC2, in particular on the wage negotiations policy, are important components of the structural change and steps in the implementation of the full-fledged compensation policy framework.

38. **Substance of the prior action:** The Public Sector Wage Negotiation Policy 2020-2022 will play an important role in the context of the country's efforts to improve the collective bargaining process, which has been largely ad hoc in the past, and to better manage fiscal risks. Traditionally, wage negotiation practices have been characterized by the absence of formally documented policy and operational guidelines, as well as retroactive wage settlements. The policy contains provisions and guidelines for wage negotiations, which consider fiscal sustainability and wage bill affordability concerns and explicitly links the wage bill envelope with the fiscal rule. This requires that compensation be determined and managed in a manner that will ensure that the total expenditure on wages/salary and benefits adhere to the fiscal responsibility parameters, which dictate that spending on the wage bill cannot exceed 9 percent of GDP.

[25] While there might be an opportunity cost of establishing contingency fund in the context of a high debt country, the current design of the fund is aligned with country's macroeconomic framework and the Fiscal Responsibility Legislation. The Contingency Fund has also been endorsed as a suitable financing instrument in the joint IMF-World Bank Climate Change Policy Assessment (CCPA) for Grenada.

In addition, the new policy prohibits the retroactive wage settlements which in the past were the key source of pressures on the spending side. The policy is fully aligned with the budget cycle, and includes clear procedures, including a clear timeline for negotiations, thereby increasing predictability and transparency of the process. The policy follows international good practice in terms of ensuring an inclusive and transparent approach that has characterized wage negotiations between the GoG and its social partners and provides for non-binding mediation to help negotiations and reduce conflict. The wage negotiation framework puts a strong emphasis on data-driven negotiations whereby all parties will get access to comprehensive information regarding data on wage comparators with the private sector, evolutions of wages in the public sector as well as all relevant information regarding the implementation of wage agreements.

39. *Expected results.* The fiscal measures supported by the DPC are expected to ensure continued adherence to the fiscal rules. In addition, the improved wage negotiation framework will help prevent retroactive wage adjustments, thereby leading to more controlled public wage spending. The result indicator for the DPC series is focused on the real increase in the public wage bill at the central government level, aggregated over time. From a baseline of EC$ 240.4 million in 2016, the wage bill is expected to increase less than 9 percent in real terms by 2020.

Prior action #3. *The Recipient has established collaboration between the Customs and Excise Division and the Inland Revenue Division with a view towards applying a risk-based approach to conduct post clearance audits, as evidenced by Cabinet Conclusion No. 1028 dated July 29, 2019.*

40. **Rationale:** Customs revenues account for almost 40 percent of tax revenues in Grenada (VAT on imports and custom duties). The Customs and Excise Division (CED) has undergone major reforms in the past few years. The new Customs Bill from 2015 and the expansion of the Automated System for Customs Data (ASYCUDA) led to higher tax revenue collections under the IMF-supported program. Nonetheless, the CED continues to suffer from administrative shortcomings with respect to its internal processes, ineffective information sharing, and fragmented and vulnerable information systems that hinder compliance and enforcement, resulting in lost revenues. The core objective of post-clearance audits is to collect forgone revenues due to undervaluation, misclassification, wrong tax exemption declaration and noncompliance on origin for exemption. International experience shows that post-clearance audits can be effective in improving collection as control can be deepened beyond typical physical inspection conducted at the port. Combining it with participation of tax administration allows for a more comprehensive control of the whole tax chain. Going forward, there is a need to strengthen intra-agency collaboration and coordination to further improve customs revenue and efficiency.

41. **Substance of the prior action:** The DPC2 continues to support the implementation of the amendments to the Customs Act of 2015, focusing on operational reforms and the effective use of risk management selection coordinated with the internal revenue service. The Operating Guidelines between the Inland Revenue Division and Customs and Excise Division establish procedures for exchange of information between Customs and Inland Revenue, and the implementation of Customs post-clearance audits carried out by Inland Revenue officials at the Customs unit. While the initial agreement is binding for 12 months, it will be automatically renewed and will be reviewed before the end date with a view to assessing delivery against the stated objectives. It is expected that the operational improvements will create a more robust risk management system that will be able to detect instances of noncompliance with

greater precision and in a more cost-effective manner in both Customs and Inland Revenue, as well as improve release times for importers, thereby becoming a permanent measure. By allowing exchange of information between Customs and Inland Revenue, both will have improved abilities to detect noncompliance thus better focusing auditing activities and improving revenue collection.

42. *Expected results.* The 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 is expected to increase to 5 per year relative to the 2016 baseline of 3 successfully targeted post-clearance audits, leading to increased revenue collection and better efficiency.

Prior Action #4: *The Recipient has: (a) approved the publication of SOE's aggregate annual financial information to enhance the fiscal transparency and accountability of SOEs; and (b) adopted a fiscal risk framework for quantifying contingent liabilities in SOEs to inform its annual fiscal risk statement, as evidenced by: (i) Cabinet Conclusion No. 721, dated May 27, 2019; and (ii) Cabinet Conclusion No. 695 dated May 27, 2019.*

43. **Rationale:** Information disclosure and higher standards of accountability in SOEs can contribute to improved efficiency and performance. Information disclosure including both financial and non-financial data is essential for the government to be effective in its capacity as owner; the legislative arm to evaluate the performance of the state as an owner; the media to raise awareness on SOE efficiency; and taxpayers and the general public to have a comprehensive picture of SOE performance.[26] The GoG has, over the past few years, implemented a robust data collection system for both financial and non-financial information on SOE performance, becoming a regional leader in SOE monitoring and oversight. An innovative and user-friendly monitoring template for Key Performance Indicators (DPC1 prior action) was approved by the Cabinet in 2018. In addition, extensive monitoring of the SOE financial indicators, implemented under the IMF Program, provided the Government with important data regarding the performance of the sector. Despite the extensive monitoring efforts, the available information on the SOE sector is used only by the MOF for internal decision making and not publicly available, hence the benefits of extensive data collection are not fully realized. The Government recognizes that there are significant fiscal risks associated with the SOE sector in Grenada. SOEs contingent liabilities include non-guaranteed SOE debt, which amounted to EC$501.1 million (or 16.5 percent of GDP) as of end-September 2018, and other liabilities, including from the national pension scheme.[27] However, the majority of contingent liabilities (11.5 percent of GDP) is due to the Petro Caribe arrangement with Venezuela.[28] However, it should be noted that Petro Caribe Grenada has considerable assets which can be used to meet a portion of its financial obligations. Contingent liabilities from SOEs are a source of fiscal risks that are not included in

[26] Transparency and disclosure measures for state-owned enterprises (SOEs): Stocktaking of national practices, OECD, 2016.
[27] Regarding the liabilities related to the national pension scheme, the recent initiatives related to increasing the contribution rate and the retirement age will help alleviate the financial pressures. Thus, according to the Government it is unlikely, that it will incur any liabilities associated with the National Insurance Scheme is the foreseeable future.
[28] Technical Assistance: Presentation of the Toolkit and Guidelines for Contingent Liabilities (World Bank, March 2019).

the fiscal and debt indicators, hence remaining outside the scope of fiscal authorities' monitoring and control. Some SOEs have large future capital spending plans while funding sources remain uncertain, others have large unfunded pension liabilities.[29] Volatility in the capital markets and volatility associated with climate risks mean that there are considerable fiscal risks for the sector and implicitly for the Government. The Ministry of Finance (MoF) has continuously enhanced its monitoring and oversight function through innovative tools, but the information collected was not adequately utilized and made limited contribution to decision making.

44. **Substance of the Prior Action:** The GoG is committed to further enhancing transparency and accountability of the SOE sector. In line with the OECD recommendations for Transparency and Disclosure Measures, the Government decided to make the aggregate financial information on the SOE sector publicly available. The aggregate reporting allows for a comprehensive picture of the overall performance of SOEs. In terms of financial information, the Government will make publicly available aggregated data related to SOE turnover, profit, cash flow from operating activities, gross investment, return on equity, equity/asset ratios and dividends. In order to strengthen public debt management and fiscal responsibility, the GoG has adopted a methodology that can be used to quantify SOE contingent liabilities in the annual fiscal risk statement which is annexed to the budget speech. The adopted methodology classifies contingent liabilities into different groups depending on whether the obligation of the government is legal (explicit liabilities) or moral (implicit liabilities), according to the methodology developed by Brixi and Schick (2002).[30] Once the sources of contingent liabilities are identified, the toolkit allows for their quantification as maximum possible realization or as estimate of expected losses. The toolkit can be further extended to assess the realization of the identified contingent liabilities on the fiscal aggregates and debt sustainability analysis of Grenada.

45. *Expected results.* The Government is expecting that the proposed measures will improve SOE performance and limit related fiscal risks. Enhanced transparency should strengthen Government's oversight and motivate improvements in the SOE performance. Given that the successful implementation of these measures is directly linked to availability of high-quality data, the DPC series result indicator aims to ensure that by 2020, 100 percent of the SOEs will follow the requirements to submit the relevant information to the MoF. The developed methodology will aid the MoF in identifying and quantifying estimates of contingent liabilities for the SOE sector, to be included in the Annual Fiscal Risk Statement. Through improved monitoring and analysis, over the medium-term, the Government will be better prepared to manage fiscal challenges if contingent risks materialize.

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

46. **Pillar 2 supports the Government's efforts towards growing a blue economy, by strengthening marine and coastal management and climate resilience.** 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 – such as seafood, tourism and recreation, transportation, and coastal protection – that

[29] Some SOEs have taken steps to create funds to meet the future obligations in accordance with the mandate expressed in the Letter of Expectations issued in 2015.
[30] See "Government at Risk", 2002.

contribute to fuel the country's economy, to reduce the country's vulnerability to natural disasters, and to promote sustainable livelihoods. However, those assets are undermined by unsustainable practices, including poorly planned coastal development, land-based and marine pollution, and unsustainable fishing, agriculture, energy and unplanned and unregulated tourism and construction activities. Climate change impacts, such as sea level rise and storm surges, exacerbate the pressures on marine and coastal ecosystems. Extreme weather events, particularly hurricanes and tropical storms, also disrupt livelihoods and economic production, destroy physical infrastructure, and impose high public and private costs for reconstruction and rehabilitation. Moreover, most development and infrastructure in Grenada are concentrated on the coast, and significant populations live in low-lying coastal areas. In this context, the Government has embarked on various reforms to ensure sustainable use of natural resources, while increasing adaptation and resilience to the impacts of climate change.

Prior Action #5: *The Recipient has enacted the Integrated Coastal Zone Management Act to regulate the integrated use, development, and protection of the coastal zone; as evidenced by the Recipient's Act No. 8 of 2019 dated August 22, 2019, as published on the Recipient's Government Gazette on August 23, 2019 (No 36, Volume 137).*

47. **Rationale.** The marine and coastal environment is threatened on several fronts, including: (i) habitat degradation and community modification; (ii) inadequate coastal development and destruction of marine ecosystems, such as coral reefs and mangroves; (iii) unsustainable and illegal fisheries practices; (iv) land- and ship-based pollution; (v) unregulated extraction of sand and aggregates; (vi) anchor damage to coral reefs; and (vii) marine invasive species. Climate change effects are also impacting Grenada's ocean and coastal environment, including through observed and anticipated coral bleaching, ocean acidification, fish migration, and drowning wetlands due to sea level rise. With the ocean and coastal environment throughout Grenada as the main driver of tourism and other key economic activities, protecting and enhancing those natural assets and making them resilient to climate change are also crucial for fiscal and economic resilience. Additionally, in line with its Blue Growth Vision and Coastal Master Plan, the GoG has embarked on a series of interventions to promote blue innovation, including initiatives to showcase the country's marine and coastal environments, as well as to attract investments for new economic activities that can optimize marine and coastal resources, such as biotechnology development. For example, the GoG has taken steps to establish the National Ocean and Coastal Governance Committee (NOCGC) to strengthen its capacity for marine and coastal management. The committee will be comprised of State agencies with responsibilities over maritime affairs and marine resources management, the private sector and civil society. NOCGC will also be responsible for liaising with the OECS in the Caribbean Regional Oceanscape Project (CROP), an initiative that will finance Grenada's marine zoning plans.

48. **Substance of the prior action.** Grenada has initiated major efforts to increase the resilience of marine and mangrove ecosystems and to ensure habitats, species and fish stocks are preserved. The ICZM Act establishes an 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 provides for the establishment of a coastal zone management area and associated authority, the development of an ICZM Plan, and the formulation of regulations and policies for the preservation, protection and enhancement of coastal resources.

49. *Expected Results.* With the gazettement of the Grand Anse MPA, supported by DPC1, combined with the long-term financing mechanisms for protected areas and other blue growth-enabling policy

actions, Grenada is expected to reach its commitment under the Caribbean Challenge Initiative 2020 to place 20 percent of its marine and coastal area under protection. Those measures, coupled with the implementation of the ICZM Act, provide an integrated coastal and marine framework to restore the health and management of the marine and coastal areas, avoid further degradation, improve their resilience to observed and anticipated climate change impacts and offer sites for income generation through tourism, biotechnology, and sustainable fisheries. This will be measured by the increase in the share of Marine Protected Area coverage in relation to the country's territory. Baseline (2016): 3 percent of the Grenada's territory; Target (2020): 20 percent of the Grenada's territory.[31]

Prior Action #6: *The Recipient, through the GSDTF, has entered into a partnership agreement with the Caribbean Biodiversity Fund to strengthen the funding arrangements for blue economy initiatives (environmental management, ecosystems conservation and climate resilience), as evidenced by the Partnership Agreement between the GSDTF and the CBF signed on June 17, 2019.*

50. **Rationale**. Limited institutional capacity and scarce financial resources for conservation and sustainable development initiatives in areas of environmental significance add further pressure to the marine and coastal environment. Funding streams should be composed of a wide number of sources, such as regular government budget, revenues from fiscal instruments (including environmental),[32] official development assistance, private investment, and other instruments such as green bonds, payments for environmental services, or carbon finance. Transparency in allocating and using funds also raises confidence that funding streams will be used to achieve agreed objectives and can help attract further sources of financing. In 2015, the GoG created GSDTF as a non-profit public-interest entity to provide long term and reliable funding to support the management of the country's marine and terrestrial resources, with special emphasis on marine ecosystems. However, the GoG has not regulated GSDTF's potential revenue sources[33] and there were no budgetary allocations from the GoG to the newly created institution. For those reasons, the GSDTF received its first resources only in 2018 from the CBF's pre-financing window. Those funds were mainly used for preparing GSDTF's application to CBF membership, rather than financing and implementing conservation projects.

51. **Substance of prior action.** The GoG has strengthened the funding arrangements for blue economy initiatives (environmental management, ecosystems conservation and climate resilience) through the GSDTF by signing a partnership agreement with the Caribbean Biodiversity Fund (CBF). To secure financial sustainability, this partnership agreement allows the GSDTF to receive regular financing, subject to matching requirements, from the regional CBF, which was established in 2012 with a capital endowment of more than US$34 million. This milestone along with other sources of revenues will secure financial

[31] The share of marine protected areas coverage in relation to the country's territory is calculated as an extension of 100 meters from the shoreline into the ocean as the limit for the protected area rather than the entire exclusive economic zone (EEZ).
[32] World Bank, IMF, OECD, DFID, GIZ DGIS, 2005. *Environmental Fiscal Reform: What should be Done and How to Achieve It*. World Bank Group, Washington, DC, USA.
[33] As per article 13.1 of its By-Laws, the GSDTF can receive resources from the following sources: (a) revenues of the Sustainable Finance Mechanisms; (b) income generated from the Endowment Fund, if any; (c) public and private donations from national and international sources; (d) any budgetary allocations from the Government of Grenada; (e) any CBF Disbursements; (f) any other money lawfully contributed, donated, or bequeathed to the Company or received by the Company from any other source; and (g) gifts and bequests. However, the GoG needs to adopt additional legal instruments (i.e. regulations on Sustainable Finance Mechanisms; agreement with CBF to create an Endowment Fund; specific provisions in annual budget; among other) to ensure that those potential sources allocate funds to GSDTF.

sustainability for the health of the marine ecosystems and its proper management. Additional sources of revenues include the regular budget allocation from the GoG, as well as other potential sources including the private sector. Addressing the lack of reliable funding for the protection of natural assets, the GSDTF will provide a sustainable flow of funds to support enforcement, infrastructure, monitoring needs and other activities that contribute substantially to: (i) conservation of the biodiversity and natural ecosystems; (ii) climate change mitigation and adaptation; and (iii) other environmental conservation activities associated with human development and pollution. The GSDTF will award grants to government agencies, NGOs and other qualifying entities for priority conservation and environmental management projects in Grenada, including projects to support tourism, livelihoods and various other sustainable initiatives. One of the funding windows will support grants to create sustainable livelihoods, including projects targeting women and girls. In addition, all grant proposals are required to have sex-disaggregated data and to include a gender analysis in their design. All these initiatives, in combination with other DPC-supported policies, will contribute to addressing leading human-generated threats to the ocean and coastal environment, while contributing to a blue economy. As a key principle, the GSDTF-financed initiatives will focus on nature-based solutions for mitigating and adapting to the impacts of climate change on people and their environment, such as coastal habitat restoration.

52. *Expected results***.** It is expected that a strengthened GSDTF will facilitate the protection of Grenada's marine and coastal environment, while promoting sustainable development and livelihoods. The GSDTF is expected to build capacity within Grenada's institutions for strengthened surveillance, oversight and enforcement of marine protected areas and other areas of environmental significance. A stronger GSDTF will also improve the government´s ability to reach its target under the Caribbean Challenge Initiative to protect 20 percent of its near shore marine and coastal resources by 2020. Likewise, considering the extent of environmental and climate sensitivities of coastal zones and related marine resources, their sustainable use and management will also improve climate resilience. Considering that the timeframe for approving and implementing the first GSDTF grants will go beyond the timeframe of the DPC series, the outcomes of this prior action will be measured by an increase in the number of revenue sources contributing annually to the GSDTF. Baseline (2019): 0; Target (2020): 2.

Prior Action #7: *The Recipient has approved an implementation schedule for the phase out of single-use plastic food containers, cutlery and plastic straws; as evidenced by the Non-Biodegradable Waste Control (Plastic Food Products) Order, 2019 (S.R.&O. No. 30 of 2019) issued by the Recipient's Minister with Responsibility for the Environment on October 31, 2019 and published in the Recipient's Government Gazette No. 50, Volume 137 of November 8, 2019.*

53. **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 nearby 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. Climate change exacerbates the impacts of marine pollution and weakens the resilience of some marine species, since increased pollution may make coral reefs more vulnerable to climate change and harm biodiversity. 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. 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.[34] 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 of plastic bags or related items at the national or sub-national levels.[35]

54. **Substance of the prior action.** The Government enacted the Non-Biodegradable Waste Control Act No. 9 in August 2018 which facilitated the implementation of the ban on imports of non-biodegradable materials under DPC1. The GoG has already phased out Styrofoam containers (no imports starting September 1, 2018; no sale after March 1, 2019), and is in the process of implementing the phase out of single-use plastic bags (no imports after February 1, 2019; no sale after December 1, 2019). As part of DPC2, the Government has approved a timeline for phasing out single-use plastic food containers, cutlery and straws used in the sale or provision of food for consumption:[36] no imports or manufacture after March 1, 2020; no sale or offer for sale after September 1, 2020; no person owning or in charge of food premises should sell or offer for sale after March 1, 2021. As part of the phased approach, firms affected by the ban have been offered a zero rate on the VAT for one year on the alternative to the non-biodegradable materials, and a one-year grace period to deplete the stock of the banned plastic products. To ensure effective implementation of the ban, the Government set forth an Implementation Plan to phase out these non-biodegradable materials aimed at increasing stakeholder awareness about requirements of the ban (for example, key deadlines and alternative products) and enhancing capacity of public agencies mandated with enforcing the new regulations, such as the Ministry of Climate Resilience, the Ports, Customs and Excise Authority, and the Grenada Solid Waste Management Authority. This prior action is an extension to the measure supported under DPC1 and complements the GoG commitments to phase out all non-biodegradable materials. Overall, these actions will mitigate plastic pollution which will contribute to improved conditions for ecosystem restoration, rehabilitation and recovery in Grenada.

55. *Expected results.* This prior action addresses the harmful effects of non-biodegradable products on the marine and coastal environment. Using the importation of banned items as proxy for domestic use, the results of this prior action will be measured by a reduction in import volume of Styrofoam food containers, single use plastic bags, and disposable plastic plates, forks and spoons. Baseline (2016): Imports of Styrofoam food containers: 3007 pallets; single use plastic bags: 6,975,308; disposable plastic plates: 2,697 pallets; forks and spoons: 1,838 pallets. Target (2020): Imports volume of Styrofoam food containers; single use plastic bags; and disposable plastic plates, forks and spoons: zero.

[34] 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 Hygiene, 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.

[35] 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 as Barbados and The Bahamas that recently announced bans on single-use plastics by 2020.

[36] Food container is specified as single use plastic plates, cups or glasses; and cutlery refers to single use plastic forks, spoons, sporks or knives.

***Prior Action #8**: The Recipient has adopted a policy framework on sustainable public procurement introducing environmental sustainability requirements for public procurement contracts, as evidenced by Cabinet Conclusion No. 985, dated July 22, 2019.*

56. **Rationale:** Grenada's National Sustainable Development Plan 2035 sets outcomes and targets under the themes of economy, environment, society and governance. An important aspect of the implementation of the Plan is related to improving the sustainability of the Government's activities. Since the Government is the single largest purchaser of goods, services and civil works on the island, spending some EC$ 138 million annually on goods and services and a further EC$ 50 million on fuel, this represents an invaluable opportunity for the Government to leverage its influence on procurement to provide leadership in improving environmental, economic and social sustainability. Based on a procurement spend analysis conducted by the Bank in 2018, public authorities buy—often in relatively large quantities—goods, works and services which directly impact the environment or contribute to greenhouse gas emissions, including cars, buses, computers, printers, paper, lighting, refrigeration and air conditioning equipment, construction works and trash collection services. To date, the Government has set no environmental standards for the many different types of purchases that it makes. Under a Policy on Sustainable Public Procurement, the Government will introduce mandatory requirements in areas such as energy efficiency, fuel consumption, use of recyclable materials (for paper and stationery, for example) and, in so doing, will harness public procurement as a powerful tool to promote environmentally responsible purchasing behavior and to change the functioning of supply markets by taking into account sustainability considerations when procuring goods, civil works and services as inputs into the delivery of public services. The sustainable procurement policy will also contribute to climate change mitigation through associated GHG emissions reductions from mandatory energy efficiency standards.

57. **Substance of the prior action**: The Government has adopted a Framework Policy on Sustainable Public Procurement, which is binding on all public agencies governed by the Public Procurement Act. The Policy will materially change the way Government purchases by introducing mandatory requirements relating to, firstly, environmental sustainability of its purchases and, incrementally, social and economic sustainability requirements. Early actions that have already been decided upon by the Government include adopting a coordinated approach to purchasing high-volume / high-value goods starting with office equipment and stationery, which offer an opportunity to make products and services more sustainable, as well as delivering value for money by consolidating spending. Under the Sustainable Public Procurement Policy, in procuring these items, the Government will define minimum environmental requirements in technical specifications and apply environmental criteria in the evaluation of bids leading to the award of government-financed contracts.

58. *Expected results.* The prior action on the adoption of a Framework Policy on Sustainable Public Procurement will contribute directly to the PDO on supporting Grenada's transition to a blue economy by introducing mandatory requirements that all public agencies governed by the Public Procurement Act should take sustainability into account when planning and implementing their procurement programs. The DPC measurable indicator to reflect Government's progress in procurement targets that at least 25 percent of annual government contracts for the purchase of goods should be governed by sustainability requirements by 2020.

Table 5: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar 1: Support long-term fiscal sustainability and strengthen fiscal resilience	
Prior Action #1: The Recipient has approved amendments to the NTF Regulations to: (a) define the use criteria for the Contingency Fund; and (b) establish its governance framework, including its reporting and public accountability mechanisms, as evidenced by the National Transformation Fund (Amendment) Regulations, 2019 published in the Recipient's Government Gazette No. 47, Volume 137 of October 31, 2019.	A "Rainy Day Fund" for Small Caribbean Islands vulnerable to Shocks and Natural Disasters. (World Bank transcript, 2017) Principles for Operationalization of a Contingency Fund in Grenada (World Bank TA mission note, Feb 2019) Fiscal Rules and Economic Size in Latin America and the Caribbean (World Bank, 2018). Advancing Disaster Risk Finance in Grenada (World Bank, 2017) Grenada Climate Change Policy Assessment July 2019. IMF Country Report No. 19/193 (IMF-World Bank).
Prior Action #2: The Recipient has adopted the Public Sector Wage Negotiation Policy to operationalize the Compensation Management Policy Framework in alignment with its national budget process and the Fiscal Responsibility Act, as evidenced by Cabinet Conclusion No. 856 dated June 17, 2019.	Technical Assistance: Comments to the Wage Negotiation Framework for Grenada (World Bank, March 2019); Technical Assistance: Functional review for the newly established Climate Resilience Ministry (World Bank, 2018) Managing the Public Wage Bill. Technical Assistance Report for Grenada. September 2016. Washington, D.C. IMF. (IMF, 2016)
Prior Action #3. The Recipient has established collaboration between the Customs and Excise Division and the Inland Revenue Division with a view towards applying a risk-based approach to conduct post clearance audits, as evidenced by Cabinet Conclusion No. 1028 dated July 29, 2019.	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: (a) approved the publication of SOE's aggregate annual financial information to enhance the fiscal transparency and accountability of SOEs; and (b) adopted a fiscal risk framework for quantifying contingent liabilities in SOEs to inform its annual fiscal risk statement, as evidenced by: (i) Cabinet Conclusion No. 721, dated May 27, 2019; and (ii) Cabinet Conclusion No. 695 dated May 27, 2019.	Technical Assistance: Presentation of the Toolkit and Guidelines for Contingent Liabilities (World Bank, March 2019) SOE Sector Assessment Policy Note, WB, 2018 CARTAC Annual Report 2018 Review of the Financial Performance of SOEs and Analysis of Restructuring Options, CARTAC, 2014
Pillar 2: Support Grenada's Transition to a Blue Economy by Strengthening Marine and Coastal Management, Marine Ecosystem Health, and Climate Resilience	
Prior Action #5: The Recipient has enacted the Integrated Coastal Zone Management Act to regulate the integrated use, development, and protection of the coastal zone; as evidenced by the Recipient's Act No. 8 of 2019 dated August 22, 2019, as published on the Recipient's Government Gazette on August 23, 2019 (No 36, Volume 137).	GIZ 2017. Financing Diversity: Identification and Analysis of Financial Sector Instruments and Initiatives for Biodiversity.
Prior Action #6: The Recipient, through the GSDTF, has entered into a partnership agreement with the Caribbean Biodiversity Fund to strengthen the funding arrangements for blue economy initiatives (environmental management, ecosystems conservation and climate resilience), as evidenced by the Partnership Agreement between the GSDTF and the CBF signed on June 17, 2019.	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*.
Prior Action #7: The Recipient has approved an implementation schedule for the phase out of single-use plastic food containers, cutlery and plastic straws; as evidenced by the Non-Biodegradable Waste Control (Plastic Food Products) Order, 2019 (S.R.&O. No. 30 of 2019) issued by the Recipient's Minister with Responsibility for the Environment on October 31, 2019 and published in the Recipient's Government Gazette No. 50, Volume 137 of November 8, 2019.	Diez, S.M., Patil, P.G., Morton, J., Rodriguez, D.J., Vanzella, A., Robin, D.V., Maes, T., Corbin, C. (2019). Marine Pollution in the Caribbean: Not a Minute to Waste. Washington, D.C.: World Bank Group. 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. Grenada (2017) Grenada National Climate Change Policy and Action Plan 2017-2021.
Prior Action #8: The Recipient has adopted a policy framework on sustainable public procurement introducing environmental sustainability requirements for public procurement contracts, as evidenced by Cabinet Conclusion No. 985, dated July 22, 2019.	Technical Assistance: Procurement Spending Analysis, 2018.

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

59. **This DPC series is closely aligned with country engagement products for Grenada –** World Bank Group's FY2015-19 Regional Partnership Strategy (RPS) for the Organisation of the Eastern Caribbean States (OECS), discussed by the Executive Directors on November 13, 2014, and extended through FY2020; and the Performance and Learning Review (PLR) discussed by the Executive Directors on May 23, 2018**.** The DPC series contributes to the following RPS objectives: (i) improved budget management and transparency; (ii) strengthened capacity to manage PPPs; and (iii) increased capacity to manage natural hazards. The PLR added a strong focus on macroeconomic and fiscal policies. In addition, the Systematic Regional Diagnostic (SRD) for the OECS, discussed by the Executive Directors in June 2018, presented substantial evidence on the main constraints to inclusive growth and poverty reduction in the OECS. The SRD identified five priority areas for revamping inclusive and sustainable growth, two of which are directly supported by this DPC series: (i) building resilience to external shocks from a 360° perspective, and (ii) embedding growth in a blue economy. 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. The operation is also consistent with the World Bank Group's roadmap for small states engagement.[37]

60. **The DPC series is further complemented by other World Bank financed operations.** Reforms under Pillar 1 will be partly supported under the Disaster Risk Management DPC with a Catastrophe

[37] World Bank. 2017. *Small states: a roadmap for World Bank Group engagement*. Washington, D.C.: World Bank Group. https://hubs.worldbank.org/docs/ImageBank/Pages/DocProfile.aspx?nodeid=27525978

Deferred Drawdown Option (Cat DDO) currently under preparation[38], the Regional Fiscal ASA Caribbean Project[39], the Revisiting Resilience in the Caribbean project[40], and the Support for Economic Management in the Caribbean (SEMCAR) Program (with Canadian funding).[41] Under SEMCAR Phase I (closed in August 2017), support was 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. In addition, Phase II of the Program (EFO funding[42] approved in September 2017) focuses on building resilience to natural disasters by strengthening PFM capacity through custom-made tools and technical assistance, aligned with best practices. More specifically, technical assistance (TA) has been 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.

61. **Reforms supported under Pillar 2 of the DPC series are similarly complemented**. The Caribbean Regional Oceanscape Project (CROP) (P159653) 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 Bank's non-lending Technical Assistance Program has supported Grenada in the development of the *Blue Growth Vision and Coastal Master Plan.*

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

Consultations:

62. **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. Specifically, with regard to the policies supported by DCP2, the approval of the Integrated Costa Zone Management Act was proceeded with a series of discussions with multiple stakeholders. As the Government now moves with the implementation arrangements further consultations are held to discuss new initiatives, for example the creation of the new protected areas. The civil society also plays an important role in effective

[38] The Cat DDO (P171465) is a contingent credit line proposed as an important element of ex ante disaster risk financing in Grenada.
[39] The Regional Fiscal ASA Caribbean project (P169774) supports the Caribbean region in building macroeconomic resilience to shocks through the implementation of fiscal responsibility frameworks, including fiscal rules and disaster contingency funds.
[40] Revisiting Resilience in the Caribbean: 360 degrees approach (P172318)
[41] Inclusive Economic Management in the Caribbean Program (SEMCAR Phase II) (P160774).
[42] The Externally Financed Output (EFO) instrument is a streamlined alternative for donors seeking to support the Bank's work with contributions below US$2 million.

implementation of the regulations. With regard to the implementation of the plastic ban, the approved action plan (DPC2 Prior Action) is also accompanied with broad consultations, analytical work and planned information campaign – supported through the World Bank technical assistance.

Collaboration with Other Development Partners:

63. **The content of this DPC series is aligned with the programs of the country's development partners.** Grenada collaborates with several bilateral and multilateral agencies, including the European Union, Global Affairs Canada, the United Kingdom's Department for International Development, the U.S. Agency for International Development, the German International Development Agency (GIZ), and the Caribbean Development Bank. 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.

64. **Technical assistance (TA) in various areas has been (and will continue to be) provided to sustain 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.[43] 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. The GIZ is also financing the Climate Resilient Water Sector in Grenada (G-CREWS) Project which will entail a tariff review of the water utility.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

65. **The poverty and social impact of the policy measures supported by this DPC is expected to be neutral in the short term and positive in the medium term.** The analysis assesses the effects of the prior actions on poverty and shared prosperity as well as other social indicators such as labor market outcomes and health. The analysis relies on information from labor force survey 2017, and a qualitative analysis is used to assess possible poverty and distributional impacts. The policy measures supported by the series are designed to build resilience and improve sustainability, contributing to sustainable growth and poverty reduction.

66. **Prior actions under Pillar 1 are not expected to have direct impacts on poverty. However, the policies are expected to have positive indirect impacts on poverty through accountability in fiscal management.** Sound fiscal management is essential for long-term and sustainable economic growth while the operationalization of the contingency fund can potentially reduce the impact of external risks on the

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

fiscal accounts, thereby protecting spending from across the board and ad hoc consolidation measures, which often fall onto the poor and vulnerable. The compensation management policy framework supported under DPC 1 that makes public sector wage negotiations more transparent could potentially support private sector employment by strengthening links between wage growth and productivity, thereby lowering high reservation wages in the labor markets. Preliminary estimates indicate that, controlling for other characteristics, public employees on average earn 14 percent more than private sector employees. In addition, more than 85 percent of them are skilled labor or are from the top 60 percent of the asset distribution. Since public sector jobs compose 19 percent of total jobs in the economy, high public-sector wages could have a wage-push effect on the entire economy. Several studies support that a loose wage policy and high public sector wages lead to a wage demonstration effect in Grenada, contributing to rising labor costs and disparity between real wages and productivity in other sectors. As the unemployed are more likely to constitute poor households, the positive indirect distributional impacts through labor market adjustment can be expected from this prior action. While this measure is expected to help alleviate poverty over the medium-term, the policy has important redistributive implications for the affected group of public employees whose remuneration will now be governed by fiscal sustainability considerations, in addition to labor productivity and unions' bargaining power. The distributional impact of the new wage negotiation policy needs to be monitored to protect affected groups and ensure that the public sector can attract and retain the necessary workforce.

67. **Prior actions under Pillar 2 are expected to have positive impacts on the poor and the vulnerable by promoting sustainability of marine ecosystems.** Sustainable use of marine and coastal resources is expected to benefit the poor and the vulnerable in fisheries and aquaculture over the medium term. Sustainable fisheries management and restoration and conservation of coastal and marine habitats were perceived as the most important climate smart practice by 43 percent of fishermen and fishing vessel owners from Caribbean Regional Fisheries Mechanism (CRFM) member states, according to the Caribbean Fisheries Risk Insurance Demand Survey conducted in 2015. For Grenada, while its fisheries sector is artisanal and small-scale in nature, it has been transforming itself in the last decades from subsistence to fully commercial operations thereby contributing to food security and assisting in reducing poverty. Loss of biodiversity and weak marine ecosystems could lead to a decline of fisheries, which alone employed approximately 3,500 Grenadians and accounted for almost 9 percent of total employment in Grenada (2014). Moreover, more than half of Grenadian fishermen/women are unskilled workers from the bottom 40 percent of the asset distribution, making them highly vulnerable to poverty. Poor management of coastal and marine resources could also undermine sustainability of the tourism industry, which contributed to as much as 21 percent of total employment (6 percent direct employment and 15 percent indirect employment, 2018). Potential negative effects on the poor could be realized in the short term however, if some regulations such as an overfishing limit are imposed. Community engagement is essential in minimizing potential negative effects and ensuring sustainability of marine ecosystems. Contribution and benefit sharing of coastal communities in creating sustainable marine ecosystem must align.

68. **Furthermore, Prior actions under Pillar 2 are expected to build the resilience of the poor and vulnerable population in the face of natural disasters.** International evidence shows that the poor tend to have inadequate housing and settle in at-risk areas due to lower land and housing prices. As a result, they are more vulnerable to extreme weather events. Climate resilience initiatives under Prior Action 6

are expected to have positive effects on vulnerable communities in coastal and low-lying areas through reduced risks from rising sea levels, flooding, storm surge and wave damage.

69. **Policies aimed at decreasing contamination from plastic and Styrofoam are expected to improve the welfare of Grenadians, particularly in coastal communities.** Plastic pollution makes its way into the marine environment. Studies show that ingested plastic increases the transfer of hazardous chemicals to fish. Annual per-capita fish consumption in Grenada was estimated at 28.7 kg in 2011, putting the country among the top 30 countries in terms of fish consumption per capita. Reduced marine plastic pollution could decrease the risks of infections that are associated with consumption of contaminated seafood such as poisoning and gastrointestinal infections. Furthermore, it reduces health risks of coastal communities who are affected the most from marine pollution caused by plastic.

5.2. ENVIRONMENTAL ASPECTS

70. **Policies supported by the proposed DPC are not expected to have significant negative effects on the environment, 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.

71. **Under Pillar 2, policies aimed at supporting Grenada's blue economy by strengthening marine and coastal management, marine ecosystem health, and climate resilience are expected to have significant positive environmental effects.** The adoption of the ICZM Act is expected to directly protect and enhance management in coastal zones and the marine environment, which are the habitat for key species of fish and other aquatic flora and fauna. The GSDTF will also promote environmental protection across the country, as well as sustainable livelihoods. The ban on Styrofoam food containers, plastic bags and other disposable plastic items that have previously not been adequately disposed and have polluted watersheds, coastal areas and the ocean, will contribute to improved conditions for ecosystem restoration, rehabilitation and recovery. The anticipated reduction in plastic waste will also help improve the quality of the marine environment and lessen the likelihood of vector-borne diseases like Dengue fever and Zika. Prior action #8 is expected to have positive environmental effects, by introducing mandatory requirements that all public agencies governed by the Public Procurement Act consider environmental sustainability when planning and implementing their procurement programs.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

72. **Grenada's Public Financial Management (PFM) systems have been strengthened but continued focus and emphasis is needed to address the remaining challenges.** The 2015 Public Expenditure and Financial Accountability (PEFA) assessment indicated that Grenada's PFM environment has improved in many areas. A comprehensive Home-Grown Reform Program (HGRP) was developed in 2014 and is progressively being implemented and the full impact of this reform program will be realized in the coming years. Many PFM reform actions have been completed to address some of the weaknesses identified in the 2015 PEFA. The GoG has indicated that it will refocus its attention on the PFM Reform Action Plan and that representatives from Department of Economic Management and Planning (Budget, Debt and

Policy units), Accountant General's Department, Administration Department (Internal Audit Unit) and Audit Department will periodically meet with the focal points of the PFM Reform program to discuss reform progress and the timeline for completion of their respective areas. Overall, currently, the budget preparation and monitoring process may be considered appropriate and there are continued improvements in the external oversight mechanisms and the parliamentary scrutiny of the government financial operations.

73. **Continued emphasis on operationalizing the enacted legislation and improving PFM processes and procedures are needed to mitigate residual PFM risks.** Grenada's PFM system still needs further improvements to address the residual weaknesses noted in public sector investment management and related provisions for recurrent costs needed for these investments, and quality and efficiency of public expenditures. Budget execution is yet to reflect many of the reforms that have yet to be implemented particularly in cash management and the eventual reduction on the number of bank accounts and the eventual roll out of a TSA. Improvements in procurement processes have yet to be effective. The perceived weaknesses in financial reporting, especially in the legally required implementation of International Public Sector Accounting Standards (IPSAS) and auditing needs to be addressed. The authorities are contemplating a PEFA assessment in 2020 to update and evaluate the effectiveness of the various PFM reforms and initiatives, reassess its current PFM environment, and address the key residual open PFM agenda items going forward.

74. PFM reforms and initiatives since mid-2015 are ongoing and include:

- **Legislation/Policy.** Fundamental to this HGRP was the passing and enactment of 4 key legislation: (i) PFM Act 17/2015; (ii) Fiscal Responsibility Act 29/2015; (iii) Public Procurement and Disposal of Property Act 39/2014; and (iv) Public Debt Management Act 28/2015. In addition, supporting regulations and manuals along with the operationalization of an independent Fiscal Responsibility Oversight Committee (FROC) have supported ongoing PFM reforms. The 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.

- **Aggregate Fiscal Discipline.** Substantial improvements in the budget preparation process that were enacted in the PFM Act 2015 will provide a strengthened ability in managing fiscal discipline. Monthly cash forecasting, though not based on the use of a Treasury Single Account (TSA), linked to allocations and commitment controls will also assist the achievement of fiscal discipline. Through Pillar 1, Prior Action 4 of this operation, the establishment of a fiscal risk framework for quantifying contingent liabilities in SOEs and oversight of them would be strengthened.

- **Strategic Allocation of Resources.** The GoG implemented a new Chart of Accounts (CoA) in 2016 consistent with the IMF's Government Financial Statistics Manual 2014, which has facilitated improved budget formulation and reporting based on administrative, economic and functional classifications. The preparation of the budgets is now guided by using a budget framework paper, a budget planning and preparation manual, and a Medium-term Fiscal Framework document. Special warrants are now not allowed and supplementary budgets are now limited to only one per fiscal year to ensure that the strategic priorities determined through the budget formulation process remain in place. Expenditure reclassification (capital vs. recurrent, and within recurrent) are ongoing and will aid the government to have a better comprehensive view of its operations.

- **Efficient Use of Resources for Service Delivery.** While the new Public Procurement and Disposal of Property Act 39/2014 was promulgated, it still needs to be made operational and effective. Weaknesses in the accountability mechanisms, including timeliness of financial statements that makes external audits and their scrutiny ineffective as counter checks on inefficient use of resources. The most recent audited GoG financial statements and audit report submitted to Parliament was for year-ended December 31, 2015. An internal audit unit was established in 2019 and will help to improve service delivery efficiency once it becomes operational with the planned hiring of a new chief internal audit officer sometime in latter part of 2019.

75. **Grenada publishes an annual budget.** MOF publishes the annual Estimates of Revenue and Expenditure on its website and makes them available in print form. A smaller user-friendly version is also available for the public. MOF provides in-year budget execution reports to Parliament. Monthly bulletin board publications and budget speech with annexes are posted on GoG website. In addition, FROC reports are published with a press conference. Year-end financial statements and audit reports are also accessible, but only after they have been submitted to Parliament.

76. **The foreign exchange control environment of the ECCB, which manages the foreign exchange reserves of the ECCU, including Grenada, is adequate.** The IMF completed a Safeguards Assessment of the ECCB in April 2016. In response to the assessment, a time bound action plan was agreed and has been satisfactorily implemented. The ECCB operates a currency board that maintains 100 percent foreign-exchange backing for all issued currency. The ECCB has well-established procedures to ensure the integrity of its operations. It also has a well-functioning internal audit department, and its accounts are audited by an independent external auditor. The ECCB Board of Directors has an audit sub-committee, which provides additional oversight.

77. **Disbursement and Auditing Arrangements.** The proposed credit will follow the World Bank's standard disbursement procedures for development policy support. The proceeds of the credit will be disbursed upon Grenada's withdrawal request after effectiveness of the Financing Agreement, 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 USD, into Grenada's foreign-exchange account at the ECCB. The ECCB will then immediately ensure that, upon deposit in said account, an equivalent amount in Eastern Caribbean Dollars (XCD) will be credited to Grenada'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 Grenada's foreign-currency account at the ECCB and that the equivalent XCD amount has been accounted for in the country's budget management system in an account used to finance budgeted expenditures. If the proceeds of the credit or any part thereof are used for ineligible purposes, as defined in the General Conditions applicable to the Financing Agreement, the World Bank will require Grenada to promptly return such amount to the World Bank. The amount refunded shall be cancelled from the credit. No specific audit of the deposit of the credit proceeds will be required. However, the World Bank reserves the right to request such an audit at its discretion.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

78. **The monitoring, evaluation, and results framework is being supported by the Ministry of Finance, 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 Climate Resilience, Environment, Forestry, Fisheries, Disaster Management and Information, the Department of Public Administration, the Customs and Excise Division, and the Ministry of Infrastructure Development, Public Utilities, Energy, Transport & Implementation. 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.

79. **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

80. **Risks to achieving the program objectives are considered substantial.** Risks associated with macroeconomic shocks, institutional-capacity constraints, fiduciary weaknesses, stakeholders and Grenada's vulnerability to extreme weather events are of particular concern (Table 6).

81. **While Grenada's macroeconomic outlook is positive, the presence of significant downside risks leads to a macroeconomic risk rating of substantial for this operation.** 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, which exposes it to very high risks of extreme climate and weather-related shocks. An economic downturn in the United States or the United Kingdom could negatively affect tourism exports, remittances, and FDI inflows, potentially slowing economic growth, and causing the fiscal and current account balances to deteriorate. Likewise, negative oil price shocks would directly impact inflation and the trade balance. Depending on the degree of severity, such shocks could jeopardize adherence to

the fiscal rule and Grenada's ability to maintain fiscal sustainability. 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 the rules-based policy framework by enshrining it in law and establishing a fiscal council for further oversight. Ex ante disaster risk financing through the Contingency Fund and arrangements for the Bank's contingent credit line provide a fiscal buffer, 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. 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 a blue economy. In addition, blue economy policies that help to improve climate resilience should help to reduce the fiscal risks and economic impacts of extreme weather and climate shocks.

82. **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. This risk is mitigated by the efforts of Grenada's development partners to (i) minimize the administrative burden by focusing their support on a narrow range of policy areas; and (ii) provide effective technical assistance to support capacity building. In this context, the Government has carefully prioritized a limited number of critical reform measures and practical capacity support through parallel technical engagements with key development partners is ongoing.

83. **Fiduciary risks are rated as substantial.** The 2015 PEFA assessment indicated that Grenada's PFM environment has improved in many areas. However, further improvements are needed to address residual weaknesses in public sector investment management and related provisions for recurrent costs; as well as quality and efficiency of public expenditures. Further, Grenada's national procurement law does not adequately address the principles of economy, efficiency, effectiveness, integrity, openness, and transparency. Training and capacity building provided by the Bank under the Canada-Caribbean Resilience Facility (P171256) is expected to mitigate some of these risks.

84. **Stakeholder risks are also considered substantial.** Trade unions are strong and active. The ongoing discussions surrounding public pensions have not been resolved thus far and will be subject to court decision. Similarly, the trade unions may oppose any substantive reforms on compensation management, including the wage negotiation policy. To mitigate these risks, the Government has been pursuing active social dialogue and has engaged in regular meetings with the stakeholders under the Social Compact to seek compromise over the contentious reforms. In particular, in the case of the public sector wage negotiation policy, the Government included trade unions in early discussions and highlighted the importance of ensuring sustainability and affordability of the public sector wage bill.

85. **Grenada is inherently vulnerable to natural disasters and climate change, which could have adverse effects on certain aspects of the program.**[44] 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

[44] Risks of natural disasters and climate change are classified as "Other" under the SORT tool. They are considered High.

evaluate environmental risks in collaboration with its development partners. In particular, this operation, complementing the World Bank-financed Regional Disaster Vulnerability Reduction Project and ongoing United Nations programs, will help strengthen the Government's capacity to manage disasters and mitigate environmental risks. The adherence to the fiscal rule and the adoption of the Disaster Risk Financing Strategy[45] (prior action under the Cat DDO under preparation) will provide policy flexibility to address extreme events to help mitigate this risk, as should the inclusion of natural disaster clauses for restructured debt.

Table 6: Summary Risk Ratings

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	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Substantial
9. Other	High
Overall	Substantial

[45] Both the Contingency Fund and the availability of contingent lines of credit are important elements in the DRF Strategy.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions		Results		
Prior Actions under DPC 1	**Prior Actions under DPC 2**	**Indicator Name**	**Baseline**	**Target**
Pillar 1--- Support long-term fiscal sustainability and strengthen fiscal resilience				
Prior Action #1. In accordance with, and to implement the existing Fiscal Responsibility Act, the Borrower has: (a) established and 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 #1.** The Recipient has approved amendments to the NTF Regulations to: (a) define the use criteria for the Contingency Fund; and (b) establish its governance framework, including its reporting and public accountability mechanisms, as evidenced by the National Transformation Fund (Amendment) Regulations, 2019 published in the Recipient's Government Gazette No. 47, Volume 137 of October 31, 2019.	**Results Indicator #1:** Aggregated inflows into the Contingency Fund	Baseline (2019): $0	Target (2020): EC$ 10 million
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 Rule, as evidenced by the Advance Cabinet Conclusion dated April 3, 2018.	**Prior Action #2:** The Recipient has adopted the Public Sector Wage Negotiation Policy to operationalize the Compensation Management Policy Framework in alignment with its national budget process and the Fiscal Responsibility Act, as evidenced by Cabinet Conclusion No. 856 dated June 17, 2019.	**Results Indicator #2:** Real aggregate increase in public wage bill at the central government level	Baseline (2016): EC$ 240.4 million	Target (2020): less than 9 percent real increase

Prior Actions		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.	**Prior Action #3:** The Recipient has established collaboration between the Customs and Excise Division and the Inland Revenue Division with a view towards applying a risk-based approach to conduct post clearance audits, as evidenced by Cabinet Conclusion No. 1028 dated July 29, 2019.	**Result Indicator #3:** Improved effectiveness and increased compliance in customs as measured by the increase in number of successfully targeted annual post-clearance audits	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.	**Prior Action #4** The Recipient has: (a) approved the publication of SOE's aggregate annual financial information to enhance the fiscal transparency and accountability of SOEs; and (b) adopted a fiscal risk framework for quantifying contingent liabilities in SOEs to inform its annual fiscal risk statement, as evidenced by: (i) Cabinet Conclusion No. 721, dated May 27, 2019; and (ii) Cabinet Conclusion No. 695 dated May 27, 2019.	**Result Indicator #4:** Proportion of SOEs that follow the new monitoring and reporting framework produced by the Ministry of Finance	Baseline (2016): 0 percent	Target (2020): 100 percent
		Result Indicator #5: The quantification of contingent liabilities is included in the annual Fiscal Risk Statement	Baseline (2016): No	Target (2020): Yes
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]	**Prior Action #5:** The Recipient has enacted the Integrated Coastal Zone Management Act to regulate the integrated use, development, and protection of the coastal zone; as evidenced by the Recipient's Act No. 8 of 2019 dated August 22, 2019, as published on the	**Result Indicator #6:** Increased coverage of Marine Protected Areas	Baseline (2016): 3 percent of Grenada's territory.	Target (2020): 20 percent of Grenada's territory.

Prior Actions		Results		
dated August 28, 2017.	Recipient's Government Gazette on August 23, 2019 (No 36, Volume 137).			
	Prior Action #6: The Recipient, through the GSDTF, has entered into a partnership agreement with the Caribbean Biodiversity Fund to strengthen the funding arrangements for blue economy initiatives (environmental management, ecosystems conservation and climate resilience), as evidenced by the Partnership Agreement between the GSDTF and the CBF signed on June 17, 2019.	**Result Indicator #7:** Increased number of GSDTF's revenue sources	Baseline (2016): 0	Target (2020): 2
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.	**Prior Action #7:** The Recipient has approved an implementation schedule for the phase out of single-use plastic food containers, cutlery and plastic straws; as evidenced by the Non-Biodegradable Waste Control (Plastic Food Products) Order, 2019 (S.R.&O. No. 30 of 2019) issued by the Recipient's Minister with Responsibility for the Environment on October 31, 2019 and published in the Recipient's Government Gazette No. 50, Volume 137 of November 8, 2019.	**Result Indicator #8:** Import volume of Styrofoam food containers, single use plastic bags, and disposable plastic plates, forks and spoons	Baseline (2016): Imports of Styrofoam food containers: 3007 pallets; single use plastic bags: 6,975,308; disposable plastic plates: 2697 pallets; forks and spoons: 1838 pallets	Target (2020): Imports volume of Styrofoam food containers; single use plastic bags; and disposable plastic plates, forks and spoons: zero
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. **Prior Action #9:** The Recipient has modified its building codes with a		**Result Indicator #9:** The share of new building applications approved in accordance with the amended building codes.	Baseline (2016): 0 percent	Target (2020): 100 percent

Prior Actions		Results		
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.				
	Prior Action #8: The Recipient has adopted a policy framework on sustainable public procurement introducing environmental sustainability requirements for public procurement contracts, as evidenced by Cabinet Conclusion No. 985, dated July 22, 2019.	**Result Indicator #10:** Percentage of annual government contracts for the purchase of goods that are governed by sustainability requirements	Baseline (2016): 0 percent	Target (2020): 25 percent

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Concludes 2019 Article IV Consultation with Grenada

PRESS RELEASE NO. 19/265
July 3, 2019

On June 12, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Grenada.

The Grenadian economy continues to grow robustly. GDP expanded by 4¼ percent in 2018, driven by strong activity in construction and tourism. Unemployment has been falling, but it remains high at 21.7 percent as of mid-2018. Inflation has remained low and bank credit growth is positive. The external current account deficit is estimated to have narrowed in 2018 due to strong tourism receipts, but it remains elevated at around 11 percent of GDP. Robust FDI flows, including from the citizenship-by-investment (CBI) program, are financing the external deficit while supporting economic growth.

Adherence to the fiscal responsibility law (FRL) has enabled further debt reduction. The fiscal surplus increased further in 2018, reflecting a combination of strong revenues and the FRL-mandated expenditure restraint. Low execution of grant financing and institutional bottlenecks in project execution combined to keep capital outlays subdued at 2¾ percent of GDP. Central government debt fell from 70 to 63½ percent of GDP in 2018, but arrears to Algeria, Libya, and Trinidad and Tobago remain to be regularized.

Growth is set to remain above potential in 2019, but is projected to ease somewhat over the medium-term, consistent with a waning of FDI-driven construction. The fiscal position is projected to loosen over the medium term in line with the FRL's provisions that take effect after public debt falls below 55 percent of GDP and should provide some support to the economy. External risks are mainly on the downside and are centered on prospects for U.S. growth and global financial conditions. Domestic risks are two-way and partly hinge on the efficiency of the envisioned fiscal expansion that is permitted by the FRL.

Executive Board Assessment
Executive Directors welcomed Grenada's continued strong economic and fiscal performance and sustained debt reduction, underpinned by sound policies. They emphasized that further policy improvements and public support for reforms are critical to achieve higher and broad-based medium-term growth, further reduce unemployment, entrench debt sustainability, and strengthen financial stability.

Directors underscored the importance of focusing policy efforts on making growth more resilient, sustainable, and inclusive. They noted that Grenada's growth potential is held back by susceptibility to economic shocks and natural disasters in addition to long-standing structural weaknesses such as high unemployment and an external competitiveness gap. In this context, Directors supported making prudent and efficient use of Grenada's hard-earned fiscal space to address the country's infrastructure and resilience gaps. They highlighted the need to enhance the business climate and competitiveness, including through improvements in labor market institutions. They noted that education and training programs to match job opportunities with the labor force are also needed.

Directors commended the authorities' steadfast compliance with the Fiscal Responsibility Law (FRL). They agreed that the FRL could be enhanced, with a consistent and well-sequenced implementation, to facilitate more productive spending while safeguarding debt sustainability. In particular, they emphasized the need to improve the procedures for expenditure planning and classification. Directors welcomed the authorities' intention to implement initiatives on pension reform and healthcare coverage in a manner that is consistent with the FRL and fiscal sustainability.

Directors encouraged the authorities to move ahead with fiscal structural reforms to improve spending quality and mitigate fiscal risks. They stressed the importance of implementing the public-sector management reform strategy to improve public sector productivity and service delivery. They recommended further strengthening social assistance programs and continuing public investment management and public enterprise reforms, while regularizing bilateral arrears. Directors welcomed the climate change policy assessment and the authorities' intention to elaborate a comprehensive disaster resilience strategy with inputs from key stakeholders. This should help catalyze concessional financing to address the infrastructure and resilience gaps.

Directors welcomed steady improvements in bank credit growth and banking soundness indicators. At the same time, they noted that the continued fast growth in lending by credit unions and the rising property markets warrant close monitoring. They called for a proactive approach to strengthening the supervision and regulation of the non-bank financial sector by the local regulator and the need for coordination with the ECCB and the ECCU's peer regulators. Directors highlighted the importance of continued efforts to ensure compliance with AML/CFT regulations in all areas to support correspondent banking relationships and preempt any financial integrity concerns.

Source: *https://www.imf.org/en/News/Articles/2019/07/03/pr19265-imf-executive-board-concludes-2019-article-iv-consultation-with-grenada*

ANNEX 3: LETTER OF DEVELOPMENT POLICY

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

MINISTRY OF FINANCE,
PLANNING, ECONOMIC
DEVELOPMENT AND
PHYSICAL DEVELOPMENT
FINANCIAL COMPLEX,
THE CARENAGE,
ST. GEORGE'S,
GRENADA, W.I.

24 October, 2019

Mr. David R. Malpass
President
The World Bank Group
The World Bank
1818 H Street
NW Washington, DC
20433
USA

Letter of Development Policy

Dear President Malpass:

On behalf of the Government and people of Grenada, I write to request the approval of the second in the series of two Development Policy Credits (DPCs) in support of Grenada's fiscal sustainability and its transition to a blue economy. This Letter of Development Policy for *"Grenada's Second Fiscal Resilience and Blue Growth Development Policy Credit (DPC 2)"* sets out Government's reform program, which includes policy actions to be supported by the DPC 2. We once again thank the World Bank for its approval of the first DPC (DPC 1) in June 2018. The budgetary resources of the two DPCs are crucially important to underpin our sustainability and resilience-building objectives.

Economic Performance Since DCP 1

Mr. President, Grenada's economy expanded at a brisk pace of 4.14 percent in real terms in 2018, underpinned by robust activity in major sectors such as Construction, Tourism, Transport, and Retail Trade. Additionally, reforms supported by your institution and other development partners, which were implemented during the Home-grown Structural Adjustment period (2014-2017) have yielded growth dividends, making 2018 the sixth consecutive year of robust economic expansion. As an upshot, the unemployment rate, though still in double digits has been on a steady decline since 2014. Prices in the Grenadian economy have remained low and stable; the period average inflation rate was 0.8 percent in 2018. Financial and external conditions were favourable in 2018, with the financial system remaining stable and sound and external deficits adequately financed by strong receipts from travel, as well as from the Citizenship-by-Investment Program.

The Central Government's fiscal accounts improved further in 2018, anchored by the Fiscal Responsibility Framework; indeed, all fiscal rules were complied with. The Primary Surplus (including Grants) widened to 6.8 percent of GDP, the largest primary surplus as a ratio of GDP recorded in the past decade. The strong fiscal performance was underpinned by a healthy revenue performance that benefitted not only from the economic vibrancy, but also from reforms implemented in the period of structural adjustment to enhance revenue administration. Expenditure controls, consistent with the fiscal rules, also aided the positive fiscal outturns and by extension, the reduction in the stock of public sector debt from 70.0 percent in 2017 to 61.2 percent in 2018.

Risks to the short-term economic outlook have heightened, based on the estimated softening of global economic conditions. However, the medium-term economic prospects for Grenada are broadly positive, based on growth-supporting investments that are planned by both the public and private sectors.

Reforms Completed Since DPC 1

Mr. President, as you are aware, several reforms (legislative and non-legislative) were implemented during the period of the Home-grown Structural Adjustment Program. The reforms were aimed at strengthening public finance; boosting economic growth, modernizing the public sector, enhancing social protection, and building resilience to climate change. Grenada has kept the momentum on reforms despite the completion of the Structural Adjustment Program. We have deepened the reform agenda since the approval of DPC 1, with the aim of securing the country's hard-won gains and ensuring additional reform dividends accrue to benefit the economy, society and country as a whole.

In the area of public finance reforms, we have taken measures to further bolster the systems and institutional arrangements that support public financial management (PFM). We have sought to further strengthen oversight of Public Entities (PEs) with a view to improving the monitoring of fiscal risks and enhancing transparency, accountability and their overall governance. Specifically, Cabinet approved new monitoring guidelines for PEs in March 2019. Additionally, technical assistance (TA) was received from your institution to strengthen the capacity of the Ministry of Finance staff in quantifying contingent liabilities of PEs. The fiscal risk framework will be used to strengthen our annual Fiscal Risk Statement.

We have also taken steps to operationalize the contingency fund that is stipulated under Section 11 of the National Transformation Fund Regulations. Specifically, we have received TA from your institution to develop the Regulations for the contingency fund. Additionally, in March 2019, Cabinet approved the establishment of the Board of the National Transformation Fund, which is the legally-stipulated entity to set up the contingency fund. The contingency fund would help us build buffers so that we are better able to cushion the effects of shocks caused by natural hazards and economic downturns. I express my gratitude to you and your staff for the TA provided.

Mr. President, we remain committed to accelerating progress in the area of Public Sector Modernization. We have also taken steps to strengthen the framework for wage negotiations, consistent with the stipulations set out in the Fiscal Responsibility Act. In June 2019, Cabinet approved the Wage Negotiation Framework for the period 2020-2022. Going forward, wage negotiations will continue to be guided by a structured and transparent framework that is evidence based and data driven. Mr. President, Government has strengthened the institutional arrangements between the Customs and Excise Division and the Inland Revenue Division, with a view to improving the risk-based approach to conducting post-clearance audits.

In February 2019, we created a centralized implementation unit with the expressed objective of improving institutional and other arrangements for the management and implementation of public sector projects and programs. Indeed, we remain committed to public sector modernization and in this regard, we welcome the approval by your institution of the investment financing for the "Digital Governance for Resilience Project". The project will go a long way in enhancing the delivery of targeted public services and fortifying their resiliency through digital platforms and institutional strengthening.

Mr. President, we continue to actively pursue reforms to build resilience to climate change. In this regard, we have completed several strategic actions since DPC 1 including implementing a total ban on imports of Styrofoam food containers and single-use plastic shopping bags. Government is also committed to implementing a ban on plastics. Government has also approved the Integrated Coastal Zone Management Act. Additionally, a Climate Change Policy Assessment (CCPA) was jointly conducted by your institution and the International Monetary Fund in February 2019. The CCPA recommended specific actions to address Grenada's infrastructure and resilience gaps, which are being considered for implementation.
Government, through the Grenada Sustainable Development Trust Fund, has entered into a partnership agreement with the Caribbean Biodiversity Fund to strengthen the

funding arrangements for blue economy initiatives. Government is committed to providing the necessary financial support to the Grenada Sustainable Development Trust Fund. Furthermore, Government is committed to implementing the framework on sustainable public procurement that was developed in July 2019 with support from your institution.

Mr. President, we trust that this request will receive the endorsement of the World Bank's Board of Directors.

Yours faithfully,

Keith C. Mitchell

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

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar 1: Supporting long-term fiscal sustainability and strengthen fiscal resilience		
Prior Action #1. The Recipient has approved amendments to the NTF Regulations to: (a) define the use criteria for the Contingency Fund; and (b) establish its governance framework, including its reporting and public accountability mechanisms, as evidenced by the National Transformation Fund (Amendment) Regulations, 2019 published in the Recipient's Government Gazette No. 47, Volume 137 of October 31, 2019.	No significant environmental effects.	No significant poverty and social effects. This prior action improves the conduct of fiscal management to promote fiscal discipline and sustainability. No direct poverty or social effect is expected. However, improved fiscal management lays the foundation for sustainable economic growth and poverty reduction.
Prior Action #2: The Recipient has adopted the Public Sector Wage Negotiation Policy to operationalize the Compensation Management Policy Framework in alignment with its national budget process and the Fiscal Responsibility Act, as evidenced by Cabinet Conclusion No. 856 dated June 17, 2019.	No significant environmental effects.	Potential positive indirect distributional effect in the medium term. In the medium term, payroll management could lower high reservation wages and improve private sector employment. As the unemployed are more likely to form a poor household, improvement in the correspondence between public sector compensation and productivity would lead to positive distributional impacts through labor market adjustment. Distributional impacts on the affected groups of public employees need to be monitored; monitoring is also needed to ensure that public sector continues to attract and retain highly-skilled workforce.
Prior Action #3: The Recipient has established collaboration between the Customs and Excise Division and the Inland Revenue Division with a view towards applying a risk-based approach to conduct post clearance audits, as evidenced by Cabinet Conclusion No. 1028 dated July 29, 2019.	No significant environmental effects.	No significant direct effects on poverty.

Prior Action #4 The Recipient has: (a) approved the publication of SOE's aggregate annual financial information to enhance the fiscal transparency and accountability of SOEs; and (b) adopted a fiscal risk framework for quantifying contingent liabilities in SOEs to inform its annual fiscal risk statement, as evidenced by: (i) Cabinet Conclusion No. 721, dated May 27, 2019; and (ii) Cabinet Conclusion No. 695 dated May 27, 2019.	No significant environmental effects.	No significant direct effects on poverty.
Pillar 2: Support Grenada's transition to a blue economy by strengthening marine and coastal management, marine ecosystem health, and climate resilience		
Prior Action #5: The Recipient has enacted the Integrated Coastal Zone Management Act to regulate the integrated use, development, and protection of the coastal zone; as evidenced by the Recipient's Act No. 8 of 2019 dated August 22, 2019, as published on the Recipient's Government Gazette on August 23, 2019 (No 36, Volume 137).	Significant positive environmental effects. The adoption of the ICZM is expected to enhance protection and management in coastal zones and the marine environment, which are the habitat for key species of fish and other aquatic flora and fauna.	No significant negative effects, potential positive effects. Promoting sustainable use of the marine and coastal resources is expected to have medium-term positive effects on fishing, aquaculture and sustainable tourism. Potential undesired effects may result in the short term if some regulations such as overfishing limit, increase in fisheries license fees, and coastal zoning are imposed without community engagement. Stakeholder engagement is a critical component in the ICZM Act, and where appropriate, supplementary actions including institutional capacity building will be adopted.
Prior Action #6: The Recipient, through the GSDTF, has entered into a partnership agreement with the Caribbean Biodiversity Fund to strengthen the funding arrangements for blue economy initiatives (environmental management, ecosystems conservation and climate resilience), as evidenced by the Partnership Agreement between the GSDTF and the CBF signed on June 17, 2019.	Significant positive environmental effects. The GSDTF will provide a sustainable flow of financial resources to promote environmental protection across the country, as well as sustainable livelihoods.	No significant direct effects on poverty.
Prior Action #7: The Recipient has approved an implementation schedule for the phase out of single-use plastic food containers, cutlery and plastic straws; as evidenced by the Non-Biodegradable Waste Control (Plastic Food Products) Order, 2019 (S.R.&O. No. 30 of 2019) issued by the	Significant positive environmental effects. The ban on those Styrofoam and plastic products, which have not been adequately disposed and have polluted watersheds, coastal areas and ocean, will contribute to improved conditions for	No significant negative effects, potential positive social effects. Less contamination in coastal environment is expected to improve the welfare of coastal communities and to have indirect positive impacts in terms of health benefits from marine related economic activities, such as fishing and marine

Recipient's Minister with Responsibility for the Environment on October 31, 2019 and published in the Recipient's Government Gazette No. 50, Volume 137 of November 8, 2019.	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.	agriculture.
Prior Action #8: The Recipient has adopted a policy framework on sustainable public procurement introducing environmental sustainability requirements for public procurement contracts, as evidenced by Cabinet Conclusion No. 985, dated July 22, 2019.	No significant negative effects; potential positive environmental effects. This policy will introduce mandatory requirements that all public agencies governed by the Public Procurement Act to consider environmental sustainability when planning and implementing their procurement programs.	No significant direct effects on poverty.