



The World Bank

Grenada Second Recovery and Resilience Programmatic DPC (P178930)

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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF US\$30 MILLION TO

GRENADA
FOR THE

Grenada Second Recovery and Resilience Programmatic DPC
June 22, 2023

Macroeconomics, Trade And Investment 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 June 22, 2023)

Eastern Caribbean dollar (EC\$)

(EC\$2.70 = US\$1.00)

ABBREVIATIONS AND ACRONYMS

Cat DDO	Catastrophe Draw-down Option	NEP	National Energy Policy
CDB	Caribbean Development Bank	NIA	National Insurance Act
CRF	Canada-Caribbean Facility	NIS	National Insurance Scheme
DM	Disaster Management	NPL	non-performing loan
DPC	Development Policy Credit	NSDP	National Sustainable Development Plan
DRM	Disaster Risk Management	OECS	Organization of Eastern Caribbean States
EC\$	Eastern Caribbean dollars	PA	Prior Action
ECCB	Eastern Caribbean Central Bank	PFM	Public Financial Management
ECCU	Eastern Caribbean Currency Union	PIM	Public Investment Management
ECF	Extended Credit Facility	PIT	personal income tax
EVL	Environmental Levy	PLR	Performance and Learning Review
FDI	foreign direct investment	PPAs	Policy and Performance Actions
FRA	Fiscal Responsibility Act	PPG	Public and Publicly guaranteed
FROC	Fiscal Responsibility Oversight Committee	PSIA	Poverty and Social Impact Analysis
GDP	Gross Domestic Product	PSSA	Payment System and Services Act
GEPAP	Gender Equality Policy and Action Plan	PURC	Public Utilities Regulatory Commission
GHG	Greenhouse gas	PV	Photovoltaic system
GLCI	Grenadian Living Conditions Indicator	RCF	Rapid Credit Facility
GoG	Government of Grenada	RPS	Regional Partnership Strategy
Grenlec	Grenada Electricity Services Limited	SDFP	Sustainable Development Financing Policy
IDA	International Development Association	SOE	state-owned enterprises
IMF	International Monetary Fund	SRD	Systematic Regional Diagnostic
LFS	Labor Force Survey	SSB	sugar-sweetened beverage
MoF	Ministry of Finance	TA	technical assistance
MSMEs	micro, small & medium enterprises	UI	Unemployment Insurance
MTRP	Medium-Term Recovery Plan	VAT	value-added tax
NAP	National Adaptation Plan	WB	World Bank
NDC	Nationally Determined Contribution	WBG	World Bank Group

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GRENADA

GRENADA SECOND RECOVERY AND RESILIENCE PROGRAMMATIC DPC

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P178930	Yes	2nd in a series of 2

Proposed Development Objective(s)

The development objective of this proposed operation is to support Grenada's recovery, through two pillars, (i) Promoting a greener and more climate-resilient economy; and (ii) Improving sustainability, inclusiveness and accountability of fiscal management.

Organizations

Borrower:	GRENADA
Implementing Agency:	Ministry of Finance

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing	30.00
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DETAILS

International Development Association (IDA)	30.00
IDA Credit	30.00

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
RI1: Percentage of ministries and agencies with an Operations Continuity Plan compliant with the Disaster Management (DM) Act	0 (2021)	30% (2024)
RI2: Amount of electricity generated via the Public Utilities Regulatory Commission’s Self-Generator (PURC SG) program	0 (April 2021)	2 MW (2024)
RI3: Electricity supply contracted from new renewable energy generation capacity under power purchase agreements with private investors, in accordance with Generation Expansion Planning and Competitive Procurement Regulations	0 (2021)	2 MW (2024)
RI4: Number of ministries and agencies with a trained and certified information management/data protection officer	0 (2021)	4 (2024)
RI5: Tax revenue collected through environmental levies (EVLs) on electricity and water consumption	0 (2021)	EC\$4.5 million (2024)
RI6: Total tax revenue from the new health-related taxes on cigarettes, alcohol, and Sugar-Sweetened Beverages	EC\$ 15 million (2021)	EC\$ 22 million (2024)
RI7: Share of new capital projects tagged ¹ under new climate change budget tagging methodology	0 (2021)	60% (2024)
RI8: Number of programs presenting information on gender priorities in publicly available budget documentation, including sex-disaggregated data and gender-responsive budget measures (in accordance with the gender budgeting policy framework)	2 (2021)	10 (2024)
RI9: Number of workers contributing to the Unemployment Insurance (UI) fund	0 (2021)	40,000 (2024)
RI10: Accumulated flow into the contingency fund	0 (2021)	EC\$15 million (2024)

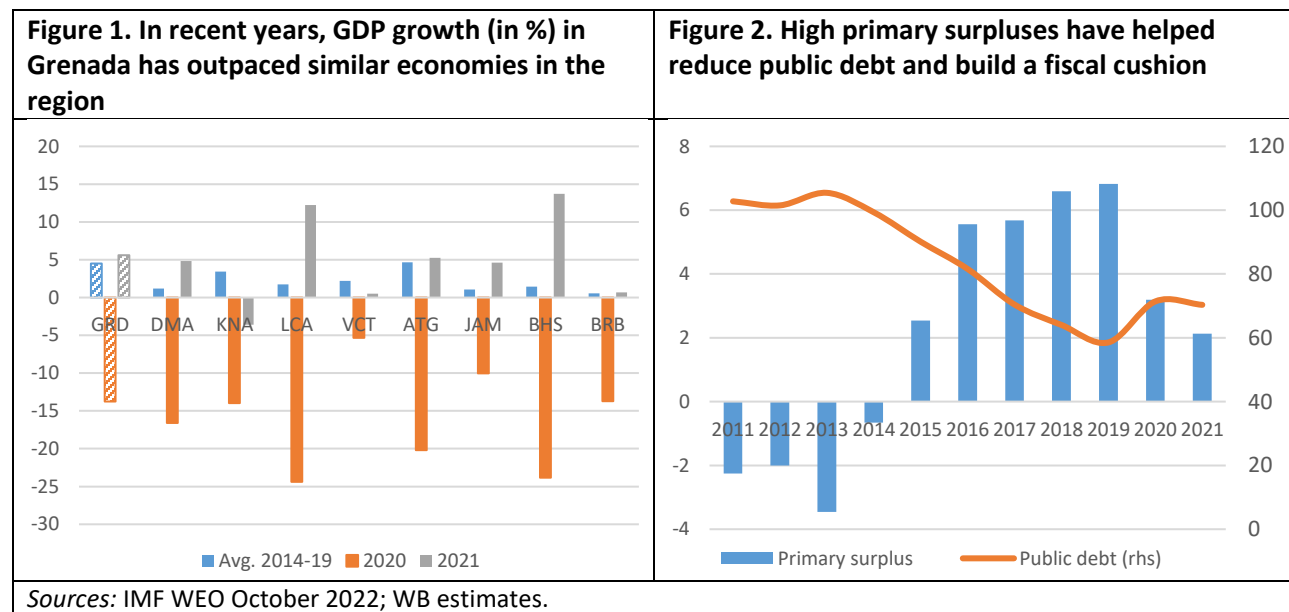
¹ If a project has zero climate components after evaluation, it’d be counted as “tagged” (zero)



IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO GRENADA

1. INTRODUCTION AND COUNTRY CONTEXT

1. The proposed Second Recovery and Resilience Development Policy Credit (DPC), in the amount of US\$30 million, is the second in a series of two International Development Association (IDA) operations that aim to support Grenada’s economic recovery by (i) promoting a greener and more climate-resilient economy; and (ii) improving sustainability, inclusiveness, and accountability of fiscal management. The COVID-19 pandemic has compromised Grenada’s previously strong socio-economic performance. Narrowed policy space and reduced private sector savings significantly reduced Grenada’s ability build resilience against external shocks, including the food and fuel crisis, climate-related events and a global growth slow-down. Grenada’s economic situation has improved since then. In this context, the series supports continued progress in critical reforms that will make the country -which is highly exposed to exogenous shocks – better prepared to deal with future shocks. In particular, the series supports reforms by the Government of Grenada (GoG) to address the direct challenges stemming from climate change and the energy crisis, while ensuring an effective, efficient, and accountable use of public resources. The programmatic approach extends assistance in line with the WBG’s COVID-19 Crisis Response Approach Paper and the strategy of GoG to support post-crisis recovery. This proposed operation complements previous DPC operations, including the COVID-19 Emergency DPC (2020), the Fiscal Resilience and Blue Growth DPC series (2018-19), the Disaster Risk Management (DRM) DPC with a Catastrophe Deferred Drawdown Option (2019), and the Programmatic Resilience Building DPC (2015-17). Reforms supported under this operation also benefitted from significant technical assistance provided by the World Bank.



2. The new Grenadian government remains committed to key reforms agreed under the first operation (DPC1), but early elections have affected the timeline for implementing some of them. Grenada held general elections in June 2022, one year ahead of schedule. The National Democratic Congress party won the election, thus returning to government after almost ten years. The new government confirmed that the reforms supported under this series are aligned with its development strategy, but that the timeline for implementing some of them has shifted, due to some changes in policy prioritization and a more challenging



global economic environment. In December 2022, the newly elected Grenadian government presented the 2023 Budget, which focused on six key areas: (i) Health and Wellness; (ii) Education and Training; (iii) Agriculture and the Marine industry; (iv) Physical and Digital Infrastructure; (v) Culture and the Creative Sector; and (vi) Energy Transition and the Environment (Box 1). With its focus on supporting a sustainable and resilient socio-economic transformation, this operation is well suited to support the GoG's efforts.

3. **Supported by strong fiscal reforms, Grenada achieved solid growth before the COVID-19 pandemic but remains vulnerable to climate-related extreme events.** Boosted by home-grown structural reforms, Grenada's real output growth averaged 4.5 percent annually between 2014 and 2019, significantly outpacing an average growth of 2.8 percent in the Organization of Eastern Caribbean States (OECS) region (Figure 1). Growth-friendly fiscal policies, anchored by the Fiscal Responsibility Act (FRA) of 2015, improved fiscal performance significantly. Solid growth, continuous fiscal surpluses, and debt restructurings conducted between 2013 and 2015 pushed public debt down from 90.1 percent of GDP in 2015 to 58.5 percent in 2019 (Figure 2). Yet, Grenada faces unique development challenges, including a lack of economic diversification, lack of economies of scale in the provision of public services, and high exposure to climate change and weather-related natural hazards, particularly hurricanes.

4. **Grenada recovered only slowly from the deep economic contraction of 2020.** The COVID-19 crisis slammed the brakes on tourism in Grenada and interrupted other major economic activities. Despite a timely government response and largely successful containment of the virus locally, the economy contracted by 13.8 percent in 2020 and only enjoyed a moderate recovery in 2021 (growing by 4.7 percent), as tourism remained subdued and the scope for fiscal stimulus was limited. Tourism and construction (particularly public works) gained strength in 2022, but at 5.8 percent, the estimated growth for the year was weaker than expected. Data suggests that by the end of 2022, real output was only at 95 percent of 2019 levels. The food and fuel crisis almost reversed gains in poverty reduction achieved over the past decade, lowering household income and aggravating poverty. Moreover, public debt increased by 12.9 percentage points between 2019 and 2020, narrowing the fiscal space to support growth and respond to future climate-related shocks.

5. **The compound crisis highlighted the urgency to advance reforms in support of climate resilience and improved fiscal management.** The first pillar of the operation promotes a greener and more climate-resilient economy. Relevant measures include introducing comprehensive Disaster Management (DM) legislation; encouraging energy efficiency and renewable energy production; and promoting the preservation of natural resources and energy through environmental levies. The second pillar supports improving sustainability, inclusiveness, and accountability of fiscal management. This includes the health-related taxes to promote healthy lifestyles; the incorporation of climate resilience and gender equality goals in budgeting; establishment of the permanent Unemployment Insurance (UI) Program; and greater fiscal transparency and accountability via the publication of National Transformation Fund (NTF) flows.² The two pillars are intertwined and mutually reinforcing, while jointly promoting sustainable and resilient growth. They are closely aligned with the Government's priorities and the WB's broader engagement in the OECS region, and complement support from other international financial institutions (IFIs) to help close the country's gross financing gap.

6. **Grenada is highly exposed to climate change.** Grenada is vulnerable to natural hazards, primarily

² The NTF collects part of the revenues deriving from the country's citizenship-by-investment (CBI) program, as outlined in more detail later in this document.



driven by hydrometeorological events that are expected to become more destructive due to the effects of climate change—including rising temperature and sea levels, changes in precipitation patterns, and more frequent and intense hurricanes. Climate change is threatening Grenada’s most valuable resources, such as tourism assets and ocean-dependent sectors, and affect every aspect of the country’s economy (e.g., the labor market, energy costs, and business continuity) with particularly devastating effects on the poor. In this context, this operation supports the GoG’s efforts to diversify the economy, build the labor market’s resilience to shocks, promote comprehensive disaster risk management, and better utilize public resources. For example, the UI Program is expected to strengthen resilience to disaster-induced income losses, through establishing a permanent mechanism to provide temporary income support after a disaster hits. The comprehensive Disaster Management (DM) Act aims to reduce Grenada’s exposure to the physical risks of climate change, and develops a unified management system for various climate resilience efforts. Actions to improve energy efficiency and promote renewable energy will help reduce greenhouse gas (GHG) emissions and build resilience to global commodity shocks. Climate change budget tagging will help inform fiscal allocations for public investments in climate adaptation and mitigation.

7. **The operation also supports measures to narrow gender disparity in access to economic opportunities.** In Grenada, the labor force participation rate has historically been lower, and the unemployment rate higher, among women. While the official unemployment rate declined to 15.1 percent in 2019, the respective rates for men and women were 12 percent and 20 percent.³ Tourism and related sectors created significant employment opportunities for women, but tend to be particularly vulnerable to external shocks, including extreme climate-related events. (Labor Force Survey, LFS, 2019). The UI Program supported by the DPC is expected to benefit particularly women, given their greater vulnerability to external shocks. In addition, the DPC will promote the inclusion of gender considerations into the budgetary process to foster gender equality.

8. **This DPC series also enables Maximizing Finance for Development (MFD), especially through the energy sector reforms and policies to enhance public accountability.** Private capital is critical for Grenada to meet its Sustainable Development Goals, in light of the multi-dimensional challenges and constrained public capacity. Among the key areas, the energy sector has great potential to mobilize private resources. Nevertheless, in the past, there had not been a holistic and implementable plan for the energy sector, neither there was sufficient market-based incentives for private participation in scaling up renewable energy. The reforms supported under this DPC, including the Regulations under DPC1 on Tariff setting and energy generation expansion, and the Generation Code and National Energy Policy under DPC2, provide a comprehensive sector plan and aim to promote competition and incentivize sustainable participation of the private sector. The impacts are also reflected in the expected materialization of result indicator RI#3. The target amount of 2MW within one year of the project approval measures the critical step in effectively implementing the mechanism in a small state context. The reforms supporting public sector accountability are also expected to anchor private sector confidence and boost private capital in Grenada.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

9. **The COVID-19 pandemic halted a stretch of strong economic performance in Grenada.** International tourist arrivals, which contributed around 40 percent of the country’s GDP (Figure 3), stopped

³ Grenada LFS 2019.



almost completely. Many students at the private medical school St George’s University—which typically generates around 20 percent of the national GDP—left the island when classes shifted to an online format, further depressing economic activity. Domestic lock-down measures also caused a slowdown in construction. Real output contracted by 13.8 percent in 2020, while unemployment surged from a historic low of 15 percent in 2019 to 28 percent in 2020. Public debt, which had been on a downward trend, increased by 13 percentage points to 71.4 percent of GDP in 2020, due to revenue losses and additional spending to mitigate the socio-economic impacts of the pandemic.

10. Grenada’s real GDP has been growing again since 2021, although it is yet to return to its 2019 level.

The GoG started to gradually loosen travel restrictions in the second half of 2021, prompting a significant increase in stay-over tourists—especially from the US—and tourism expenditure, although by the end of 2022 total arrivals remained below pre-pandemic levels. A boost to public construction, along with the partial resumption of private investment in agriculture and hospitality, also contributed to growth. Students at St George’s University started to return for in-person learning during the school year 2021/22, boosting local consumption. The government resumed implementing growth-enhancing structural reforms, such as strengthening the national training program, especially for hospitality workers; facilitating trade through simplified customs procedures and reduced port charges; promoting renewable energy and energy efficiency; and improving labor market institutions and job matching through the National Skills Development Program. The economy rebounded by 4.6 percent in 2021, and further expanded by 5.8 percent in 2022.

11. Subdued during the pandemic, inflation has been rising significantly since late 2021, affecting disproportionately poor households.

After the inflation rate reached a modest 0.6 percent in 2019, consumer prices declined by 1.2 percent year-on-year in 2020. The suspension of tourism and falling international commodity prices (especially for oil) drove deflation in the transport, housing, utilities, and gas & fuels sectors. Inflation picked up in 2021, spurred by the recovery in economic activity, and further rose in 2022 as the global prices of fuel, wheat and other food items surged. In response, the government implemented temporary containment measures, including a reduction of the electricity non-fuel charge, a cap on gasoline and diesel prices, and a VAT exemption on five food items, at an estimated fiscal cost of 2.2 percent of GDP (around EC\$75 million, or US\$27.8 million). High inflation mostly affects poor and vulnerable groups, which allocate a greater portion of their income to food and fuel and lack financial buffers.⁴

12. The current account deficit widened despite the recent recovery in tourism (see Table 1).

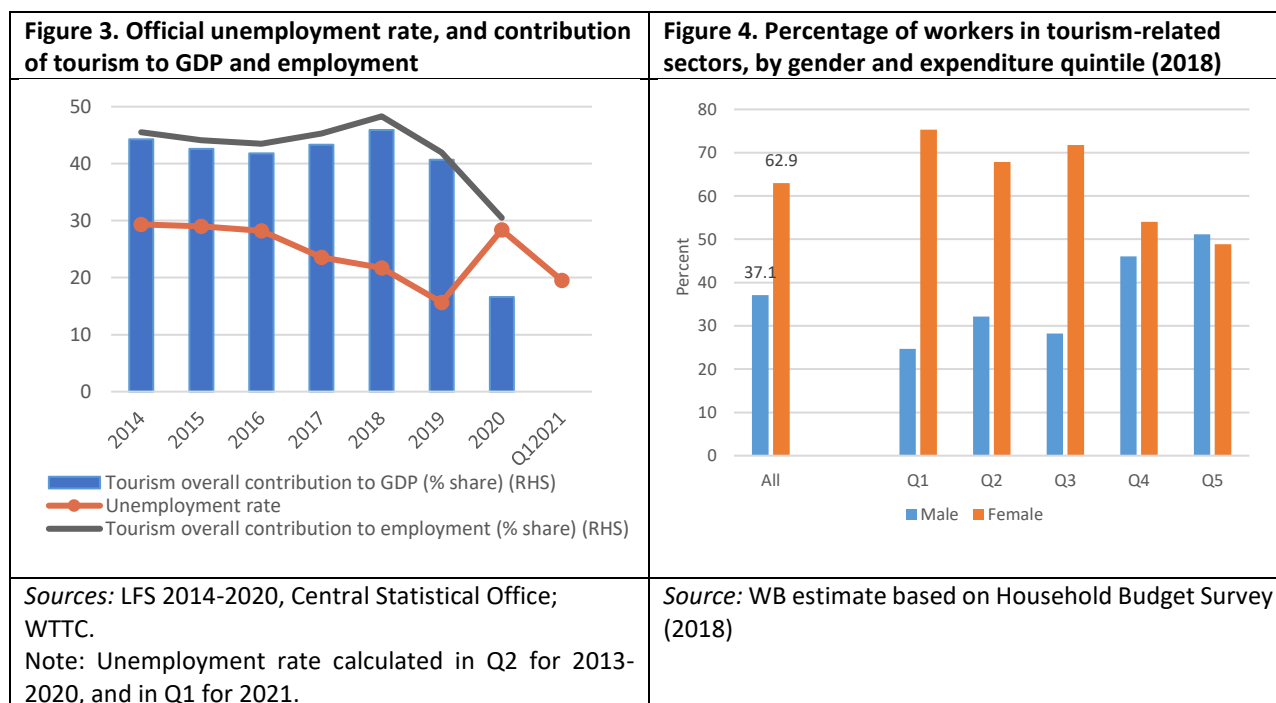
Import volumes have been growing to support domestic activity, in parallel with a rise in global commodity prices (especially gas and fuel) since 2021. Thus, import costs have significantly outweighed export gains, which largely derive from tourism. Yet, inflows from the citizenship-by-investment (CBI) program have been sizable, more than doubling between 2020 and 2022.⁵ A combination of robust foreign direct investment (FDI) and financing from multilateral and bilateral development partners plugged the remaining deficit in the balance of payment. Grenada is a member of the Eastern Caribbean Currency Union (ECCU). The real effective

⁴ According to the 2018 Household and Budget Survey, the poorest two quintiles of Grenada’s population spent around a third of their income on food.

⁵ As of Q3 2022, 793 CBI applications had been received—exceeding the total number of applications received in 2021 (566) and 2019 (373)—bringing inflows for EC\$236 million.



exchange rate (REER) fell by 4.1 percent in 2022, largely driven by inflation differentials relative to major markets including the US.⁶



13. **Grenada’s financial sector has weathered the COVID-19 shock relatively well compared to other ECCU jurisdictions in part supported by temporary measures from the Eastern Caribbean Central Bank (ECCB), but non-performing loans are increasing.** In response to the COVID-19 outbreak, the ECCB approved grant funding of EC\$500,000 in 2020 to each member of the ECCU, including Grenada. In April 2020, the ECCB also reduced its discount rate from 6.5 percent to 2.0 percent, on par with the interbank lending rate. Additionally, the ECCB offered a moratorium on bank loan repayments for up to six months beginning in March 2020, subsequently extended to up to 12 months commencing in October 2020 (with further adjustments contingent on each borrower’s financial condition); the moratorium expired in March 2022. Grenada had the third highest loan value that benefitted from the moratorium.⁷ Still, its share of non-performing loans (NPLs) in the banking sector rose 64 percent from pre-COVID-19 levels of 2.2 percent in December 2019 to 3.6 percent in December 2022, (a level still well below the ECCU average of 12.25). NPLs in the credit union sector stood at 8.7 percent in mid-2022 down from 9.7 percent at end 2021. Regulatory capital to risk-weighted assets in the banking sector increased during this same period (14.1 and above ECCB requirements), compared to the decrease in the ECCU from 21.3 to 16.7 percent. Grenadian banks remain very liquid, which could be potentially due to insufficient loan loss provisioning. In this context, bank profitability (ROA) has declined significantly from 1.4 to .5 percent during this period, a trend observed on average across ECCU members where ROA is now negative (-0.2). Grenada is a member of the Caribbean Financial Action Task Force; the country was last assessed on ML/FT matters in July 2022, which revealed

⁶ Inflation differentials might be due to Grenada’s consumer price index (CPI) being outdated and failing to accurately reflect price changes. The IMF’s Caribbean Regional Technical Assistance Centre (CARTAC) is assisting Grenada in a review of the CPI basket.

⁷ With XCD 433.3 million



legal and effectiveness issues, including gaps in the AML/CFT supervisory framework and respondent institutions' capacity to effectively manage risks; legal, institutional, and operational changes are needed to ensure effective application of the AML/CFT framework in the identified areas. The World Bank has been supporting the authorities on AML/CFT matters to conduct its national risk assessment and provided TA on AML/FT Risk Based Supervision to Grenada along with other ECCB member countries. The Grenadian authorities have also participated in several regional workshops conducted by the Bank on financial integrity related topics. Nevertheless, it will be important to monitor elevated NPL levels in Grenada, particularly as loan moratoria implemented during the pandemic.⁸

14. **Even during the pandemic, Grenada maintained primary surpluses.** Grenada recorded an average primary surplus of 5.3 percent of GDP between 2015 and 2019, well above the FRA's minimum requirement of 3.5 percent primary surplus. The pandemic prompted a suspension of its fiscal rule between 2020 and 2022, enabling the government to temporarily deviate from the primary surplus target of 3.5 percent of GDP. Still, the country achieved an average primary surplus of 2.7 percent of GDP between 2020 and 2021,⁹ significantly higher than the OECS (excl. Grenada) average of -1.6 percent of GDP and the Caribbean average of -2.7 percent over the same period.

15. **Grenada is estimated to have recorded a primary surplus of 2.5 percent of GDP for 2022.** The budget for 2022 originally projected a primary deficit of 1.1 percent of GDP, excluding additional pension liabilities in favor of civil servants determined by a court ruling in April 2022—which included a one-off retroactive payment to retirees that year. According to the ruling, the liabilities mainly comprise of two components: (1) a one-off retroactive payment for retirees in 2022; and (2) continuing annual payment from 2023 for existing pensioners who will retire. The one-off 2022 payment totaled EC\$ 74.0 million, increasing current transfers from 5.7 percent of GDP in 2021 to 7.6 percent in 2022. Nevertheless, higher-than-expected tax revenues and grant inflows in 2022 more than compensated for the additional spending. According to the latest data (October 2022), actual tax revenue exceeded the budgeted figure by EC\$50 million, as higher prices drove up VAT receipts. Also, non-tax revenue exceeded expectations by EC\$50 million thanks to strong CBI inflows. In addition, the government received a one-off US\$30m (EC\$81 million) budget grant from St George's University due to a change in the university's ownership, and a budget grant of US\$10 million (EC\$27 million) from Saudi Arabia. As a result, 2022 ended with a primary surplus, estimated at 2.5 percent of GDP.

16. **Solid growth and prudent fiscal policies have placed public debt on a downward trajectory.** Public and publicly guaranteed (PPG) debt declined from a peak of 71.4 percent of GDP in 2020 to 64.5 percent by end-2022. External debt makes up 80.0 percent of total public debt, with multilateral creditors accounting for 66.6 percent of the external funding. The US dollar is the main currency in the debt portfolio (67.7 percent), followed by Special Drawing Rights (20.3 percent). 85.5 percent of the external debt has a fixed interest rate, while variable-interest and interest-free loans account for 8.3 percent and 6.7 percent, respectively. Domestic debt (all at fixed interest rates) amounts to 18.9 percent of total debt. The disbursement of DPC1 in Q2 2022 extended the average time to maturity (ATM) and average time to re-fixing

⁸ A moratorium is a pause on payments for a pre-defined period of time.

⁹ This figure excludes the cost of the repurchase of Grenada Electricity Services (Grenlec). Grenada Private Power (GPP), the majority commercial shareholder in Grenlec, claims that the 2016 Energy Supply Act breaches the terms of Grenlec's 80-year contract with the government as sole energy provider. In 2016 GPP demanded that the government repurchase its shares in Grenlec at an estimated cost equivalent to 5.5 percent of GDP. In December 2020, Government of Grenada repurchases Grenlec shares in US\$63 million settlement agreement.



(ATR) on the external debt, while both indicators decreased slightly for domestic debt due to the issuance of a 91-day T-bill in Q2 2022.

17. **Fiscal transparency has improved significantly in recent years.** While already high before the pandemic, the standards of debt reporting have progressed further since 2020, as the government enhanced the timeliness of reporting; expanded its coverage to include the financing terms of all newly disbursed loans; and ensured that government financial statements are audited in line with the Cash-Basis International Public Sector Accounting Standards (IPSAS). The oversight of state-owned enterprises (SOE) has also improved, thanks to a report-card system to track key performance indicators, the publication of aggregate annual financial information on SOEs, and the inclusion of SOE debt in annual debt reports and fiscal risk statements. As a follow-up to the WB COVID-19 Emergency DPC, the WB team has assisted the government in setting up an Audit Committee and provided training on Institute of Internal Auditors (IIA) audit standards and data management to the staff in the auditor’s office in April 2021. Audit reports covered two high-risk areas: i) expenditure incurred by the Ministry of Health in relation to COVID-19; and ii) contracts issued by ministries for amounts lower than EC\$15,000.

18. **Improvements in disaster risk management and risk financing mitigate fiscal risks.** Natural hazards and other external shocks pose major risks to Grenada’s economic and fiscal performance. Over the past decade, the county has been building tools for financial, social, physical, and institutional resilience to natural hazards, which encompass: (i) a layered risk-financing strategy, including: setting aside part of the CBI revenues for post-disaster financing; DPCs with a Catastrophe Draw-down Option (Cat DDO); the Caribbean Catastrophe Risk Insurance Fund (CCRIF); and hurricane clauses in some sovereign bonds, whereby debt service would be automatically re-profiled following a hurricane and certain other natural hazards; (ii) in addition to SEED, a new UI Program to provide unemployment benefits during crises; (iii) modified building codes and environmental sustainability requirements for public procurement contracts; and (iv) improved institutional capacity for stronger resilience. This proposed DPC2 will support the establishment of a comprehensive legislation to consolidate multidimensional DRM efforts into a single unified system.

19. **The labor market was severely affected in 2020, particularly for women, and remained weak in 2021 despite a nascent recovery and government support.** The unemployment rate reached a historic low of 15.1 percent at the end of 2019, after years of economic growth and structural reforms. The labor force participation rate was 68.9 percent, owing to rising participation among young workers. However, the COVID-19 pandemic caused the unemployment rate to almost double to 28.4 percent in Q2 2020, compared with the same period in 2019; and the labor force participation rate plummeted to 60.9 percent. Domestic lockdown measures and the closure of international borders significantly damaged tourism-related sectors, which employ a relatively high share of poor and female workers (Figures 3 & 4). The unemployment rate in Q2 2020 remained elevated among women, at 19.5 percent, versus 14.2 percent among men. The recovery in 2021 prompted a fall in unemployment to 16.6 percent in Q2 2021, and the drop is expected to continue as the economy picks up. Nevertheless, the recovery in employment has been less robust for women than for men, partly due to the slow pace of growth in the tourism industry, where a large share of workers is females.

Table 1. Grenada: Key Macroeconomic Indicators (2019-2026)

	2019	2020	2021	2022	2023 ^e	2024 ^f	2025 ^f	2026 ^f
Real Sector								
Real GDP 1/	0.7	-13.8	4.6	5.8	3.6	3.3	3.1	2.8



CPI (average)	0.6	-1.2	2.2	5.5	2.9	1.9	1.8	1.8
Unemployment Rate (percent)	15.1	28.4	...	...	...	...	...	...
Fiscal Accounts (Central Government)								
Revenue	26.6	28.1	31.6	32.5	31.9	31.7	31.7	31.8
Expenditure	21.7	26.9	31.3	31.6	29.9	29.2	29.2	30.0
General Government Balance	5.0	1.2	0.3	0.9	2.0	2.5	2.5	1.7
Primary balance	6.8	3.1	2.2	2.5	3.6	3.9	3.9	3.0
Public Debt	58.5	71.4	71.0	64.5	61.4	58.5	53.1	49.9
Selected Monetary Accounts								
Broad money (M2)	2.9	9.1	8.5	9.2	5.4	4.8	3.3	3.1
Credit to private sector	1.4	3.1	3.8	2.1	5.2	4.8	4.6	4.2
External Sector								
Current account balance, o/w:	-10.1	-16.4	-13.1	-16.7	-14.5	-12.6	-12.1	-10.9
Exports	54.5	40.4	40.2	47.6	52.4	58.3	57.9	57.6
Imports	59.9	56.3	60.5	66.4	63.3	63.5	63.7	64.0
Foreign Direct Investment	-14.7	-14.3	-12.3	-10.3	-10.7	-11.2	-11.8	-11.7
Net imputed international reserves (months of Imports)	4.8	5.2	4.8	5.1	4.8	4.6	4.5	4.4
External debt (PPG)	44.0	55.2	55.4	51.4	49.9	45.9	42.8	39.2
REER	0.7	-2.0	...	...	...	...	...	...
Memorandum items								
Nominal GDP (EC\$ million)	3276.4	2817.2	3003.3	3352.2	3571.5	3758.9	3937.2	4120.2

Sources and Note: GoG, IMF, World Bank. e/ estimate; f/ forecasts

Note: 1/ the GDP series is based on the numbers as of April 2023.

Table 2. Grenada: Key Fiscal Indicators for the Central Government, 2019-2026 (% of GDP)

	2019	2020	2021	2022	2023 ^e	2024 ^f	2025 ^f	2026 ^f
Total Revenue and Grants	26.6	28.1	31.6	32.5	31.9	31.7	31.7	31.8
Tax Revenue	21.9	22.1	20.9	21.3	21.4	21.6	21.7	21.8
Taxes on goods and services	8.6	8.5	8.4	8.5	8.5	8.6	8.7	8.7
Taxes on income and profits	4.6	4.8	4.0	4.2	4.3	4.4	4.5	4.6
Taxes on international trade	7.5	7.6	7.5	7.6	7.5	7.5	7.5	7.5
Other taxes	1.2	1.2	1.0	0.9	1.1	1.1	1.0	1.0
Non-Tax Revenue 1/	1.8	2.4	3.3	4.5	8.7	8.3	8.3	8.3
Grants 1/	2.9	3.7	7.3	6.7	1.8	1.7	1.7	1.7
Total Expenditures	21.7	26.9	31.3	31.6	29.9	29.2	29.2	30.0
Current expenditure	19.0	23.1	22.6	21.5	20.9	20.5	20.3	20.3
Employee compensation	8.1	9.8	10.0	8.3	9.1	8.8	8.7	8.7
o/w wages, salaries and allowances	7.7	9.3	9.6	7.9	8.7	8.4	8.3	8.3
Goods and services	4.1	4.7	5.0	3.8	4.6	4.6	4.5	4.5
Interest	1.9	2.0	1.9	1.7	1.6	1.4	1.4	1.3
Transfers	5.0	6.6	5.7	7.6	5.7	5.7	5.8	5.8
Capital expenditures	2.6	3.8	8.7	10.2	8.9	8.7	8.9	9.7
Primary balance	6.8	3.1	2.2	2.5	3.6	3.9	3.9	3.0
Overall fiscal balance	5.0	1.2	0.3	0.9	2.0	2.5	2.5	1.7
Public Debt	58.5	71.4	71.0	64.5	61.4	58.5	53.1	49.9
External	44.0	55.2	55.4	51.4	49.9	45.9	42.8	39.2
Domestic	14.5	16.2	15.6	13.1	11.5	12.6	10.3	10.7

Sources and Note: GoG, IMF, World Bank. e/ estimate; f/ forecasts

Note: 1/ starting in 2023, the recording of CBI-related revenue was moved from "grant" to "non-tax revenue".

Table 3. Grenada: Balance of Payments Financing Requirements and Sources, 2023-2026 (US\$ million)

	2023 ^e	2024 ^f	2025 ^f	2026 ^f
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Financing requirements	242.5	242.6	239.1	249.2
Current Account Deficit	207.2	191.3	174.8	176.2
Amortization medium and long term (MLT) debt	35.3	51.3	64.3	73.0
Financing Sources	242.5	242.6	239.1	249.2
FDI	128.3	141.1	156.1	172.0
Capital Grants	89.4	84.9	80.7	76.7
Public sector MLT debt disbursements o/w IMF	112.1	74.8	45.6	31.6
WBG	0.0	0.0	0.0	0.0
Other multilaterals	32.0	41.5	15.5	10.0
Other financing incl. drawdown of FX Reserves	35.6	19.0	4.1	2.9
	-87.4	-58.2	-43.3	-31.1
Memorandum items				
Balance of Payments Financing Requirements (% GDP)	18.3	17.2	17.1	15.6

Sources and Note: GoG, IMF, World Bank. e/ estimate; f/ forecasts

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

20. **As tourism grows and private investment accelerates, GDP is expected to return to pre-pandemic levels by 2024.** The recovery in stay-over tourism is expected to continue, after several airlines resumed direct flights from North America, Europe, and the rest of the Caribbean in late 2022. Cruise ship traffic, which re-started around the same time, late 2022, is expected to match its 2019 level by 2025-26, reflecting the deep impact of the pandemic on the cruise industry. Private investment is also set to pick up pace, with three major projects already planned for hotels, private housing, and commercial buildings.¹⁰ Public construction activity will remain elevated (albeit to a lesser degree than during the pandemic), with key projects including upgrades to Maurice Bishop International Airport for about US\$61 million (5.5 percent of GDP). Over the long-term, efforts to boost economic growth are expected to compensate for the projected dampened global economic prospect, and Grenada's economy is expected to return to the potential growth of around 2.8 percent after 2026.

21. **Tourism recovery and continued public and private investment will boost supply-side economic activities.** The tourism-related sectors, including hotel, restaurants, transportation and utilities, are projected to grow strong over the medium term, consistent with the recovery. Construction activities will continue driving economic growth, as public investment remains elevated and private investment pick up. Furthermore, St George's University is expected to boost enrollment over the medium term via more scholarships and expanded course offerings, resulting to a larger student population that drives consumption further on the island. The government has also announced measures in support of the digital economy and the establishment of small-business incubators.

22. **The poverty rate is expected to reduce slowly, reaching around 27 percent in 2022 and returning to its pre-pandemic level after 2023.** Long-term economic growth is slated to benefit from the government's agenda to enhance competitiveness, boost the country's growth potential, and reduce inequality—particularly by i) improving the business climate, governance, education, and training; ii) facilitating trade; and iii) promoting renewable energy. Nevertheless, with an uncertain global economic outlook that has significant impacts on Grenada's economy, long-term growth estimates tend to be conservative. Annual

¹⁰ These are the Silversands Legacy (US\$80 million, started in 2022), the Riviera project (US\$60 million, started in 2022), and the Port Louis project (US\$250 million, in preparation).



economic growth in Grenada is projected to revert to 2.5 percent, less than the ten-year and five-year pre-pandemic averages (2.8 percent and 3.9 percent, respectively).

Box 1: Budget 2023: People-Centered Transformation						
Six Strategic Areas	Health and Wellness	Education and Training	Agriculture and the Marine industry	Physical and Digital Infrastructure	Culture and the Creative Sector	Energy Transition and the Environment
Five overarching pillars	Pillar 1 Empowerment of our Citizens	Pillar 2 Economic Transformation	Pillar 3 Governance and Institutional Rebuilding	Pillar 4 Building Resilience and Environmental Management	Pillar 5 Strengthening Regional and International Cooperation	
	<ul style="list-style-type: none"> • Prioritising Health and Wellness • Transforming Education and Training • Youth Empowerment, Sports, and Culture for the Future • Women’s Empowerment and Gender Equality • Housing Assistance and Community Empowerment • Reimagining Social Protection and Safety Nets and Tackling Poverty 	<ul style="list-style-type: none"> • Agriculture, Food and Nutrition Security • Enhancing the Tourism and Hospitality Sector • Jumpstarting the Creative Economy • Digital Transformation • Promoting Private Sector Development <ul style="list-style-type: none"> ✓ Review of the Incentives Regime ✓ Small Business Incubator Pilot ✓ Other Supportive Infrastructure for Private Sector Development 	<ul style="list-style-type: none"> • Transforming the Public Service and Pension Reform • Modernising Labour Relations • Occupational Safety and Health • Restructuring and Strengthening State Bodies • Prioritising the Judiciary • National Security and Safety • Strengthening Economic Management • Reinvigorating the Economy of Carriacou and Petite Martinique • More Effective Government 	<ul style="list-style-type: none"> • Prioritising Climate Resilience and Disaster Management, the Environment and Renewable Energy • Implementation of Climate Change Expenditure Tagging • Transformative Physical Infrastructure 	<ul style="list-style-type: none"> • Rationalisation of Diplomatic Missions • Maximising Diaspora Relations 	

Source: Grenada 2023 Budget Speech; chart by WB staff.

23. **Inflationary pressure—although easing gradually—is set to persist, affecting poor rural households the most.** The rise in the price of commodities, including oil, showed signs of abating toward the end of 2022, however, there is a risk that inflation, including for food, persists. The effects of continued inflation would be felt especially by the poor, as Grenada relies heavily on imported food (which accounts for more than 80 percent of the island’s food consumption) and fuel. The WB approved a US\$10 million Crisis Response Window (Early Response Financing) to Grenada in 2022 for temporary measures to address a potential food insecurity crisis.

24. **External balances are likely to return to pre-pandemic levels by 2026, due to the expected prolonged period of inflation.** The rise in tourism-related exports is set to outweigh increased demand for imports, driven by tourism itself and private construction. The current account deficit averages 12.5 percent of GDP over the medium term, on par with pre-pandemic levels, and is financed by FDI flows as well as bilateral and multilateral funding. Strong CBI flows are expected to continue, helping to meet external financing needs. Foreign reserves are relatively abundant, and will cover an estimated average of 4.6 months of imports between 2023 and 2025.

25. **Tax revenues are projected to reach 21.4 percent of GDP in 2023, an increase over 2020-21 but slightly below the 2019 mark of 21.9 percent of GDP.** Slow revenue growth is a consequence of measures enacted in 2023 to boost the economic recovery and mitigate the impacts of inflation on households (Annex 5), at a cost of around EC\$30 million (0.84 percent of the 2023 GDP). Such measures include both temporary and permanent measures, which affected both the 2023 revenue outturns and the long-term revenue baseline projections. Temporary measures include a temporary VAT exemption for several food items and temporary tax concessions for production equipment for the “creative economy”, which are expected to expire in early 2024. Permanent measures include cuts to the petrol tax and the VAT rate for electricity



consumption; and subsidies for low-volume electricity users which entered into effect during the first quarter of 2023. To compensate for these revenue losses, the government raised excise taxes on alcohol and cigarettes, increased the VAT rate on sugary drinks, and introduced environmental levies on electricity and water consumption in February 2023. Moreover, the is taking steps to strengthen the tax administration with a focus on increasing compliance and reducing tax arrears over the short term (Table 4). Non-tax revenue is expected to remain strong, mainly driven by a robust demand for the CBI program. Moving forward, the tax revenue is expected to return to the pre-pandemic levels by 2026, when the economic expansion returns to the potential growth rate. The expected buoyant CBI revenues over the medium term, through slightly lower than the peak during the pandemic, are expected to boost non-tax revenue and support the total revenue reaching an average of 31.7 percent of GDP.

26. **A more comprehensive recording of CBI revenues in the annual budget will enhance the transparency and credibility of public finances.** Government revenues from the CBI program have almost tripled since 2019, helping fund economic stability and climate resilience programs. The CBI-related revenues include: investments into approved CBI projects; contributions into the National Transformation Fund (NTF) for transformational projects; and other receipts, including application and processing fees. Although CBI revenue statistics had been published on the government website on a quarterly basis, only CBI inflows committed to a project (instead of all CBI inflows), as well as application and processing fees, were recorded in the annual budget. However, starting in 2023, 90 percent of CBI revenues will be recorded in the budget, and 10 percent will be set aside in a contingency fund managed by the ECCB for post-disaster assistance. This is the first time that the contingency fund is capitalized since its establishment. The government will also start publishing the stock of the contingency fund and the project list funded by the NTF in 2024.

27. **The public wage bill is expected to increase from 7.9 percent of GDP in 2022 to 8.7 percent in 2023—driven by rising nominal wages and employee numbers—before resuming the pre-pandemic declining trend.** The number of government employees is set to increase—from 5,189 in 2022 to 5,363 in 2023—as the attrition policy that constrained new hires is temporarily loosened, in order to better manage a growing portfolio of public projects. But the government remains committed to the fiscal rule with the budgeted wage bill for 2023 remaining below the FRA ceiling of 9.0 percent of GDP. Over the medium term, the government remains committed to the attrition policy, and the public wage bill as a share of GDP will remain contained in accordance with the wage-bill rule under the FRA. The wage negotiation with several main trade unions have been concluded, and public wages are expected to grow by less than the projected rise in nominal GDP¹¹.

28. **The capital spending will maintain at high levels close to 9 percent of GDP, mostly due to the increase in CBI-financed projects.** Public spending on Good & Services is projected to stay at an elevated level than the 2019, associated with activities to support the expansion in capital spending. After the one-off retroactive pension payment of EC\$74.0 million in 2022, current transfers will drop from 7.6 percent of GDP in 2022 to an estimated 6.2 percent in 2023 (still higher than the 2017-19 average of 4.8 percent of GDP, due to the continued fiscal impacts of the pension ruling with regard to new retirees). Capital spending is projected to remain elevated, at an average of 9.0 percent of GDP, but below the 2022 level of 10.6 percent

¹¹ The wage negotiation for 2023-2025 has not yet been finalized with several trade unions when this document is prepared. The negotiations which have been concluded implied a slower growth rate than the projected nominal GDP growth over 2023-25 at 17.7 percent accumulatively. For example, the Grenada Union of Teachers has agreed to a total of 13 percent increase of salary over 2023-25.



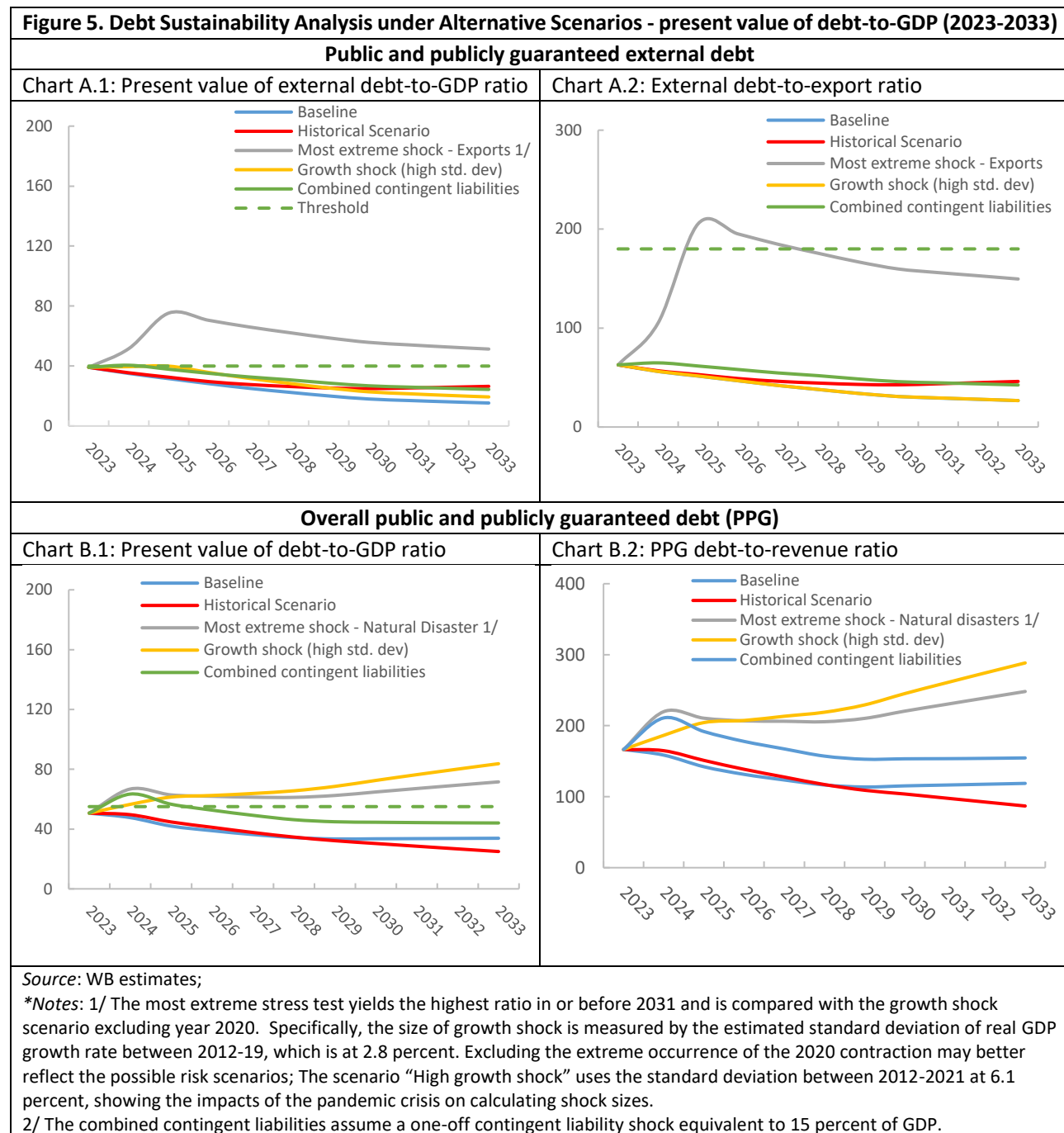
of GDP. Capital projects will be mainly financed by a combination of CBI revenues and concessional financing from external development partners, including the WB and the Caribbean Development Bank (CDB). The latter also recently approved Grenada's access to Ordinary Capital Resources (OCR),¹² a non-concessional financing pool under CDB. Combined with other concessional financing and grants managed by CDB, the full portfolio in Grenada is expected to be highly concessional. In addition, the FY23 Sustainable Development Finance Policy (SDFP) includes a Performance and Policy Action (PPA) of non-zero limits of non-concessional financing (Annex 7) to limit the related fiscal risks.

29. **Fiscal outturns are projected to return within FRA limits, with an estimated primary surplus of 3.7 percent of GDP in 2023.** The government issued the 2023 Compliance Assessment Report for the fiscal rule according to Section 12 (1) (C) of the FRA. At an average of 3.8 percent of GDP between 2023-2025, the medium-term primary surplus is projected to remain above the minimum requirement set by the FRA until the public debt-GDP ratio lowered below the FRA target of 55 percent in 2025. But this average remains below the 2016-19 average of 6.2 percent of GDP—due to the impact of pension liabilities, capital spending, and a projected GDP growth rate lower than its historical average as a result of a challenging global outlook. Public debt as a share of GDP is expected to fall under 55 percent after 2026, as per FRA targets^{13,14}. The government's financing strategy relies primarily on borrowing from external multilateral creditors on concessional or semi-concessional terms. With regard to domestic debt, Grenada plans to remain active on the Regional Government Security Market while gradually moving to longer-term securities. Debt risk indicators are projected to improve, with extended ATM and ATR, decreasing levels of public debt, and lower interest payments. The reforms under this DPC are expected to help improve fiscal performance and mitigate the fiscal risks, including PA4 & 5 to enhance fiscal revenue through environmental levy and health-related taxes, while reducing future expenditure on public health; PA 8 to establish financing cushion for unemployment and mitigate the related fiscal expenditure shocks.

¹² The OCR is one of the CDB's two financing sources. The other source, the Special Funds Resources (SFR), consists of contributions and loans on highly concessional terms. The OCR includes capital subscriptions from its members, reserves, borrowings on the international capital markets, as well as loans from other multilateral development banks. The CDB charges a variable interest rate on loans from the OCR, with grace and repayment periods determined on the basis of each project's projected cash flow and the borrower's ability to repay. The maximum payable period for Grenada is 22 years (including a five-year grace period).

¹³ According to the FRA, when the public debt-GDP ratio lowers below 55 percent, the restrictions, including the minimum requirement of 3.5 percent primary surplus, are no longer applied. As a result, the spending in 2026 is expected to increase and the primary surplus in 2026 is projected to be lower than 3.5 percent of GDP.

¹⁴ The primary surplus is projected at 3.0 percent of GDP as the primary balance target is not binding when debt is below 55 percent of GDP.



30. **A WB Debt Sustainability Analysis (DSA) in April 2023 concluded that the external public debt was *In Distress*, but the country’s overall debt situation is sustainable.** This remains the same conclusion as the IMF-WB joined DSA in 2022.¹⁵ The *In Distress* rating for external public debt was solely a consequence of

¹⁵ The joint WB-IMF joint DSA is currently under review and the final DSA will be included in this document prior to negotiations.



longstanding arrears due to official bilateral creditors, amounting to US\$33.6 million (2.5 percent of GDP) as of end-2022. However, public debt is sustainable overall and on a downward trend under the baseline scenarios (Figure 5). The public debt service-to-revenue ratio is expected to remain below 20 percent, while the external debt-to-GDP ratio will fall under 55 percent after 2026. Public gross financing needs are projected to maintain below 10 percent of GDP over the project period. Natural hazards and export shocks—especially a potential decline in tourism receipts—pose major risks to Grenada’s debt sustainability outlook.¹⁶ Public debt would temporarily increase but trend down again over the medium term even in the event of a large contingent liability shock, The government has made progress in addressing external arrears. In October 2022, the government reached a repayment agreement with the State of Libya on the US\$5 million in debt arrears owed. There remain legacy arrears (totaling US\$33.6 million) to two (Trinidad and Tobago and Algeria) official bilateral creditors and the GoG has established a sinking fund at the ECCB in the amount of US\$3.3M (as of July 31, 2022), as an initial effort to settle the remaining arrears.

31. **The macroeconomic risks are expected to be mitigated by ongoing structural reforms, part of which are supported by this operation.** Risks to fiscal sustainability arise from the uncertainties of the global commodity market, the dampened global economic outlook and climate change and natural hazards. The government’s strategy to scale up renewable energy and improve energy efficiency, including those supported under this operation, could reduce Grenada’s dependence on fuel imports and mitigate the associated risks. To counter the slowdown of global economic growth and strengthen growth potential, the government has made strong efforts to diversify the tourism sector, including to diverse markets and provide diverse services, and encourage other non-tourism sectors, such as the digital economy and private education. The Government established a layered disaster risks financing mechanism to cushion the impacts from natural hazards and other shocks. Other resilience building programs include strengthening building codes, incorporating disaster risk considerations into investment and procurement, and shifting to renewable energy. The Government has been promoting private sector development, including in the tourism sector, through market branding, infrastructure enhancement, electricity sector reforms, trade facilitation, and economic diversification through the “*Blue Economy*” and digitalization. Fiscal risks are mitigated by the continued efforts to enhance fiscal transparency, improved tax administration, adherence to expenditure control measures, and increased public investment efficiency.

32. **Grenada’s macroeconomic policy framework is deemed adequate for the proposed operation.** Grenada has a track record of sound fiscal policy, and has been enacting structural reforms to boost growth, strengthen fiscal management, and diversify the economy. The GDP growth rate had been significantly higher than in other OECS countries before the pandemic, while the long-standing fixed exchange rate regime helped keep inflation in check. The fiscal response to the pandemic has been broadly adequate. The 2023 Budget identifies credible steps to reach the FRA’s fiscal primary surplus targets. Debt management has been sound, relying heavily on concessional financing. Transparency and efficiency of the use of CBI funds has been strengthened. The 2020-35 National Sustainable Development Plan (NSDP) lays the groundwork for sustained, climate-resilient, and inclusive growth, including a comprehensive disaster resilience strategy. Strong CBI revenues, FDI inflows associated with the expansion of tourism, and other financing cushions will help fund the current account deficit and dampen the impacts of future external shocks.

2.3. IMF RELATIONS

¹⁶ Another growth shock on par with the pandemic-induced contraction in 2020 (which was more than twice as large as any other shock over the past 40 years) would place Grenada’s debt on an unsustainable path (Figure 5, “High Growth Shock” scenario).



33. **On April 28, 2020, the IMF Board approved disbursements of SDR 16.4 million (US\$22.4 million) to Grenada under the Rapid Credit Facility (RCF) mechanism, to help cover balance-of-payment needs following the outbreak of the COVID-19 pandemic.** Grenada also received a 36-month Extended Credit Facility (ECF) between 2014 and 2017; the final review of that program concluded that the country had achieved the core objectives of restoring fiscal sustainability, strengthening the financial sector, and creating the conditions for sustainable growth. The GoG also accomplished legislative reforms to strengthen the fiscal policy framework. Following the conclusion of the ECF arrangement, the GoG moved to a surveillance-only engagement with the IMF on a standard 12-month cycle. An Article IV mission concluded in February 2022 and a virtual staff visit took place in November 2022 to discuss general fiscal and financial matters. The IMF 2023 Article IV staff visit took place May 2023. The WB and the IMF continue to collaborate closely on Grenada’s macroeconomic and fiscal issues and technical assistance.

3. GOVERNMENT PROGRAM

34. **The GoG implemented various measures to contain the COVID-19 pandemic and stimulate economic recovery.** In March 2020 Grenada declared a State of Emergency, which facilitated school closures, curfews, the shutdown of non-essential services, and the closure of all ports of entry to non-citizens. The government mandated increased laboratory testing, and treatment and isolation of infected patients. The government also implemented two rounds of fiscal stimulus, in April 2020 and August 2021, respectively. The first round included increased health spending, liquidity support for small businesses, tax payment deferrals coupled with income and payroll support programs for workers (especially in tourism), and electricity bill subsidies for three months. The public sector investment program was expanded to stimulate job creation, and the agricultural sector received financial support to help ensure food security. In August 2021, the government launched the Economic Stimulus Package 2.0, which included: income support to informal workers and payroll support to formal workers; temporary cash transfers to vulnerable individuals and households; as well as grants to MSMEs. Moreover, the government has established a permanent UI program, as a tool of income protection for the unemployed in the event of future natural hazards, which became operation in May 2023.

35. **The government’s broad-based economic reform program, underpinned by the NSDP 2020-2035, seeks to achieve sustainable, climate-resilient, and inclusive growth.** The NSDP is framed by three national development goals: i) high-quality human and social development (society); ii) an institutional framework to create a dynamic, competitive economy supported by climate- and disaster-resilient infrastructure (economy); and iii) environmental sustainability and security (environment).

36. **The 2023 Budget presents a transformational agenda that aims to lay the foundation for Grenada’s growth and resilience (Box 1).** The six strategic areas are consistent with the five overarching pillars and support the national vision for Grenada as set out in our National Sustainable Development Plan, 2020 to 2035 – “Grenada, a resilient and prosperous nation, with a conscious and caring citizenry, promoting human dignity, and realizing its full potential through sustainable economic, social, and environmental progress for all”.

4. PROPOSED OPERATION



4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

37. **This proposed operation aims to support Grenada’s recovery through two pillars: (i) promoting a greener and more climate-resilient economy; and (ii) improving the sustainability, inclusiveness, and accountability of fiscal management.** Reforms under the operation address pre-existing structural challenges, as well as gaps exposed by the pandemic. Pillar 1 helps Grenada build resilience to external shocks and climate change, by supporting comprehensive DRM legislation, the accountable and efficient use of energy, and the incentives to preserve resources. Reforms under Pillar 2 will help the country strengthen responsible and sustainable fiscal policies, through promoting healthy behavior, reducing the gender gap, mitigating the impact of climate change, establishing a UI program, and enhancing the transparency of the CBI program.

38. **The reforms supported under this DPC are aligned with the transformational agenda announced in the 2023 Budget (see Box 1).** Specifically, efforts to introduce a DM Act (PA1) align with Pillar 4 under the Budget; PA2 & 3 on energy sector reforms support the sixth strategic area and Pillar 4 under the Budget; while the establishment of UI and increased contribution rate of the pension scheme, tax enhancement measures, annual reporting of NTF flows, and gender/climate change budget tagging are in line with Pillar 3.

39. **The proposed programmatic approach is in line with the WBG’s COVID-19 Crisis Response Approach Paper and the GoG’ strategy to support post-crisis recovery.** The proposed operation complements previous DPC operations, including the COVID-19 Emergency DPC (2020), the Fiscal Resilience and Blue Growth DPC series (2018-19), the DRM DPC with a Catastrophe Deferred Drawdown Option (2019), and the Programmatic Resilience Building DPC (2015-17). It builds on the WB’s technical engagement with Grenada on disaster risk management, energy sector reform, debt management, tax-related TA, social protection engagement and public financial management (PFM). The structural reforms envisaged by the operation also contribute to achieving the goals of Grenada’s NSDP 2020-2035.

40. **This operation supports continued climate-change adaptation and mitigation, a diversified model of economic growth, and sustainable development.** The operation contributes to climate resilience in three ways. First, it promotes both a comprehensive DRM framework to address extreme climate events, and energy efficiency combined with a transition to domestically produced renewable energy—which, in the long run, would alleviate Grenada’s dependence on imported fuel and its exposure to external economic shocks. Second, the operation promotes private sector resilience through the introduction of a UI program. Third, by fostering accountable and sustainable fiscal management, the operation enables the public sector to fulfill its critical role in building climate resilience—including by explicitly incorporating gender and climate considerations in the budgeting process, and by enhancing the transparency of the NTF and the transformational projects that depend on it.

41. **The programmatic series of which the proposed operation is part incorporates lessons learned from previous WB engagements.** The 2022 Implementation Completion and Results Report (ICR) for the Programmatic Fiscal Resilience and Blue Growth Development Policy Credit (P164289; P167748), published on January 19, 2022, determined that a multi-year program could make a stronger development impact than a one-year stand-alone program. The 2022 ICR also found that limited implementation capacity in small states requires that the program design should be simple and selective. It also found that programs should be augmented by intensive technical assistance and support during the implementation phase. Based on



these lessons, the current multi-year programmatic DPC series focuses on precisely defined reforms in critical policy areas, where the WB can offer and is offering implementation support as necessary. The reforms envisioned under the operation were designed after extensive consultation with a wide range of stakeholder groups, while ensuring citizen engagement through various channels (e.g., the design of the UI Program accounted for the results of an anonymous household survey conducted in July 2021.)

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Table 5: Indicative Triggers from DPC1 and Prior Actions for DPC2 (full matrix: see Annex 1)

Prior Actions under DPF 1	Triggers for DPF 2	Comments and status
<i>Pillar 1 --- Promoting a greener and more climate-resilient economy</i>		
<u>Trigger 1:</u> to implement the DM Act and to enhance disaster and climate resilience, the Recipient, through its Cabinet, has approved the Disaster Management Regulations .	<u>Prior Action 1:</u> The Recipient has enacted the Disaster Management Act, which develops, promotes, and implements a disaster reduction and management approach, to enhance disaster and climate resilience	Revised to align with the government’s updated timeline to approve the DM Bill. TA provided; complementary to/supported under the renewed CAT DDO (P171465).
<u>Trigger 2:</u> The Recipient has submitted the Energy Efficiency Bill to the Parliament, to establish a comprehensive framework for promoting energy efficiency and mitigating climate change.	<u>Prior Action 2:</u> The Recipient has approved the Generation Code of Grenada Grid Code, which establishes the requirements for economic least-cost dispatch and operation of private renewable generation to ensure system reliability and maximize reduction in thermal generation mitigating climate change.	Original Trigger 2 dropped to align with the Government’s implementation timeline on the Energy Efficiency Bill. Meanwhile, the Generation Code is more closely linked to the prior actions under the DPC1, where the Regulations are expected to incentivize more investment in renewable energy. The Generation Code is necessary and essential to ensure a smooth connection of the renewable energy to the existing electricity grid network safely and efficiently.
<u>Trigger 3:</u> The Recipient, through its Cabinet, has approved the updated National Energy Policy to include increase in renewable energy and energy efficiency with targets, an action plan, and monitoring framework, to reduce GHG emission and mitigate climate change.	<u>Prior Action 3:</u> The Recipient has approved the updated National Energy Policy, which increases the renewable energy and energy efficiency targets to reduce GHG emissions and mitigate climate change.	Trigger 3 unchanged.
<u>Trigger 4:</u> The Recipient, through its Cabinet, has approved the establishment of the independent (technical, financial, and political) Agency that enforces the Data Protection Act.		Original trigger dropped to align with the Government’s implementation timeline in this area. After the general election, the Data Protection Bill, which precedes to Trigger 4, has received additional comments.
<i>Pillar 2 --- Improving sustainability, inclusiveness and accountability of fiscal management</i>		
	<u>Prior Action 4:</u> The Recipient has enacted an amendment to the Environmental Levy Act which: (a) restores a tax of EC\$5 on electricity consumption for 100 - 150 kWh and EC\$10 for Over 150 kWh; and (b) sets a tax of EC\$5 on water consumption for 2,801 - 5,500 gallons and EC\$10 for Over 5,500	New prior action, which complements other energy sector reforms but managing the energy and resource from the demand side.



	gallons, to mitigate climate change impacts and reduce energy and resource consumption.	
Trigger 5: The Recipient has approved (i) the mandatory online tax filing of VAT and PIT for large businesses; and (ii) the operation of a unified online tax payment system that allows online payment of all tax categories.	Prior Action 5: The Recipient has enacted an amendment to the Excise Tax Act, which: (a) increases the excise tax on alcohol from EC\$1.10/EC\$4.40 per liter to EC\$1.50/EC\$5.00 per liter and cigarettes from 105% to 200%; and (b) increases the value added tax on sweetened beverages from 15% to 20%, to strengthen fiscal sustainability and promote public health.	The original Trigger 5 (i) will continue being supported under the Digital Government for Resilience (P167588). The new revised Prior Action 5, which continues the intended goal of strengthening fiscal revenue while promoting health lifestyle.
Trigger 6: The Recipient has approved the application of the climate change budget tagging approach to annual budget bills, to better identify and mobilize fiscal resources toward climate resilience building.	Prior Action 6: The Recipient has approved mandatory climate change budget tagging requirements to be abided by its Ministries for Agriculture, Infrastructure, and Climate Resilience, which categorize, measure, and monitor climate-relevant public expenditures to better identify and mobilize fiscal resources toward climate resilience building.	Unchanged
Trigger 7: The Recipient has approved the publication of the budget documentation that includes information on the impact of budget policy proposals on men, women, and gender equality for all Ministries, Departments, and Agencies.	Prior Action 7: The Recipient has approved mandatory gender statements requirements to be abided by all its ministries and departments, which includes the impacts of budget policy proposals on gender issues and priorities for the Recipient’s annual budget to be gender-responsive and gender-sensitive.	Reworded to elaborate on the substance of the policy action.
Trigger 8: The recipient has approved, through its parliament, the amendment to the National Insurance Act to include a permanent funded UI Programme to enhance workers’ income protection mechanisms against shocks, including natural hazards.	Prior Action 8: The Recipient has enacted amendments to: (a) the National Insurance (Collection of Contributions) (Amendment) Regulations and the National Insurance (Self-Employed Persons) (Amendment) Regulations, which increase the contribution of self-employed person rate by one (1) percent; and (b) the National Insurance (Unemployment Persons) Regulations which include a permanently funded Unemployment Insurance Programme; to improve the Recipient’s pension system sustainability and enhance workers’ income protection mechanisms against shocks, including climate-induced natural hazards.	Unchanged
Trigger 9: to strengthen the country’s statistical system, The Recipient: (i) has submitted to Parliament for approval the Statistics Bill which modernizes the National Statistics System; and (ii) through its Cabinet, adopted the National Strategy for the Development of Statistics.	Prior Action 9: The Recipient has approved the annual publication of the total of NTF flows, NTF-funded projects, and the balance of the Contingency Fund, in the Recipient’s annual budget on a yearly basis starting 2024 onwards, to improve fiscal transparency and fiscal resilience.	The timeline of the original trigger is revised to align with the Government’s updated agenda in this area, supported by PARIS21 starting in Q1 2023. The new PA 9 continues the goal of strengthening statistical capacity and government’s transparency, while improving the accountable



		management of public resources.
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Pillar 1 --- Promoting a greener and more climate-resilient economy

Prior Action 1: The Recipient has enacted the Disaster Management Act, which develops, promotes, and implements a disaster reduction and management approach, to enhance disaster and climate resilience.

42. **Rationale:** The lack of a comprehensive DRM framework compromises Grenada’s efforts to build systemic resilience to climate-induced disasters. Grenada’s vulnerability to climate-induced shocks—such as hurricanes, floods, droughts, and tsunamis—imposes high costs and volatility on all sectors of the economy, while taking a significant toll on fiscal resources. The government has made significant progress in improving climate resilience, including by establishing a contingency fund, leveraging various insurance products, and strengthening building codes. In the 2023 Budget speech, the government also highlighted DRM as a key area to realize its development vision for the country. However, Grenada had no comprehensive and institutionalized approach to proactively address risk holistically, and to steer the efficient use of financing and staffing resources in different situations. This void had resulted in a lack of communication and coordination across ministries to prepare for and respond to disasters in a strategic and cost-effective way. Meanwhile, the government had no ex-ante instrument to provide immediate liquidity in the event of a disaster, having to rely instead on limited reserve funds and the reallocation of resources from ongoing development programs.¹⁷ Furthermore, critical DRM-related fiscal sustainability considerations are dispersed across different pieces of legislation.

43. **Substance:** PA 1 supports the enactment of the DM Bill. DPC1 supported the Cabinet approval of the DM Bill; DPC2 supports its enactment. The DM Act is a comprehensive and modern DRM legislation, which follows the regionally endorsed Comprehensive Disaster Management approach from the Caribbean Disaster Emergency Management Agency (CDEMA). It also includes: (i) the establishment of a standalone National Disaster Management Agency (NDMA); (ii) a mandate to account for gender-related vulnerabilities to climate-induced shocks when implementing the DR Act; and (iii) annual updates to the Disaster Management Plan to address evolving climate risks. The DM Act is the first in the Caribbean to specifically address disaster risk financing. It facilitates the implementation of Grenada’s 2019 National Strategy for Disaster Risk Financing, by identifying a risk-layering approach to financing for post-disaster response—resorting to sources such as contingent financing through the budget, the NTF, contingent lines of credit (e.g., Cat DDO), and risk-transfer products such as parametric and indemnity insurance.

44. **Expected Impacts:** The government is expected to strengthen protocols and inter-agency cooperation for climate change resilience and DRM, as per the future DM Act, with a view to (a) improved functionality of the NDMA, which will benefit from clarity of mandate and responsibilities; (b) greater government-wide consideration of hazard and climate risks when planning and budgeting for risk reduction and hazard response; (c) more cost-effective and timely funding of hazard response; and (d) improved gender-responsiveness in planning for and responding to disasters. Such improvements will be reflected in an increased share of ministries and agencies having an Operations Continuity Plan in accordance with the

¹⁷ The government has since adopted a Cat DDO instrument to address losses that result in a declaration of emergency.



new DM Act. Currently, ministries and agencies either lack such plans, or have plans inconsistent with the new DRM framework. The WB team has assisted the government in drafting the DM Bill and the regulations, and will continue supporting the government in drafting the Operations Continuity Plans. The TA will also be supported by the renewed CAT DDO DPC operation (P171465), and the WB's overall DRM engagement in Grenada.

Prior Action 2: The Recipient has approved the Generation Code of Grenada Grid Code, which establishes the requirements for economic least-cost dispatch and operation of private renewable generation to ensure system reliability and maximize reduction in thermal generation mitigating climate change.

Prior Action 3: The Recipient has approved the updated National Energy Policy, which increases the renewable energy and energy efficiency targets to reduce GHG emissions and mitigate climate change.

45. **Rationale:** Despite its significant potential for renewable energy, Grenada is heavily reliant on fossil fuels—a situation that drives up energy costs, exposure to volatility in global oil prices, and GHG emissions. These challenges have hampered private sector development, poverty reduction, and overall economic growth. Without appropriate measures, Grenada will also face potentially high transition risks once international policies impose constraints on GHG emissions and the use of fossil fuels. The GoG has made efforts to encourage a paradigm shift, particularly in electricity generation, which accounted for 48 percent of the country's GHG emissions between 2010 and 2014. A National Energy Policy (NEP) was approved in 2011, and the Sustainable Energy Action Plan 2010-2020 set a goal of deriving 20 percent of all energy used in the country (both for power generation and transport) from renewable sources. However, the NEP (2011) needs updating and without a concrete implementation plan, the progress of the NEP has been slow. In its 2020 Nationally Determined Contribution (NDC), the GoG further proposed a 30 percent reduction in emissions from electricity production by 2025; and the 2023 Budget speech announced an agenda to develop geothermal, wind, and solar generation. However, achieving these ambitious goals requires addressing gaps in the policy and institutional framework which this new NEP seeks to address.

46. **Substance:** PA 2 supports the Generation Code to foster the use of renewable energy. The Generation Code is part of the Grenada GRID Code that specifically governs and sets the fair and sustainable standard for electricity generated from all sources. DPC1 supports steps to scale up renewable energy generation. The expected additional electricity production will be connected to the existing electrical grid, complementing the traditional electricity supply from the public utility Grenlec. Ensuring predictable and non-discriminatory requirements for the connection, operation, and dispatch of new energy from renewable sources hinges on appropriate technical and operational regulation. Consistently with international sound practice, the Generation Code within Grenada's Grid Code under PA 2 sets out the technical and operational conditions to create a level playing field for private generators. This will help attract experienced investors to the competitive process for developing new renewable generation capacity, and ensure the technical conditions to scale it up.

47. **PA 3 assists the government in approving a comprehensive updated NEP to strengthen the country's energy strategy.** A clear energy strategy – aligned with existing legislation, regulations and commitments – is critical. The updated NEP reflects the Electricity Supply Act (introduced in 2016 and amended in 2017), which created the Public Utilities Regulatory Commission (PURC); and the country's updated climate change commitments under the 2020 NDC. It lays a solid foundation for Grenada's shift to



a resilient, low-carbon energy sector. The NEP's goals include: strengthening institutions and the legal and regulatory framework to scale up renewable energy generation and efficient use of energy; promoting local knowledge for sustainability; for electricity, achieving a sustainable mix of renewable energy generation, energy storage, and resilient systems and networks; and shifting to cleaner and more efficient transport modalities, including electromobility. Supported by the TA under the WB Energy Efficiency IPF, the NEP will be complemented by a five-year implementation plan starting in the second semester of 2023, with a results-based monitoring and evaluation system, including the result indicators associated with PA 3 under this DPC. The updated information incorporates the Second NDC, as well as the approach to materialize the ambition goals of the government in multiple areas. Grenada is currently heavily dependent on fossil fuels (97 percent for electricity production), which represent a large share of national GHG emissions. Should the country be able to commercially exploit any oil and gas reserves, then -according to the NEP – any revenues would be used transparently and to advance the climate agenda in line with the Second NDC.

48. **Expected impacts:** The PAs are expected to support the expansion of renewable energy generation capacity and improved energy efficiency, leading to greater affordability and competitiveness of electricity tariffs. They will also contribute to climate change mitigation and adaptation, by lowering GHG emissions and reducing reliance on traditional energy sources. Success in expanding renewable energy generation will be measured by the amount of electricity generated through the PURC Self-Generator (SG) program. The baseline value is 0 in 2021, with a target to increase it by 2 percent by end-2024. The result indicators associated with PA 2 and PA 3 marked a significant step for Grenada toward mobilizing market mechanism to scale up renewable energy in a sustainable and safe approach. The continued implementation of the GRID Code, including the Grenada Code, as well as the National Energy Policy, will be supported under both the WB regional engagement in the energy sector (Caribbean Efficient and Green-Energy Buildings Project, P179519; Caribbean Renewable Energy Infrastructure Investment Facility, P180831), and the national engagement in Grenada (Grenada Geothermal Development Project, P181028).

Pillar 2 --- Improving the sustainability, inclusiveness, and accountability of fiscal management

Prior Action 4: The Recipient has enacted an amendment to the Environmental Levy Act which: (a) restores a tax of EC\$5 on electricity consumption for 100 - 150 kWh and EC\$10 for Over 150 kWh; and (b) sets a tax of EC\$5 on water consumption for 2,801 - 5,500 gallons and EC\$10 for Over 5,500 gallons, to mitigate climate change impacts and reduce energy and resource consumption.

49. **Rationale: Incentives to reduce consumption of energy and water are integral to Grenada's mitigation and adaptation agenda.** While supply-side reforms have been encouraging a shift to renewable energy over the long term, energy consumption in Grenada has increased tremendously, compromising the achievement of the country's climate goals.¹⁸ Electricity generation, which takes up a significant share of the country's energy consumption, accounted for 48 percent of national GHG emission in 2010-2014. Despite ongoing reforms to promote renewable energy, electricity generation will remain largely dependent on fossil fuels over the short term, and supplies from renewables would not be sufficient even after a full shift. Incentives to reduce electricity consumption can lower GHG emissions while fostering the adoption of energy-efficient technologies and practices. In parallel, climate change can reduce the availability of other

¹⁸ World Economic Forum: United Nations Climate Change Conference COP27, <https://www.weforum.org/events/united-nations-climate-change-conference-cop27-2022>



resources. Water in Grenada is not scarce, but the country’s dependence on rainfall makes it vulnerable to future changes in rainfall patterns. This could lead to more-frequent droughts, which occur after prolonged periods of abnormally low rainfall (usually a season or more). Effective incentives to reduce water demand will help preserve water resources and mitigate socio-economic sensitivity to rainfall variability.

50. **Substance: PA 4 supports the environmental levy on electricity consumption and water use as a tool to manage energy and water demand, as well as increase tax revenues.** The government reintroduced the environmental levy, effective February 2023. Consumption of electricity below 100 kWh, and of water below 2800 gallons is not subject to the EVL. Receipts from the levy will be transferred to the Grenada Solid Waste Management Authority to fund reforms in waste management, another major contributor to GHG emission.

51. **Expected impacts:** the EVL is expected to increase tax revenue while motivating behavioral changes resulting in lower electricity and water consumption, thus reducing GHG emissions and preserving water resources. The impact will be measured by the tax revenue collected from the EVLs, which is expected to measure the level of additional costs to incentivize the reduction, as well as the resources generated for the Grenada Solid Waste Management Authority.

Prior Action 5: The Recipient has enacted an amendment to the Excise Tax Act, which: (a) increases the excise tax on alcohol from EC\$1.10/EC\$4.40 per liter to EC\$1.50/EC\$5.00 per liter and cigarettes from 105% to 200%; and (b) increases the value added tax on sweetened beverages from 15% to 20%, to strengthen fiscal sustainability and promote public health.

52. **Rationale: Consumption of unhealthy products worsens public health and human capital and poses significant fiscal risks, particularly in developing countries.** High and growing consumption of unhealthy products contributes to non-communicable diseases (NCDs)—e.g., diabetes, hypertension, heart disease, cancer, and obesity—which lead to high mortality and morbidity, and burden national health systems while potentially impeding progress towards universal health coverage. The NCD situation in Grenada mirrors wider trends in the Caribbean. Approximately 83 percent of deaths in the country are from NCDs, while the probability of premature mortality from NCDs is 23 percent.¹⁹ The Ministry of Health is engaged in efforts to standardize and improve NCD care, with technical support from key partners including the WB and Pan American Health Organization.

53. **In addition to a direct impact on the health system, NCDs have dire implications for both human capital outcomes and economic productivity.** More than 11.4 million premature deaths annually—or 20 percent of all global deaths—could be prevented by reducing consumption of tobacco, alcohol, and sugar-sweetened beverages (SSBs). Furthermore, economic pressures including higher food, fertilizer, and energy prices, rising interest rates, and slower growth add up to a difficult fiscal equation for many developing countries. While almost all countries increased overall government and health spending in recent years, only a few of them—mostly high-income countries—can sustain such levels in the years ahead. Improving domestic resource mobilization, especially by sustainably broadening the tax base, will be key. These challenges are particularly daunting in small states such as Grenada. Meanwhile, although public debt in Grenada has been decreasing, the compounded impacts of the pandemic, Russia’s invasion of Ukraine, and

¹⁹ World Health Organization NCDs Progress Monitor 2022



climate change require additional fiscal resources to tackle food insecurity. Policy reforms are needed to encourage a healthy lifestyle while maintaining fiscal sustainability.

54. **Substance:** PA 5 supports the introduction of health-related taxes on tobacco, alcohol, and SSBs. Raising prices through taxation is the most effective way to reduce tobacco use,²⁰ drinking levels and alcohol-attributable harm,²¹ and obesity.²² These measures will have a disproportionate impact on the poor, who spend a higher share of their income on tobacco, alcohol, and SSBs. At the same time, they create a strong financial disincentive to consumption of taxed unhealthy products among the poor, who are more likely to suffer from obesity and other conditions while having less access to good healthcare. In addition, these steps are expected to raise tax revenue, partially compensating for the abovementioned “cost-of-living” measures that the government announced in the 2023 budget speech (e.g., VAT exemptions for several food items, and electricity subsidies for low-volume consumers). Moreover, the Ministry of Health will start a series of campaigns and public education efforts to reinforce the effectiveness.

55. **Expected results:** PA 5 is expected to increase tax revenue while improving public health. The impacts are measured with total additional revenue collected from the new tax measures on cigarettes, alcohol, and SSBs. The aggregate indicator reflects the objective of “fiscal sustainability” under Pillar 2 and takes into consideration data availability and less predictability of consumption volumes of the products. Using one indicator also considers the capacity constraints in the small state context, consistent with the lessons learned from the past Grenada Implementation and Completion Reports. The WB has started the preparation of a TA to better improve the monitoring, implementation and impact analysis of the health-related taxes.

Prior Action 6: The Recipient has approved mandatory climate change budget tagging requirements to be abided by its Ministries for Agriculture, Infrastructure, and Climate Resilience, which categorize, measure, and monitor climate-relevant public expenditures to better identify and mobilize fiscal resources toward climate resilience building.

56. **Rationale:** Grenada faces increasing financing needs to build climate resilience. According to the Climate Change Policy Assessment (IMF, 2019), the financing needs identified in Grenada’s NDC (2015) amount to US\$161.4 million for mitigation, equivalent to 13.6 percent of the 2018 GDP; and US\$340 million for adaptation, equivalent to 28.6 percent of the 2018 GDP. Developing a comprehensive and consistent methodology to track climate-related public spending will support resource mobilization, policy alignment, efficiency, and effectiveness by: first, generating estimates of the fiscal effort associated with national climate policies; second, classifying and tracking climate-related expenditures to ensure their alignment with national climate policies and the objectives of financing partners; third, facilitating assessments of the efficiency and effectiveness of climate policies, by linking resource allocation to climate-related outputs and outcomes. Climate budget tagging is necessary because the existing administrative, economic, and program classifications do not capture information on cross-cutting policy agendas such as climate change. A rigorous methodology for climate budget tagging will ensure that climate-related expenditures are appropriately classified and avoid potential green-washing and diversion of funds.

²⁰ WHO 2021: Addressing new and emerging products.

²¹ <https://www.who.int/europe/news/item/23-02-2022-new-who-signature-initiative-shows-raising-alcohol-taxes-could-save-130-000-lives-per-year>

²² <https://apps.who.int/iris/bitstream/handle/10665/260253/WHO-NMH-PND-16.5Rev.1-eng.pdf>



57. **Substance:** PA 6 implements climate change budget tagging through the budget preparation process. DPC1 support the development of the tagging methodology. DPC2 supports its implementation for the first time in Grenada. PA 6 approves the application of the approved methodology across ministries and expenditure categories in all annual budgets starting from FY24. This will allow for central budgeting and expenditure analysis. This is the first and critical step of formalized approach to track climate factors in the budget consistent with Grenada’s Climate Change Policy, NAP, and Second NDC from November 2020. The reform complements the previous government action of developing a budget classifier for post-disaster expenditure in relief, recovery, and reconstruction,²³ and will be implemented with technical assistance through the Canada-Caribbean Resilience Facility (CRF, P171256).²⁴ The government has published its first report on climate capital spending in January 2023, and in the next fiscal year it will expand the implementation to additional line ministries.

58. **Expected Impacts:** The PA will help improve transparency through a more accurate understanding and monitoring of climate-related spending. Climate change budget tagging will contribute to mainstreaming the monitoring, planning, and budgeting of climate-related public expenditure, and is expected to improve the government’s ability to prioritize climate-smart and disaster-resilient investments. Following this initial reform, the tagging system is expected to be institutionalized across ministries, and will help inform recommendations for potential changes to the budget process and the financial management system. The government will gain greater access to climate finance, while enhancing transparency and demonstrating its commitment to climate action and disaster risk reduction.

Prior Action 7: The Recipient has approved mandatory gender statements requirements to be abided by all its ministries and departments, which includes the impacts of budget policy proposals on gender issues and priorities for the Recipient’s annual budget to be gender-responsive and gender-sensitive.

59. **Rationale:** Grenada has started developing a comprehensive strategy to address gender equity gaps and consider gender equity in the design, implementation, and monitoring of budget policies, but its traction across ministries remains limited. Gender equity is a priority area of Grenada’s NSDP 2020-2035, and the related Gender Equality Policy and Action Plan (GEPAP) details gender equity priorities, identifies key gaps, and outlines actions to close them.²⁵ GEPAP also calls for the integration of a gender perspective in budget design and implementation. In the new DM Bill supported under PA 1, gender considerations are explicitly included, requiring that “disaster risk reduction and climate change measures are gender-responsive and gender-inclusive”, and “...the Agency shall institutionalize gender analysis as part of any assessment following the impact of a hazard.” However, the methodology to identify and track gender-related policies varies across ministries and policy areas, and the PFM system lacks systematic planning for gender-responsiveness, a systematic approach to the collection and use of sex-disaggregated data, ex ante gender impact assessments, as well as tools to track allocations, evaluations, and revenue impact

²³ This was supported under the Disaster Risk Management Development Policy Credit with a Catastrophe Deferred Drawdown Option (P171465).

²⁴ Climate-Resilient and Gender-Responsive Public Financial Management in the Caribbean (P172267).

²⁵ The Government of Grenada 2014—2024 Gender Equality Policy and Action Plan (GEPAP): https://oig.cepal.org/sites/default/files/2014_gender-equality-policy-action-plan_grd.pdf. GEPAP identified ten key policy areas that require greater gender equity: 1) Culture and Socialization, 2) Education and Training, 3) Labor and Employment, 4) Agriculture and Tourism, 5) Economic Growth and Poverty Reduction, 6) Climate Change, Natural hazards, and Natural Resource Management, 7) Health and Well-being, 8) Violence and Security, 9) Leadership and Decision-making, 10) Legislative Framework for Gender Equality and Institutional Capacity to implement GEPAP and for Gender Mainstreaming.



assessments. Sex-disaggregated information is absent from planned outputs for key service delivery ministries and key results.²⁶ Such gaps significantly hinder progress in gender-related policy and eventual improvements in gender equity.

60. ***Substance:*** **Building on new requirements to present gender equality impact information in budget submissions by selected ministries, as part of a pilot supported under DPC1, PA 7 under DPC2 supports the formal expansion of gender mainstreaming in budgeting, and the provision of relevant information in publicly available budget documentation to all ministries.** In the government budget, Programs are how ministries' key activities are structured and presented. The Government intends to expand the information presented in budget documentation in a consistent approach, by including sex-disaggregated data on program targets from the extensive list of Gender Equality Indicators in GEPAP. The gender budgeting framework includes a new and unified budget submission template which requires the use of sex-disaggregated data for gender analysis of programs and budget allocations; supports capacity development for improved data collection and analysis across line ministries; and presents gender equity priorities and related budget measures in the publicly available budget documentation. The MoF has taken the lead role. DPC1 supported the GoG in instructing pilot ministries to provide "gender-responsive" budget submissions: provide justification or expected results for the effects on men and women of proposed new spending initiatives and proposed reductions in expenditure; and include sex-disaggregated data for actual or expected results. Lessons learned from piloting gender budgeting in the fiscal year 2022²⁷ helped improve the process and created the condition for its full formalization. PA7 under this operation formalized the process and required all ministries starting to use this methodology in the future annual budget preparation processes and make a report public. Following PA7, the use of sex-disaggregated data and results of impact analyses will be presented in the publicly available budget documentation in subsequent years, with the former data linked to each ministry's performance information. Grenada has well-informed stakeholders—including the MoF, Division of Gender and Family Affairs (the coordinating agency for mainstreaming gender across all government agencies, policies, and programs), and the National Statistical Office—to guide ministries in presenting budget policy proposals from a gender perspective, and to build on the currently scarce sex-disaggregated data.

61. ***Expected Impacts:*** **A gender-responsive approach to budgeting will ensure that line ministries' budget policies consider the different needs of men and women, youth and elderly, people with disabilities, and others.** The MoF expects the enhanced collection and use of sex-disaggregated data to improve the performance-based budgeting framework through more rigorous data analyses. In the longer term, more gender equity-aware budget policies are expected to contribute to closing key gender gaps, as identified in GEPAP. In the budget documentation for FY 2021, two programs clearly articulated gender gaps and how they plan to close them—equivalent to around 7 percent of the total value of all programs from service delivery ministries. The new practice of integrating gender in the design and implementation of budget policies is projected to raise the number of programs that address gender inequality to ten—equivalent to around 33 percent of the total value of all programs from key service delivery ministries in

²⁶ World Bank. 2019. Post-Disaster Public Financial Management Review of Grenada.

²⁷ "Government reiterates its commitment to achieving gender equality and empowering all women and girls, with several initiatives in the 2022 Budget. The government is moving ... to adopt a gender responsive budgeting approach starting with a pilot in the 2022 Budget, to ensure gender-equitable distribution of resources, thereby contributing to equal opportunities for all. Accordingly, reporting on gender impact will be required for various initiatives next year. Going forward, gender considerations will be fully mainstreamed into our annual budgets." See: <https://www.finance.gd/docs/2022BudgetStatement.pdf>



areas such as education and training, healthcare, social and community support, policing, and agricultural support.

Prior Action 8: The Recipient has enacted amendments to: (a) the National Insurance (Collection of Contributions) (Amendment) Regulations and the National Insurance (Self-Employed Persons) (Amendment) Regulations, which increase the contribution of self-employed person rate by one (1) percent; and (b) the National Insurance (Unemployment Persons) Regulations which include a permanently funded Unemployment Insurance Programme; to improve the Recipient’s pension system sustainability and enhance workers' income protection mechanisms against shocks, including climate-induced natural hazards.

62. ***Rationale.*** In the wake of a shock, lack of unemployment insurance may leave workers and their families without income and exacerbate economic volatility. As in most countries, private markets in Grenada have failed to systematically provide unemployment insurance. While Grenada’s National Insurance Scheme (NIS) provides protection to its contributors²⁸ against loss of income caused by sickness, employment injury, maternity, and old age, it does not cover the risk of job loss. Severance payment is legally mandated but often fails to protect workers, mainly because it is an unfunded liability (WB, 2012). This is especially worrisome when the shock is widespread (e.g., a climate-related shock) and firms experience liquidity constraints. Grenada is highly vulnerable to climate change events, which have had demonstrated impacts on employment through disruption to key sectors heavily reliant on natural resources—such as tourism, agriculture, and fisheries (International Labour Organization, 2018). Such negative effects are expected to increase with the growth in frequency and intensity of climate change impacts. The NIS has in the past used its own funds to provide unemployment benefits in emergency situations, such as after Hurricane Ivan in 2004 and during the COVID-19 pandemic in 2020. Moreover, the use of the National Insurance Fund (NIF) to provide emergency benefits, often supplemented with fiscal resources,²⁹ prevented further negative social impacts, but at the cost of affecting the NIF’s long-term financial sustainability. To enhance income protection for workers and their families, as well as to reinforce the NIF over the long term, the government has established an unemployment benefit and has increased the contribution rate of employers and employees. Other reforms are planned to improve the financial sustainability of the NIS, such as an increase to the pensionable age and a gradual raise to the contribution rate for both employers and employees.

63. ***Substance.*** Grenada has approved policy reforms to increase the National Insurance contribution rates and to establish an Unemployment Benefit (UB). Through the National Insurance (Collection of Contributions) (Amendment) Regulations, published in the Gazette on January 30th, 2023, the contribution rates, for employers, has increased from 6 to 6.5 percent of employee’s earnings and, for employees, has increased from 5 to 5.5 percent of employee’s earnings. This will increase NIS financial sustainability and support the financing of the unemployment benefit, which was established through the National Insurance (Unemployment Benefit) Regulations, published in the Gazette on April 14, 2023. The UB protects NIS-contributing workers and their families against the risk of job loss caused by both idiosyncratic (i.e., individual- or household-specific) and covariate shocks (e.g., climate and natural hazards), and serves as a macroeconomic stabilizer during economic downturns. This, in turn, increases economic and climate

²⁸ Approximately 30 percent of employees are not registered with the NIS, and over 50 percent of employees lack a written contract (World Bank, 2021).

²⁹ The unemployment benefit program in 2021 was funded by fiscal resources.



resilience: as UB transfers resources to those who lose jobs during economic downturns, aggregate expenditure grows at times of economic slack, ultimately boosting employment. The UB is an entitlement for workers who are: (i) below pensionable age and residing in Grenada; (ii) have lost their job through no fault of their own and are capable of and available for work, but cannot find a job; and (iii) paid contributions for a) at least 52 weeks, plus b) at least 13 of the 26 weeks immediately preceding unemployment, plus c) at least eight of the 13 weeks immediately preceding unemployment; among others. The eligibility conditions for UB are comparable to those observed in other countries. Eligible workers will receive a 50 percent wage replacement (up to the NIS insurable ceiling) for up to 13 weeks within a 52-week period.³⁰ Based on actuarial assessments and international experience, the UI is expected to disproportionately benefit eligible low earners in vulnerable and unstable jobs.

64. ***Expected Impacts.*** The PA is expected to expand the risks covered under the NIS, enhance income protection for workers, improve the financial sustainability of the NIF, and reduce fiscal pressure in the wake of shocks. At least 30,000 workers are expected to contribute to the NIF, which includes the financing of the recently established UB, by December 2024, with low earners benefiting more from it than high earners.³¹ A gender analysis of the PA’s impact revealed no clear gender differences and this new benefit is not expected to particularly benefit women or men.³² The World Bank team has been assisting the NIS aiming to maximize development impacts and will continue to support Grenada along the initial implementation phase through this operation, including monitoring the short-term and longer-term impacts of the policies.

Prior Action 9: The Recipient has approved the annual publication of the total of NTF flows, NTF-funded projects, and the balance of the Contingency Fund, in the Recipient’s annual budget on a yearly basis starting 2024 onwards, to improve fiscal transparency and fiscal resilience.

65. ***Rationale:*** CBI revenues have been an important source of economic stability and funding for climate resilience in Grenada, but more transparency is necessary. Government revenues from the CBI program consist of: (i) fees associated with investments into approved CBI projects; (ii) contributions to the NTF; and (iii) other fees, including application and processing fees. 60 percent of NTF funding is meant to be earmarked for transformational projects, with the remaining 10 percent to be set aside into a Contingency Fund for general budget financing purposes—including contingency spending, natural hazard response, and debt reduction. As noted previously in this document, the CBI program suffered from a deficit of transparency. First, not all CBI inflows were recorded in the public budget, but only those committed to a project or linked to application and processing fees. Second, although the Contingency Fund was established in 2019, it was never capitalized (mainly due to the immediate hit of the pandemic in 2020), and its current level of funding remains undisclosed. These shortcomings have hampered the comprehensive monitoring of CBI inflows.

³⁰ This unemployment insurance design complies with the main elements established in the ILO Convention 102 on Minimum Standards on Social Security, as well as ILO Convention 168 on Employment Promotion and Protection Against Unemployment.

³¹ The benefits of UI have been well-documented internationally and include positive impacts on poverty and food insecurity reduction, improvements in physical and mental health, improved educational outcomes among children of beneficiaries, and even significant reductions in crime (through the easing of liquidity constraints and psychological stress).

³² This technical work was produced and financed by the RSR-Gender R19 Grant “Strengthening Women’s Economic Opportunities and Resilience for an inclusive COVID-19 crisis recovery in the Caribbean (P178335).” This grant is under the Rapid Social Response Adaptive and Dynamic Social Protection (RSR-ADSP) Umbrella Trust Fund Program.



66. **Substance:** PA 9 supports a full disclosure of CBI inflows to improve fiscal accountability and transparency in all future annual budget. Starting in 2023, the government will start recording all CBI receipts as non-tax revenue, rather than capital grants; and 10 percent of NTF inflows will be transferred to the Contingency Fund. The government has also approved the publication of an annual report attached to the budget, outlining the total amount of NTF inflows for the year, the transformational projects funded by the NTF, and the stock of the Contingency Fund.

67. **Expected impacts:** This PA is expected to significantly improve public transparency and enhance the credibility of government policy, given the size of CBI revenues. The accumulated resources in the contingency fund are expected to be mobilized to cushion future external shocks. The publication of the list of transformational projects is expected to attract significant public scrutiny of their selection and increase the efficiency of public investment. The PA will be measured by the accumulated flows into the Contingency Fund, estimated at a total of EC\$15 million for 2023 and 2024.

Table 6: DPC Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar 1 --- Promoting a greener and more climate-resilient economy	
Prior action 1	<ul style="list-style-type: none"> Caribbean Disaster Emergency Management Agency, "Regional Comprehensive Disaster Management Strategy and Results Framework" https://cdema.org/CDM_Strategy_2014-2024.pdf IMF-WB "Grenada: Climate Change Policy Assessment" https://www.imf.org/en/Publications/CR/Issues/2019/07/01/Grenada-Climate-Change-Policy-Assessment-47062 WB Technical Report. 2018.: "Advancing Disaster Risk Finance in Grenada". https://reliefweb.int/sites/reliefweb.int/files/resources/125551-WP-DRFTA-Report-Grenada-Final2018-LowRes-PUBLIC.pdf.
Prior action 2 & 3	<ul style="list-style-type: none"> WB Technical Report. 2021: Technical Assistance on Electricity Tariff Methodologies and Procedures to Grenada Public Utilities Regulatory Commission WB Technical Report. 2021: Technical Assistance on Competitive Procurement and Self-Generation Program to Grenada Public Utilities Regulatory Commission.
Prior action 4	<ul style="list-style-type: none"> World Economic Forum: United Nations Climate Change Conference COP27: https://www.weforum.org/events/united-nations-climate-change-conference-cop27-2022. Barrett, J., Pye, S., Betts-Davies, S. et al. Energy demand reduction options for meeting national zero-emission targets in the United Kingdom. <i>Nat Energy</i> 7, 726–735 (2022). https://doi.org/10.1038/s41560-022-01057-y Taylor, Richard G., et al. "Ground water and climate change." <i>Nature climate change</i> 3.4 (2013): 322-329.
Pillar 2 --- Improving sustainability, inclusiveness and accountability of fiscal management	
Prior action 5	<ul style="list-style-type: none"> Verguet, Stéphane, et al. "The consequences of tobacco tax on household health and finances in rich and poor smokers in China: an extended cost-effectiveness analysis." <i>The Lancet Global Health</i> 3.4 (2015): e206-e216.



	<ul style="list-style-type: none"> • OECD (2010): Obesity and the Economics of Prevention: Fit not Fat • WHO: New WHO signature initiative shows raising alcohol taxes could save 130 000 lives per year: https://www.who.int/europe/news/item/23-02-2022-new-who-signature-initiative-shows-raising-alcohol-taxes-could-save-130-000-lives-per-year • WHO (2021): WHO REPORT ON THE GLOBAL TOBACCO EPIDEMIC, 2021, Addressing new and emerging products: https://www.who.int/activities/raising-taxes-on-tobacco • WHO (2017): Taxes on sugary drinks: Why do it? https://apps.who.int/iris/bitstream/handle/10665/260253/WHO-NMH-PND-16.5Rev.1-eng.pdf
Prior action 6	<ul style="list-style-type: none"> • IMF-WB “Grenada: Climate Change Policy Assessment” https://www.imf.org/en/Publications/CR/Issues/2019/07/01/Grenada-Climate-Change-Policy-Assessment-47062 • World Bank. 2019. Grenada: Post-Disaster Public Financial Management Review. World Bank: Washington DC. • World Bank. 2021. Climate Change Budget Tagging: A Review of International Experience. Equitable Growth, Finance and Institutions Insight. World Bank, Washington, DC. • IMF Technical Report. 2019. Grenada: Strengthening the Fiscal Responsibility Law
Prior action 7	<ul style="list-style-type: none"> • Kuddo, Robalino, and Weber (2015). Balancing regulations to promote jobs: from employment contracts to unemployment benefits. World Bank, Washington, D.C. • Asenjo and Pignatti (2019). UI schemes around the world: Evidence and policy options. Working Paper No. 49. International Labour Office. • IMF (2015). Transcript of an IMF Economic Forum -- Tracking Grenada's Recovery: Six Months after Hurricane Ivan.
Prior action 8	<ul style="list-style-type: none"> • CDB. 2014. Country Gender Assessment. Grenada. CDB, Bridgetown, Barbados. • Government of Grenada. 2014. Gender Equality Policy and Action Plan. Government of Grenada, Saint George’s, Grenada. • OECD (Organisation for Economic Co-operation and Development). 2017. “Gender Budgeting in OCED Countries.” OECD Journal on Budgeting 2016/3: 1–37. • IMF. 2017. Gender Budgeting in G-7 Countries. IMF Policy Paper. Washington, DC: International Monetary Fund. • World Bank. 2018. Gender Equality and Women’s Empowerment in Disaster Recovery. Disaster Recovery Guidance Series. Washington, DC: World Bank. • World Bank. 2020. Gender Dimensions of the COVID-19 Pandemic. Policy Note, April 16, 2020. Washington, DC: World Bank. • World Bank. 2021. Gender-Responsive Disaster Preparedness and Recovery in the Caribbean: Desk Review. World Bank, Washington, DC. • Zrinski, U., Bowen, M., Bosnic, M. 2020. Supplementary Framework for Assessing Gender Responsive Public Financial Management. PEFA Secretariat, Washington, DC.
Prior action 9	<ul style="list-style-type: none"> • IMF Article IV, 2018, 2019.

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



68. **WB programming in Grenada is guided by the WBG OECS Regional Partnership Strategy (RPS) for FY22-25, discussed by the Executive Directors on May 19, 2022 (Report No. 160349-LAC).** The RPS supports improvements to fiscal, debt and public financial management. This operation aims to improve access to finance and market liquidity over the medium term, and builds resilience by strengthening the social protection system and PFM. The operation specifically links to “Sustainable and Inclusive Growth” and “Resilience and Sustainability” under Tier 1 of the IDA19 Results Measurement System. It also supports the remaining IDA19 Policy Commitments, including “Jobs and Economic Transformation (JET)”, “Climate Change”, “Gender and Development”, and “Governance and Institutions” (except for the commitment specific to Fragile, Conflict and Violent countries).

69. **The WB has quickly adapted its program in Grenada to respond to the COVID-19 pandemic and the food insecurity crisis.** Activation of the Contingent Emergency Response Component under the OECS Regional Health Project (P174096) helped finance the country’s health response to the pandemic, including the procurement of medical supplies and equipment, and minor civil works to refurbish the isolation ward and oxygen plant. This DPC continues the support under the COVID-19 Emergency DPC and addresses the second, equally important pillar of the WB GCRF, as it focuses on the socio-economic consequences of the crisis. It also fosters growth, competitiveness, and resilience. Support under IDA19 will accelerate the GoG’s plans for economic diversification using the Blue Economy growth model. In 2022, the WB board also approved a US\$10 million package under the Crisis Response Window (Early Response Financing), to help Grenada mitigate food insecurity risks associated with Russia’s invasion of Ukraine.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

70. **The DPC supports the GoG’s reform agenda, which was developed in consultation with a wide range of stakeholders.** As indicated in the government’s budget, the reform agenda is built on meaningful dialogue with Grenadian citizens through widely held consultations, community visits, and other engagements. A Social Partners Committee is expected to be established comprising representatives from the government, labor unions, the private sector, churches, non-governmental organizations (NGOs), and youth groups to help steer government policy.³³ Moreover, the design and implementation of the DRM legislation and UI, as well as of Prior Actions on energy policy, were the result of stakeholder consultations and working groups.

Collaboration with Other Development Partners

71. **The content of this DPC is aligned with the programs of Grenada’s key development partners.** Grenada collaborates with several bilateral and multilateral agencies, including the European Union, Global Affairs Canada, the UK’s Department for International Development, the US Agency for International Development, the German International Development Agency, and the CDB. These agencies and the WB are active participants in the Eastern Caribbean Donors and Partners Group. The WB and the GoG work to promote donor coordination and maximize programmatic synergies. The WB and the IMF collaborated on the preparation of this operation, and the proposed PAs related to the second pillar show the continued

³³ Chaired by the Prime Minister, the Committee will meet quarterly to review current government initiatives and relay constructive feedback and suggestions for improvement from its members, ensuring an inclusive approach to shared development.



commitment of the GoG to strengthen debt transparency and public governance—areas addressed by past WB and IMF programs.

72. **Technical assistance (TA) has sustained the reforms supported by this operation, and will continue to do so.** PA 1 (DRM legislation), PA 7 (gender-responsive budget tagging), and PA 6 (climate change budget tagging) will be supported by the respective TAs under the CRF. The design and implementation of PA 2 and PA 3 on energy sector reforms have been supported under the TA Accelerating NDC Implementation in the Caribbean (P174193), and the Caribbean Regional Energy Initiative (P159107). Discussion of the UI program started under the Grenada COVID-19 Emergency Response DPC (P174527) in 2020, and the WB provided TA on calculating benefits, sustainability, and other aspects of the mechanism. PA 5 on health-related taxes are supported by the WB TA under the Global Tax TF and Caribbean Strengthening Tax Policy for Climate Resilient Growth ASA. The discussion to strengthen macroeconomic adequacy is supported through country dialogue, including the Sustainable Development Financing Policy engagement. The IMF provided additional TA in PFM, tax reform, and SOE reform. TA will continue to be provided under this facility to support the implementation of the DPC.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

73. **The poverty and social impacts of the policies supported by this operation are expected to be positive, with most benefits projected to be realized in the medium and long term.** The operation's poverty and social impact analysis (PSIA) focuses on the potential impact of the Prior Actions on poverty, expenditure distribution, employment, informality, delivery of government services, gender, resiliency, and disaster risk management. This quantitative analysis relies on the official household budget survey, the Labor Force Survey (LFS), and academic literature. Overall, the policies included in this DPC aim to continue to support economic reactivation in the short term, and to lay the foundation for sustainable economic development with broad social benefits in the medium and long term. In Grenada, poor and vulnerable households depend almost entirely on labor income, and most of them are employed in the informal sector and in occupations vulnerable to adverse shocks—such as tourism and related industries. The programs considered under Pillar 1 of this operation aim to contribute to environmentally sustainable economic growth by protecting the poor and vulnerable, who are typically more affected by natural hazards such as tropical storms and hurricanes, are less prepared to face shocks, and have fewer means to cope with their effects. Pillar 2 is expected to benefit and protect the poor and vulnerable in the medium and long term by (i) limiting income losses and dampening the impact of negative shocks, including climate-related events, on employment; (ii) promoting a healthy lifestyle; and (iii) enhancing budget policy targeting to address gender inequalities and climate change, with a view to achieving a higher standard of living—particularly for the poor and vulnerable.

74. **The policies supported by Prior Actions under Pillar 1 are expected to positively impact poverty and inequality overall especially in the medium-and-long term.** The policy framework for comprehensive DRM legislation under PA 1 is expected to improve cautionary planning and enhance preparedness and capability to face natural hazards. This measure could particularly benefit vulnerable and poor populations, as they are more likely to be less prepared to face natural hazards and have fewer means to cope with the consequences of adverse weather and other extreme natural events. The approval of the Generation Code and the National Energy Policy under PA 2 & PA 3, respectively, are expected to improve livelihoods by ensuring affordable energy, improving energy efficiency, and contributing to the transition to renewable



energy. As poor households spend proportionally more than better-off ones on fuel consumption, these measures could benefit them in the medium and long term.

75. **Prior Actions supported under Pillar 2 are also expected to directly reduce poverty and inequality in the medium and long run.** Policies under PA 4 are expected to have negative effects on poverty and inequality in the short term, as poor households spend a larger share of their income on electricity and water consumption; however, households with low consumption will pay less (and potentially nothing) for the EVL. The adverse effects are mitigated by parallel government measures, ensuring financial assistance to poor households for access to electricity and water. In the medium and long term, preserving energy and water is expected to benefit poorer households. PA 5 is expected to curb consumption of unhealthy products and promote public health through taxation of tobacco, alcohol, and SSBs. While health taxes appear to be regressive in the short term, they are progressive in the long run since the benefits from reduced consumption, lower healthcare costs, and increased labor income accrue more significantly to poorer populations. Higher food prices in the short term are mitigated by parallel government measures, including VAT exemptions for several key food items and financial subsidies to poorer households. Identifying investments that target climate change under PA 6 will improve long-term social outcomes, as long as the investments are realized. Gender-responsive budgeting under PA 7 encourages government institutions to tailor their policies to the different needs of men, women, and other subsections of the population, and is expected to help narrow current gender gaps. The provision of unemployment benefits under PA 8 is expected to provide a much-needed cushion as the pandemic's effects on the economy persist; it should also provide support in the face of other shocks (such as natural hazards), increasing workers' resiliency in the medium and long term. PA 9 is expected to significantly enhance the accountability and transparency of fiscal policy and the efficiency of transformational projects under the NTF, which in turn are set to positively impact economic growth and shared prosperity in the medium and long term.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

76. The proposed DPC is not expected to have significant negative impacts on Grenada's environment, forests, and other natural resources.

Pillar 1: Promoting a greener and more climate-resilient economy

77. PA 1 supports DRM legislation that will harmonize sectoral laws, establish the NDMA, improve the cost-effective and timeliness of funding for hazard response, and enhance gender-responsiveness in planning for and responding to disasters. This PA is expected to have a neutral impact on Grenada's environment, forests, and natural resources.

78. PA 2 and PA 3 are expected to have positive environmental impacts, as they support GHG reduction through the promotion of energy efficiency and renewable energy. The PAs will increase the supply of renewable energy from private generators through the existing grid, foster the installation and use of renewable generation capacity, and promote energy storage technologies and resilient systems. The installation and operation of new generation facilities may have potential negative impacts; however, Grenada's environmental protection system and robust regulatory framework could mitigate such impacts. In addition, the PAs will be supported by the WB Energy Efficiency IPF and complemented by a five-year implementation plan starting in the second semester of 2023, featuring a results-based monitoring and evaluation system.



Pillar 2: Improving the sustainability, inclusiveness, and accountability of fiscal management

79. PA 4 is expected to positively impact Grenada's environment, forests, and other natural resources, as the environmental levy on electricity and water use will reduce their consumption while boosting the capabilities of the Grenada Solid Waste Management Authority.

80. PA 5 supports health-related taxation to improve fiscal sustainability and promote a healthy lifestyle, and is expected to have a neutral environmental impact. PA 6 promotes a climate budget tagging approach, which will likely lead to additional investments in climate change mitigation and adaptation and assign greater value to the conservation of natural resources. Its impact is expected to be environmentally positive. PA 8 aims to develop an UI program, which is expected to protect formal workers over the long term from employment loss risks arising from public health or climate-related disasters - and therefore increase resilience of the labor supply. PA 6 and PA 9 support gender-responsive budgeting and greater fiscal transparency, both of which are expected to have neutral environmental impacts.

81. Overall, this operation is not expected to have a negative effect on Grenada's environment, forests, or other natural resources, and is instead expected to positively contribute to green, resilient, and inclusive development in the country.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

82. **Grenada's PFM systems have strengthened substantially in the last decade and the GoG is continuously addressing the remaining challenges.** The completed Country Fiduciary Review (CFR) in 2022 reflected the successful implementation of several PFM reforms in the recent years. The Public Finance Management Act 2015, the Public Debt Management Act 2015 and the FRA 2015 were all passed as part of Grenada's self-directed program. The PFM legislation and regulations are well established and cover all aspects of PFM. The PFM Act outlines sections on budget execution, cash and asset management, public debt and liabilities, and provisions for the establishment of an internal audit function within the GoG. The GoG has a sound Medium-Term Economic Framework and the forecast spans three years and provides scenarios on various components of fiscal indicators. The country has recently adopted the internal audit standards promulgated by the Institute of Internal Auditors; and adopted IPSAS Cash for preparation of public accounts.

83. **The Constitution, Legislation and Regulations are well established and cover all aspects of PFM, including public procurement.** The PFM Act outlines sections on budget execution, cash and asset management, public debt and liabilities, and provisions for the establishment of an internal audit function within the Government. The legal definitions for procurement methods, advertising rules and procurement documentation, evaluation and award criteria, and submission, receipt and opening are extensive. The Government does have clear and comprehensive implementing Regulations which supplement and develop the PPDPP Act, although additional drafting to develop these Regulations around contract management and administration would prove to be significantly beneficial. Similar to financial management, more work needs to be done on developing the internal audit function of procurement.

84. **The legal framework allows e-Procurement solutions and states that all public procurement may be undertaken using an electronic processing system.** The development of an e-Procurement strategy and adoption of e-Procurement in all the phases of procurement would benefit the Government in its



management and organization of procurement data, whilst yielding further benefits in improving areas around annual and multi-year planning, competition and market engagement.

85. **A comprehensive Home-Grown Reform Program was developed in 2014, which is progressively being implemented.** Many PFM reform actions have been completed to address some of the weaknesses identified in the 2015 Public Expenditure and Financial Accountability Assessment (PEFA) report. The GoG is committed to continually focus its attention on the PFM Reform Action Plan and representatives from Department of Economic Management and Planning (Budget, Debt and Policy units), Accountant General's Department, Internal Audit Unit and Audit Department periodically meet regularly with the focal points of the PFM Reform program to discuss the reform progress and the timeline for completion of their respective areas.

86. **Further emphasis on improving the PFM processes and procedures is in progress.** Important PFM reforms, including, agreeing on a framework for Public Investment and Assets Management, adopting International Public Sector Accounting Standards Cash for preparation of public accounts; and adopting international internal audit standards promulgated by the Institute of Internal Auditors were agreed as prior actions in 2021 for the COVID-19 Emergency Response DPO operation (P174527) with the GoG. Critical actions for achieving the targets of the prior actions to strengthen the PFM reforms are still underway.

87. **The PFM reforms are supported by four key legislations³⁴ and other regulations and manuals, which strengthen the authorities' ability to establish, and manage within, multi-year fiscal targets.** Fiscal discipline has been improved as the GoG has an effective monitoring regime for contingent liabilities through the Public Debt Management Unit and the legislative requirements. The Minister has the sole responsibility for borrowing as well as loan guarantees {PDMA Section 19 (2)}. The Debt Management Unit must prepare an evaluation of all borrowing by government entities including SOEs. The government maintains a record of all government guarantees that are signed by the Minister on behalf of the government (PDMA Section 20). Strategic allocation of resources has been strengthened with expenditure reclassification and a Medium-term Fiscal Framework document. The newly implemented Chart of Accounts in 2016 has facilitated improved budget formulation and reporting. However, the Country Fiduciary Review indicated that the Integrated Financial Management and Accounting System (IFMAS) (Smart Stream) of the government should be reviewed to provide appropriate considerations to the WB projects in the Chart of Accounts as well as incorporate climate and gender considerations. The assessment had commenced but was placed on hold pending engagement with the software provider due to a potential upgrade in the platform. The Country Fiduciary Review also suggested enhancing SAI's independence by amending the constitution so that SAI can table the audit reports directly to the Parliament and not through the Minister of Finance. The previous procurement institutional capacity reforms are under review since success has been undermined, as the Central Procurement Unit is significantly understaffed and is burdened with executing the majority of operational procurement due to limited capacity in line ministries. At its own initiative, the Government has acquired an off the shelf e-procurement system and commenced piloting of the system in the first quarter of 2023. With support from the Bank an e-procurement readiness assessment was undertaken in February 2023 and arising from that, a Roadmap for e-procurement implementation was developed in March 2023.

³⁴ Including (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.



The Government has also taken steps to improve the publication of procurement data with the relaunch of its procurement website in 2022.

88. **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 the 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. However, as reported above, there is considerable delay in their finalization.

89. **The ECCB manages the foreign exchange reserves of the ECCU, including Grenada.** An updated safeguards assessment of the ECCB³⁵, finalized in August 2021 found strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvements in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. 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.

90. **Disbursement and reporting arrangements, ineligible expenses, and audit.**

- **Disbursement and reporting arrangements.** The proposed loan will follow the WB's disbursement procedures for development policy financing. Once the loan becomes effective, satisfactory implementation of the program (specified prior actions achieved) and maintenance of an adequate macroeconomic policy framework, and upon submission of a signed withdrawal application, the WB will disburse the loan proceeds, denominated in US\$, into GoG's foreign-exchange account at the ECCB. The ECCB will then immediately credit an equivalent amount in Eastern Caribbean Dollars (EC\$) to GoG's budget management system account, which will become available to finance budgeted expenditures. Within 30 days of the funds transfer, the GoG, through its MOF, will provide the WB with written confirmation of the amount deposited into GoG's foreign-currency account at the ECCB and that the equivalent EC\$ amount, which has been accounted for in the country's budget management system in the account used to finance budgeted expenditures; along with the exchange rate applied and date of transfer.
- **Ineligible expenses.** The financial support provided under this operation is not intended to finance goods or services on the list of Excluded Expenditures³⁶. If the proceeds of the loan or any part thereof are used for ineligible purposes, as defined in the General Conditions applicable to the Financing Agreement, the WB will require GoG to promptly refund an equal amount to the WB. Amounts refunded to the WB upon such request shall be cancelled from the loan.

³⁵ Extract for ECCB taken from IMF's 2021 Article IV Consultation Press Release for Dominica, February 2022

³⁶ See the General Conditions for DPF: "Excluded Expenditure" for DPF covers items such as alcoholic beverages; tobacco; radioactive and associated materials; nuclear reactors and parts thereof; jewelry of gold, silver, or platinum; goods intended for a military or paramilitary purpose of for luxury consumption; or expenditures for environmentally hazardous goods.



- **Audit.** No specific audit of the deposit of the loan proceeds will be required.

91. **Based on the above analysis, fiduciary risk is considered moderate.**

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

92. **The monitoring, evaluation, and results framework is supported by the MoF, which is responsible for coordinating the involvement of other relevant ministries and agencies.** Several agencies are involved in implementing the reform program supported by this DPC, including the Ministry of Agriculture, the Ministry of Social Development, and the Ministry of Infrastructure Development, Public Utilities, Energy, Transport & Implementation. The WB has discussed the importance of developing a monitoring and evaluation process with the relevant stakeholders, to ensure adequate feedback to policy makers. The continued TA under the ongoing WB engagement will help the monitoring process. Monitoring and evaluation capacity has traditionally been weak in Grenada, and the government recognizes the need to strengthen it. The government and the WB agreed to a results framework presented in Annex 1. It includes indicators to be assessed at the end of the DPC in 2024, which represent agreed-upon benchmarks for evaluating the program supported by this DPC. The WB will remain in dialogue with the MoF regarding monitoring and evaluation of reforms supported by the operation.

93. **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 Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project-affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures; and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

6. SUMMARY OF RISKS AND MITIGATION

94. **Overall risks to achieving the operation's objectives are considered Substantial.** The GoG has a good track record and has presented a comprehensive reform agenda of structural reforms and improved public management, with timely and comprehensive support from international development partners (including the WB). Nevertheless, and despite the government's comprehensive response to consecutive crises and transformational agenda for the future, residual risks remain substantial, especially due to external factors. Continued risks arise from: the abovementioned pension ruling and its fiscal implications; high exposure to natural hazards and climate change; high dependence on the external sector, in particular tourism; major uncertainties in the global economy, including geo-political tensions and potential global recessions in the near term; and limited government capacity (Table 6). The government remains committed to mitigating the



extended impacts of the pandemic, building socio-economic resilience, and promoting private sector development. These commitments, partially supported under this DPC, will help mitigate risks to the operation.

95. **The macroeconomic risk for this operation is deemed Substantial.** Several factors have caused elevated uncertainty in the macro-economic outlook, including: the ongoing pandemic and changes in its evolution, including its effects on the reopening of the Chinese economy; global economic concerns, such as rising commodity prices, monetary policy tightening, and the effects of Russia's invasion of Ukraine; domestic inflationary pressures; as well as the risk of natural hazards and climate change. The pension system, despite the latest reforms, remains a source of risks, should a large number of early retirements occur and incur significant fiscal burdens. It could compromise fiscal sustainability and constrain the government's ability to sustain economic activity and support vulnerable groups. Food and fuel price increases, spurred by Russia's invasion of Ukraine or a fast reopening of the Chinese economy, will affect the poorest the most and could generate pressure to increase subsidies or social transfer programs, thus affecting fiscal performance. The court ruling on public pension issues will potentially lead to higher liabilities for the government, should the expected pension reforms be delayed. Moreover, despite the low NPL rate in Grenada's banking system, financial risks may arise from rising business insolvency in a scenario of economic stress. In that instance, narrowed fiscal space will constrain the government's financial and institutional capacity to implement the reforms directly supported under this operation, or other complementary reforms conducive to its development objectives—for example, by disrupting the establishment of a disaster risk financing cushion and reducing climate resilience. Risks are mitigated by the GoG's continued commitment to the rules-based policy framework enshrined in law and monitored by an independent fiscal council. TA from the IMF has been supporting improvements to the legal framework and the technical design of fiscal rules in the post-pandemic context. Ex ante disaster risk financing—including a Contingency Fund and arrangements for the WB's contingent credit line (including an active CAT-DDO DPC)—will provide a fiscal buffer, and the inclusion of natural hazard clauses in debt restructuring agreements will help mitigate risks to fiscal stability in the event of such disasters. Measures supported by this DPC— particularly those under Pillar 2 and the DRM legislation—will also help mitigate macroeconomic risks. Nevertheless, given the small size of the economy and potential external shocks, residual macroeconomic risks remain high.

96. **Implementation capacity risks are rated Substantial, given the country's small pool of technical experts.** Although 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 jeopardize the implementation of the reforms supported by the DPC. In this context, the government, in agreement with the WB, has carefully prioritized a limited number of measures critical to the recovery process, and the build-up of practical capacity support through parallel technical engagements with key development partners, such as the CRF (P171256). In 2020-2021, the government started reforms to enhance project procurement (including via a stronger monitoring framework and better coordination mechanisms), and the implementation rate of capital expenditure has since grown significantly. Other international organizations, including CARTAC, the IMF, and the CDB, are providing close technical or financial assistance to the government, with beneficial effects on implementation capacity.

97. **Environmental and social risks to the operation are rated Substantial, due to Grenada's inherent vulnerability to natural hazards.** Grenada is vulnerable to environmental factors exogenous to the operation, including natural hazards and short- and long-term climate change effects, which could deepen existing



challenges and complicate program implementation. In addition, natural hazards could directly damage physical infrastructure on the island and threaten food security, especially for poor and vulnerable groups. Pandemics and natural hazards could necessitate costly mitigation and response efforts that further strain the public resource envelope, diverting scarce financing away from long-term development objectives or increasing indebtedness. To mitigate these risks, the government is strengthening its DRM capacity and evaluating environmental risks in collaboration with development partners. Measures supported by this operation will contribute to these efforts. In addition, the WB-financed Regional Disaster Vulnerability Reduction Project and ongoing United Nations programs also enhance the government’s capacity to manage disasters and mitigate environmental risks.

Table 7: 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	● Moderate
7. Environment and Social	● Substantial
8. Stakeholders	● Moderate
9. Other	
Overall	● Substantial



ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers		Results		
Prior Actions under DPC 1	Prior Actions for DPC 2	Indicator Name	Baseline	Target
Pillar 1 --- Promoting a greener and more climate-resilient economy				
PA 1: The Recipient has approved, in the cabinet, the “Disaster Management Bill, 2022” (DM Bill) for tabling in Parliament to steer national policy and to enhance disaster and climate resilience.	PA 1: The Recipient has enacted the Disaster Management Act, which develops, promotes, and implements a disaster reduction and management approach, to enhance disaster and climate resilience, as evidenced by the Recipient’s Act No. 2 of 2023, published in the Government Gazette No. 23, of May 10, 2023.	RI 1: Percentage of ministries and agencies with an Operations Continuity Plan compliant with the DM Act	0 (2021)	30% (2024)
PA 2: The Recipient has approved regulations establishing an electricity tariff setting methodology to promote (i) efficient operations and energy usage, (ii) long term viability and sustainability of electricity service, and (iii) investment in renewable generation and network.	PA 2: The Recipient has approved the Generation Code of Grenada Grid Code, which establishes the requirements for economic least-cost dispatch and operation of private renewable generation to ensure system reliability and maximize reduction in thermal generation mitigating climate change, as evidenced by a letter from the Recipient’s Secretary to Cabinet dated May 10, 2023, citing Cabinet Conclusion No. 282 dated May 8, 2023.	RI 2: amount of electricity generated via the Public Utilities Regulatory Commission’s Self-Generator (PURC SG) program	0 (April 2021)	2MW (2024)
PA 3: The Recipient has approved regulations on electricity generation expansion planning and competitive procurement to support a greener and low-carbon development by (i) scaling up renewable energy investment by the private sector, (ii) reducing greenhouse gas emissions, and (iii) increasing the sustainability and affordability of electricity supply.	PA 3: The Recipient has approved the updated National Energy Policy, which increases the renewable energy and energy efficiency targets to reduce GHG emissions and mitigate climate change, as evidenced by a letter from the Recipient’s Permanent Secretary of the Ministry of Climate Resilience, the Environment & Renewable Energy, dated April 25, 2023, citing Cabinet Conclusion No. 235 dated April 11, 2023.	RI 3: Electricity supply contracted from new renewable energy generation capacity under power purchase agreements with private investors, in accordance with Generation Expansion Planning and Competitive Procurement Regulations	0 (2021)	2 MW (2024)
PA 4: The Recipient has approved the “Data Protection Bill, 2022” for tabling in Parliament to increase trust in digital transactions with private and public sector		RI 4: Number of ministries and agencies with a trained and certified information management/data protection officer	0 (2021)	4 (2024)



Prior actions and Triggers		Results		
stakeholders by safeguarding personal data of individuals.				
Pillar 2 --- Improving sustainability, inclusiveness and accountability of fiscal management				
	PA 4: The Recipient has enacted an amendment to the Environmental Levy Act which: (a) restores a tax of EC\$5 on electricity consumption for 100 - 150 kWh and EC\$10 for Over 150 kWh; and (b) sets a tax of EC\$5 on water consumption for 2,801 - 5,500 gallons and EC\$10 for Over 5,500 gallons, to mitigate climate change impacts and reduce energy and resource consumption, as evidenced by the Recipient’s Statutory Rules and Orders No. 5 of 2023, published in the Government Gazette No. 6, of January 27, 2023.	RI 5: Tax revenue collected through EVL on electricity and water consumption	0 (2021)	EC\$4.5 million (2024)
PA 5: The Recipient has approved the online issuance of property tax notices by March 2023, as part of a medium-term strategy to improve tax administration.	PA 5: The Recipient has enacted an amendment to the Excise Tax Act, which: (a) increases the excise tax on alcohol from EC\$1.10/EC\$4.40 per liter to EC\$1.50/EC\$5.00 per liter and cigarettes from 105% to 200%; and (b) increases the value added tax on sweetened beverages 15% to 20%, to strengthen fiscal sustainability and promote public health, as evidenced by the Recipient’s Statutory Rules and Orders No. 3 and No. 12 of 2023, published in the Government Gazette, No. 6, of January 27, 2023, and No. 8 of February 28, 2023, respectively.	RI 6: Total tax revenue from the new health-related taxes on cigarettes, alcohol, and Sugar-Sweetened Beverages	EC\$ 15 million (2021)	EC\$ 22 million (2024)
PA 6: The Recipient has approved the development of a climate change budget tagging methodology by the Ministry of Finance to identify and manage climate spending.	PA 6: The Recipient has approved mandatory climate change budget tagging requirements to be abided by its Ministries for Agriculture, Infrastructure, and Climate Resilience, which categorize, measure, and monitor climate-relevant public expenditures to better identify and mobilize fiscal resources toward	RI 7: Share of new capital projects tagged ³⁷ under the new climate change budget tagging methodology	0 (2021)	60% (2024)

³⁷ If a project has zero climate components after evaluation, it’d be counted as “tagged” (zero)



Prior actions and Triggers		Results		
	climate resilience building, as evidenced by the Recipient’s MOF Finance Circular No. 7/2022, dated September 9, 2022.			
PA 7 As part of its policy to promote gender inclusivity, the Recipient has decided to mainstream gender considerations in the national budget on a pilot-basis for the 2022 budget.	PA 7: The Recipient has approved mandatory gender statements requirements to be abided by all its ministries and departments, which includes the impacts of budget policy proposals on gender issues and priorities for the Recipient’s annual budget to be gender-responsive and gender-sensitive, as evidenced by the Recipients’ MOF Finance Circular No. 7/2022, dated September 9, 2022.	RI 8: Number of programs presenting information on gender priorities in publicly available budget documentation, including sex-disaggregated data and gender-responsive budget measures (in accordance with the gender budgeting policy framework)	2 (2021)	10 (2024)
PA 8: The Recipient has approved a proposal to support the implementation of a permanent funded unemployment insurance programme and appointed the National Insurance Scheme (NIS) as the implementing agency to drive the process of developing the final framework and drafting legislation for the introduction of said permanent programme.	PA 8: The Recipient has enacted amendments to: (a) the National Insurance (Collection of Contributions) (Amendment) Regulations and the National Insurance (Self-Employed Persons) (Amendment) Regulations, which increase the contribution of self-employed person rate by one (1) percent; and (b) the National Insurance (Unemployment Persons) Regulations which include a permanently funded Unemployment Insurance Programme; to improve the Recipient’s pension system sustainability and enhance workers’ income protection mechanisms against shocks, including climate-induced natural hazards, as evidenced by the Recipient’s Statutory Rules and Orders Nos. 8 and 9 and 18 of 2023, published in the Government Gazette, No. 7, of January 30, 2023, and No. 19 of April 14, 2023, respectively.	RI 9: Number of workers contributing to the UI fund	0 (2021)	40,000 (2024)
PA 9: The Recipient has approved a proposal for the establishment of the semi-autonomous National Statistical Institute of Grenada to strengthen the country’s statistical system.	PA 9: The Recipient has approved the annual publication of the total of NTF flows, NTF-funded projects, and the balance of the Contingency Fund, in the Recipient’s annual budget on a yearly basis starting 2024 onwards, to improve fiscal transparency and fiscal resilience, as evidenced by a letter from the Recipient’s Secretary to Cabinet dated April 25, 2023, citing Cabinet Conclusion No. 188 dated March 13, 2023.	RI 10: Accumulated flow into the contingency fund	0 (2021)	EC\$15 million (2024)





ANNEX 2: FUND RELATIONS ANNEX

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Grenada—Assessment Letter for the World Bank
March 20, 2023

This letter updates IMF staff's assessment of Grenada's macroeconomic conditions and prospects, as well as macroeconomic and structural policies. Current policies remain broadly in line with the assessment and recommendations of the 2022 Article IV Consultation.¹ This assessment has been requested in relation to the World Bank's proposed Second Recovery and Resilience Programmatic Development Policy Credit (DPC) for Grenada.

- 1. Grenada's economy is steadily recovering from the pandemic, against the headwind of rising cost of living.** Real output grew by 4.7 and 6.0 percent, respectively, in 2021 and 2022, compared to 5.6 and 3.6 percent in the 2022 Article IV, supported by a stronger-than-expected tourism rebound (especially in 2022) as well as agriculture and construction activity. Average inflation is estimated to have risen to 2.7 percent in 2022 (from 1.2 percent in 2021) along with increases in global commodity prices, mitigated by fiscal measures (petrol price cap and tax cut).
- 2. The fiscal performance has improved significantly in 2022.** The high court ruling in March 2022 resulted in retroactive pension payments of 2.3 percent of GDP. Nevertheless, the primary balance posted a surplus of 2.6 percent of GDP thanks to higher revenues (by 4.8 percentage points of GDP than envisaged in the 2022 Article IV, across tax, SOE dividends, and grants), which—together with the cyclical recovery—led to a reduction of public debt (from 71 percent of GDP in 2021 to 65 percent in 2022), a downward path expected to continue in the coming years. Moreover, public debt is now projected to reach the medium-term anchor of 55 percent of GDP (under the fiscal rules) by 2025, one year earlier than in the 2022 Article IV, that allows for recalibration of key fiscal rule parameters to support higher capital expenditure with the potential for higher medium-term growth.
- 3. Activity is projected to decelerate in 2023 amid weaker global growth and lower public investment.** The lower growth projection of 3.7 percent reflects slower-paced tourism recovery and construction activity. Output is expected to return to its pre-pandemic level in 2023–2024.
- 4. External financing needs will likely remain sizeable in 2023.** Current account deficit is projected to be smaller in 2022 than in the 2022 Article IV due to historical revisions that corrected financial service debit, and to narrow in 2023, supported by higher tourism receipts. Citizenship-by-Investment (CBI) inflows are expected to moderate and FDI to remain subdued.² Continued support from IFIs and other donors remains critical for meeting the country's external financing needs.
- 5. Risks around the baseline outlook are high.** In addition to a persistent cost-of-living shock as flagged in the 2022 Article IV, main downside risks now also include an economic slowdown of key tourist source markets. Other risks include a further decline in CBI revenue and natural disasters,

¹ Press Release and Country Report 22/134 were issued in May 2022.

² In February 2023, the United States of America passed legislation that prohibits people who earned Grenada citizenship through the CBI program from obtaining instant access to the U.S. using the E-2 investment visa.



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as well as a sharp rise in pension liabilities. On the upside, stronger tourist arrivals and faster implementation of reforms to improve competitiveness could support a stronger recovery.

6. The fiscal rules are appropriately planned to come back into force in 2023 and be amended later in the year. Fiscal consolidation in 2023 is underpinned mainly by lower public investment. To make the fiscal rules best support the country's development, an IMF TA team will help the authorities evaluate various options for the amendment. The authorities should continue to make the measures more targeted in supporting the vulnerable through the cost-of-living crisis.

7. Implementing fiscal structural reforms remains critical for reinforcing credibility and creating the needed space for Grenada's development goals. These reforms include: (i) strengthening revenue administration; (ii) improving the efficiency of public expenditure through enhancing public investment management and targeting of the social safety net; (iii) ensuring the sustainability of public finances through planned social insurance and public service reforms; and (iv) strengthening fiscal governance and transparency.

8. The authorities are making efforts to settle outstanding arrears to official bilateral creditors. In October 2022, the Government of Grenada reached a repayment agreement with the State of Libya on the US\$5 million in debt arrears owed. Grenada's public debt was assessed as sustainable in the DSA for the 2022 Article IV and remains "in debt distress" due to the remainder arrears (totaling US\$33.6 million) to official bilateral creditors.

9. Efforts are underway to facilitate a shift in the tourism model towards higher value-added and to address the skills gap. Resumption of a few airlines has helped boost tourist arrivals and, together with ongoing efforts to increase airlift, will support a geographic diversification of tourism sources. Working with local producers to align output with the demands of hotels and restaurants will help strengthen domestic linkages of tourism and support local employment. The authorities are revamping flagship training programs, including through providing more industry-ready training opportunities and strengthening digital infrastructure.

10. The authorities remain committed to implementing their Disaster Resilience Strategy and accelerating the shift to renewable energy. Introducing a Disaster Management Bill and strengthening the technical and operational capacity of the National Disaster Management Agency can help institutionalize and implement the policy responses to climate risks. Given the high uncertainty and large financing need of the renewable energy investment, fostering an enabling regulatory and business environment is key to attract private sector investment and climate funds.

11. Banking sector policies are largely in the purview of the ECCB and subject to the constraints of the quasi-currency board arrangement. Banks have weathered the pandemic well, with low non-performing loans (NPLs), despite the expiration of moratoria programs and regulatory forbearance. Leveraging the regional credit bureau and partial credit guarantee scheme and enhancing financial literacy can help firms' access to finance, especially for smaller firms.

12. The oversight of the credit union sector should be strengthened. Credit unions' NPL ratio rose from 5.2 percent in 2019Q4 to 8.4 percent in 2022Q4. The Grenada Authority for the Regulation



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of Financial Institutions (GARFIN) should continue to ensure that there are robust underwriting standards, credit risk evaluation, and routine stress tests, governance is strengthened, capital requirements are followed strictly, and more granular data is collected and published.

13. Fund relations. In 2020, Grenada received emergency financing under the Rapid Credit Facility (RCF). The country has adequate capacity to repay the Fund and is a major recipient of IMF technical assistance. The 2023 Article IV Consultation mission is planned for May 2023.



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Table 1. Grenada: Selected Economic and Financial Indicators, 2018–28

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
	Est.					Proj.						
	(Annual percentage change, unless otherwise specified)											
Output and prices												
Real GDP	4.4	0.7	-13.8	4.7	6.0	3.7	4.1	3.6	3.2	2.8	2.8	
Nominal GDP	3.6	4.0	-14.0	5.9	8.0	6.8	7.2	5.7	5.4	5.1	5.1	
Consumer prices, end of period	1.4	0.1	-0.8	1.9	3.5	3.2	3.0	2.0	2.0	2.0	2.0	
Consumer prices, period average	0.8	0.6	-0.7	1.2	2.7	3.2	3.0	2.0	2.0	2.0	2.0	
Output gap (percent of potential GDP)	8.3	6.7	-10.0	-7.9	-4.6	-3.5	-1.9	-0.9	-0.3	-0.1	0.0	
Real effective exchange rate	-2.2	0.8	-1.9	-4.7	—	—	—	—	—	—	—	
Central government balances (accrual)												
(In percent of GDP, unless otherwise specified)												
Revenue and Grants	27.0	26.6	28.1	32.1	33.8	30.4	30.0	29.9	29.6	29.4	29.4	
Taxes	22.5	21.9	22.1	21.0	22.2	22.1	22.0	22.0	21.9	21.8	22.0	
Non-tax revenue 1/	1.6	1.8	2.4	3.4	4.6	6.4	6.1	5.9	5.7	5.6	5.4	
Grants 1/	3.0	2.9	3.7	7.7	7.0	2.0	1.9	1.9	2.0	2.0	2.0	
Expenditure	22.4	21.6	26.9	31.7	32.8	28.7	27.8	27.3	29.1	29.3	29.6	
Current primary expenditure	17.6	17.2	21.1	21.2	20.6	19.6	19.4	19.3	19.8	20.1	20.4	
Interest payments	2.0	1.9	2.0	1.8	1.7	1.8	1.6	1.3	1.2	1.1	1.1	
Capital expenditure	2.8	2.6	3.8	8.7	10.6	7.3	6.8	6.0	8.2	8.2	8.1	
Primary balance	6.6	6.8	3.2	2.1	2.6	3.5	3.8	3.8	1.6	1.1	0.8	
Overall balance	4.6	5.0	1.2	0.3	1.0	1.7	2.2	2.5	0.4	0.0	-0.2	
Public debt (incl. guaranteed) 2/	64.0	58.5	71.4	71.0	64.5	62.4	59.7	53.9	50.7	48.2	46.1	
Domestic	15.7	14.6	16.2	15.5	13.2	11.9	10.5	9.3	8.6	8.2	7.9	
External	48.3	44.0	55.2	55.4	51.3	50.5	49.1	44.6	42.1	40.0	38.2	
Money and credit, end of period (annual percent change)												
Broad money (M2)	5.9	2.9	9.1	8.5	9.9	5.5	4.8	3.4	3.1	2.9	2.9	
Credit to private sector	2.8	1.4	3.1	3.8	2.1	5.0	4.8	4.6	4.2	3.8	3.5	
Balance of payments												
Current account balance, o/y/e	-12.9	-10.1	-16.4	-13.2	-17.7	-15.0	-13.1	-13.9	-12.2	-10.9	-10.8	
Exports of goods and services	53.3	54.6	41.1	48.4	53.3	62.3	62.5	61.4	60.5	59.9	59.4	
Imports of goods and services	55.4	55.8	52.2	56.3	65.3	66.8	64.9	64.5	61.9	60.0	59.4	
Capital account balance	5.9	5.1	7.5	5.0	7.8	6.0	5.5	4.2	4.3	4.7	4.7	
Financial account balance	-7.2	-6.8	-7.8	-8.5	-9.9	-9.0	-7.5	-9.6	-8.0	-6.8	-6.4	
Errors and omissions	-0.2	-1.8	1.1	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
External debt (gross)	89.3	81.8	92.9	95.5	92.7	87.0	82.5	75.7	71.9	68.9	65.8	
Savings-Investment balance	-12.9	-10.1	-16.4	-13.2	-17.7	-15.0	-13.1	-13.9	-12.2	-10.9	-10.8	
Savings	11.4	14.4	9.4	15.4	10.7	10.5	12.5	14.3	15.6	17.5	18.0	
Investment	24.3	24.5	25.8	28.7	28.5	25.5	25.5	28.2	27.8	28.3	28.8	
Memorandum items:												
Nominal GDP (billions of EC\$)	3,150	3,276	2,817	2,984	3,222	3,441	3,689	3,900	4,112	4,322	4,541	
Net imputed international reserves												
Months of imports of goods and services	4.1	5.2	5.6	5.0	5.0	5.2	5.3	5.3	5.3	5.2	5.1	

Sources: Country authorities; Eastern Caribbean Central Bank; United Nations, Human Development Report; World Bank WDI; and IMF staff estimates and projections.
1/ Citizenship-by-Investment (CBI) revenue is recorded under grants before 2023 but recorded under non-tax revenue starting 2023.
2/ Includes the impact of the debt restructuring agreement for the 2025 bonds.



ANNEX 3: LETTER OF DEVELOPMENT POLICY



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

25 May 2023

BY EMAIL

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

Dear President Malpass,

**Ref: Letter of Development Policy for the
Grenada Second Recovery and Resilience Programmatic Development Policy Credit**

On behalf of the Government and people of Grenada, I submit this Letter of Development Policy for a Second Recovery and Resilience Programmatic Development Policy Credit (DPC) in the amount of US \$30 million. The DPC will enable the Government to advance crucial sustainable development objectives by supporting ongoing efforts to recover the economy from the severe impacts of the COVID-19 pandemic and build sustainability and resilience over the long term. It will also assist in deepening the Government's extant macro-fiscal reform programme to sustain achievements made since our Home-grown Structural Adjustment Programme (HGSAP) of 2014-2016.

The DPC is the second operation of a programmatic series. Under the first operation, approved in 2022, the Government approved a series of reforms to build a robust, resilient, and sustainable economy. The first operation supported progress in the areas of Disaster Management and Data Protection legislation; the approval of regulations on electricity tariff setting methodology and electricity generation expansion planning and competitive procurement; improvement measures on tax administration; climate and gender budget tagging; unemployment insurance; as well as approval for the establishment of the semi-autonomous National Statistical Institute of Grenada. The second operation builds on the first, by deepening reforms in the same areas while incorporating changes that have occurred between the preparation of the two operations, including the General Elections in 2022 and additional impacts from Russia's invasion of Ukraine.



This letter summarises salient aspects of the programme that the Government of Grenada is committed to in the following two areas that the DPC supports: (i) promoting a greener and more climate-resilient economy; and (ii) improving sustainability, inclusiveness, and accountability of fiscal management.

Economic and Social Context

Mr. President, Grenada's economy expanded briskly in the past seven consecutive years before the COVID-19 pandemic, with economic growth averaging 4.5 percent in real terms over the period 2014-2019. Anchored by the Fiscal Responsibility Act (FRA) and sound fiscal practices, between 2014 and 2019, the overall fiscal surplus averaged 1.5 percent of GDP, and public debt fell from over 100 percent of GDP to less than 60 percent. Debt transparency has been strengthened through the timely publication of debt reports and improved monitoring mechanisms of contingent liabilities.

Regrettably, this economic expansion was interrupted in 2020 because of the acutely negative impact of the COVID-19 pandemic, which necessitated border closures and the repression of commercial activities. The tourism sector, which usually makes up more than 40 percent of GDP and employment, has borne the most damage, and women and other vulnerable groups were affected disproportionately. As such, the economy contracted by 13.8 percent in 2020. The reduced revenue and additional expenditure to support social-economic recovery weakened the fiscal position significantly. Consequently, public debt increased by 12.9 percentage points to 71.4 percent of GDP in 2020. The external balance worsened substantially in 2020, with lower export earnings, remittances, and other capital inflows. The COVID-19 pandemic also led to an implosion of our labour market, which saw a downward trend in unemployment in the past seven years (the overall rate reached a historic low of 15.1% in Q4 2019) being reversed in 2020, with the Q2 estimate of 28.4%. This translated into just under 14,000 jobs being lost from the employed labour force relative to the amount in Q4 2019.

Thanks to the strong structural reforms that Grenada has in place and the timely responses from the Government, the economy has been recovering steadily since 2021. Revenues from tourism recovery boosted tax revenues and helped the primary balance remain positive during 2021-22. The Government remains committed to fiscal prudence and approved the 2023 Budget in accordance with the rules and targets of the Fiscal Responsibility Act (FRA).

However, the recovery has been slower than previously expected, given the multiple coronavirus variants and geo-political tensions, including Russia's invasion of Ukraine. The resulting inflationary pressures and challenges to global supply chains have compounded the extended impacts of the COVID-19 pandemic and are expected to pose further pressures to fiscal and external accounts. Particularly in the labour market, despite the initial recovery, the unemployment and poverty rates remain higher than the 2019-level, and recovery among women and vulnerable groups has been uneven.

Forward from now on, supported by new reforms, Grenada's socio-economic conditions are expected to improve over the medium term but are subject to substantial external risks. The COVID-19 pandemic has also exposed and in some cases, exacerbated long-standing development



challenges such as poverty; vulnerability to natural disasters and climate change; lack of economic diversification; gender and income inequalities; and weak health and social protection systems, to highlight a few. The Government is committed to implementing the reforms indicated in the 2023 Budget Speech, focusing on six key areas: (i) Health and Wellness; (ii) Education and Training; (iii) Agriculture and the Marine industry; (iv) Physical and Digital Infrastructure; (v) Culture and the Creative Sector; and (vi) Energy Transition and the Environment. Nevertheless, the outlook highly depends on the global environment and external factors, including natural disasters, geopolitical tensions, developments in international commodity prices, especially food and fuel, and monetary tightening in major economies. The government remains committed to fiscal sustainability through reforms to improve revenue mobilization and expenditure efficiency and will work closely with the WB and IMF in strengthening the FRA. The financing needs are high to support social recovery from the pandemic crisis and strengthen efforts to build multi-dimensional resilience against external shocks and climate change. Amid the challenges, the Government will continue building resilience socially, economically, physically, and institutionally. The reforms supported by this DPC are expected to strengthen these important areas.

The Reform Programme and Government's Commitments

Pillar 1: Promoting a greener and more climate-resilient economy

Mr. President, it is well known that Grenada is a regional frontrunner in building resilience to climate change and natural disasters. Through strategic alliances with key global climate finance partners, including the World Bank, Grenada has made steady progress in building resilience to shocks and protecting the environment from damage and degradation. Given the urgency of the climate challenge, Grenada will continue to aggressively pursue its commitment to reducing greenhouse gas (GHG) emissions and building socio-economic resilience toward natural disasters and climate change.

In the area of Disaster Risk Management (DRM), Grenada has enacted the Disaster Management Act, which aims to enhance disaster and climate resilience by providing a comprehensive framework to the multi-sectoral strategy. This DRM Act is the first in the OECS region to address disaster risk financing in such a specific and comprehensive manner. It identifies a risk layering approach to planning for and accessing financing after a disaster, to boost post-disaster response, and facilitates the efficient and timely mobilisation of DRM-related resources.

To reduce the reliance on fossil fuel and lower GHG emissions, the Government has approved the Generation Code of Grenada Grid Code, which establishes the requirements for economic least-cost dispatch and operation of private renewable generation that ensures system reliability and maximises reduction in thermal generation, thereby mitigating climate change. The Government has approved the updated National Energy Policy (NEP) 2023-2035, which increases renewable energy and energy efficiency with targets, and sets an action plan and monitoring framework aimed at reducing GHG emissions and mitigating climate change. The Government is committed to follow the decarbonisation trajectory presented in its Second Nationally Determined Contribution (NDC) aiming to reduce GHG emissions through reducing fossil fuel use in the energy mix. The NEP strengthens the vision of a decarbonised energy system towards climate neutrality and follows



Grenada's climate strategies stated in the NDC with the intent of long-term climate/carbon neutrality.

Pillar 2: *Improving sustainability, inclusiveness, and accountability of fiscal management*

Mr. President, the Government of Grenada is firmly committed to sound fiscal management, transparency, and accountability. Indeed, the suite of financial legislations, including the FRA, the Public Debt Management Act, and the Public Procurement and Disposal of Property Act, all enacted during our HGSAP, demonstrates our commitment. Since the end of our HGSAP, we have taken steps to improve transparency and accountability in managing our public finances. The Government has been preparing and publishing the quarterly debt bulletins; the annual debt management reports; and the fiscal risk statements. Under the support of the Sustainable Development Financing Policy, the Government further improved the timeliness and coverage of debt reporting by including the quantitative State-owned Enterprises' contingent liabilities in the Fiscal Risk Statements and including the financing terms of all newly disbursed loans in the annual debt reports.

Grenada has enacted an amendment to the Environmental Levy Act which restores a tax of: (a) EC\$5 on electricity consumption for 100 - 150 kWh and EC\$10 for over 150 kWh; and (b) sets a tax of EC\$5 on water consumption for 2,801 - 5,500 gallons and EC\$10 for over 5,500 gallons, to enhance revenue collection, mitigate climate change impacts and reduce energy and resource consumption. The Environmental Levies will help incentivise the preservation of energy and water resources, which not only reduce GHG emissions but also help sustain the limited natural resources that Grenada has.

On this front, Grenada has enacted an amendment to the Excise Act and the VAT Act, which (i) increases the excise tax on alcohol from EC\$1.10/EC\$4.40 per litre to EC\$1.50/EC\$5.50 per litre, and cigarettes from 100% to 200%; and (ii) increases the VAT on carbonated beverages and other drinks with high sugar content from 15% to 20%, to promote public health as well as strengthen fiscal sustainability. This health tax is expected to benefit people by incentivising healthy lifestyles and reducing long-term health costs, especially for those with limited access to healthcare and a lack of financing. The Government has committed to working with the WB team in providing technical assistance on the health-related taxes to improve the targeting, monitoring, and other complementary measures to successfully implement the policy and achieve the goals.

To enhance the efficiency of public spending, the Government has strengthened the budgeting process to include mandatory climate change budget tagging requirements, which categorise, measure, and monitor climate-relevant public expenditures to better identify and mobilise fiscal resources toward climate resilience building. Moreover, as part of its policy to promote gender inclusivity, the Government has approved the publication of an Annual Report that includes information on the impact of budget policy proposals on men, women, and gender equality for all Ministries, Departments, and Agencies. Both actions will assist the Government in making better informed and targeted policies. Moving forward, the Government is committed to fully implementing the two policies in future annual budgets.



The COVID-19 pandemic has shaken the labour market profoundly and the Government has provided significant social assistance to support those unemployed, which poses pressures on fiscal accounts. This experience highlights the importance of a mechanism to cushion unemployment risks and mitigate the related fiscal implications. To address this, Grenada approved (i) the amendments to the National Insurance (Collection of Contributions) Regulations to increase the contribution rates; and (ii) the establishment of the National Insurance (Unemployment Benefit) Regulations, to create an unemployment benefit to enhance workers' income protection mechanisms against shocks, including climate-induced natural disasters. These reforms will put Grenada first in the OECS region, and third in the Caribbean region to be equipped with such social resilience mechanisms.

Mr. President, the Citizenship-by-Investment programme contributes to a significant share of the Government's revenue, and part of its flow to the National Transformation Fund (NTF) plays a key role in building Grenada's critical socio-economic programmes. Therefore, the Government has approved the publication of total NTF flows, NTF-funded projects, and the balance of the Contingency Fund in the budget starting in the fiscal year 2024 to improve fiscal transparency and increase fiscal resilience.

Finally, we confirm that all Prior Actions have been completed in accordance with applicable existing Grenada's legal and policy framework and that the policy instruments adopted by the relevant authorised bodies, including our Cabinet, were the same as those assessed by the World Bank.

Conclusion

Mr. President, the Government of Grenada underscores its strong commitment to meeting its sustainable development objectives through the advancement of its reform agenda, important aspects of which are supported by the DPC. We thank the World Bank for its continued support of Grenada's reform agenda and its solid and long-standing partnership.

We trust that our request will receive the endorsement of the World Bank's Board of Directors.

Yours faithfully,

.....
Hon. Dennis Cornwall
MINISTER FOR FINANCE

Cc: Hon. Dickon Mitchell, Prime Minister



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
<i>Pillar 1: Promoting a greener and more climate-resilient economy</i>		
Prior action #1	No significant positive or negative environmental effects are expected to result from this PA. A comprehensive DRM legislation to steer national policy and to enhance disaster and climate resilience in a systematic approach.	Positive poverty or social effects in the long run.
Prior action #2	Positive environmental effects are expected to result from this PA, as it supports greenhouse gas mitigation through the tariff setting methodology to promote renewable energy.	No significant direct poverty or social effects in the short term, but positive in the long term.
Prior action #3	Positive environmental effects are expected to result from this PA, as it supports greenhouse gas mitigation through energy generation expansion planning to promote renewable energy.	No significant direct poverty or social effects in the short term, but positive in the long term.
<i>Pillar 2 --- Improving sustainability, inclusiveness and accountability of fiscal</i>		
Prior action #4	Positive environmental impact on Grenada’s environment, forests, and other natural resources, is expected as the new environmental levy on electricity consumption and water use to manage energy and resource demand will reduce water and electricity consumption while strengthening the Grenada Solid Water Management Authority.	Negative direct poverty or social effects, but the adverse impacts might be partially offset by revenue redistribution through social programs.
Prior action #5	No significant positive or negative environmental effects are expected to result from this PA.	Negative direct poverty or social effects in the short term but positive impacts in the long term due to improved health.
Prior action #6	Positive environmental effects are expected to result from this PA, as climate budget tagging usually leads to increased public investments for climate change mitigation and adaptation.	No significant direct poverty or social effects.
Prior action #7	No significant positive or negative environmental effects are expected to result from this PA.	Positive effects on vulnerable groups in the long term.
Prior action #8	No significant positive or negative environmental effects are expected to result from this PA. It aims to develop an UI Programme, is expected to protect formal workers over the longer term from the risk of employment loss arising from public health or climate-related disasters - and therefore increase resilience of the labor supply.	Positive direct impact on the poor and vulnerable in the medium and long term.
Prior action #9	No significant positive or negative environmental effects are expected to result from this PA.	Neutral poverty and social effects.



ANNEX 5: SUMMARY OF FISCAL MEASURES IN THE BUDGET FY23

Area	Measures	Start date/Time period	Fiscal effect (+/-, million; preliminary)
Tax revenue	Temporary VAT exemption for certain food items and other essential products ³⁸	Feb-Dec 2023	(-)
	Temporary 100% concessions on Common External Tariff (CET) and VAT for selected production equipment to support the "creative economy" ³⁹	Feb 2023 (to be reviewed in 12 months)	(-) 2.5
	Temporary reduction of VAT rate on mobile and broadband data plans to support a digital economy	Feb 2023 (to be reviewed in Dec 2023)	(-) 3.3
	Reduced VAT rate on electricity consumption	Feb 2023	(-) 3.7
	Reduced petrol tax	Jan 2023	(-) 18.8
	Freezing of cooking gas price	Ongoing	(-) 7.0
	Electricity subsidy of EC\$10 per month for all residential users consuming up to 99 kWh per month	TBD	(-) 2.4
	Increases to the excise tax on alcohol from EC\$1.10 and EC\$4.40 per litre to EC\$1.50 and EC\$5.00 per litre for two types of products; and to the excise tax on cigarettes from 105% to 200%	Feb 2023	(+) 4.4
	Increase to the VAT on carbonated beverages, soft drinks/sodas, and drinks with high sugar content from 15% to 20%.	Feb 2023	(+) 1.2
	Reinstated EVL rates on electricity consumption, in the amount of EC\$5 for 100-150 kWh and EC\$10 for > 150 kWh	Feb 2023	(+) 3.3 [prelim.]
Tax administration	Revaluation of properties for tax purposes	Feb 2023	(+) under calculation
	Pilot to allow public officers to pay their property taxes through monthly salary deductions	2024	Neutral
	12-month tax amnesty waiving all interest and penalties on arrears accrued up to December 2021	TBD	(+)
	Strict enforcement of Tax Administration Act, including requirement of tax clearance certificates to travel and access commercial loans, garnishees, etc	Jan 2023	(+)
Expenditure	No printing of documents more than 5-page	2022 arrears onwards	(+)
	Review of procurement process	2023	(+)
	Limit overseas travel of government staff to below pre-pandemic level, with most travel funded by donors or other third parties	2023	(+)
	Develop a policy for procurement, maintenance, and disposal of government vehicles.	2023	(+)
	Cut spending on office supplies and materials by 25% from 2022 levels	2023	(+)

³⁸ Including soya chunks, veggie patties, olive oil, canola oil, soya bean oil, sunflower oil, coconut oil, red kidney beans, black-eye peas, lentil peas, hand sanitizer, adult diapers, baby diapers, toothpaste, toilet paper, bathing soap, laundry soap, sanitary napkins, and condoms.

³⁹ Storage media, production equipment for content creators, audio-visual equipment, art supplies, and all other ICT equipment and devices unequivocally needed for business use in the creative economy.



Transparency	Report all NTF flows, funded projects, and stock of contingency fund	Jan 2023	n/a
	Audits report of (1) expenditure incurred by MoH in relation to COVID-19; and (2) contracts issued by ministries for amounts lower than EC\$15,000.	Dec 2023	n/a

Sources: 2023 Budget Speech; Ministry of Finance; WB.



ANNEX 6: POVERTY AND SOCIAL IMPACT ANALYSIS (PSIA)

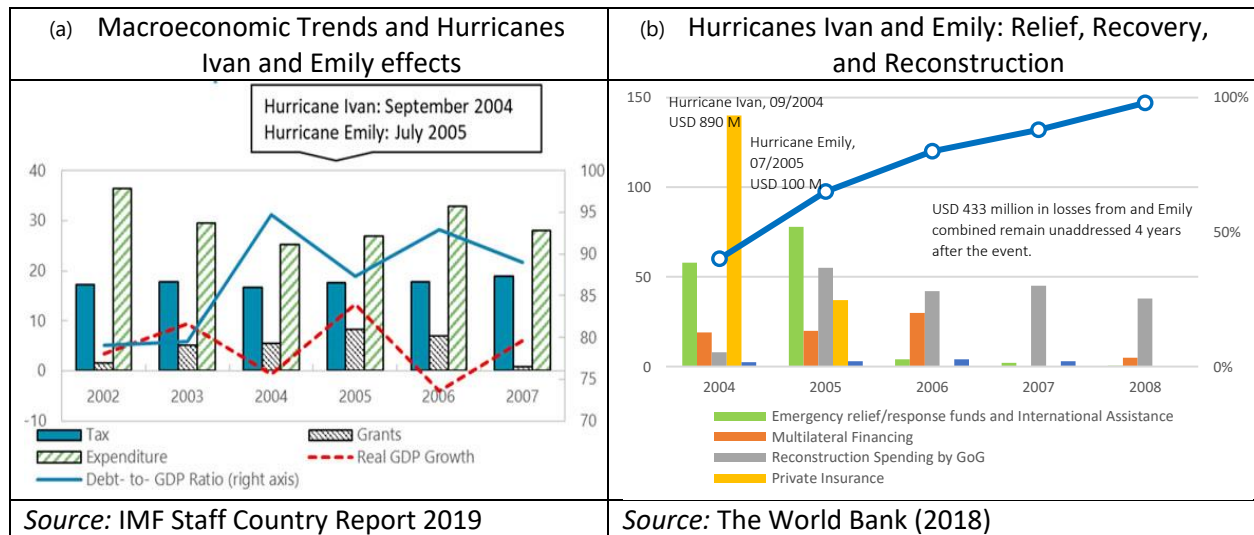
The PSIA is developed according to World Bank guidelines and is designed to provide an analysis of the potential poverty and social impacts of the policy actions outlined in this Second Recovery and Resilience Programmatic DPC. The present PSIA outlines the expected impacts from a gender-informed, social, and distributional perspective. The assessment is meant to provide an analysis of the policy actions with outcomes in the key objectives of this operation.

Pillar 1 --- Promoting a greener and more climate-resilient economy

PA 1: The Recipient has enacted the Disaster Management Act, which develops, promotes, and implements a disaster reduction and management approach, to enhance disaster and climate resilience.

Natural hazards can deteriorate growth prospects and the country's ability to reduce poverty and inequality. Grenada is highly exposed to a wide range of natural hazards due to its geographical location. They can have devastating consequences, including loss of life, destruction of physical and human capital, and loss of income and wealth. Hurricane Janet in 1953 and Hurricanes Ivan and Emily in 2004 and 2005, respectively, had devastating impacts on the economy and livelihoods of Grenadians (Figure A5-1, a). In addition to hurricanes, several tropical storms have affected the islands in recent years, which, coupled with abnormal weather patterns in the first half of 2018, severely affected the ecosystems and infrastructure, resulting in an economic contraction.⁴⁰ The significant financing needs for post-recovery are typically a challenge for countries like Grenada, requiring the collaboration and efforts of different stakeholders and a comprehensive Disaster Risk Financing plan to meet financing effectively during the reconstruction period (Figure A5-1, b).

Figure A5-1 - Macroeconomic consequences of Hurricanes Ivan and Emily in Grenada and financing needs



Not all households are equally exposed to climate-related shocks or have equal access to coping

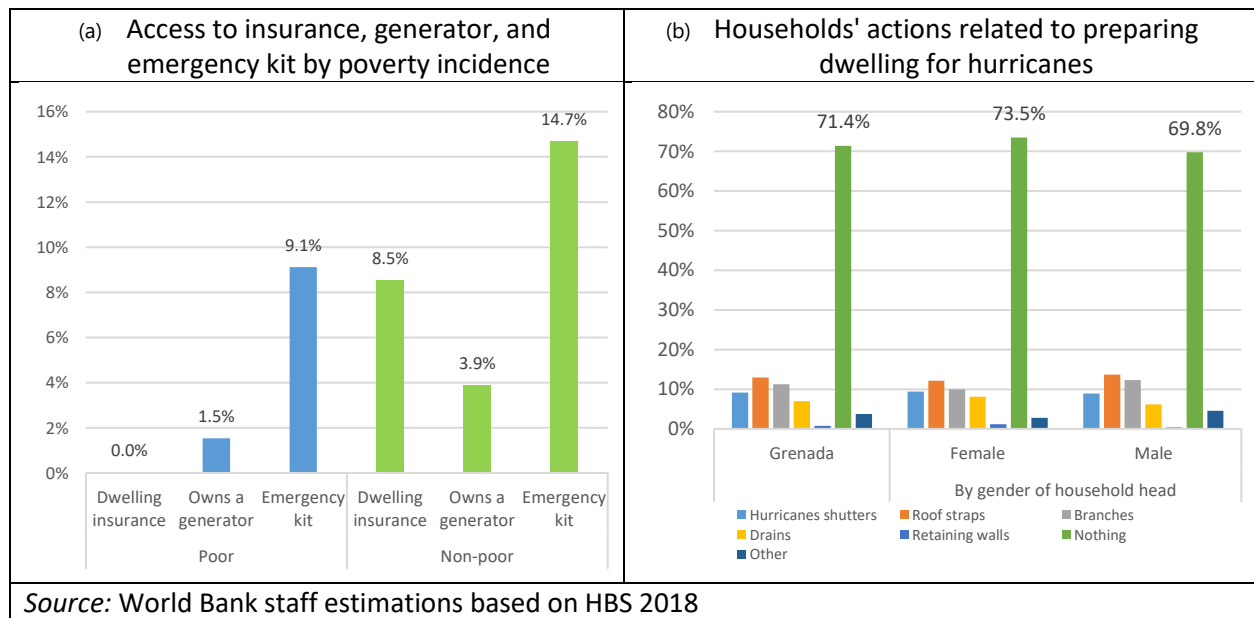
⁴⁰ OCHA. (2020). Grenada Country Profile. United Nations Office for the Coordination of Humanitarian Affairs.



mechanisms to deal with these shocks. When disasters strike, the poor and vulnerable are typically more affected, as they are more likely to live in areas that are at a high risk of experiencing a hazard, more likely to live in dwellings and communities that are vulnerable to disasters, more likely to work in climate-vulnerable sectors like tourism, and less likely to have a financial cushion or access to other coping strategies to rapidly recover (such as support from family and friends, financial systems, and governments) (Figure A5-2, a). Furthermore, households with female heads face the highest incidence of poverty in Grenada (18.1% versus 13.1% of male-headed households) and live-in dwellings that are less prepared to withstand hurricanes (Figure A5-2, b). In this context, gender inequities continue to render women and those dependent on them –children and older adults— highly vulnerable.⁴¹

By strengthening climate resilience and disaster risk management, Prior Action 1 (PA1) is expected to reduce vulnerability and increase adaptation and responsiveness to hazards. A comprehensive DRM legislation is expected to enhance precautionary planning to protect the poor and vulnerable. Natural hazards will likely increase poverty and exacerbate inequalities without an established and effective DRM framework. DRM entails all the activities aiming to cope with a disaster through its life cycle and ensure a rapid and effective recovery. Grenada's DRM framework has advanced significantly since the First National Disaster Plan was created, mainly after Hurricane Ivan in 2005. However, Grenada had no comprehensive and institutionalized approach to proactively address the risks holistically and provide guidance on how to use financing and staffing resources efficiently in different situations. The PA1 will strengthen the country's DRM legislation, helping cushion the adverse impacts of extreme weather events on the country's economy and, especially, the most vulnerable.

Figure A5-2 - Indicators of household preparedness for natural hazards



PA 2: The Recipient has approved the Generation Code of Grenada Grid Code, which establishes the

⁴¹ Kambon et al. (2005), in assessment of Hurricane Ivan from the perspective of gender in Grenada, had found that women and children were uniquely vulnerable to natural hazards due to the existing gender inequities in the country.



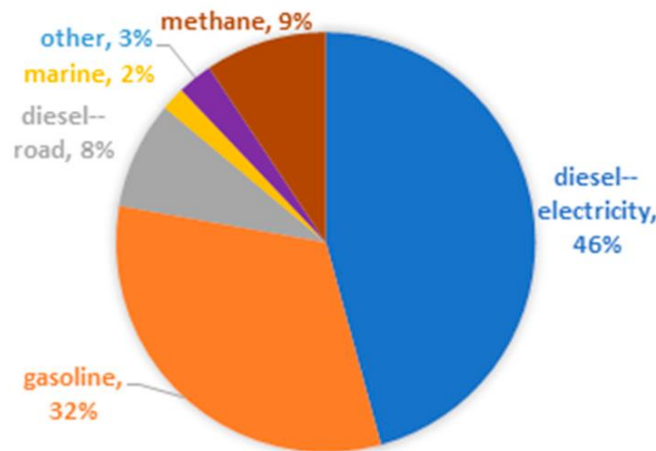
requirements for economic least-cost dispatch and operation of private renewable generation to ensure system reliability and maximize reduction in thermal generation mitigating climate change.

PA 3: *The Recipient has approved the updated National Energy Policy, which increases the renewable energy and energy efficiency targets to reduce GHG emissions and mitigate climate change.*

Grenada relies heavily on imported fossil fuels, making the country susceptible to global oil price shocks and high energy costs.⁴² Electricity in Grenada is almost entirely produced from fossil fuels (in particular, diesel), which makes its supply prices highly volatile. Electricity supply prices in 2016 were on the high side relative to most comparator countries.⁴³

Moreover, diesel-electricity plants are responsible for the largest share of GHG emissions in Grenada. Indeed, diesel plants account for all non-renewable generation supply and their emissions were estimated at 46 percent of nationwide (non-forestry) GHG emissions in 2018 (Figure A5-3). Another significant source of GHG emissions is the gasoline used for land transport, constituting 32% of total emissions. Landfill methane and diesel emissions from road vehicles generate 9% and 8%, respectively, of nationwide emissions. However, renewable energy consumption was limited, as it corresponded to only 10.4% of total final energy consumption in 2019.⁴⁴

Figure A5-3 – Grenada’s sources of GHGs emissions in 2018



Source: IMF (2019).

Prior Actions 2 and 3 will support and accelerate the transition to a more sustainable generation mix of renewable energy resources and reliable services. Shifting from non-renewable to renewable energy sources could help reduce the country’s dependence on imported fuel commodities and reduce the vulnerability inherent to their use, given the high volatility of international petroleum prices. In addition, it would help reduce GHG emissions and the occurrence of climate change-related events (e.g., temperature increases, hurricanes, floods, and sea-level rise) that are likely to affect vulnerable groups the most, as previously stated.

⁴² The share of GDP spent on Fuel imports is 18% (13% of the GDP was spent on Electricity).

⁴³ IMF (2019). *Grenada: Climate Change Policy Assessment*. IMF Country Report No. 19/193. Washington D.C.: International Monetary Fund

⁴⁴ World Bank Data, 2019.



Improved energy efficiency and affordability of renewable energy are expected to reduce energy poverty. Electricity prices have been identified as one of the main drivers of energy poverty,⁴⁵ and therefore lowering prices is expected to alleviate energy poverty and protect vulnerable populations.⁴⁶ Prior Actions 2 and 3 entail scaling up investment in domestic clean and renewable electricity and promoting competitive tariffs, which may have significant positive effects. Renewable energy in 2021 had lower costs than non-renewable sources and was the cheapest form of power.⁴⁷ Therefore, ensuring affordable clean energy guarantees energy-poor and vulnerable populations access to electricity services at reduced rates and reduces their reliance on non-sustainable traditional energy like coal and fuel, increasing their use of low-carbon renewable energy (for lighting, household appliances, cooling, and transport), and ultimately improving their welfare.

Adopting cleaner energies is also expected to have long-term positive impacts on health outcomes and poverty. The production and use of cleaner fuels will mitigate pollution and carbon dioxide (CO₂) emissions and, thus, climate change's impacts on weather, which can have devastating effects, especially on poor and vulnerable populations.⁴⁸ Moreover, pollution affects the people experiencing poverty disproportionately; for example, toxic occupational exposures are more common among low-skilled jobs, and contaminated water affects more people with restricted access to safe water. These mitigating effects will improve health in the long run and, thus, reduce the pressure on health services and promote higher worker productivity. Evidence from China and Mexico shows that increased pollution levels are associated with a shortfall in worker output.⁴⁹ Similarly, the 2022 report of the Lancet Countdown finds that heat exposure led to 470 billion potential labor hours lost globally in 2021.⁵⁰ In addition, policy efforts aimed at reducing global emissions will also boost green jobs that contribute significantly to poverty eradication and social inclusion.⁵¹

Pillar 2 --- Improving sustainability, inclusiveness and accountability of fiscal management

PA 4: *The Recipient has enacted an amendment to the Environmental Levy Act which: (a) restores a tax of EC\$5 on electricity consumption for 100 - 150 kWh and EC\$10 for Over 150 kWh; and (b) sets a tax of EC\$5 on water consumption for 2,801 - 5,500 gallons and EC\$10 for Over 5,500 gallons, to mitigate climate change impacts and reduce energy and resource consumption.*

The environmental levy on electricity and water consumption has a progressive structure and is expected to ultimately alleviate poverty in the medium term through revenue redistribution. The reinstatement of this levy will be used to finance the measures for relief in cost-of-living driven by the inflation crisis, funding food consumption.⁵² As highlighted above, the poor spend a larger share of their

⁴⁵ Halkos, G. E., & Gkampoura, E. C. (2021). Evaluating the effect of economic crisis on energy poverty in Europe. *Renewable and Sustainable Energy Reviews*, 144, 110981.

⁴⁶ Gabiola et al. (2016), indicate that social tariffs are instruments available to governments to alleviate energy poverty. See study [here](#).

⁴⁷ IRENA (2022). Renewable Power Generation Costs in 2021. International Renewable Energy Agency, Abu Dhabi.

⁴⁸ Moreover, climate change further reduces access to drinking water, and can impose a real threat to food security, specially in areas with limited livelihood choices decreasing crop yields (see Abeygunawardena et al, 2009).

⁴⁹ Chang et al (2016), Hanna and Olivia (2015).

⁵⁰ The Lancet (2022). *The 2022 report of the Lancet Countdown on health and climate change: health at the mercy of fossil fuels*. 400: 1619–54

⁵¹ ILO and BID (2020).

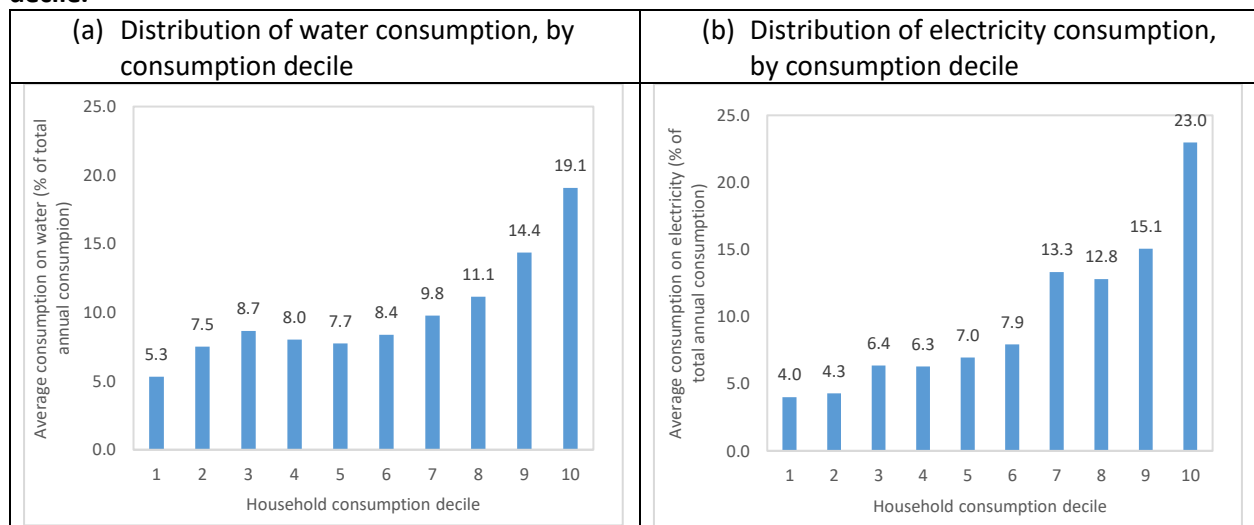
⁵² As part of the 2023 national budget, the government decided to exempt VAT on a vast set of food items and other necessities



income than the wealthy households on food consumption, having a redistribution impact.

Despite the poor spending a relatively larger share of their income on water and electricity than the richer⁵³, the last consume more water and energy in absolute terms. The people in the lowest income decile consume significantly less water and electricity in absolute terms than those in the highest decile (Figure A5-4). The poorest decile accounts for only 5.3 percent of households’ total water consumption, while the richest decile accounts for almost 20 percent. The gap is even more prominent for electricity consumption as total the poorest decile’s electricity consumption is around one-sixth of the consumption of the richest households. In addition to relatively lower consumption, only 55.6% and 71.4% of the poorest households spend on water and electricity, respectively, expecting even lower impacts on poverty in the short term.

Figure A5-4 – Distribution of households’ water and electricity consumption in 2018, by consumption decile.



Source: World Bank staff estimations based on HBS 2018

PA 5: The Recipient has enacted an amendment to the Excise Tax Act, which: (a) increases the excise tax on alcohol from EC\$1.10/EC\$4.40 per liter to EC\$1.50/EC\$5.00 per liter and cigarettes from 105% to 200%; and (b) increases the value added tax on sweetened beverages from 15% to 20%, to strengthen fiscal sustainability and promote public health.

The link between health problems and the consumption of tobacco, alcohol, and sugar-sweetened beverages (SSBs) has been widely studied.⁵⁴ Many diseases are associated with smoking, ranging from

and implementing an electricity subsidy of \$10 per month for all residential consumers consuming up to 99 kWh per month, among other relief measures.

⁵³ People in the first consumption decile spend 3.8% of their total household consumption on water against 1.0% for those belonging to the richest decile. For electricity, these percentages are 8.4% and 3.4%, respectively.

⁵⁴ On tobacco, see Doll and Hill (1956); HHS (2004); Ng et al. (2014); Stefler et al. (2018); WHO (2015, 2019). On SSBs, see GBD 2017 Risk Factor Collaborators (2018); Hu (2013); Imamura et al. (2015); WCRF and AICR (2018); Xi et al. (2015). On alcohol, see Chaloupka, Grossman, and Saffer (2002); Cook and Tauchen (1982); Grossman et al. (1993); Saffer and Grossman (1987).



lung cancer and stroke to congenital malformations in children. Similarly, SSB consumption has been linked to diabetes, cardiovascular disease, and other types of cancer. Meanwhile, alcohol is not only related to diseases, such as cancer, cardiovascular disorders, and liver cirrhosis, but also to fatalities through motor vehicle accidents, homicide, suicide, and domestic violence.

The poor are much more likely to have unhealthy diets and experience ill health than the rich. Several studies suggest that the poor purchase fewer fruits and vegetables, more sugar-sweetened beverages, and fewer healthful foods than their more affluent counterparts. Therefore, they are more likely to suffer health-related problems. This leads to higher costs in the form of prescription co-payments, over-the-counter medications, travel to appointments, and days off work for the self-employed.

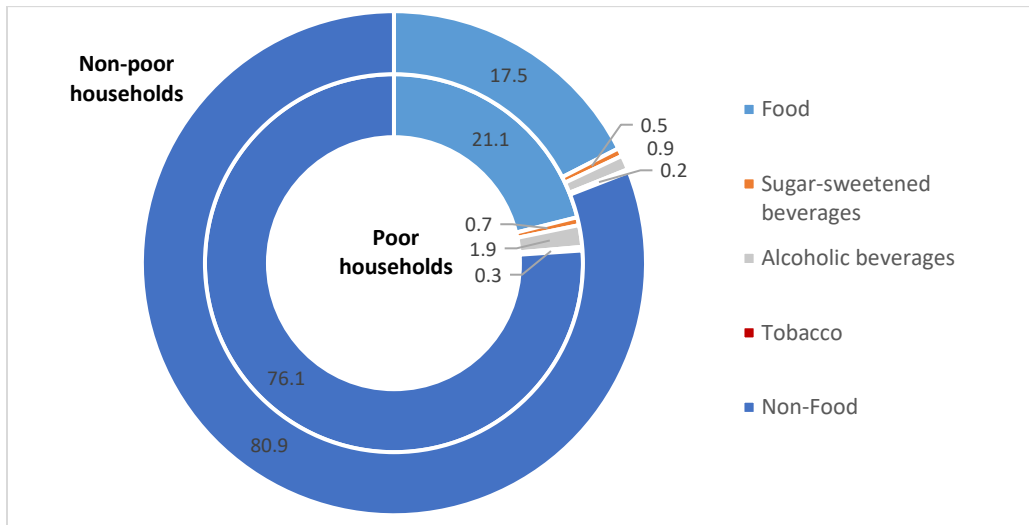
Taxes on unhealthy food have the potential to significantly improve the health outcomes of the poor by discouraging the consumption of these products. Given the growing evidence on the harmful effects of tobacco, alcohol, and **sugar-sweetened beverages**, taxation seems to be one of the most efficient and effective ways to curb the consumption of these products and improve health outcomes. The World Health Organization has set a reduction in tobacco consumption as one of its primary goals, and several tobacco tax reforms have been implemented in developing countries to reduce tobacco consumption. Likewise, by 2019, more than 37 countries had implemented taxes on sugary drinks, including Ecuador, India, Ireland, Mexico, Peru, the Philippines, South Africa, and Thailand (Cawley et al. 2019). The Bloomberg-Summers Task Force on Fiscal Policy for Health estimates that increasing health taxes to raise prices by 20% and 50% over a 50-year period could result in:

	2018 US\$ billions of excise tax revenue		Years of life gained (1000s)		Value for money: years of life/revenue	
	20% increase	50% increase	20% increase	50% increase	20% increase	50% increase
Tobacco	1,987	3,625	160,724	401,836	80,888	110,851
Alcohol	9,428	17,778	227,421	546,745	24,122	30,754
SSB	724	952	24,355	59,762	33,640	62,775

Source: Summan et al. (2020).

Health taxes are expected to be regressive in the short term. Almost all consumption taxes are regressive in the short term as they represent a higher share of the total consumption of poor households than that of the better off. Health-related food taxes are no different. Evidence demonstrates that people experiencing poverty do spend proportionally more on taxed unhealthy foods (although more revenue is generated from high-income households). Considering Grenada’s official moderate poverty measure, poor households spend proportionally more than twice on alcoholic beverages consumption than non-poor (Figure A5-5). The proportion of the total consumption assigned to other non-healthy goods such as sugar-sweetened beverages and tobacco is also larger than among non-poor (0.7% versus 0.5% on sugar-sweetened beverages and 0.3% versus 0.2% on tobacco).

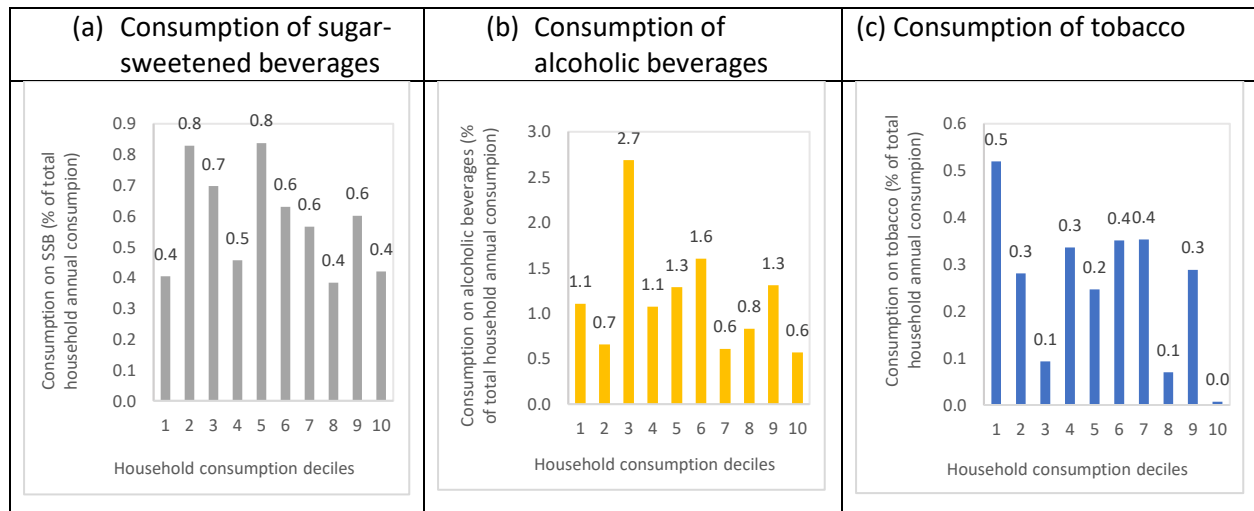
Figure A5-5 –Household share of monthly consumption on different categories (%) by poverty status



Source: World Bank staff estimations based on HBS 2018.

Households in Grenada spend more on alcoholic beverages than sugar-sweetened beverages or tobacco, and the average consumption is remarkably higher in the first six consumption deciles. Alcoholic beverages’ consumption among the poorest households almost doubles the share among the richest ones (1.1% versus 0.6%) (Figure A5-6, b). Moreover, the poorest households allocate a higher proportion of their monthly consumption, on average, to tobacco compared to the better off (0.5% in the poorest decile versus almost no consumption among the richest households or between 0.1-0.3% among the households in the 8th and 9th consumption deciles) (Figure A5-6, c). However, differences in consumption shares on sugar-sweetened beverages across the consumption distribution are unclear (Figure A5-6, a).

Figure A5-6 – Share of annual household consumption on different categories (%) across consumption deciles



Source: World Bank staff estimations based on HBS 2018.

Although health taxes might be regressive in the short term, they are estimated to be progressive and benefit low-income households more significantly in the long term. When behavioral responses to



higher prices, which tend to curb consumption, plus the indirect savings associated with disease prevention and the additional income due to gains in years of productive life, are accounted for, these taxes generate considerable benefits and, in most circumstances, the overall tax outcome is estimated to be progressive.⁵⁵ Indeed, studies conducted in several countries to assess the impacts of tobacco taxes on household welfare through Extended Cost-Benefit Analysis (ECBA) confirm that the positive effects on indirect costs prevail over the impact on direct costs, and the average effect of a tax-induced tobacco price increase is progressive and positive in most cases. The rise in tobacco prices also has a favorable impact on poverty. Similarly, for SSBs, evidence demonstrates that the health benefits of reducing SSB consumption benefit low-income consumers in the long term because of the greater sensitivity to price changes of these consumers relative to higher-income consumers.⁵⁶ For alcohol, the evidence in the literature clearly establishes a link between alcohol prices and the adverse effects of alcohol consumption. Additional evidence also shows that price increases on alcohol, tobacco, and SSBs have a positive and progressive impact if the indirect costs are considered.

The tax revenue collected through health taxes can further support social programs for vulnerable groups. The sensitivity of consumers to price increases—price elasticities—plays an important role, highlighting the value of adopting comprehensive approaches that favor coordination between taxation, behavioral change policies, and compensation mechanisms. In the case of tobacco, measures targeting consumption among lower-income groups, for example, smoking cessation and advertising adapted to the sociocultural context. In the case of SSBs, the higher taxes might be accompanied by healthy eating promotion campaigns, physical activity programs, labeling and marketing regulations, and restricting the marketing of unhealthy products. Furthermore, the additional revenue generated by taxes on unhealthy food could be used to support health and social programs to benefit vulnerable segments of the population affected by these taxes.

***PA 6:** The Recipient has approved mandatory climate change budget tagging requirements to be abided by its Ministries for Agriculture, Infrastructure, and Climate Resilience, which categorize, measure, and monitor climate-relevant public expenditures to better identify and mobilize fiscal resources toward climate resilience building.*

The proposed PA is not expected to impact poverty and inequality in the short term directly. This PA strengthens the prioritization and selection of climate resilience projects under the public investment management (PIM) framework. By identifying investments related to climate change, in the long run, this measure may indirectly affect social outcomes by improving resilience to climate change if investments in climate resilience come to fruition.

An effective and efficient fiscal administration is crucial to achieving macroeconomic stability and growth, reducing poverty, and achieving equal income distribution.⁵⁷ Applying the climate change budget tagging for planning and budget processes can translate into considerable fiscal savings that, mobilized toward targeted policies, can significantly and indirectly impact on the poor and vulnerable populations' wellbeing.⁵⁸ Grenada could benefit from climate tagging as it may increase awareness of climate change issues in central finance and line agencies, help communicate the government's

⁵⁵ World Bank (2022). The Distributional Impacts of Health Taxes. Washington, D.C.: World Bank Group.

⁵⁶ Allcott, Lockwood, and Taubinsky (2019); Sassi et al. (2018).

⁵⁷ Tanzi, V., & Pellechio, A. J. (1995). The reform of tax administration. *IMF Working Papers*, 1995(022).

⁵⁸ Fan, S., Saurkar, A., & Shields, G. (2007). How to mobilize public resources to support poverty reduction. *Twenty Sarkar (2020) focus brief on the world's poor and hungry people/International Food Policy Research Institute (IFPRI)*.



commitment to climate change action, enhance transparency, and enable accountability.⁵⁹ Furthermore, if used to identify revenues that contribute to climate change objectives (for instance, reducing GHG emissions or increasing resilience), tagging could facilitate the analysis and debate on tax policy and shifting the tax burden to economically and socially harmful activities, with the indirect impact on poverty in the long run, as previously assessed. Therefore, tagging can be a valuable tool for cross-cutting climate change and poverty reduction policy objectives, to guide resource allocation in the budget process.

***PA 7:** The Recipient has approved mandatory gender statements requirements to be abided by all its ministries and departments, which includes the impacts of budget policy proposals on gender issues and priorities for the Recipient's annual budget to be gender-responsive and gender-sensitive.*

It has been well documented that gender equality boosts economic growth and contributes to poverty reduction; therefore, it is essential for long-term development.^{60,61} The economic literature indicates that ensuring equitable access of women and youth to opportunities and empowerment – i.e., access to education and labor markets, and having voice – contributes to inclusive growth and is instrumental in achieving more effective development outcomes. Policies like those considered under this prior action that seeks to reduce gender gaps by improving the impact of women and gender subgroups, can have a meaningful impact in the medium- and long term for gender equality, and therefore for poverty and inequality. Clear identification of expenditures targeted to women would help create awareness and modify policies to increase society's welfare through gender inclusion.

Women in Grenada still face constraints for business and the law. Grenada has made significant progress in gender equality (freedom of movement, marriage, property and inheritance, representation in leadership roles, etc.). Moreover, considerable progress has taken place in women's empowerment with the increase of representation in leadership roles, such as in Parliament, where 47% of the members of the House of Representatives were women in 2021. However, as revealed by the Women, Business and Law 2022 Index⁶², the Law in Grenada fails to protect women's work after having children, or protecting them against sexual harassment in employment, and for starting and running a business. These constraints affect women's economic opportunities for more productive participation and inclusive growth.⁶³

***PA 8:** The Recipient has enacted amendments to: (a) the National Insurance (Collection of Contributions) (Amendment) Regulations and the National Insurance (Self-Employed Persons) (Amendment) Regulations, which increase the contribution of self-employed person rate by one (1) percent; and (b) the National Insurance (Unemployment Persons) Regulations which include a permanently funded Unemployment Insurance Programme; to improve the Recipient's pension system sustainability and enhance workers' income protection mechanisms against shocks, including climate-induced natural hazards.*

Social protection programs, such as unemployment benefits, are key to achieving the twin goals of poverty reduction and shared prosperity. There is ample evidence that social protection systems reduce poverty and increase economic mobility, protecting human capital and strengthening a country's

⁵⁹ See World Bank (2021) for an initial assessment of the benefits and challenges of climate budget targeting from recent evidence.

⁶⁰ Kabeer, N., & Natali, L. (2013). Gender equality and economic growth: Is there a win-win? *IDS Working Papers*, 2013(417), 1-58.

⁶¹ *World Development Report 2006. Equity and Development (English)*. Washington, D.C.: World Bank Group.

⁶² Data is available at <https://wbi.worldbank.org/en/data/exploreeconomies/grenada/2022>.

⁶³ Bussolo and Lopez-Calva (2014); Lopez-Calva and Rodriguez (2016)



economic development.^{64,65} Social protection systems entail a wide variety of social programs, including unemployment benefits, which are vital for protecting workers, especially during periods of high unemployment, helping them smooth consumption and prevent increases in poverty.⁶⁶

As in most countries, private markets in Grenada have failed to systematically provide unemployment insurance. Grenada’s National Insurance Scheme (NIS) protects NIS contributors⁶⁷ against income losses caused by sickness, employment injury, maternity, and old age. However, it does not protect them against job losses caused by idiosyncratic (individual or household-specific) and covariate shocks (e.g., climate and natural hazards, such as hurricanes, droughts, and floods).

The approval of a permanent funded unemployment insurance (UI) Programme will be essential to enhance workers’ income protection under idiosyncratic or covariate shocks, especially if it encourages unregistered low-income informal workers to be part of the NIS. Workers must be registered at the NIS to participate in the unemployment benefits program. As of 2018, the NIS registration rate of employers and self-employed workers was just about 32%, with those at the bottom of the distribution being the least likely to register (Figure A5-7, a). In the case of employees, the percentage of employees registered at the NIS is slightly above 74%, indicating that approximately 26% of workers are not covered by the NIS unemployment programs (Figure A5-7, b). In this context, the approval of a formal unemployment program will help protect workers that are more likely to be affected by these types of shocks (for instance, workers employed in the tourism sector), especially if the process encourage unregistered/informal workers to also register at the NIS and receive the benefit. This will achieve gains at the individual level but also contribute to increasing the formalization of the labor market.

Figure A5-7 – NIS registration and access to the financial sector by job category and expenditure distribution, 2018

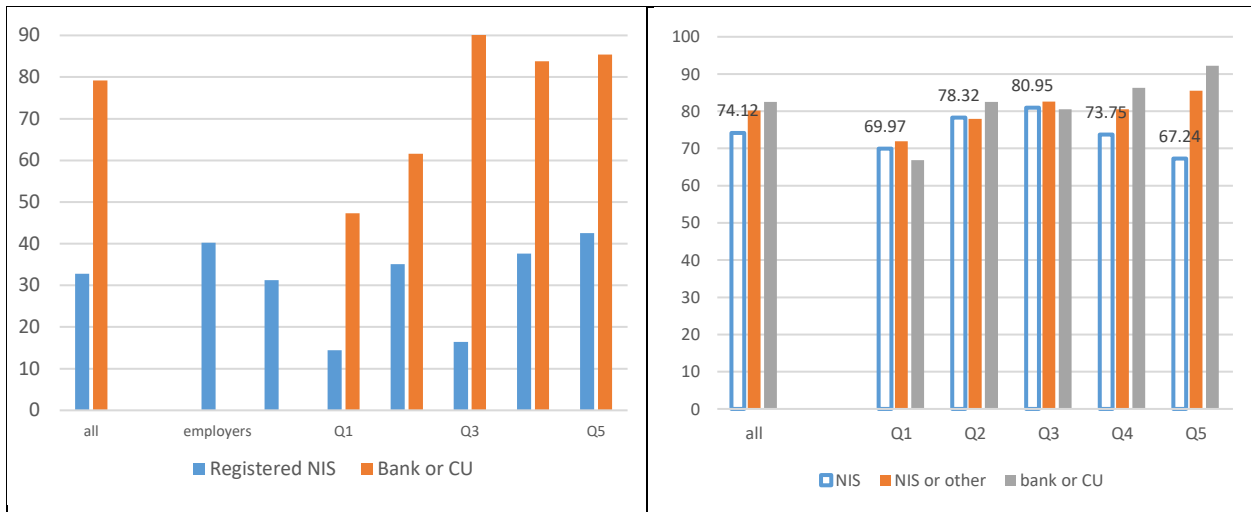
(a) Employers and self-employed’ NIS registration and access to the financial sector	(b) Employees’ NIS registration and access to the financial sector
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⁶⁴ Nolan, B., Hauser, R., & Zoyem, J. P. (1999). *The changing effects of social protection on poverty*. Johann Wolfgang Goethe-Univ., Fachbereich Wirtschaftswiss.

⁶⁵ Cecchini, S. (2014). Social protection, poverty and inequality: a comparative perspective. *Journal of Southeast Asian Economies*, 18-39.

⁶⁶ O’Campo, P., Molnar, A., Ng, E., Renahy, E., Mitchell, C., Shankardass, K., & Muntaner, C. (2015). Social welfare matters: a realist review of when, how, and why unemployment insurance impacts poverty and health. *Social Science & Medicine*, 132, 88-94.

⁶⁷ Approximately 30 percent of the employees are not registered with the NIS and over 50 percent of employees lack a written contract (World Bank, 2021).



Source: World Bank staff estimations based on HBS 2018

Notes: Quintiles are estimated based on expenditure per capita.

PA 9: The Recipient has approved the annual publication of the total of NTF flows, NTF-funded projects, and the balance of the Contingency Fund, in the Recipient’s annual budget on a yearly basis starting 2024 onwards, to improve fiscal transparency and fiscal resilience.

This action is expected to significantly improve the government’s transparency regarding NTF investments, but it is not expected to have poverty and distributional impacts in the short-term. However, it might positively impact economic growth in the long run. The National Transformation Fund (NTF) finances various projects in Grenada in many industries, including tourism, agriculture, and alternative energy. The 60 percent of the NTF funding should be used for transformational projects, while the rest 40 percent should be set aside for a "Contingency Fund" for contingency spending purposes, such as natural hazards and debt reduction. It is expected that with the publication of the list of transformational projects, the selection of these projects will be under strict public scrutiny, increasing the efficiency of public investment. This will positively impact Grenada’s economic growth in the long term and secure funds for mitigating adverse effects on the most vulnerable when unexpected events hit the economy.

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ANNEX 7: STANDARDIZED TABLE FOR FY23 POLICY AND PERFORMANCE ACTIONS (PPAs)

Country Characteristics (1)	PPA Areas (2)	Proposed FY21 PPAs (3)	Programmatic (Y/N) (4)	Brief rationale for the PPAs (5)	Analytical underpinning (6)	Supporting Operations (7)	Verified through (8)	Evidence of Implementation (9)	Timing of implementation of PPAs (10)
Country: Grenada FCV(Y/N):⁶⁸ N Small State (Y/N): Y Debt Risk: In distress (technical arrears) DSSI (Y/N):⁶⁹ Y IMF Program: N	Debt ceiling and fiscal sustainability	PPA1: The government will not enter any contractual obligations for new external public or publicly guaranteed (PPG) non-concessional debt in a total amount exceeding US\$80 million throughout FY23, except if the non-concessional debt limit is adjusted by the WB to (a) reflected a material change of circumstances; or (b) in coordination with the IMF, in particular in line with adjustments to the IMF debt limit policy	N	Grenada’s adoption of the FRA in 2015 has been widely considered a great success, but amendments are needed to allow flexibility for investment in climate resilience. However, given the surge in public debt during the pandemic and uncertainties regarding implementation, some caveats apply to the introduction of such flexibility. PPA 2 proposes a first step to amend the FRA, with a view to greater fiscal sustainability and the scale-up of efficient climate-related investment.	Ongoing Policy dialogue/Ongoing IMF discussions towards a prospective program	First Recovery and Resilience Programmatic Development Policy Credit (P176663)	Verification through DPC and TA policy dialogue, with check-ins by country team.	A letter from the Minister of Finance (i) confirming that the government has not contracted any NCB until the time of the PPA review, and (ii) reiterating the commitment not to contract any NCB through the end of FY23	By June 30, 2023
	Strengthening fiscal sustainability and public finance management	PPA2: The government has approved the climate change budget tagging methodology for application to all budget circulars and annual budget bills, starting in FY24.	N		CCPA (2018); IMF Article IV 2022;	First Recovery and Resilience Programmatic Development Policy Credit (P176663)	Verification through DPC and TA policy dialogue, with check-ins by country team.	Budget circular issued by the PS of Ministry of Finance, or by the Minister of Finance	By December 31, 2022

⁶⁸ Indicates whether the country is classified as affected by Fragility, Conflict, or Violence.

⁶⁹ Indicates whether the country participated in the Debt Service Suspension Initiative.