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

Letter of Development Policy
Disaster Risk Management Development Policy Credit with a Catastrophe Deferred
Drawdown Option

November 19, 2019

Mr. David Malpass
President
World Bank Group
Washington, DC 20433
United States of America

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Dear Mr. Malpass,

I write to request the approval of a Development Policy Credit with Catastrophe Deferred Drawdown Option (Cat DDO) in the sum of US\$ 20 million. This letter summarizes critical aspects of the program that the Government of Grenada is committed to implement to reduce disaster and climate risks and to increase resilience to the impacts of natural disasters.

More specifically, this line of credit is expected to strengthen the viability of our contingency financing arrangements in the event of a catastrophe triggered by natural hazards, including public-health related events. The credit facility will also support the efforts of the Government of Grenada to implement our recently approved disaster risk financing strategy which was developed with the World Bank technical support. We express our gratitude to the World Bank for its technical assistance in this critical area.

Overall Resilience Agenda

The mainstreaming of climate resilience into the legislative agenda and the policy and investment planning framework is a major feature of our government's agenda. In 2018, in support of this objective, we reallocated our ministerial portfolios to create a Ministry of Climate Resilience, Environment, Forestry, Fisheries, Disaster Management and Information. This arrangement facilitates a sharper focus on these critical areas and allows for improved management of the synergies among the various components of the portfolio.

This Ministry is now responsible for coordinating the implementation of a wide-ranging domestic policy framework which includes the National Climate Change

Adaptation Plan (NAP 2017-2021); the Climate Change Policy 2017-2021; the Blue Growth Master Plan; the Integrated Coastal Zone Management Policy Document and the Grenada Protected Areas System Plan. The Climate Resilience Ministry is also leading a major review and update of our national disaster management plan. On the regional and international front, we have committed to a number of multilateral environmental agreements (MEAs) including: the Antigua & Barbuda Declaration on School Safety, Cartagena Convention for the Protection and Development of the Marine Environment of the Wider Caribbean; the Cartagena Protocol on Biosafety; the Montreal Protocol on Substances that Deplete the Ozone Layer and the St. George's Declaration of Principles for Environmental Sustainability in the OECS.

We have also recently completed work on the first draft of our National Sustainable Development Plan 2020-2035 (NSDP) which will provide the overarching framework for the implementation of these and other initiatives.

Coming out of our Home-Grown Structural Adjustment Program (2014-2017), the Grenadian economy has maintained healthy real sector growth rates averaging 4.5 percent over the last five (5) years while fiscal outcomes have exceeded the targets set by our fiscal responsibility legislation with primary surpluses averaging 5.2 per cent of GDP over the same period. Following our major debt restructuring initiative and the intense focus on the strengthening of the policy and operational framework for management of both the revenue and expenditure accounts, the public debt situation has been brought under control and debt ratios are now firmly on a downward trajectory.

The Government of Grenada is acutely aware of the risks that the onset of natural disasters could pose to maintaining the momentum of this progress. A contingent financing line will fill an important gap in our menu of public financial management instruments, ensuring immediate post-disaster liquidity to meet emergency and recovery needs. Furthermore, the proposed policy reform program provides an important platform for addressing: (i) the need for a coherent, evidence-based strategy which optimizes the synergies between available sovereign risk transfer and retention instruments; (ii) the need for strengthening documented governance systems to support disaster and expenditure management operations; (iii) the need to mainstream risk monitoring and reporting into fiscal management operations; (iv) the potentially significant fiscal implications of the continued retention of risks in respect of critical physical infrastructure and (v) the need for specific ex-ante protection mechanisms to enable the efficient delivery of support to the fisheries sub-sector in the event of a natural disaster.

In view of the above, the Government of Grenada plans to support and complement the policy reforms under the relevant government authority, and ensure they will offer the expected results over the course of the next three years:

Pillar 1 - Enhancing the policy and institutional framework for improved Disaster Risk Management and Climate Change.

The objective of this pillar is to complement on-going reforms aimed at establishing and strengthening the legal and institutional framework that supports the incorporation of disaster risk and climate change adaptation considerations into sectoral policies and critical public infrastructure development. The key aspects of the policy reforms under this pillar are included below:

- **Safer Schools, Ministry of Education & Human Resource Development.** The reforms in the education sector focus on the implementation of the Antigua and Barbuda Declaration on School Safety in the Caribbean adopted in April of this year, including the implementation of the Caribbean Roadmap on School Safety. The Ministry of Education will be leading this initiative in collaboration with other line ministries through inter-ministerial agreements that will be formalized in the coming weeks, which will focus on disaster resilient school infrastructure, development of school disaster management plans and initiatives in disaster risk reduction and resilience in education.
- **Institutional framework for declaring a disaster, National Disaster Management Agency.** An improved operational framework for the management of the critical immediate disaster response phase and a strengthened environment for business continuity in the event of future natural disasters. Cabinet recently approved a set of protocols and specific institutional arrangements that will apply to the declaration of subnational and national disaster-related emergencies.
- **Climate resilient Public Sector Investment Programs, Ministry of Finance, Planning, Economic Development and Physical Development.** To promote the inclusion of climate resilience criteria in the screening of public investment projects, an amendment to Section XIII of the of the Public Finance Management Regulations was approved by Cabinet. This amendment is expected to support the development of a more robust pre-investment management system, promoting a better understanding of the impact of climate risks and building sectoral capacity to address them.

Pillar 2 - Strengthening financial resilience against natural hazards and climate change.

Consolidating the gains of our fiscal adjustment program and mainstreaming climate change and disaster management into our economic management system will be the major focus of the reform interventions. Against the background of the major hurricane-related losses inflicted by previous weather events, we want to underscore our commitment to the implementation of the disaster risk financing strategy, which provides a comprehensive framework for using multiple instruments and programs to strengthen financial resilience for improved disaster risk management. The specific reforms targeted under Pillar 2 are well aligned with our ongoing initiatives

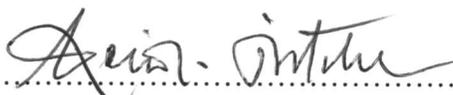
to strengthen fiscal management operations as mandated by the suite of public finance management legislation which currently guides our efforts to achieve and maintain debt sustainability. The key aspects of the policy reforms under this pillar are included below:

- **Disaster risk financing strategy, Ministry of Finance, Planning, Economic Development and Physical Development** aims to enhance Grenada's capacity to adopt an ex-ante approach, to the management of the fiscal risks associated with natural disasters and improve its financial capacity to respond to future events. The Government of Grenada remains committed a proactive approach to the management of the fiscal impacts of disasters that can help Grenada to: (a) improve disaster relief, recovery and reconstruction speed; (b) quantify Government and private sector disaster liabilities; and (c) help the Government to develop cost-effective disaster risk financing mechanisms.
- **Budgetary framework for disaster risk management, Ministry of Finance, Planning, Economic Development and Physical Development.** Aligned with the disaster risk financing strategy, The Government of Grenada remains committed on improving public finance management processes such as development and use of a climate and disaster related budget classifier for planning the allocation and reporting on climate resilience and/or post-disaster expenditures.
- **Insurance mechanism for the fisheries sector, Ministry of Climate Resilience, Environment, Forestry, Fisheries, Disaster Risk Management & Information.** Grenada is one of three countries, currently piloting an insurance risk mechanism to support fisheries workers in recovering economic losses from extreme weather events, through the introduction of the Caribbean Oceans and Aquaculture Sustainability Facility (COAST). This parametric insurance product has the potential to be an important addition to the region's support system for the fisheries sector, also promoting resilience in the fisheries sector and adoption of better and more sustainable fishing practices. The Government of Grenada is committed to an implementation approach which will focus on promoting the sustainability of the initiative beyond the pilot period that ends in June of 2020.

In summary, I would like to reiterate our strong commitment to the reforms contemplated in the Development Policy Credit with Catastrophe-Deferred Drawdown Option and we look forward to the Bank's continued support for our efforts to build a more disaster resilience country.

I thank you for your continuing cooperation and look forward to the favourable consideration of this program by the World Bank's Board of Directors.

Yours sincerely,



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