

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 06-Nov-2019 | Report No: PIDA27660

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Grenada	P171465	Grenada Disaster Risk Management Development Policy Credit with a Catastrophe Deferred Drawdown Option (P171465)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	21-Jan-2020	Urban, Resilience and Land	Development Policy Financing
Borrower(s)	Implementing Agency		
Grenada	Ministry of Finance, Planning Economic and Physical Development		

Proposed Development Objective(s)

To strengthen Grenada's (a) disaster and climate resilience policy framework, and (b) fiscal risk management associated with natural hazards.

Financing (in US\$, Millions)

SUMMARY

Total Financing	20.00
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DETAILS

Total World Bank Group Financing	20.00
World Bank Lending	20.00

Decision

Other

Explanation

The review did authorize the team to continue preparing the operation, with authorization to appraise subject to the strengthening of the proposed policy reform program.

B. Introduction and Context

Country Context

- 1. Grenada remains the fastest growing economy in the Eastern Caribbean Currency Union (ECCU), averaging real GDP growth of 4.8 percent since 2013. In 2018, real GDP grew by 4.2 percent, primarily fueled by expansions in the construction and tourism sectors.** Increased tourism-related and private-sector commercial investments, together with major public-sector investments, led to a sharp acceleration in construction activity. Tourist arrivals in 2018 grew by 12.7 percent, accompanied by 10.1 percent growth in receipts. These expansions offset a 6.5 percent decline in the private education sector owing to reduced enrolment at the country's medical university. For 2019, real GDP growth is estimated to moderate to 3.5 percent, as several large-scale private construction projects are completed and output gaps close.
- 2. Grenada's economic prospects are positive, with growth projected to remain robust, while moderate to potential over the medium term.** Public infrastructure developments, as well as continued buoyancy in tourism, are expected to drive growth. Major public sector projects commencing in 2019, including the Agricultural Feeder Roads Project (EC \$101.8 million) and UK-CIF/Western Road Corridor Project (EC \$46.7 million), are anticipated to create 400 jobs directly and have significant spillover effects to other sectors. The tourism sector is projected to grow faster, aided by additional flights and increased room stock, as well as the rehabilitation and expansion of the Maurice Bishop International Airport. Growth in private education is projected to rebound, but expansion over the medium term is expected to be modest, averaging about 2.5 percent (y/y) compared to over 5 percent in previous years. The agriculture sector should continue its recovery but remains vulnerable to abnormal weather patterns. Strategic investments in the sector, including the World Bank-supported AGRICOM project and the Climate-Smart Agriculture and Rural Enterprise Development Program (SAEP) should increase resilience and sustainability.
- 3. Grenada's macroeconomic policy framework is sustainable and adequate for the proposed operation.** The rules-based framework and fiscal responsibility legislation that underpin macroeconomic policy in Grenada have led to a strong fiscal position. Recent debt restructuring and consistent primary surpluses since 2015 have put the high public debt on a downward path, on track to achieve the target of 55 percent of GDP by 2020. This will trigger the next phase of implementation of the FRL, allowing gradual loosening of the fiscal stance over the medium-term, which should provide some support to the economy. Sound macroeconomic policies have enabled investor confidence and a robust expansion in the real sector driven by tourism, construction, and agriculture, which has been supported by external demand.

Relationship to CPF

- 4. This operation aligns with the Caribbean regional resilience agenda, the World Bank (WB) is implementing collaboratively with Caribbean countries and institutions.** Reforms supported under this DPC operation will contribute to the World Bank Group's twin goals of ending extreme poverty and promoting shared prosperity. This operation seeks to build resilience from a 360-degree perspective that strategically supports: (a) protecting the most vulnerable; (b) building stronger infrastructure; (c) having strong fiscal buffers and financial protection; (d) protecting and leveraging ocean and natural resources; and (e) investing in better preparedness. Access to contingent financing mechanisms such as a DPC with a Cat DDO is a key part of strengthening financial protection from disaster impacts. In recognition of this, the WB has increased the availability of IDA resources to Caribbean countries through Cat DDO operations. In addition, this DPC complements the Fiscal and Blue Economy DPC series. Disaster resilience needs to be built on fiscal resilience, and Blue Economy policies can further enhance disaster resilience. Grenada's Disaster Risk Financing Strategy includes the contingency fund that is supported under the DPC, as well as a Fishery Insurance, instruments that are critical for building

a strong blue economy.

C. Proposed Development Objective(s)

To strengthen Grenada's (a) disaster and climate resilience policy framework, and (b) fiscal risk management associated with natural hazards.

Key Results

5. This Cat DDO operation aims at supporting the integration of disaster and climate risk considerations as a core element in the design and implementation of public policies that impact the sustainability of the country's natural resource base and social and development gains. The Cat DDO for Grenada supports institutional and regulatory reforms around disaster risk management, including for specific sectors, by (i) enhancing policy and institutional framework for improved Disaster Risk Management and Climate Change, where the operation seeks to increase Grenada's overall resilience and economic sustainability against natural disasters, and (ii) strengthening financial resilience against natural hazards and climate change, this operation seeks to enhance Grenada's capacity to manage the fiscal risks associated with natural disasters.

D. Project Description

6. **The proposed stand-alone Disaster Risk Management Development Policy Credit with a Catastrophe Deferred Drawdown Option (Cat DDO) for Grenada**, in the amount of US\$ 20 million, supports: (a) the efforts of the Government to mobilize resources in the aftermath of a catastrophe triggered by natural hazards, including public-health related events; and (b) the country's reform program to build comprehensive resilience to disaster and climate risks. The operation's two pillars reinforce the comprehensive approach led by the GoG in strengthening long term resilience and sustainability by building financial and fiscal resilience against catastrophic events triggered by natural hazards and climate variability and change.

7. **Pillar I: Enhancing policy and institutional framework for improved Disaster Risk Management and Climate Change.** The GoG has embarked on a set of reforms to establish and strengthen the legal and institutional framework to incorporate disaster risk and climate change adaptation considerations into sectoral policies and critical public infrastructure development. The reforms in key areas such as education (Prior Action # 1), disaster risk management (Prior Action # 2), and climate change resilience (Prior Action # 3), will support risk-informed decision-making for resilient investments and interventions.

8. **Pillar II: Strengthening financial resilience against natural hazards and climate change.** GoG has specifically focused on three strategic priority areas to support these development goals: (a) development of an overall disaster risk financing strategy (Prior Action # 4); (b) streamlining of budgetary processes of allocations and expenditure related to disasters, which enables better management, and increases transparency (Prior Action # 5); and (c) Increasing collaboration with the private sector to improve availability and affordability of catastrophe risk insurance products to promote sustainable livelihoods, including the development of innovative disaster risk financing instruments for the most vulnerable people and businesses to disasters (Prior Action # 6).

9. **Drawdown period and renewal will take place under the terms and conditions specified in the Financing Agreement.** The drawdown period for this operation will be three years and is renewable one time for an additional three-

year period during which the funds can be disbursed. Renewal would require: (a) that the GoG is implementing its policy reform program described in the Letter of Development Policy; (b) confirmation on the adequacy of the macroeconomic framework; (c) approval of the Regional Vice President of the World Bank; and (d) it takes place no earlier than one year and no later than six months before closing date of the Cat DDO. Credit proceeds may be withdrawn upon a declaration of an emergency, according to the national regulatory framework, which may include public health-related events. The proceeds of the credit will be disbursed against the satisfactory implementation of the program and maintenance of an adequate macroeconomic policy framework.

E. Implementation

Institutional and Implementation Arrangements

10. **The Ministry of Finance, Planning, Economic and Physical Development (MoF) is the main counterpart agency for this operation with the responsibility to monitor program progress and to ensure the accountability of relevant institutions to the commitments made.** A number of other relevant ministries and agencies are involved in implementing the proposed program, including the Ministry of Climate Resilience, the Environment, Forestry, Fisheries, Disaster Management & Information; Ministry of Education, Human Resource & Religious Affairs; the National Emergency Disaster Management Agency (NaDMA), and the Ministry of Health, Social Security & International Business (to support events triggered by health emergencies). The MoF will have an overall coordination and decision-making role, while the other relevant agencies will monitor the implementation of the indicators. The Bank will monitor both the macroeconomic policy framework and the implementation of the program supported by the operation during the drawdown period. The Bank will also monitor the status of the program implementation through regular implementation support missions and by tracking the baselines and output indicators provided in the policy and results matrix, based on the data provided by the Government agencies and disclosed in the official sources. The Bank team will maintain the disaster risk management dialogue with the authorities and assess the compliance of the authorities with legal provisions under the loan agreement.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

11. **The poverty and social impact of the prior actions included in this DPC with Cat DDO are expected to be neutral in the short-term and positive over the medium- and long-term.** The policies supported under this project are expected to reduce Grenada's vulnerability to natural hazards and support social and economic development by ex-ante, improving the DRM framework and upgrading education infrastructure while improving the country's capacity to cope with the effects of a shock ex-post. The policies are not expected to reduce poverty directly; rather, they will contribute to preventing increased poverty in the event of new extreme natural events and mitigating the long-term effects of disasters. Specifically, the policies are expected to have positive results in terms of (a) improved safety of the educational community from natural hazards, and more coordinated response and recovery efforts after a disaster; (b) enhanced efficiency and positive effects of operations under an emergency declaration; (c) improved climate resilient and environmentally sustainable public planning; (d) enhanced the GoG's ability to mobilize and optimize complementary financial instruments, and to respond and mitigate the potential economic impacts deriving from natural disasters and climate change; (e) efficient and effective functioning of risk reduction investments; (f) availability of insurance schemes, that will guarantee the livelihoods of both female and male workers in the fisheries sectors in the case of extreme weather events; and (g) reduce economic losses of most vulnerable population. The policies will be operating in a context where the potential for exclusion of women and vulnerable people exists; therefore, they will adopt a human-centered development

approach and will seek to ensure effective and inclusive engagement with all stakeholders, including disadvantaged and vulnerable groups.

Environmental Aspects

12. **The policies selected for the proposed DPC are expected to have significant positive indirect effects on Grenada’s environment, forest, and other natural resources.** Policy actions supported by this operation primarily seek to reduce the vulnerability of assets, infrastructure, and public finances, and are not designed to transform the environment. Each pillar of the operation contains prior actions that can enhance proper natural resource, coastal, and environmental management. Under Pillar I, efforts to improve policy and institutional frameworks will have positive environmental impacts, through the inclusion of CCA considerations into sectoral policies and critical public infrastructure development, while improving resilience, sustainability, and environmental management in territorial planning. The policies supporting the improvement of education facilities will systematically enable a legal and institutional environment for incorporating DRM and CCA considerations into educational policies and plans. These efforts will support the reduction of the impacts of adverse natural events while complying with safety and construction standards and offering the possibility of providing children with access to adequate infrastructure. Moreover, the integration of climate resilience criteria into the screening of PSIP projects will reduce the vulnerability of future investments (public and private) and build resilient infrastructure. Policies under Pillar II aimed at strengthening the financial resilience of the fishing sector against natural disasters are expected to have positive, albeit difficult to quantify, effects on the environment and natural resources. The fisheries insurance will contribute to improving sustainability in the fisheries sector, by (a) mapping and registering all fisheries workers before granting permits for fishing activities, and (b) increasing registration fees to generate resources for financing oversight activities and consequently, reducing unsustainable, illegal and destructive fisheries practices. These actions are expected to contribute to climate resilience directly.

13. **Climate co-benefits for this operation are expected to be high as most of the policy actions directly contribute to building resilience to climate-related disasters.** Climate change adaptation considerations are explicitly integrated into all the Prior Actions, translating to a very high percentage contribution to climate co-benefits. In this context, the proposed programmatic agenda aims to reduce the vulnerability of people and critical sectors to the impacts of climate change and risks related to climate variability, by enhancing Grenada’s adaptive capacity and resilience.

G. Risks and Mitigation

14. **The overall program risk rating is considered substantial.** Areas of concern include the risks associated with macroeconomic shocks, institutional-capacity constraints, fiduciary weaknesses, and stakeholders, as well as Grenada’s vulnerability to extreme weather events. The presence of downside risks leads to a macroeconomic risk rating of substantial for the operation, even though Grenada’s macroeconomic outlook is positive. Exogenous macroeconomic risks of the operation are linked to Grenada’s susceptibility to: (a) economic shocks, considering GoG’s dependence on tourism, remittances, foreign direct investment and agriculture, all of which are susceptible to external shocks; and (b) disasters provoked by natural hazards, given its geographical location, which exposes it to very high risks of extreme climate- and weather-related events. Institutional capacity for implementation risk is substantial due to weak inter-institutional coordination and the lack of technical experts. These risks will be mitigated through: (a) sharing the DRM and CCA agenda, which will be promoted through technical assistance being implemented in the country to strengthen institutional capacity for DRF; and (b) minimizing the administrative burden by focusing on a narrow range of policy actions. Fiduciary risk. The fiduciary risk is considered substantial. Grenada’s national procurement law does not adequately address the principles of economy, efficiency, effectiveness, integrity, openness, and transparency, during a State of Public Calamity. Training



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Grenada Disaster Risk Management Development Policy Credit with a Catastrophe Deferred Drawdown Option (P171465)

and capacity building provided by the World Bank under the Canada-Caribbean Resilience Facility (P171256) is expected to mitigate this risk. Stakeholder risk is considered substantial. The small-scale insurance products for the fisheries' sectors may encounter opposition from the fisherfolk stakeholders facing higher operation costs from the insurance premium. The Policy also has the risk of further exacerbating existing patterns of effacing the role of women in the agriculture and fishery sectors, which could hinder gender mainstreaming and gender inclusiveness in these sectors. To mitigate these risks, the GoG has been pursuing active social dialogue and has engaged in regular meetings with the stakeholders under the Social Compact to seek a compromise over the contentious reforms.

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APPROVAL

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