



The World Bank

Grenada COVID-19 Crisis Response and Fiscal Management DPC (P174527)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 05-Nov-2020 | Report No: PIDA30567

**BASIC INFORMATION****A. Basic Project Data**

Country Grenada	Project ID P174527	Project Name Grenada COVID-19 Crisis Response and Fiscal Management DPC (P174527)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date 17-Dec-2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Grenada	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The development objective of this operation is to support Grenada's response to the COVID-19 crisis in the short term and also enhance long-term sustainability and resilience through (i) strengthening the Government's health and social protection responses to COVID-19; (ii) saving jobs and protecting livelihoods of households and firms; and (iii) strengthening fiscal management and transparency.

Financing (in US\$, Millions)**SUMMARY**

Total Financing	25.00
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DETAILS

Total World Bank Group Financing	25.00
World Bank Lending	25.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

The proposed COVID-19 Crisis Response and Fiscal Management Development Policy Credit (DPC), for an amount of US\$25 million, is an emergency response standalone operation. Grenada, as with other small island developing states (SIDS), is highly vulnerable to external shocks, especially from natural disasters. This, coupled with the lack of economic diversification and high debt levels, constrains economic growth and the Government's ability to respond to shocks. Preceding the crisis, Grenada stood out among the small-island Caribbean states and other SIDS in its steadfast reform path to build economic resilience. However, the COVID-19 pandemic almost completely halted the tourism sector and Grenada's economy is undergoing a massive recession despite containment of the spread of the coronavirus on the island. This operation is aimed at helping mitigate the health, social, and economic impacts of the coronavirus pandemic in the short term, while supporting the Government of Grenada (GoG) to advance the recovery and build resilience over the medium term. The DPC program reflects the critical policy actions taken by the Government to strengthen the health and social systems in response to the COVID-19 pandemic, including enhancing the institutional capacity of the health ministry to strategically manage the response and recovery processes, and establishing unemployment benefits for workers losing jobs due to the pandemic. To save jobs, protect workers' livelihoods, and bolster firms' ability to weather the crisis, the operation supports the GoG in providing wage subsidies and income support to workers in the most affected sectors; provide financial assistance to the agriculture sector; and alleviate the liquidity challenges for small businesses. The DPC further supports the GoG in important structural reforms in fiscal management and transparency, including improvements to debt transparency, the adoption of a public investment and asset management policy framework to enhance climate resilience and disaster risk management, as well as the adoption of international standards for public sector accounting and internal auditing to strengthen public accountability. The operation is also built on and continues the development strategy implemented by the Government and supported by the World Bank, including building the Blue Economy, strengthening resilience to natural disasters, and further enhancing fiscal sustainability.

Despite the unprecedented shock due to the COVID-19 pandemic, the macroeconomic framework of Grenada is deemed adequate, given its strong institutional policy frameworks (anchored by the Fiscal Responsibility Law), solid track record of economic management, and credible commitment to continued fiscal discipline even in the wake of the current crisis. Nevertheless, the macroeconomic risks are substantial. Besides downside risks arising from uncertainties around the pandemic itself, there are additional exogenous macroeconomic risks to the outcomes of the operation associated with Grenada's small economy, making it highly vulnerable to shifts in external demand, and exposing it to very high risks of extreme climate and weather-related shocks. The measures implemented by the Government are expected to mitigate some of these risks and reignite the growth engine of the economy over the medium-term.

Relationship to CPF

Bank programming in Grenada is guided by the RPS for the Organization of the Eastern Caribbean States (OECS) FY15–19 (Report No. 85156-LAC) and the Performance and Learning Review (PLR) of the RPS issued in May 2018 (Report No. 118511-LAC), as well as the Systematic Regional Diagnostic (SRD) released in June 2018. The PLR extended the RPS to FY20 and validated the RPS's objective to lay the foundations for sustainable inclusive growth through (i) Fostering Conditions for Growth and Competitiveness; and (ii) Enhancing Resilience with a broader resilience agenda. The SRD identified the main opportunities for the region, emphasizing cross-cutting 360-degree resilience, Blue Economy, human capital development, new technologies and regional integration and connectivity. This proposed budget support operation thus directly addresses the constraints noted in the PLR and SRD, while taking account of the extraordinary situation with COVID-19. In particular, this operation aims to improve access to finance



and market liquidity over the medium term and builds resilience in both strengthening social protection system and public finance management.

The World Bank flexibly adapted its program in Grenada to respond to the COVID-19 crisis. The Contingent Emergency Response Component of the OECS Regional Health Project was activated to provide quick financing for goods (medical supplies) and minor civil works to refurbish the isolation ward and oxygen plant. This DPC addresses the second pillar of the WB COVID-19 crisis response approach framework, focusing on the socioeconomic consequences of the crisis, as well as on fostering growth and competitiveness and enhancing resilience. Support under IDA19 will also accelerate the GoG's plans for economic diversification through the Blue Economy growth model.

C. Proposed Development Objective(s)

The development objective of this operation is to support Grenada's response to the COVID-19 crisis by (i) strengthening its health and social systems, (ii) saving jobs and providing income-support to firms and households, and (iii) strengthening fiscal management and transparency.

Key Results

This operation is expected to enhance health and social systems in response to the COVID-19 through increasing spending on the health sector and providing income support to those people most impacted by the crisis. The DPC aims to save jobs and protect livelihoods through payroll support and credits to micro, small and medium-sized enterprises (MSMEs). Fiscal management and transparency will also be strengthened with the publication of annual Debt Management Report and the Financial Statements on the MoF website.

D. Project Description

The proposed standalone operation continues the close collaboration between the GoG and the WB aimed at responding to the health, social, and economic crisis created by the COVID-19 pandemic, while maintaining sound public financial management and fiscal discipline. The operation builds on the World Bank's immediate response to the health crisis which mobilized the existing Regional Health Sector IPF and the COVID-19 Fast Track Facility. It also builds on the previous DPC series, including the Fiscal Resilience and Blue Growth DPC series, the Disaster Risk Management DPC with a Catastrophe Deferred Drawdown Option, as well as the Programmatic Resilience Building DPC. As such, the reforms foreseen in this standalone DPC continue to build on the fiscal reform agenda, strengthening institutional frameworks' resilience in times of crises – be they related to pandemics, natural disasters, climate change, or external economic shocks.

Pillar 1 contains two critical prior actions (PAs) which seek to support the GoG in (i) building the capacity of the health and social protection systems to respond to the health threat posed by COVID-19; and (ii) protect workers and their families from the economic and social shocks of the crisis. The actions focus on both short-term relief for immediate response to the crisis, as well as longer-term measures to aid a resilient recovery and lay the institutional foundation to strengthen the country's capacity to respond to future shocks, including those induced by climate change, disease, or economic triggers. Pillar 1 supports targeted funding to the health sector to strengthen the response to COVID-19 and ensure appropriate health protocols in preparation for reopening the economy. Given the severity of the pandemic globally, the health measures are important both to avoid new outbreaks locally and to assure a safe reopening of the economy and international borders. In light of the significant numbers of workers who are anticipated to become unemployed as a result of lockdown measures and severe fallout to the tourism sector, the operation supports the Government's efforts to provide temporary unemployment benefits to affected workers in the short term, which is part of a broader program via advancing the institutional framework to implement a formal contributory unemployment benefit program over the longer term.



The second pillar of the operation aims to support the GoG in saving jobs by providing payroll support to vulnerable workers in the tourism and agricultural sectors, and protecting livelihoods of individuals through income support to self-employed workers in these sectors. The supply and demand shocks associated with COVID-19 have threatened the livelihoods of households and the viability of businesses. These risks are particularly heightened for certain firms, including those in the tourism sector, which is already vulnerable to economic impacts from climate change, facing a near-complete shutdown, and micro, small and medium-sized enterprises (MSMEs) with limited cashflow which tend to be more vulnerable to crises. Businesses affected by the crisis will likely lay off workers. The second pillar of the operation aims to support the GoG in saving jobs by providing wage subsidies to vulnerable workers in tourism and tourism-related sectors, as well as transport and agriculture; protecting the livelihoods of individuals through income support to self-employed workers in these sectors; and creating economic opportunities, especially for the most vulnerable, through small, community-level infrastructure projects. This pillar also supports the GoG's actions to protect the viability of firms by providing liquidity to help them weather the crisis and build resilience for a stronger recovery.

Pillar 3 supports GoG's structural reform measures to achieve a resilient, inclusive, and sustainable recovery by strengthening policies and institutions aligned with sound practices on public financial management, governance, and transparency. Despite the uncertainties and negative impacts from COVID-19, it is critical to plan for the post-crisis recovery and maintain the focus on long-term development objectives. Significant progress has been made in Grenada to reduce macroeconomic vulnerabilities, especially in the area of fiscal sustainability through the fiscal rule and debt target, as well as in public governance by incorporating climate resilience aspects. However, weaknesses remain in certain areas of debt transparency and management, public financial management, and auditing. It is critical to enhance those areas, particularly under the context of the surging public expenditures and increasing in borrowing. In this context, strong governance and institutions ensure appropriate (re)prioritization of government interventions and actions including enhancing efficiency of spending through better design and implementation of projects.

E. Implementation

Institutional and Implementation Arrangements

The monitoring, evaluation, and results framework is being supported by the Ministry of Finance, which is responsible for coordinating actions by other relevant ministries and agencies for the operation. A number of other agencies are involved in implementing the reform program supported by this DPC, including the Ministry of Agriculture, Ministry of Health, and the Ministry of Infrastructure Development, Public Utilities, Energy, Transport & Implementation. The World Bank has discussed the importance of developing a monitoring and evaluation process with the relevant institutions and stakeholders to ensure adequate feedback to policy makers. Monitoring and evaluation capacity are traditionally weak in Grenada, and the Government recognizes the need to strengthen these mechanisms. The DPC's Results Framework will include indicators to be assessed at the end of the DPC in 2021. These indicators represent agreed-upon benchmarks for evaluating the program supported by this DPC. The World Bank will maintain an ongoing dialogue with counterparts in the MOF regarding the monitoring and evaluation of reforms supported by the operation

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The poverty and social impacts of the policies supported by this operation are expected to be positive, though



benefits are mostly channeled through the formal sector. Poor households rely almost exclusively on labor income, are employed in occupations that are expected to be hardest hit by the crisis, are less likely to be able to work from home, and have limited means to manage negative shocks. In this context, policies under Pillar 1 benefit the poor and vulnerable by facilitating a safe reopening of the economy, minimizing the likelihood of a negative health shock, and cushioning the impact of an employment shock. Similarly, policies under Pillar 2 aim to protect employment and earnings in the sectors that are more vulnerable to the crisis and that employ the majority of the workers in the Bottom 40 percent of the income distribution. Lastly, policies supported under Pillar 3 are expected to have a positive indirect effect in the medium term, if increased transparency and accountability in the use of public resources translate into better services for the poor and vulnerable.

Environmental, Forests, and Other Natural Resource Aspects

The proposed DPC is not expected to have significant negative impacts, and may have positive impacts, on Grenada's environment, forests, and natural resources. The environmental analysis found that these prior actions are not likely to have significant negative effects on the environment, forests, and other natural resources. Furthermore, PA7 under Pillar 3 is expected to contribute positively to climate resilience in Grenada as it aims to develop a comprehensive Public Investment and Asset Management framework that incorporates climate change risks and mitigation measures to improve pre-disaster planning, mitigation, and post-disaster recovery efforts and facilitate the implementation of a DRF strategy. Related to this, the combined PAs under this DPC will benefit poor and disadvantaged groups that are traditionally vulnerable to climate change impacts. For example, measures benefit farmers and people employed in the tourism industry who rely on natural resources for their livelihoods and are vulnerable to climate change (and further compounded by the COVID-19 pandemic) and this DPC will provide resources that will increase their resilience, both economically and physically. It is also noted that PAs that could potentially result in marginal negative impacts on the environment have been analyzed and it is determined that they do not pose significant risks, primarily due to Grenada's regulatory framework for environmental management. In particular under PA4, potential indirect land use changes and agricultural inputs including pesticides, fertilizers, or toxic chemicals would be managed by the National Land Policy and the Pesticides and Toxic Chemicals Control Act (2014), respectively.

G. Risks and Mitigation

Overall risks to achieving the program objectives are considered moderate. The GoG's rapid and comprehensive response to mitigate the effects of the COVID-19 outbreak in Grenada have facilitated likely favorable outcomes of the short-term objectives of the operation, while timely WB support will assist the Government to responsibly extend the short-term emergency response measures to more strategic structural reforms to aid the recovery and promote resilient growth. While Grenada's macroeconomic framework is sound and the timely mitigation measures implemented by the Government, substantial macroeconomic risks arise from how the pandemic evolves and the depth of recession and speed of recovery of major economies. Implementation capacity risks are also substantial, given the small pool of technical experts in the country. While Grenada's institutional and technical capacity is relatively robust by regional standards, a limited number of technical experts in core ministries, and scarce fiscal resources may pose risks to implementing the reforms supported by the DPC. Other substantial risks arise from the direct impacts of the ongoing pandemic and Grenada's inherent vulnerability to natural disasters, which could threaten lives and trigger another round of lockdowns in Grenada, which would directly delay achieving the outcomes of reforms supported by the operation.

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APPROVAL

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