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Staff Country Reports

Grenada: Interim Poverty Reduction Strategy Paper—Joint Staff Advisory Note

The attached Joint Staff Advisory Note (JSAN) of the Interim Poverty Reduction Strategy Paper for Grenada, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Interim Poverty Reduction Strategy Paper (IPRSP) to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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**INTERNATIONAL MONETARY FUND
AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION**

GRENADA

**Joint Staff Advisory Note (JSAN)
of the Interim Poverty Reduction Strategy Paper (I-PRSP)**

Prepared by the Staffs of the International Monetary Fund (IMF)
and the International Development Association (IDA)

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I. INTRODUCTION

1. This document represents the joint advice of the staffs of the World Bank and the International Monetary Fund on the Interim Poverty Reduction Strategy paper (I-PRSP) prepared by the Government of Grenada and submitted to the Bank and the Fund on March 27, 2006. This I-PRSP outlines the main areas of intervention envisaged by the authorities to reduce poverty as well as the steps to be undertaken in the preparation of the full Poverty Reduction Strategy (PRS). The full PRSP could improve on the I-PRSP by building on its strength of inclusiveness, strengthening its policy focus, including the link between policy and resource use and elaborating a clear framework for the coordination and monitoring of the strategy.

II. BACKGROUND

2. **Grenada has solid democratic traditions and a strong focus on social policies.** Democratic institutions and practices provide a strong basis for broad popular participation. This has been coupled with sensitivity to social developments, concern about labor issues, and a free press. The relatively small size of the population allows for close community contact and social coherence, and for open and, at times, heated debate. In this context, broad national consultations on major policy issues are needed, and are common. Many of the important measures underpinning the current reform program have also been publicly debated.

3. **Grenada has a good track record of commitment to fighting poverty, and data on the poverty situation could be further improved.** The Poverty Eradication Strategy (PES)—to be presented to the Boards of the Bank and the IMF as Grenada's I-PRSP—is one

of several documents that have been prepared in recent years to advance the country's social development agenda. Another similar document was the Poverty Assessment Survey of 1999. More recent work includes: (i) Macro-Socio-Economic Assessments of Damage caused by Hurricanes Ivan (2004) and Emily (2005), by the Organization of Eastern Caribbean States (OECS); (ii) the Core Welfare Indicator Questionnaire (CWIQ) survey of households (National Statistics Office, with support from UNDP and the World Bank—2005); and (iii) the assessment of recent natural disasters and their Impact on Grenada's Achievement of its Millennium Development Targets and Goals (MDGs—2005).

III. THE INTERIM PRSP

4. **The PES was initially prepared in 2004 and has been updated in light of the large-scale social and economic dislocation caused by Hurricanes Ivan and Emily.** Hard-pressed by capacity constraints and time, the authorities have revised their PES as a first step toward a full-fledged (PRSP). The Strategy has the following strengths: (i) it has benefited from consultations at different levels of society; (ii) it makes reasonably good use of the data from past social surveys; (iii) it catalogues existing social programs and projects; (iv) it outlines the authorities' medium-term economic reform program; and (v) it describes the process for preparing the full PRS.

5. **The 2006 Budget was used to launch the government's reform program and affirms the importance it attaches to social development.** The 2006 budget, entitled "Focusing on Youth Development, Poverty Reduction and Stability," outlines the authorities' comprehensive medium-term reform program. It presents a range of programs that seek to address social needs arising from the impact of the hurricane. The budget also provides for increased social spending on vulnerable groups affected by the recent sharp rise in world oil prices.

A. Poverty Diagnosis and Policies

6. **The PES contains a good diagnosis of the nature of poverty in Grenada.** Comprehensive information on poverty in different segments of the population and among households is available, including geographical and demographic characteristics, and a gender profile. This data provides a good baseline for measuring progress toward achieving the MDGs. However, the analysis presented in the I-PRSP is still mainly based on a set of data which pre-dates the recent hurricanes. The inclusion of tables summarizing the main poverty indicators from the 1999 poverty assessment survey would have been useful. The use of more recent data along with preliminary conclusions on the effectiveness of social programs would provide key information on the social needs in the post-hurricane period. It would also have enabled the authorities to track changes in poverty over time, and get a better understanding of the social vulnerabilities as a basis for targeting future policy interventions.

7. **Natural disasters have reversed previous gains in several areas.** According to the PES, in 1999, 32 percent of the population was poor, and the situation is likely to have

worsened as a direct result of Hurricanes Ivan and Emily. Government interventions—which included programs to enhance and diversify rural incomes, improve education and health outcomes, and offer social protection to the most vulnerable—had previously begun to show encouraging progress.

8. **The PES is focused on institutions and program activities.** The full PRSP could improve on the PES by having greater emphasis on policy objectives to address poverty. Many of the existing programs and projects listed in the PES were initiated on an ad-hoc basis; thus, they lack strategic focus, and their benefits are not always evident. The PES only includes a broad statement of intentions to (i) adopt a more forward-looking approach better linked to strategic objectives, and (ii) evaluate the effectiveness of existing poverty-related programs and projects. But going forward, it will be important to prioritize and streamline these programs with respect to their effective contribution to the strategic objective of poverty reduction, as well as cost effectiveness, and financing, and to clearly designate institutional responsibilities for implementation. It would also be useful to indicate whether the programs were part of the central government budget. The staffs encourage the authorities to address these issues by distinguishing in the PRSP the discussion of policies and activities that they intend to pursue to reduce poverty and by discussing measures to address weaknesses that have been identified in existing programs, including weaknesses in project design, implementation and management.

9. **Recent measures to improve the social safety net represent a useful first step in strengthening the social development agenda.** The 2006 budget includes an increase in monthly transfers to needy elderly persons, mainly in rural areas, from EC\$100 (US\$37) to EC\$135 (US\$50) at an estimated annual cost of about 0.3 percentage points of GDP. In addition, the budget includes a significant allocation for low-income housing projects and support for farmers whose livelihoods have been severely affected by the hurricanes. Although the PES contains a long descriptive list of Grenada's ongoing social programs and projects, no reference is made regarding these measures. The forthcoming PRSP will need to assess the consistency of these and other social safety net measures with the government's broader poverty reduction objectives.

B. Macroeconomic Framework

10. **Discussion of the macroeconomic framework outlined in the 2006 budget is also very limited.** The PES only briefly outlines the main parameters of Grenada's macroeconomic program. The relationship between the many existing poverty alleviating projects and this macroeconomic framework is also not clear. In part, this reflects capacity constraints as well as the fact that the bulk of the PES was prepared before the current reform program was fully fleshed out. Given the strong links between poverty, growth, and unemployment in Grenada, it will be important for the forthcoming PRSP to discuss these links and the economic growth rate required to advance the social agenda. The PRSP will also need to evaluate the full costs of social policies and programs, relate them to the available budgetary envelope for capital investment, and identify the associated recurrent costs. The PES assumes—without yet assessing the need for and availability of financial

resources—that considerable additional donor resources can be mobilized. This strong assumption also needs to be revisited. The economic reform program that the government has prepared is a strong one, and the fiscal reforms it envisages should help restore fiscal and debt sustainability. In this context, it will be important to avoid excessive nongrant financed spending which would delay the achievement of such sustainability.

C. Structural Reform

11. **A number of existing strategic sectoral studies could be useful in developing Grenada’s structural reform agenda.** The linkages between specific social problems, poverty reduction objectives, and structural reforms envisaged under the program could have been better articulated in the PES. While structural reforms are stated as overall goals (“priority elements”), including in the policy matrix, it would be important to go beyond these general precepts to indicate how the authorities intend to make these reforms operational and monitorable. To clearly formulate—and discuss with stakeholders—their action programs for the forthcoming full PRSP, the authorities can take advantage of a number of recent studies. These specific sectoral studies and blueprints were prepared with regional and international assistance, including from the World Bank.¹ The study on the “Modernization of the State Machinery” is of particular relevance. In this regard, the government is already taking action to begin the process of modernizing its public sector with technical assistance support from the World Bank.

D. Reconstruction Efforts

12. **Reconstruction needs and efforts, and donor contribution, will deserve special attention in the PRSP.** The Grenadian authorities have proved to be quite effective and successful in mobilizing donor assistance in the aftermath of Hurricane Ivan and responding to the immediate needs of the population. In the PRSP these efforts—and donors’ response—could usefully be reflected in the face of specific long-term reconstruction and social rehabilitation needs. One possibility would be for the Agency for Reconstruction and Development (ARD), presently focused on project screening and development, to take a prominent role in the formulation and coordination of the PRSP.

IV. TRANSPARENCY AND ACCOUNTABILITY

13. **The authorities acknowledge in the PES that improving transparency of public financial management and strengthening fiscal monitoring are important objectives.** But the PES does not articulate fully how these objectives will be accomplished. Going forward, improving transparency will, in particular, require regular dissemination of information on budget implementation as well as strengthening accountability through audit

¹ (i) OECS Fiscal Issues: Grenada: “Policies to Achieve Fiscal Sustainability and Improve Efficiency and Equity of Public Expenditure,” April 2004; (ii) “Towards a New Agenda for Growth,” April 2005; (iii) “Institutions, Performance, and the Financing of Infrastructure Services in the Caribbean,” June 2005; and (iv) Caribbean: Social Protection Strategy Paper, November 2005.

reform. Clear steps toward achieving these goals over the medium term should be established, including reforms to enhance fiduciary oversight and enhance governance.

V. PARTICIPATION, COORDINATION AND MONITORING

14. **Consultations with civil society play a major role in policy formulation in Grenada.** The PES has benefited from extensive public consultation. For the last several years, broad national and local consultations have preceded the preparation of the budget. Participants have included representatives of the opposition parties in Parliament, nongovernmental organizations, trade unions, and the wider public. Consultations on specific policy proposals are also commonplace, including most recently on the National Reconstruction Levy introduced in the 2006 budget. The staffs understand that while trade unions in particular remain strongly opposed to this measure, they were consulted extensively, and changes were also adopted by the government to address some of the concerns raised by the unions. The staffs welcome this process of national consultation, and recommend that the government uses it to forge broad consensus around the forthcoming PRSP. In addition, the government could benefit from regional consultations on opportunities for coordination in addressing economy of scale issues which are best done on a regional basis.

15. **The PRSP could be an important vehicle to enhance donor coordination.** The government has consulted with donors during the preparation of the PES. The staffs recommend the continuation of regular consultations with the donor community with a view toward increasing the level of donor coordination and the involvement of the authorities and civil society in program implementation.

16. **Efficient procedures to monitor and evaluate progress in implementing the poverty reduction strategy would have to be devised.** The PES contains a comprehensive matrix of strategic measures, with associated targets and relevant indicators, which testify to the authorities' ambitions to reduce poverty. However, monitoring progress on such a large scale may prove cumbersome, considering limited resources. Follow-up monitoring and evaluation mechanisms should be more precisely defined and the number of indicators limited to a few key targets. These mechanisms should also include elements of participation by civil society.

VI. PREPARATION OF THE PRSP

17. **Broad public consultations and costing of programs and projects will be important for the PRSP that is being developed.** Priority should be given to assessing policy effectiveness, costing of current and proposed programs and projects, and strengthening links to the macroeconomic framework. This should help to ensure that the PRS is aligned to the budget cycle.

18. **To ensure that it becomes the main vehicle for coordinating the government's social development agenda, the PRS needs to be results-oriented and rigorously**

forward-looking and the established benchmarks well publicized. This requires (i) establishing efficient mechanisms and easy-to-monitor indicators for progress, including toward the MDGs, (ii) refining the structural reform agenda, in particular with a view to achieving sustainable economic growth through private sector development, (iii) providing more detailed and focused sector strategies based on an updated poverty analysis, (iv) clearly defining priority expenditures in the framework of a strengthened PSIP, and (v) enhancing public sector program and project implementation capacity.

19. **Finally, the forthcoming PRSP would benefit from another poverty assessment survey.** This would help identify more fully the extent of poverty and guide priorities at the start of the current economic reform program. This poverty assessment would need to be supplemented with regular (preferably annual) updates. Dissemination of the findings of the survey and how it is influencing government policies would also be important.