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Grenada - European Community

Country Strategy Paper

and

National Indicative Programme

for the period 2008 – 2013

(10th EDF)

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The Government of Grenada and the European Commission hereby agree as follows:

- (1) The Government of Grenada, (represented by Dr. Keith Mitchell and Mr. Einstein Louison, the National Authorising Officers) and the European Commission, (represented by Mr. Amos Tincani, the Head of the European Commission Delegation to Barbados and the Eastern Caribbean,) hereinafter referred to as the Parties, held discussions in Grenada from June 2006 to December 2007 with a view to determining the general orientations for cooperation for the period 2008–2013.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of Grenada were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. These discussions complete the programming process in Grenada.

The Country Strategy Paper and the Indicative Programme are annexed to the present document.

- (2) As regards the indicative programmable financial resources which the Community envisages making available to Grenada for the period 2008 -2013, €6 000 000 is earmarked for the allocation referred to in Article 3.2 (a) of Annex IV to the ACP-EC Partnership Agreement (A-allocation) and €3 200 000 for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of Annex IV to the ACP-EC Partnership Agreement.
- (3) The A-allocation is intended to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community assistance. The Indicative Programme under Part 2 concerns the resources of the A-allocation. It also takes into consideration financing from which Grenada benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is intended to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and therefore does not yet constitute a part of the Indicative Programme.
- (5) Resources can be committed within the framework of the present Country Strategy Paper and Indicative Programme upon the entry into force of the 10th EDF multi-annual financial framework for the period 2008-2013 of the revised ACP-EC Partnership but not before 1 January 2008. Financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Grenada within the limits of the A- and B-allocations referred to in this document. Financing decisions can also be taken on the basis of Article 15(4) in conjunction with Article 4(1)(d) of Annex IV to the ACP-EC Partnership

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Agreement for support to non-State actors or¹ on the basis of Article 72(6) of the ACP-EC Partnership Agreement for humanitarian and emergency assistance funded from the B-allocation. Financing decisions shall be taken and implemented according to the rules and procedures laid down in the EC Council regulations on the implementation of the 10th EDF and on the financial regulation applicable to the 10th EDF and in Annex IV to the ACP-EC Partnership Agreement

- (6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Paragraphs 2(c) and 3 of Annex Ib to the ACP-EC Partnership Agreement regarding the 10th EDF multi-annual financial framework for the period 2008-2013.
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall undertake an annual operational review of the Indicative Programme and a mid-term and an end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of prevailing needs and performance.

The mid-term review shall be undertaken in 2010 and the end-of-term review in 2012. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in the light of prevailing needs and performance.

Without prejudice to Article 5.7 of Annex IV concerning reviews, the allocations may be increased in accordance with Article 3(5) of Annex IV in order to take account of special needs or exceptional performance.

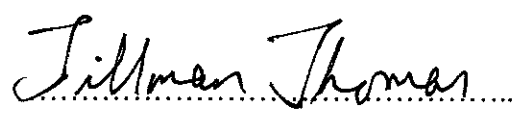
¹ In order to enable direct support to be given to the NSA, i.e. without prior NAO agreement (Article 15(4) of Annex IV), it is necessary to specify in more detail in the NIP the types of NSA eligible for funding, the resources allocated and the type of activities to be supported (which must be not-for-profit) (Article 4(1)(d) of Annex IV).

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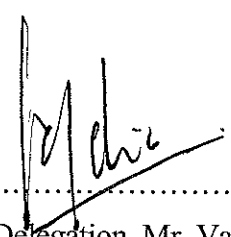
(8) The agreement of the Parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the revised ACP-EC Partnership Agreement and the 10th EDF multi-annual financial framework for the period 2008-2013, will be regarded as definitive within eight weeks of the date of signature, unless either party communicates the contrary before the end of this period.

Done in St. George's Grenada this 2nd day of December, 2008

Signatures



Prime Minister, Hon. Tillman Thomas
For the Government of Grenada



Head of Delegation, Mr. Valeriano Diaz
for the European Commission

1. LIST OF ACRONYMS

ACP	Africa, Caribbean, Pacific
ACS	Association of Caribbean States
ARD	Agency for Reconstruction and Development
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum
CARTAC	Caribbean Regional Technical Assistance Centre
CDB	Caribbean Development Bank
CDE	Centre for the Development of Enterprise
CDERA	Caribbean Disaster Emergency Response Agency
CEA	Country Environmental Assessment
CEHI	Caribbean Health Institute
CIDA	Canadian International Development Agency
CRIP	Caribbean Regional Indicative Programme
CRNM	Caribbean Regional Negotiating Machinery
CSM	CARICOM Single Market
CSME	CARICOM Single Market and Economy
CSP(s)	Country Strategy Paper(s)
CTA	Centre for the Development of Agriculture
CWIQ	Core Welfare Indicators Questionnaire Survey
DFID	Department for International Development
DIPECHO	Disaster Preparedness Programme
EC	European Commission
EC\$ / XCD	Eastern Caribbean Dollars
ECCB	Eastern Caribbean Central Bank
ECHO	European Commission Humanitarian Aid Office

ECLAC	Economic Commission for Latin America and the Caribbean
EDF	European Development Fund
EIB	European Investment Bank
EPA(s)	Economic Partnership Agreement(s)
EPPU	Economic Policy and Planning Unit
EU	European Union
FA	Financing Agreement
FIU	Financial Investigative Unit
FMO	Framework of Mutual Agreement
FPSR	Fiscal and Public Sector Reform
GDP	Gross Domestic Product
GIDC	Grenada Industrial Development Corporation
GoG	Government of Grenada
GSPTAC	Growth and Social Protection Technical Assistance Credit
GTZ	<u>Deutsche Gesellschaft für Technische Zusammenarbeit</u>
GULP	Grenada United Labour Party
HQ	Headquarters
HSDP	Human Settlement Development Policy
HSP	Human Settlement Policy
ICC	International Criminal Court
ICT	Information Communication Technology
IDB	Inter-American Development Bank
IFIs	International Financial Institutions
ILO	International Labour Organisation
IMF	International Monetary Fund
IOM	International Organisation for Migration
IWC	International Whaling Commission

LAC	Latin America and Caribbean
MDG(s)	Millennium Development Goal(s)
MTEF	Medium-Term Expenditure Framework
MTR	Mid-Term Review
NAO	National Authorising Officer
NDC	National Democratic Congress
NIP	National Indicative Programme
NNP	New National Party
NRMU	Natural Resources Monitoring Unit
NSA(s)	Non-State Actor(s)
NSDP	National Strategic Development Plan
OAS	Organisation of American States
OCT	Overseas Countries and Territories
OECD	Organisation for Economic Cooperation and Development
OECS	Organisation of Eastern Caribbean States
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
PSIP	Public Sector Investment Programme
RGPF	Royal Grenada Police Force
RIP	Regional Indicative Programme
RSS	Regional Security System
SALW	Small Arms and Light Weapons
SFA	Special Framework of Assistance
SIAs	Sustainable Impact Assessments
SSU	Special Services Unit
STAVEP	Strengthening of the Technical, Vocational Education Project

TA	Technical Assistance
TAMCC	T.A. Marryshow Community College
TCF	Technical Cooperation Facility
TRIPS	Total Revenue Integrated Processing System
TRTA	Trade-Related Technical Assistance
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UPP	United Progressive Party
US(A)	United States of America
USAID	United States Agency for International Development
WB	World Bank
WMD	Weapons Of Mass Destruction
WTO	World Trade Organisation

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SUMMARY

The purpose of this Country Support Strategy is to provide a framework for EU assistance programmes in Grenada under the 10th EDF. It outlines the current status of EU–Grenada relations, gives a detailed country diagnosis, summarises the Government’s development agenda, reviews past and present EC cooperation and the activities of other major donors, and concludes with the proposed EU response strategy and its corresponding indicative work programme.

Grenada became independent from the UK in February 1974 and enacted its Constitution in December 1975. Unlike the rest of the OECS countries, post-Independence Grenada experienced a period of political turbulence between 1979 and 1983, which was characterised by military takeovers, revolutionary movements and, finally, a US-led invasion that evicted the de-facto authorities from power in October 1983. Reconstruction from the devastation wreaked by Hurricane Ivan in September 2004 and Hurricane Emily in July 2005 is a major political issue for the present democratically-elected government. Grenada is a lower-middle income country with a small open economy. It has an area of 344 sq km; a population of 106,605 (2006 estimate); an estimated GDP of EC\$1 361 700 000 (€368 910 915); and GDP per capita of EC\$12 848 (€3 483) (both figures in 2005 at current market prices). At a social level, with the immediate recovery from the hurricanes and emergency relief efforts mostly addressed, the priority has turned to assisting the affected population to return to normal conditions, an endeavour critical to preventing a rise in poverty and for maintaining social stability. The economy is heavily dependent on tourism and exports of bananas and spices. In recent years, manufacturing paper products and electronic components, offshore financial services and telephone and internet-based marketing have also become increasingly important.

The Government’s strategic objectives for 2006–08 are fourfold: sustained high economic growth; restoring fiscal and debt sustainability; reducing vulnerabilities; and alleviating poverty. The Government acknowledges that these objectives need to be advanced in tandem given the inter-linkages among them. The total active EC aid portfolio for Grenada in 2005, including EDF, Stabex and SFA balances stands at EC\$67 139 055 (€18 200 000). The 8th EDF focused on Water Supply, while 9th EDF funds were originally intended to target tourism development, specifically fort restoration and skills development in the tourism sector. Following the destruction caused by Hurricane Ivan in 2004, funds were reallocated from the planned tourism project to the rehabilitation of school buildings and water facilities. The hurricane created an exceptional situation reasonably handled, in part, by the Agency for Reconstruction and Development.

The EC and the Government hereby propose to allocate 84% of the "A envelope" to support *Human Settlement* as the only focal sector. The specific objective of the programme is to support Grenada’s Human Settlement Policy 2005-2015 aiming at “building back better” and providing low-income households with secure living accommodation. A sector-wide approach will be adopted to provide Sector Budget Support to support the implementation of the Government’s Human Settlement Policy 2005-2015 and the derived Human Settlement Programme. In addition, approximately 8% of the “A Envelope” will be allocated to the *Technical Cooperation Facility*, notably to *Support Non-State Actors* (NSAs) and possibly to provide *Trade-Related Technical Assistance* (TRTA). The remaining 8% of the “A Envelope” will be allocated to providing *Technical Assistance to the NAO Office*, in order to ensure efficient management and coordination of EC (not only EDF) funds.

PART I - STRATEGY PAPER

CHAPTER 1 – THE FRAMEWORK OF RELATIONS BETWEEN THE EC AND GRENADA

1.1. General Objectives of the EC's External Policy

In accordance with Article 177 of the Treaty establishing the European Community, the purpose of Community policy in the sphere of development cooperation is to foster:

- the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- the smooth and gradual integration of the developing countries into the world economy;
- the campaign against poverty in the developing countries.

Europe should project a coherent role as a global partner, inspired by its core values in assuming regional responsibilities, promoting sustainable development, and contributing to civilian and strategic security.

The Union has developed a broad spectrum of external relations tools in the shape of the common trade policy, cooperation under bilateral and multilateral agreements, development cooperation, humanitarian aid and financial assistance as well as the external aspects of internal policies (energy, environment, transport, justice and home affairs, etc).

EU external action including the Common Foreign and Security Policy, common trade policy and cooperation with third countries provides a framework both for integrating all EU instruments and for developing gradually a set of common actions based on common positions in the broader sphere of political relations.

Enlargement has placed upon the EU even greater responsibilities, as regional leader and as global partner. It should therefore strengthen its capacity to promote human rights, democracy and the rule of law as well as its capacity to focus on the fight against poverty, both in its neighbourhood and through its multilateral and bilateral policies which are mainly aimed at sustainable development and political stability. Thus, the EU will achieve genuine coherence between its domestic and its external agendas, thereby contributing to global security and prosperity.

1.2. Strategic Objectives of Cooperation with Grenada

The Treaty objectives are confirmed in Article 1 of the ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. The overarching objective of the Cotonou Agreement is to promote the development of a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Cooperation between the Community and Grenada will pursue these objectives, taking into account the fundamental principles set out in Article 2, in particular the encouragement of "ownership" of the strategy by the country and populations concerned, and the essential elements and fundamental element as defined in Articles 9 and 11b of the Agreement.

While the Treaty and the Cotonou Agreement provide the legal basis for EC cooperation with ACP countries, the recently adopted European Consensus on Development sets the general policy framework at EU level. . The primary and overarching objective of EU development policy is the eradication of poverty in the context of sustainable development, in line with the international agenda, and with particular attention for the Millennium development Goals (MDGs), as well as the promotion of human rights and good governance are recognised as other important objectives. The Community pays particular attention to the promotion of good governance in the tax, financial and judicial area, as a means of contributing to sustainable financial and tax systems in a globalised economy.

The Commission's recently-adopted *Communication on an EU–Caribbean Partnership for Growth, Stability and Development* (March 2006) outlines the future policy for EU–Caribbean relations. Aiming at enhancing the Caribbean's own reform and development agenda, the EU approach will be geared to shaping a political partnership based on shared values; addressing economic and environmental opportunities and vulnerabilities; and promoting social cohesion and combating poverty. An EU–CARIFORUM sub-regional meeting that followed the EU-LAC Summit (13 May 2006) resulted in a commitment to deepen cooperation in support of regional integration, social cohesion, and the development of human resources, addressing the impact of migration, terrorist threats, drug-trafficking, organised crime, HIV/AIDS and economic and environmental challenges. Specifically, the EU and the Caribbean states have agreed to foster cooperation to address security threats, including non-proliferation of weapons of mass destruction (WMD), illicit Small Arms and Light Weapons (SALW) and combating terrorism. The EU will also consider supporting the establishment of a regional Development Fund for the Caribbean as a critical commitment to the restructuring and adjustment resulting from the upcoming establishment of the CARICOM Single Market and Economy (CSME).

Better aid effectiveness is essential to achieving poverty eradication. The EU will therefore advance coordination, harmonisation and alignment. It will promote better donor complementarity by working towards joint multi-annual programming based on partner countries' strategies and processes, common implementation mechanisms, joint donor-wide missions, and the use of co-financing arrangements. The EU will take a lead role in implementing the Paris Declaration commitments on improving aid delivery and it will capitalise on new Member States' experience to strengthen their role as donors.

Policy coherence for development will advance in a number of areas. The aim is that all EU non-aid policies should make a positive contribution to developing countries' efforts to attain the MDGs.

The principle of concentration will guide the Community's country and regional programming. This means selecting a limited number of priority areas of action, through dialogue with partner countries, rather than spreading efforts in too many sectors. In this context the Community will be primarily active in the following nine areas, taking into account its comparative advantage in a number of them: trade and regional integration; the environment and sustainable management of natural resources; infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and food security; governance, notably in the tax and financial areas, democracy, human rights and support for economic and institutional reforms; conflict prevention and fragile states; human development; social cohesion and employment.

The mainstreaming approach will be strengthened for four cross-cutting issues: democracy, good governance, human rights, the rights of children and indigenous peoples; gender equality; environmental sustainability; and the fight against HIV/AIDS.

Particular support will be given to encourage ongoing reforms in Grenada, to be developed in line with good tax governance principles.

1.3. Main Bilateral Agreements

Grenada has signed a Double Taxation Agreement with the UK. The Treaty provides for the exchange of information but the information exchange may only be disclosed to persons involved in the assessment and collection of the taxes covered by the Treaty.

Grenada also signed a bilateral agreement in March 2007 with the Government of the French Republic (the French Government) in order to implement an agreement reached with the Paris Club on 12 May 2006. This agreement provides for restructuring of the country's debt incurred up to 2005.

CHAPTER 2 – COUNTRY DIAGNOSIS

2.1. Analysis of Grenada's Political, Economic, Social and Environmental Situation

2.1.1 Political and institutional situation

Grenada is a small-island state stretching towards the southern end of the Caribbean island chain. With an area of 340 sq km and 121 km of coastline, it consists of the islands of Grenada, Carriacou and Petit Martinique, and has a population of 106,605 (estimate 2006). The country is divided into seven parishes, six of which are on the island of Grenada; the seventh, the parish of Carriacou, covers the other two islands. Five of the parishes on the main island along with the parish of Carriacou are predominantly rural. The two main towns, St. George's the capital, and Grenville in the parish of St. Andrew's, account for about 60% of the population.

Grenada, a country member of the Commonwealth, gained Independence from the UK in February 1974 and enacted its Constitution in December 1975. The country is governed under a parliamentary system based on the British model; it has a governor general, a prime minister and a Cabinet, and a bicameral Parliament with an elected House of Representatives and an appointed Senate. The Judiciary is composed of magistrates' courts; the Eastern Caribbean Supreme Court (high court and court of appeals); and an instance for final appeal, which since 2005 is the Caribbean Court of Justice.

Unlike the rest of the OECS countries, post-Independence Grenada experienced a period of political turbulence between 1979 and 1983, which was characterised by military takeovers, revolutionary movements and, finally, a US-led invasion that evicted the de-facto authorities from power in October 1983. An advisory council named by the Governor General administered the country until general elections were held in December 1984.

Today, the major political parties are the New National Party (NNP), incumbent; the National Democratic Congress (NDC); and the Grenada United Labour Party (GULP). The last general elections were held in November 2003; the NNP won 8 of the 15 seats, holding on to power

with a much-reduced majority. The NDC won 7 seats and is now the official opposition. Reconstruction from the devastation wreaked by Hurricane Ivan in September 2004 and Hurricane Emily in July 2005 is a major political issue for the present Government.

Grenada is a signatory to four of the core International human rights treaties as well as to the American Convention on Human Rights. Respect for human rights is guaranteed by the Constitution of Grenada. The Government has generally respected the human rights of its citizens since the restoration of the democratic order, according to the latest US report on human rights². However, problems in a few areas such as violence against women and child abuse have been the subject of some attention. Prison conditions meet minimum international standards, and the Government permits visits by human rights monitors. There have been no major accusations against abuses by the police.

The UN Convention against Torture is under consideration by the Grenada Government with a view to deciding whether Grenada should accede to the Convention. The death penalty has not been abolished. However, it has not been used since 1978. It would only be used in extreme cases of murder, e.g. contract killing, double or triple killings. There is no military or sharia court in Grenada.

Concerning security matters, Grenada cooperates with the United States in fighting narcotics smuggling and other forms of transnational crime. In 1995, the U.S. and Grenada signed a maritime law enforcement treaty. In 1996, they signed a mutual legal assistance treaty and an extradition treaty as well as an over-flight/order-to-land amendment to the maritime law enforcement treaty. Some U.S. military training is given to Grenadian security and defence forces. The U.S. Army and the U.S. Coast Guard provide periodic training and material support for the SSU and the coast guard. The Departments of State and Treasury provide support to the Financial Investigative Unit (FIU). Street crime occurs occasionally in Grenada. Grenada has not signed the Rome Statute of the International Criminal Court but has already concluded a bilateral "non surrender" agreement with the United States in relation to Article 98 of the Statute.

On international relations, the United States, China, Cuba and Venezuela have embassies in Grenada. The United Kingdom is represented by a resident commissioner (as opposed to the governor general, who represents the British monarch). Grenada has been recognised by all members of the United Nations and maintains diplomatic missions in the United States, Canada, P.R. of China, Cuba, Belgium, United Kingdom and Venezuela. It is also a member of the Caribbean Development Bank, CARICOM, the Organisation of Eastern Caribbean States (OECS), the Commonwealth of Nations, the Association of Caribbean States (ACS) and the World Trade Organization (WTO). It joined the United Nations in 1974, and then the World Bank, International Monetary Fund, and Organization of American States (OAS) in 1975. Grenada is also a member of the Eastern Caribbean's Regional Security System (RSS).

1. ² GRENADA – COUNTRY REPORTS ON HUMAN RIGHTS PRACTICES - RELEASED BY THE US BUREAU OF DEMOCRACY, HUMAN RIGHTS, AND LABOUR, 6 MARCH 2007

2.1.2 Economic and commercial situation³

Regional Context Overview

The six countries of the Eastern Caribbean (OECS) are at a critical juncture in their development. After three decades as independent states, they are struggling to find new sources of growth and reduce vulnerability in a milieu characterised by increasing competition at a global level; ending of trade preferences; and declining donor resources. These challenges are coupled with internal fiscal imbalances and high debt ratios, and the inherent weakness as small island states. As the first decade of the 21st Century enters its second half, all OECS countries are in the top fifteen of the world's most indebted (relative to GDP) emerging markets. The impressive gains in terms of social development achieved over the last 30 years risk being eroded by the fiscal and debt circumstances and by the economic transformation that may be required to adapt to the changing external environment.

In addition, as small states, the six OECS countries face significant vulnerability to external shocks, including natural disasters; limited economic diversification opportunities and high dependence on external trade; high cost of public service provision due to diseconomies of scale; and limited capacity in the public and private sectors. However, in a few areas, these shortcomings are being successfully overcome through regional initiatives and projects.

In view of the above context, five policy response areas are emerging as the most evident priorities for all OECS countries in the medium term. These are fiscal consolidation/ public sector reform; regulatory environment for private sector development (PSD); creation of a wider market and level playing field; skills development; and security enhancement (especially natural disasters).

Grenada's Overview

Grenada is a lower-middle income country with a small open economy. It has an area of 344 sq km and a population density of 309 inhabitants per sq km; an estimated GDP of EC\$1 361 700 000 (€368 910 915); and GDP per capita of EC\$12 848 (€3 483) (both figures in 2005 at current market prices). The following table depicts the relative position of Grenada within the OECS – 18% of the total population, 14% of total GDP, and a territory that occupies 12% of the total area of the grouping, which shows the relatively small dimension of Grenada's economy.

	GDP (current market prices) *			GDP per Capita *		GDP per Capita (US\$-PPP) **	Population***		Area (sq km)	Population Density (per sq km)
	(EC\$ m)	% OECS	% Barbados	(EC\$)	% Barbados		('000)	% OECS		
Antigua & Barbuda	2 349.90	25.5%		28 305.01			82.8	14.3%	442	187
Dominica	810.69	8.8%		4 299.26			70.6	12.2%	754	94
Grenada	1 360.42	14.7%		12 846.99			105.9	18.3%	344	308

³ This section builds primarily on the document "IMF – GRENADA, Request for a Three-Year Arrangement under the Poverty Reduction and Growth Facility", March 2006

St Kitts & Nevis	1 157.58	12.6%		8 793.27			49.3	8.5%	261	189
St Lucia	2 382.49*	25.8%		14 508.01			164.2	28.4%	620	265
St Vincent & the Gr.	1 162.14	12.6%		11 072.99			104.9	18.1%	389	270
TOTAL OECS	9 223.19	100.0%					577.7	100.0%	2,810	206
Barbados									430	

Eastern Caribbean Central Bank (ECCB) National Accounts
Statistics 2006

Grenada's economy is heavily dependent on tourism and exports of bananas and spices. In recent years, manufacturing paper products and electronic components, offshore financial services and telephone and internet-based marketing have become increasingly important. As of November 2005, Grenada has one inactive offshore bank, one trust company, one management company, and one international insurance company. Grenada is reported to have over 20 Internet gaming sites. There are also 810 international business companies (IBCs). The domestic financial sector includes six commercial banks, 26 registered domestic insurance companies, two credit unions, and four or five money remitters [according to the US Department of States; Data from March 2006]. The Government of Grenada has repealed its economic citizenship legislation.

From a general point of view, the development of the offshore financial services sector should parallel the development of an appropriate regulatory framework based on principles of good governance in the financial and tax areas, so as to contribute to improving the sustainability of the financial and tax systems of sovereign countries, while reducing their potential vulnerability towards exploitation by taxpayers abusing other countries' tax systems. Enabling international cooperation, notably through transparent tax systems and effective exchange of information, plays a vital role in the efforts made at global level to counter terrorism, its financing, tax evasion, tax avoidance and corruption. It is particularly relevant for small and open economies that have developed an offshore financial sector.

In this respect, principles of good governance in the financial and tax areas would help to improve the sustainability of the financial and tax systems of Grenada, while reducing their potential vulnerability towards exploitation by taxpayers abusing other countries' tax systems. Confirmation of Grenada's willingness to implement internationally recognised principles on transparency and exchange of information for tax purposes, in line with its commitment towards the OECD, would be welcome and would show Grenada's availability to contribute to international cooperation. Grenada would also be welcome to consider how the potential vulnerability of its tax system towards exploitation by taxpayers abusing other countries' tax systems, in particular with regard to the international company regime, could be addressed.

The economy is also highly vulnerable to external shocks. Until 2004, Grenada's economic performance was considered among the most favourable in the Eastern Caribbean. Following Hurricane Ivan in September 2004, with damage inflicted on the economy estimated at over 200% of 2003 GDP, and Hurricane Emily in July 2005 (damages estimated at 13% of GDP), the near-term outlook seems very difficult, which shows the high vulnerability of Grenada's economy to external shocks.

Recent Economic Performance

Real GDP growth rose to an average of 3.5% in 1995-1997 and to 7.3% in 1998-2000, driven by expansion in the construction and tourism sectors as well as increased earnings from agricultural and manufactured exports. The demand for services, particularly in communications and finance, also rose sharply. Prior to Hurricane Ivan, the economy was recovering rapidly from the 2001-2002 downturn. Real GDP increased by 5.7% in 2003 and by 4% in the first half of 2004, mainly due to a recovery in tourism.

On 7 September 2004, Grenada was battered by Hurricane Ivan, which caused widespread devastation on the island. Around 90% of buildings were either harmed or destroyed and roads were severely damaged. 39 people died and the productive sectors of the economy were extensively destroyed. The agriculture sector was largely decimated with the destruction of most crops, including the principal export commodities, nutmeg and cocoa. In the nutmeg sector, Hurricane Ivan uprooted some 550,000 trees, thereby affecting approximately 30,700 persons directly or indirectly, and reducing their household incomes. Tourism infrastructure was also extensively damaged, forcing the closure of most hotels and significant job layoffs. The estimated damage of Ivan on the economy was over 200% of GDP. As a result, the economy contracted by 3.0% in 2004, the tourism sector (Hotels and restaurants) being the worst affected (-25% growth in 2004). The social impact of the disaster was particularly adverse with employment levels and incomes affected. Estimates suggested that unemployment spiked from 12% to above 30% immediately after the hurricane. Estimates for 2005 suggest that employment had been restored particularly within construction (23%) and services (21%), resulting in a corresponding reduction in unemployment to 18.8% of the labour force.

Brisk activity in the construction sector led to a modest recovery in 2005. The influx of insurance proceeds and donor support helped finance rebuilding. The agriculture sector was dealt a further blow when much of the short-cycle crops planted by farmers in the wake of the destruction to nutmeg and cocoa trees from Ivan were destroyed by Hurricane Emily. Activity in agriculture and tourism, the mainstays of the economy, however, remained weak. Only in late December (the start of the tourist season) was 70–80 per cent of the pre-Ivan hotel room capacity restored. The sharp spike in construction activity nonetheless led real GDP to expand by around 1.5% in 2005. The impact of the hurricanes on the financial sector has, however, been modest as domestic commercial banks were in a relatively strong financial position, providing them with room for manoeuvre when Ivan struck.

Reflecting high reconstruction material imports and low tourism and agriculture export receipts, the current account deficit widened from 13.5% of GDP to 37% in 2005. With much of Grenada's nutmeg and cocoa trees destroyed, merchandise exports remain depressed - a situation likely to prevail until newly planted trees start to bear fruit in about five years' time.

Following the impact of the two hurricanes, and losses estimated to be in excess of EC\$2 400 000 000 (€649 637 508), economic conditions in Grenada deteriorated significantly. Grenada recorded a current account surplus of EC\$60 600 000 (€16 406 341) or 4.8% of its GDP for the financial year 2005. This contrasted sharply with the current account deficit of EC\$28 400 000 (€7 689 004) or 2.4% of GDP recorded in 2004 and the projected deficit of EC\$51 600 000 (€13 969 824) announced in the 2005 Budget Speech. This was a significant achievement taking into consideration the negative impact of the economic downturn of 2004 on some tax

types. Equally important was the projected sharp increase in current spending requirements directly related to hurricanes Ivan and Emily.

The short-term outlook is still difficult, as the hurricane has set back the government's efforts to implement structural reforms in light of the good economic performance for both 2003 and the beginning of 2004. In April 2006 the IMF approved a 3-year PRGF arrangement with the Government to support a home-grown programme of macroeconomic and fiscal reforms.

Preliminary data show that in 2006, the economy recorded positive real growth of 2.1% and all the major productive and services sectors have shown signs of recovery.

The agricultural sector grew by 20.5% in 2006 following a decline of 38.1% in 2005, reflecting increased production of crops, livestock, forestry and fishing. The Hotels and Restaurant sector, a proxy for the tourism industry grew by 65% as most hotels are back in operation. On the other hand, value added in the construction sector declined by 20 per cent (as is expected) following substantial growth of 91% in 2005.

Higher levels of output have impacted positively on Government's revenue, preliminary data indicate that Government has achieved in 2006 a surplus on its current operations 3.7% of GDP, which is lower than in 2005. In 2006, current revenues increased by 6.6% due mainly to higher collections from property tax and the National Reconstruction Levy. Consequently, current expenditure grew by 5.5% on account of growth in all categories except outlays on discretionary spending on goods and services which declined relative to 2005.

Structure and management of public finances

The immediate fiscal shortfall, including the large financing gap in 2005, has been addressed through a tripartite burden-sharing arrangement: fiscal adjustment, donor support, and commercial debt restructuring.

The fiscal accounts were in broad balance in 2005. Revenues were quite buoyant, partly reflecting one-off factors (arrears collection and the boost to trade taxes from higher imports of construction material). The adjustment of petroleum prices also helped eliminate the subsidy that the Government was providing as world oil prices increased sharply. Spending was also quite restrained, with primary expenditure kept at 4.5% of GDP, below the allocation in the budget.

Moreover, donors have been supportive. Grants to the tune of 11% of GDP were disbursed in 2005 to help finance the Government's current and capital expenditure.

Finally, a successful commercial debt restructuring process provided substantial near-term cash-flow relief. The debt exchange offer, eventually launched in September 2005, helped restructure more than 90% of eligible commercial debt (accounting for about 45% of total public sector debt). The exchange did not involve any reduction of principal, but the lower

interest rates in the near to medium term that the new bonds carry, nonetheless imply that creditors accepted a haircut in NPV terms of some 40–45%.

Capital expenditure however increased substantially in 2006 by more than 40%, reflecting the acceleration in the implementation of ongoing and reconstruction projects. This higher level of capital spending was financed in part by capital grants and the current account surplus, resulting in an overall deficit after grants of 8-9% to GDP which was financed by net loans from domestic and external sources. The fiscal performance of Government in 2006 deteriorated relative to that in 2005. In addition, grants mobilised in 2006 were lower than that for 2005 as some pledges did not materialise. With reconstruction well underway the Government project the economy will record positive growth of 5% in 2007 and 4% in 2008, with further improvements expected in all the major productive and services sectors of the economy. Government's fiscal position is expected to be strengthened with the 2006 primary balance deficit expected to reach a surplus of about 2.5% GDP by 2008. At the same time the Government aims to return capital expenditure to the accepted benchmark of 10% of GDP but, according to the IMF, it is likely that this target will need to be lowered from 2008 and beyond to achieve the debt-to-GDP goals.

During the second quarter of 2006 an assessment of Grenada's Public Finance Management systems using the PEFA/PMF methodology was carried out under the lead of the EC. The analysis highlights the overall positive performance of Grenada's PFM system, in addition to its relative strengths and weaknesses:

- The main areas of strength include credibility, comprehensiveness and transparency, policy-based budgeting and functioning financial management and information systems.
- Weaknesses are primarily in the area of procurement, compliance to internal controls and follow-up of recommendations of the Audit Department. Furthermore, there are significant delays in examining annual audit reports which reduce drastically the pressure on ministries and departments. This reduces, unfortunately, to some extent the confidence in the effective functioning of PFM systems.

The Government is in the process of revamping the outdated legal and regulatory framework in public financial management as part of its overall strategy to improve budgeting in the country. The existing legal framework addresses mainly transactions in a manual environment however there is a need for the law to support the present computerised environment, in particular the area of audit. Furthermore, new draft bills will reflect more modern management approaches where more direct responsibilities are attributed to heads of ministries and departments.

A PFM Reform Steering Committee has been set up comprising the PS of Ministry of Finance (chair), the Director of Audit, the Accountant-General, the PS of Ministry of Works and a representative of Ministry of Legal Affairs. The CIDA supported East Caribbean Economics Management Project (ECEMP) has provided legal assistance in drafting the new draft bills. The drafted Bills will be reviewed by the Ministry of Legal Affairs and submitted to Cabinet for approval prior to being laid before Parliament for adoption. Specific bills being considered include: [1] new Public Financial Management Bill and related regulations; [2] separate Audit Bill; [3] Procurement and Contract Management Bill and related regulations.

The proposed Audit Bill will increase the mandate of the Audit Department. It will specify that Audit department will audit also *all statutory bodies*. This is not addressed explicitly in the present Finance and Audit Act, which has led to misunderstandings in the past. The new Audit Bill will include the possibility for the Audit Department to go to the High Court in case weaknesses have been found - forcing ministries and departments to comply (otherwise be in contempt of court). The new bills will also give additional powers to the Accountant General. The Procurement Bill will address the public perception of political interventions in contract award – as more transparency is foreseen.

Trade policy and external environment, in particular regional cooperation agreements and EPAs

Grenada is a Member of the OECS, the CARICOM and the Association of Caribbean States (ACS). It is engaged in CARIFORUM-EU EPA negotiations which were launched in 2004, FTAA, and WTO negotiations (DDR) in particular.

The OECS Countries have already achieved a high level of integration with a common judiciary, a common currency and central bank (OECS Countries together with Anguilla have formed the Eastern Caribbean Currency Union), joint foreign representation, a common directorate of civil aviation, pharmaceutical procurement, telecommunications regulation, banking regulation, and close collaboration in health, education and security matters. On 21 June 2006, the Heads of Government signed a Declaration of Intent to submit for ratification an Economic Union Treaty after one year of public debate.

As regards the CARICOM Single Market and Economy (CSME), OECS countries joined in July 2006 (Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago signed the CSM Agreement in February 2006). OECS countries see the establishment of a Regional Development Fund and of preferential and concessionary measures as an essential condition to allow them to participate meaningfully in the CSME. Under the Treaty of Chaguaramas establishing the CARICOM, OECS countries are classified as Less Developed Countries (LDC) and are exempt from certain liberalisation obligations. In particular, Art. 56 gives protection to certain designated sub-sectors vis-à-vis goods from other CARICOM countries. Both the LDC category and the related protection have been incorporated under Art. 164 in the Revised Treaty of Chaguaramas establishing the CSME.

In relation to the Economic Partnership Agreement in particular, OECS countries are stressing their need for special and differential treatment as less developed countries, as has been recognised in the context of the CSM. Presently, organisational capacities and resources are inadequate to cover the different trade negotiating theatres in which they are involved. Many ministries are very small with limited technical capacity and with no staff dedicated to the EPA. In most cases technical staff cover a specific area in multiple negotiations. There are also financial restraints for participation in meetings and working groups which are an integral part of the negotiating process. OECS countries could also use trade facilitation assistance in support of ongoing customs reform processes, particularly as regards harmonisation of the two systems currently being implemented by different countries in the sub-region, TRIPS (Total Revenue Integrated Processing System) and ASYCUDA ++.

Traditional ACP banana producers are also faced with the challenges of a changing EU trade regime for bananas. The changes implemented in 2006, while preserving ACP preferential

market access, led to a more open EU market with increased competition. The phasing out of import licences may also require adjustment in some ACP operators' commercial strategies. However, a large part of Windward banana exports shifted to the Fair Trade market through a successful market differentiation strategy. The sector will have to continue upgrading its competitiveness in view of future challenges and opportunities, i.e. continued pressure on the MFN tariff on the one hand and the potential of EPAs to secure and improve ACP market access on the other.

Medium-term Economic Prospects and Assessment of the Reform Process⁴

Hurricane Emily's impact, estimated at EC\$140 000 000 (€37 909 849) (12.9% of GDP) in 2005, though small in comparison to Ivan's impact, has compounded the economic and social challenges confronting the Government. The island's productive capacity is not yet back to normal and, as a result, budget implementation continues to be hampered by inadequate resources. Beyond 2005, projections point to real GDP growth strengthening to about 6% in 2006 and remaining positive at about 3% to 4% to 2010, but these prospects hinge on reconstruction activities accelerating and the economy recovering to full production capacity through implementation of the Government's medium-term reconstruction and development programme.

The fiscal accounts will remain fragile as the benefits from any fiscal adjustment contemplated will not be realised straightaway and the Government will continue to spend on rebuilding. In light of Grenada's large investment requirements both in critical economic sectors and in social sector development, continued support from the international community will be critical to Grenada's recovery effort.

2.1.3 Social situation, including decent work and employment

According to the UNDP Human Development Report for 2006, the Human Development Index for Grenada is 0.762, which gives Grenada a rank of 85th out of 177 countries on the basis of adult literacy, school enrolment, life expectancy at birth, and per capita Gross Domestic Product (GDP). This compares to a ranking of 66 out of 177 in 2005 (reflecting a change of the combined gross enrolment ratio from 94% to 73%). It was estimated in 2002 that 32% of the population live in poverty, the decline of the agricultural sector having resulted in increased hardship and poverty in the rural sector. Following Hurricane Ivan, with the immediate recovery and emergency relief efforts mostly addressed, the priority has turned to assisting the affected population to return to normal conditions, an endeavour critical to preventing a rise in poverty and for maintaining social stability. This has entailed, inter alia, securing permanent housing solutions and supporting employment initiatives. For those most vulnerable, the protection afforded by social safety nets may need to remain or be expanded. Given the importance of education and health services to social development and poverty elimination, restoring critical infrastructure within these sectors is essential. This will entail rebuilding physical infrastructure in education, health and social services.

Education

⁴ Caribbean Development Bank, 2005

Grenada has attained almost universal school access but there are still sizeable gaps above the primary level. Notwithstanding the recent increase in the transition rates from primary to secondary school the current level of secondary access remains low, only 60%, while the transition rate to tertiary level training is much lower. The combined primary, secondary and tertiary gross enrolment ratio was 65% for 2001-02. In order to foster closer cooperation and to enhance the benefits from joint development of education, Grenada participates in the regional (CXC) examination system and pursues, in addition, a joint OECS Education Reform Strategy, which places emphasis on the social aspects of education.

Health

The population of Grenada enjoys a relatively stable health status when health indicators over the period 1998-2002 are compared. However when compared to other countries in the region, health status indicators of Grenadians were found to be in the mid range. This suggests that there is room for improvement. The health sector has consistently received approximately 12% of the annual Government recurrent budget, and public health recurrent expenditure is estimated to have represented 3.5% to 4.5% of GDP over the period 2000–2006.

The health profile indicates that communicable childhood diseases are virtually under control and the major health problems are related to chronic non-communicable diseases or so-called lifestyle diseases. However, levels of satisfaction with the quality of the Government Health Services are low, leading to a drift towards Private Health Care.

Sexually transmitted diseases seem to have progressed slowly in the population as illustrated by surveillance of hospital data and community services data. Health workers believe that this information may be underestimated, as most persons tend to seek a private physician to treat these diseases. The cumulative total of reported HIV-infected persons stood at 309 in December 2006, with the ratio of male to female being 1.8:1. As at end of December 2006, the cumulative number of deaths from AIDS was 163; 118 males, 45 females.

Social Protection

Further to Hurricane Ivan, the results from a Core Welfare Indicators Questionnaire Survey (CWIQ) completed in 2005 revealed that the unemployment rate amongst the poorest segment of the population rose to 38% in 2005, twice the national unemployment rate. The survey also revealed damage to be more prevalent and more severe amongst the poorest households as a result of the weaker type of housing structure of the poor. The poorest quintile had no home insurance coverage compared to the least poor quintile, where 35% of the damaged homes had coverage. The incidence of overcrowding following the hurricane was also found to be more prevalent in poor households. Other poverty monitoring indicators generally revealed that the economic situation and quality of life of these households had declined significantly since the hurricane.

The Government allocates a high priority to improving the shelter conditions of low-income households. A Poverty Eradication Strategy was prepared in 2004 but will need to be refined to be more strategic in focus and better integrated within the Government's medium-term macroeconomic framework. In view of the high level of rural unemployed poor in Grenada, social development strategies which enhance educational attainment and outcomes and which promote rural economic development would need to be central elements of Grenada's poverty alleviation strategy. Priority areas would also include reducing social vulnerability to natural disasters through hazard mitigation measures.

There is also a group of persons whose overall quality of life deteriorated quickly after the passage of Hurricane Ivan. These persons, the *new poor* because of their middle-income status before the hurricane, tend to be invisible in the statistics and as such are often overlooked by social recovery programmes. As a result of changes in their economic circumstances, these persons are unable to access resources to meet some essential needs like housing, and their ability to address such needs is severely constrained. Therefore there is a need for the State to intervene.

Employment

Prior to Hurricane Ivan, agriculture and tourism provided many opportunities for employment of men and women. The nutmeg industry alone accounted for direct and indirect employment of almost 31,000 people. About 7,500 farmers were engaged in the cultivation of cocoa, which was second to nutmeg as the country's most important export commodity. These, along with bananas, minor fruit crops, citrus and vegetables, provided employment and foreign exchange, and contributed to the country's food security. Tourism and related services provided direct and indirect employment for over 60% of the labour force with a large proportion of these being women engaged in low-income occupations. As a result of the devastation brought by Ivan, the earnings of a large number of households, dependent on agriculture and tourism for a livelihood, have been disrupted. Women in particular have been severely affected, since the effects of the hurricanes provided increased employment opportunities in the traditionally male-dominated construction areas.

Recent estimates by the Grenada Statistics Department indicate that the country's unemployment rate after Hurricane Ivan increased to 18.5% with the rate for women being 25.5%, twice the 12.5% rate estimated for men. This also applies to urban areas (18% compared to 9%). *Rural Development*

The causes of poverty in Grenada are complex and related to historical and economic factors, not least the vulnerability of the economy due to the country's small size and its exposure to natural disaster.

At the rural household level, poverty is determined by a lack of access to productive resources including credit; social and/or productive organisations; literacy, technical and/or entrepreneurial skills; access to markets and/or information; and access to technical and financial support services.

Although each rural community faces different constraints, overall conditions for poor rural households in Grenada are generally precarious. Despite the reduced contribution agriculture makes to the national economy, it remains an important source of food or income for many poor and very poor rural households.

Farm size throughout Grenada is small, with half of the farmers estimated to have less than one acre and 90% less than five acres. The majority of farms are under private ownership, either individually or family-owned. A small proportion of these farms are rented, and squatting is less prevalent than in some of the islands. Depending on the climatic and ecological conditions, different crops are raised in different parishes, though bananas still predominate in most parishes. Corn, peas, roots and vegetables are important crops for poorer households; tree crops also have a central role, particularly in terms of fruit provision for household-level agro-processing.

2.1.4 Environmental situation

The biological resources in Grenada, as in the other small OECS islands, are under pressure caused by economic interests (tourism, agriculture and fisheries) and factors such as concentration of population and high frequency of disasters. Grenada, albeit signatory to the CITES convention on endangered species, still allows the hunting of sea-turtles. Further degradation of the countries' natural resources greatly influences their prospects for social and economic development. Following Ivan, concern relates to the restoration of Grenada's natural environment and, in particular, the protection of its forests through reforestation so as to preserve its watersheds.

"Climate change is already having significant and serious impacts on Grenada. Climate change is a threat to development and diminishes the chances of achieving the Millennium Development Goals. In this context, adaptation to climate change becomes a pre-condition for sustainable development."

Since the adoption of the National Environmental Policy and Management Strategy in December 2004, there have been a number of initiatives that have been executed relative to its implementation, such as:

- The establishment of an Environmental Coordinating Committee, whose key mandate is to assist in the coordination of activities and keep the Minister with environmental responsibilities better informed on such issues. The entities include: Physical Planning Unit, the Ministries of Finance, Carriacou and Petite Martinique Affairs, Agriculture and Youth, representatives from the Grenada Employers' Federation and the NGO community; it meets on a monthly basis and is chaired by the Minister with responsibility for the Environment.
- The drafting of environment-specific legislation that is now being consulted on a public basis.
- The development of a National Land and Land-use policy and strategy framework through the Agency for Reconstruction and Development.
- The development of a public awareness and education framework.
- The development of a framework and mechanisms that would facilitate improved management of data, reports and information pertaining to environmental issues.

Other initiatives that have been planned but not yet implemented due to logistical and other uncontrollable factors include focus group consultations with private sector, hotel, tourism, resource users and service providers, financial and insurance, statutory bodies, manufacturing, construction stakeholders.

2.1.5 Grenada in the international context

Grenada is a member of the Commonwealth, the United Nations and several of its specialised agencies, the World Bank and the International Monetary Fund, the Organization of American States, the Organisation of Eastern Caribbean States, the Eastern Caribbean Regional Security System (RSS), the Caribbean Community and Common Market (CARICOM) and the Association of Caribbean States (ACS).

It is an active member of the Organisation of Eastern Caribbean States (OECS), and shares a common currency and common judiciary system with the other six full OECS members and Anguilla (Eastern Caribbean Currency Union). On 21 June 2006, the Heads of Government

signed a Declaration of Intent to submit for ratification an Economic Union Treaty after one year of public debate. The new Economic Union Treaty will replace the Treaty of Basseterre which established the OECS in 1981. The new Treaty envisages supranational powers for an Executive Commission and full single market, with the four freedoms.

Grenada is also a Member of the Caribbean Community (CARICOM), which is in the process of establishing a single market and economy that will include not only a fully functioning common market, but also the harmonisation of macroeconomic policies and eventual monetary integration.

It is also a Member of the Association of Caribbean States (ACS), which was established as a mechanism for consultation, cooperation and concerted action, and brings together all the countries of the Caribbean Basin (the sovereign states of Central America, CARICOM, Cuba, Dominican Republic, Colombia, Mexico and Venezuela) with an overall population of some 200 000 000. Together they have pledged their commitment to strengthen cooperation in trade, tourism, transport, natural disasters, environment, language training, and cultural cooperation.

Grenada is a member of the International Whaling Commission. At the 58th IWC Annual Meeting, Member Countries adopted the “St. Kitts Declaration”, arguing against the whale hunting moratorium and in favour of restoring the IWC to its original whale stocks management mandate; the Declaration was sponsored by all OECS Countries.

Grenada is a participating partner in the OECD Global Forum on Taxation, aiming to establish a level playing field for the global economy by implementing agreed principles of transparency and exchange of information for tax purposes. It participated in the last meeting held in Melbourne on 15-16 November 2005, notably by contributing to the factual assessment of its tax system.

The international affairs of the country are also affected by migration, which is the major force contributing to the variations in population change in Grenada. The country has reached the final stages of the demographic transition, demonstrating both low fertility and mortality rates. Although emigration from Grenada has decreased from –19.3/ 1000 population in 1990 to estimated –14.6/ 1000 population in 2003, Grenada continues to be a major source of intra-regional migrants, having 21 per cent of its population living in other Caribbean countries. The main destinations for emigration have been Trinidad and Tobago, British Virgin Islands, USA, Canada and Europe. The establishment of the OECS Economic Union is expected to further influence intra-regional migration flows. Loss of the skilled labour force needed for economic growth is a challenge for the OECS countries experiencing heavy emigration.

2.2. *Poverty Reduction Analysis*⁵

In 2004 Grenada adopted a Poverty Eradication Strategy, based on 1999 Poverty Assessment data, which given hurricane Ivan in September 2004 has been accepted by the IMF Board as the *Interim-Poverty Reduction Strategy Paper (I-PRSP)*. However, in

⁵ This chapter is based on the Government of Grenada Poverty Eradication Strategy revised in 2006 and representative of the country’s interim Poverty Reduction Strategy Paper (I-PRSP).

order to develop a complete Poverty Reduction Strategy Paper (PRSP) the Government of Grenada with support from the Caribbean Development Bank (CDB) are presently conducting a Country Poverty Assessment (CPA) which will provide updated data that will inform the completion of a full PRSP.

For the time being, the Poverty Assessment Report concluded in October 1999 constitutes the single most comprehensive document on the socio-economic status of the Grenadian economy. The survey revealed that 32 per cent of the population corresponding to 28.8 per cent of households are classified as poor based on a poverty line of EC\$3 262 (€883) per annum per adult. In 2005, following the impact of Hurricanes Ivan and Emily, the Government commissioned a Core Welfare Indicator's Questionnaire (CWIQ) Survey. Earnings have fallen, especially from wage employment, through loss of jobs and the reduction of salaries. Income from business fell by 15 per cent. The disaster also had an impact on nutrition, and affected the capacity of individuals to bounce back. Food security has also been compromised through increased food imports and the loss of the nutmeg and cocoa industries, which have also affected the national economy.

The CWIQ reaffirmed several of the recommendations of the Poverty Assessment Survey. Specifically the survey revealed that just under half of the households in Grenada are female-headed, with more than one fifth in the rural areas falling within the lowest welfare quintile. Well over half the female heads are unemployed, as compared with one quarter of male heads. While focusing on economic recovery, agriculture rehabilitation, housing, unemployment, human resources and environmental management, the Poverty Reduction Strategy Paper will seek to achieve the following:

- Adopt a forward-looking and strategic approach, clearly defining the goals for poverty reduction and spelling out steps needed to achieve Grenada's poverty reduction objectives, including the Millennium Development Goals (MDGs).
- Evaluate the effectiveness of existing poverty alleviation programmes, with a view to making better use of empirical evidence to assess programme effectiveness. In addition, it will define which institution or agency is responsible for which objectives; the size, financing and duration of programmes; and the modes and time frame of implementation.
- Prioritise programmes and policies according to their desirability and social effectiveness. Detailed costing - separating investment outlays from expected recurrent costs for future maintenance and operation - will be made part of the benefits analysis, to facilitate the evaluation of consistency with the fiscal objectives of the macro-economic framework, the PSIP, and available domestic and external resources.

2.3. *The Development Strategy of Grenada*

In December 2005 the Government presented the IMF with their home-grown *Memorandum of Economic Policies* (MEP), detailing post-Ivan and Emily recovery objectives and reform policies for the period 2006-2008, the main goals included:

- to promote sustained high economic growth by improving the climate for private investment;
- restore fiscal and debt sustainability through fiscal consolidation and reform;
- reduce vulnerabilities by safeguarding the soundness of the financial system; and

- reduce poverty through more effective social development programmes and safety nets.

Sustained high economic growth

As highlighted by the Poverty Eradication Strategy, improving the standard of living of Grenada's citizens is the overriding objective of the Government's economic policies. This in turn requires sustained high economic growth (at least 4 per cent), with the private sector playing a more vibrant role than in the past. To this end, the near-term aim of the structural reforms will be to put in place a policy environment that is much more conducive to private investment. This will include steps to ensure that Grenada Industrial Development Corporation (GIDC), the investment promotion agency, starts to play a more prominent and proactive role in promoting the country as an attractive investment destination, improving the manner in which land can be acquired by investors, as well as comprehensive reforms to improve the tax system's transparency and predictability. The planned Public Sector Modernization Project, to be implemented with assistance from the WB, will also serve to make the rest of the public sector more efficient, customer-oriented and productive. Reforms in the second and third years of the programme will focus on measures to enhance labour and product market flexibility, respectively.

Restoring fiscal and debt sustainability

In the absence of reforms, Grenada's fiscal and public debt situation is unsustainable. The public debt stock is very high at 130 per cent of GDP—or some EC\$15 000 (€4 062) for each Grenadian. Without fiscal consolidation, by about 2010, virtually all of the tax revenues that the Government collects would be spent on civil service salaries and interest payments, leaving little room for outlays on goods and services or transfer to households, and much less capital investment. Accordingly, an important element of the reform programme is to restore debt and fiscal balances. The programme will facilitate the capital investment required in 2006 and 2007 to ensure that the ongoing reconstruction effort and preparations for the 2007 Cricket World Cup can be completed successfully. At the same time, with the adoption of a number of important revenue and expenditure measures, the fiscal reform package will allow the fiscal accounts to swing gradually from an underlying primary deficit of 2 per cent in 2005 to a primary surplus of 2.5 per cent of GDP in 2008. Providing the surplus is kept at this level thereafter, the public debt will decline sharply to the more prudent—although still high—level of 60 per cent of GDP by around 2015.

Reducing vulnerabilities

The durability of the current recovery also depends on lessening vulnerability to natural disasters and safeguarding the soundness of the financial sector.

Reducing poverty

Social conditions have deteriorated in the aftermath of Hurricane Ivan. To reverse these trends and guide the social development agenda in the coming years, the Government is preparing a comprehensive Poverty Reduction Strategy Paper (PRSP), which will update and expand the Poverty Eradication Strategy prepared in 2004..

2.4. Analysis of the viability of current policies and the medium-term challenges

The donor community has commended Grenadians for their efforts to quickly recover from the devastating effects of Hurricane Ivan. And despite the setback that Hurricane Emily dealt to the ongoing recovery from Ivan, rebuilding has continued and the economy is getting back on its feet.

The IMF has acknowledged that the proposed Government programme should help address the formidable challenges that the country still faces. These challenges include public finances that are on an unsustainable trajectory, weak prospects for sustained high growth, and heightened vulnerability to shocks.

Fiscal consolidation is the centrepiece of the reform programme. The adjustment is phased to allow the authorities to use the breathing space provided by the commercial debt restructuring to implement the fiscal measures that they have identified. This, together with the debt restructuring, should allow public debt to decline to some 60 per cent of GDP by 2015, if strict adherence to the fiscal programme and readiness to adopt corrective action are applied.

The fiscal reforms that have been initiated need to be seen in a broader context. Beyond eliminating the financing gaps the country would otherwise face, the planned reforms should also serve to bolster investor confidence by eliminating the economic uncertainty that the weakness in public finances has engendered, including uncertainty about future levels of taxation, path of expenditure, and the Government's ability to abide by the contracts. Further, the fiscal reforms should also help ease pressure on the monetary union and pave the way towards smooth and gradual integration into the world economy. Increased competitiveness and sustainable economic diversification could come from the indication that Grenada is willing to address some remaining issues with regard to the transparency of its tax system and to move away from attractive tax regimes targeted at non-residents, which may have harmful effects on other countries' tax systems.

Another important decision appreciated by the IMF is the Government's plan to introduce an automatic fuel pricing mechanism. Looking ahead, it will be important to insulate government revenues against changes in world market prices as well as allow demand to respond to price changes. To this end, the price build-up formula should include a specific tax element as well as frequent adjustments to reflect world market prices.

The success of fiscal reforms will also depend critically on spending restraint and improvements in the screening of public investment projects. Improvements to the investment climate will be important to raise growth and reduce unemployment. In the near term, the authorities are aware of the need to increase the level of private investment and are thus focusing on the need to put in place a transparent and investor-friendly framework in which investors can operate, simplifying the process through which land is made available to investors, and removing other regulatory hurdles.

Nonetheless, the programme is subject to a number of risks including hurricanes, although the authorities' programme is very much centred on reducing vulnerabilities.

CHAPTER III – OVERVIEW OF PAST AND PRESENT EC COOPERATION, COMPLEMENTARITY AND CONSISTENCY

3.1. Overview of past and present EC cooperation (lessons learned)

Grenada originally benefited from a 9th EDF allocation of €3 500 000 under the A-envelope and €3 900 000 under the B-envelope. Following the Mid-Term Review and transfers from funds left over from previous EDF allocations, the amount of the A-envelope was €9 600 000 and the B-envelope €7 800 000. Following the completion of the End of Term Review (ETR), in light of an assessment of the country's current needs and performance, the Commission agreed to increase Grenada's A Envelope by an additional €10mn. Considering the increased financial needs following the devastation caused by Hurricanes' Ivan and Emily it has been agreed to include an additional focal sector to support the *macroeconomic reform programme*, with the objective of supporting the Government of Grenada's (GoG) macroeconomic reform programme for poverty reduction: *Memorandum of Economic Policies 2006-2008* (MEP) and *Interim Poverty Reduction Strategy Paper (I-PRSP)*.

Before Hurricane Ivan, the implementation of the large Portfolio of EU Assistance to Grenada was moving slowly, mainly due to weak implementation capacity at country level exacerbated by the introduction of a new EC financial regulation for SFA projects. The hurricane has created an exceptional situation reasonably handled, in part, by the Agency for Reconstruction and Development. At the end of 2005, the NAO and Delegation agreed that all remaining uncommitted funds under STABEX would be spent through sectoral budget support in the agricultural sector, provided that the necessary ongoing public financial management assessment is positive.

Following the destruction caused by Hurricane Ivan in September 2004, the NAO requested modification of the NIP and reallocation of funds from the planned tourism project (€3 000 000) to the rehabilitation of school buildings and water facilities. All funds under the B-envelope were committed and topped up with €1 500 000 of unallocated funds under the A-envelope to finance a €9 300 000 school rehabilitation project. Remaining funds under the A-envelope will be used to finance a Water Supply Project that was originally envisaged under the 8th EDF.

The 8th EDF focused on Water Supply, while 9th EDF funds were originally intended to target tourism development, specifically fort restoration and skills development in relation to the tourism sector. Subsequent to Hurricanes Ivan in September 2004 and Emily in July 2005, an ad hoc review was carried out, and the need to change the focal sector was identified. Tourism was found to be no longer the focal sector. The major interventions foreseen are education infrastructure and water. Rehabilitation of school buildings and modernisation of the water sector would be the specific objectives to be pursued.

The total active aid portfolio for Grenada in 2005, including EDF, Stabex and SFA balances, stands at €18 200 000. The total payments under these instruments amounted to €9 600 000 in 2005, reflecting an €8 400 000 payment to the World Bank under the school rehabilitation project. New global commitments under the NIP amounted to €9 300 000 and new individual commitments to €8 600 000.

3.1.1. Focal sectors (and macroeconomic support)

9th EDF NIP – Focal Sector: School Rehabilitation and Water Supply (originally Tourism Development)

The focal sector under the 9th EDF, which received 90% (€3 150 000) of the A-envelope, was tourism development in an effort to expand the contribution of the tourism industry to the national economy. It also aimed to increase the level of services provided by the industry, both in terms of tourism product and employment generation. The support provided was supposed to be used for the restoration of Forts George, Matthew and Frederick, the establishment of a body to oversee the management and upkeep of all sites of cultural interest in Grenada, and the provision of training to persons involved in the tourism industry at all levels. In the aftermath of Hurricane Ivan and following a proposal made by the NAO, the restoration activities in respect of the three historic forts (Matthew, Frederick and George) were not implemented. The technical design studies were completed by the end of October 2005 and could be used in the context of a future intervention.

A single Financing Proposal for a *School Emergency Rehabilitation* project covering the rehabilitation of 20 school buildings damaged by the hurricane and a telecommunications project for a total amount of €9 300 000 (€7 000 000 from B-envelope, €1 500 000 from A-envelope) was drafted and submitted for approval in February 2005; it was approved by the EDF committee in May 2005. The project will be implemented over a three-year period. Activities will include civil works, furniture, school supplies and any other activity aimed at rehabilitating educational facilities. A Trust Fund was established with the World Bank for the project's implementation. The FA was signed on 22 August 2005, the Administration Agreement with the WB was signed on 8 September 2005 and 100% of the "core" reconstruction funds (excluding TA) were disbursed in October 2005 (€8 430 000). Proper coordination was maintained with the WB-funded project which was already under way and which funded the design studies and preparation activities (tender documents) in parallel with the approval process of the EDF programme. This made it possible to launch the tender and award the first contracts immediately after signature of the FA and the WB-EC agreement, and to start works for 30% of the schools before the end of 2005.

Additional focal sector following ETR : The 10 million Euros Budget Support Programme for poverty reduction through private sector development, employment and growth will be disbursed in three tranches, 4 million euros (EC\$14.4M), 2.65 million euros (EC\$9.54) and 2.65 respectively over three financial years. It will support the country's macro economic reform programme for poverty reduction and will be carried out in collaboration with the World Bank through its Technical Assistance Credit (TAC) scheme which has set performance indicators and will be monitoring the implementation of the programme. The main components of the budget support thrust will be investment promotion and business facilitation, Small and Medium Enterprise policy development and trade facilitation. 1.07 million Euros from the FLEX 2005 allocation will be added to this programme.

8th EDF NIP – Focal Sector: Infrastructure (Water Supply)

The design consultancy for the final design of the Southern Grenada *Water Supply Project* commenced in January 2004 and was scheduled to be completed by February 2005. In the wake of the passage of Hurricane Ivan in September 2004, the GoG requested some additional design studies to incorporate the repair of damage incurred as a result of the hurricane.

Accordingly, the design consultancy was extended to 31 May 2007. The project is nearing completion and has progressed satisfactorily.

The Delegation and the Government of Grenada agreed on the need to launch a separate institutional, economic and financial study in September 2005 to provide information on the sector policy framework as input for the draft Financing Proposal, which was completed in December 2005. The draft Financing Proposal was recently approved in Brussels. The Government of Grenada is expected to modify a draft Water Policy which must be approved in cabinet as a precondition for the disbursement of funds for the implementation of the works component of the project.

7th EDF RIP €1 516 180 – Focal Sector: Education

Through the 7th EDF OECS Regional Tertiary Education project, support was provided for the extension of the Hospitality Arts Building and the provision of new classrooms at the T.A. Marryshow Community College. A further financing proposal (€910 000) for this project, with funding from the 8th EDF NIP, was approved in late 2002. The two buildings have been tendered separately to allow an early start-up of the project: refurbishment of the hospitality building and a new classroom block on the main campus.

The FA for the expansion of the T.A. Marryshow Community College (TAMCC) was approved in Brussels and signed by the Government of Grenada in March 2003. Although a recommended award was made in September 2003, there have been some issues to be resolved in relation to price increases for materials which resulted in a subsequent increase in the contractors' tendered price. Furthermore, other parts of the TA Marryshow College suffered substantial damage from Hurricane Ivan, which had also to be taken into account. An agreement for the award of the contract could not be reached by the end of February 2005, at which point it was agreed to let the Financing Agreement expire on its natural date (31 May 2005) and include the "expansion" works in the framework of the newly launched post-emergency school rehabilitation programme.

The use of resources set aside for Non-State Actors

With the aim of strengthening civil society involvement in EU/Grenada development partnership, it was proposed that the National Council for Reconstruction and Development, bringing together representatives from the Government and from various segments of civil society in the country, should function as a NSA advisory panel and provide a forum for tripartite dialogue, information and consultation on development cooperation between the EU and Grenada.

Following in-depth in-country consultations involving both the Government and NSAs, the EC was advised in June 2006 that the National Council for Reconstruction and Development was no longer functional and could be replaced by the Forum for Social Dialogue. During the Programming Consultations, however, several NSAs indicated that the Forum for Social Dialogue had a different objective and would not be the best vehicle for deepening NSA involvement in the EU/Grenada development partnership. The Government of Grenada then suggested using the Multipartite Committee, which the Delegation finds acceptable provided a NSA version can be articulated, suitably expanded to include NSA(s) involved in environmental/natural disaster matters.

No resources were set aside for NSAs under the 9th EDF, but this type of intervention is envisaged under the 10th EDF.

3.1.2 Projects and programmes outside focal sectors

9th EDF (+ previous EDF balances): 12% of the Indicative Programme, or €430 000, has been earmarked for studies, audits and technical assistance under the Technical Cooperation Facility (TCF) to support the 9th EDF focal sector programme in Grenada. A financing proposal for the TCF was prepared and the Facility became operational in May 2004. Approximately 25% of these funds have been used to date.

8th EDF: The Drug Demand Reduction Project (€280 000) includes education, training, awareness-raising, and rehabilitation programmes. It is intended to reduce national demand and consumption of illegal drugs at all levels of society. The Financing Agreement was signed in 2003 and the first Work Programme for the period from October 2003 to October 2004 was launched, and later extended to December 2004 as a result of setbacks encountered due to the impact of Hurricane Ivan in September 2004. The project was completed in December 2006. The accounts have now to be settled and the project officially closed. The Grenada Project has shared several “best practice” protocols with the other three countries implementing similar Drug Demand Reduction Projects.

The initial expansion of the TA Marryshow College (Block A) Project has been shelved. The Project should now be implemented by the World Bank (WB) under the Post Emergency School Rehabilitation Project.

3.1.3 Utilisation of Envelope B

Following the devastation caused by Hurricane Ivan in September 2004, the Commission decided to double the amount of the B-envelope from €3 900 000 to €7 800 000. In line with a request by the NAO, it was agreed to use this amount for two post-emergency activities merged in a single Financing Proposal, the rehabilitation of 20 school buildings damaged by the hurricane and a telecommunications project.

No FLEX-related amounts for the application year 2003 will be processed, as the entire doubled/revised B-Envelope (€7 800 000) has been earmarked for post-emergency assistance.

3.1.4 Other instruments

STABEX Transfers

Article 186 of the Lomé IV Convention provides compensation for loss of export earnings on certain agricultural products on which countries' economies are dependent and which are affected by fluctuations in price or quantity or both these factors. The use of such *Stabex* allocations is governed by a Framework of Mutual Obligations (FMO) that stipulates the objectives, obligations, actions and results, which are expected to be achieved through utilisation of the *Stabex* transfers. Grenada is presently implementing projects and programmes funded by *Stabex* allocations for 1993–1997. Grenada did not receive allocations for 1998 and 1999, but did receive funds in connection with repayment of available balances upon expiry of the Lomé Convention in 2000 (Article 195). A new FMO will merge the allocation for 1996/97 and for Article 195.

The broad approach, which has been followed in the FMOs, is to support different agricultural sectors of the economy (bananas, cocoa and nutmeg) in order to achieve economic growth and secure foreign exchange earnings.

At the end of 2005, the NAO and Delegation agreed the future implementation of Stabex. All remaining uncommitted funds will accordingly be spent through sector budget support to the agricultural sector. Following this agreement a FMO has been prepared and is expected to be signed before then end of 2007. The objective of this new Sector Budget Support Programme is to contribute to the stimulation of economic growth and improvement in the livelihoods of the rural population, in keeping with the objectives of the Ministry of Agriculture's *National Policy and Strategy for modernising the agricultural sector* (2006) as derived from the GoG's overall national reform programme. The main result expected from this Sector Budget Support Programme is to assist the Ministry of Agriculture to achieve its primary strategic goal to support farmers to become more commercially and investment capable. This will be achieved through the implementation of structural, legal and administrative reforms which will result in:

- Well-defined government policies and strategies in respect of the use, management and administration of lands;
- New more effective-efficient institutional arrangements for land use, management and administration established (resulting in reduced transaction time/ costs in e.g.: land registration; transfer of ownership, issuance of titles etc);
- Delivery of targeted support services, to enhance entrepreneurship and promote rural investment, improved;
- A detailed analysis of gender aspects of land tenure and management that will provide specific orientation for the policy and institutional framework for the future 10th EDF Focal Sector, *Human Settlements* Sector Budget Support programme.

Stabex allocations available to Grenada are presented in a table below.

Status of Stabex finances, as of 31 December 2006

Funding year	Allocation ⁶	Payments in 2006	Payments in total	Balance
STABEX 1993	2,982,859	0	2,224,782	758,077
STABEX 1994	2,333,689	213,162	2,030,321	303,368
STABEX 1995	2,128,585	128,541	1,090,254	1,038,331
STABEX 1996/97	990,663	0	0	990,663
STABEX Art 195 Balances	338,109	0	0	338,109
TOTAL €	8,773,905	341,703	5,345,357	3,428,548

Special Framework of Assistance (SFA, EC budget)

Council Regulation (EC) No 856/1999 established a Special Framework of Assistance (SFA) for traditional ACP suppliers of bananas. Following amendment of banana trade arrangements by Regulation (EC)N°1637/98 which has changed the market conditions for traditional ACP suppliers, the EU has recognized that particular efforts will be needed to adapt to these new market conditions in order to maintain a presence on the Community market.

In order to benefit from the available funds, each qualifying country is required to prepare a strategy paper for the duration of the SFA. Additionally, each year a Financing Proposal must be submitted setting out the planned activities for implementation of the SFA allocation for that particular year. In Grenada, SFA funds are allocated to the areas of banana commercialisation and agricultural diversification (establishment of a rural credit scheme), capacity building and institutional strengthening of Government services and private sector development.

A Rider to the Financing Agreement (FA) for SFA 1999 was signed in Brussels in December 2005. There are two outstanding components under the FA. A Supplementary Irrigation Project replacing another project previously envisaged but unviable was proposed. Subsequently, EC Headquarters approved a Rider for the amendment to the Financing Agreement. However, the Rider in respect of the IRDC is not yet signed in Brussels, while an alternative project to replace the Diversification Study is yet to be finalised.

The FA for SFA 2000 was signed in March 2001 for an Irrigation component. This project was completed in July 2004 with the installation of off-farm irrigation facilities on 14 farms for 151 acres of farmland at a cost of XCD 795,351. The balance on the SFA 2000 allocation is expected to be used to implement additional irrigation activities.

The Financing Agreement for SFA 2001 (rural credit) was signed in June 2002. The Financing Agreement for 2002 (Rural Enterprise Development Programme) was signed in February 2003. The Credit Scheme is structured to give greater encouragement to financial institutions to provide investment and operating loans to entrepreneurs in the rural sector. The

⁶ Including interest

objective is to stimulate economic activity in the rural sector, and to address poverty issues in those areas.

A Financing Agreement for the project “Improving the Enabling Environment for Sustainable Agricultural Development” for SFA 2003 was signed in December 2004. The overall objective of this programme is to improve agricultural Institutional Strengthening output, increase foreign exchange, increase rural employment and incomes, reduce poverty and achieve sustained growth.

A Financing Agreement for SFA 2004 Private Sector Development was signed by the Commission in December 2004. The project is aimed at enhancing the competitiveness of the private sector and at improving the enabling environment for business. It is anticipated that the business birth rate would be increased through support for business upgrading and business start-up. The service contract was awarded in mid-2006.

A Financing Proposal was agreed by the EDF Committee in November 2005 for SFA 2005. The objective of SFA 2005 is to support agricultural and economic diversification and, more particularly, to improve competitiveness of the agricultural and other productive sectors in Grenada through the introduction and sustainable use of Information and Communication Technologies. The SFA 2005 will be implemented in the framework of a regional programme and will comprise: business skills development and e-business incubators; legislation and business regulation; networking and experience-sharing.

Expenditure of SFA resources in 2005 was hampered by the introduction of new financial regulations which applied to SFA 2003 and subsequent Financing Agreements, and to contracts not yet entered into on earlier SFAs. No significant amount was spent during 2005. At the request of the HQ, four riders were introduced in June and July 2005. These riders concern budget reallocation, modification to time extension, the implementation method, change in scope, location of activities etc, double signature closure, introduction of new financial regulations. These riders have been split into two parts and only the riders concerning time extension were signed during the last days of December 2005.

A study to prepare a medium-term strategy for the use of SFA funds during the remaining three-year period and a draft Financing Proposal for SFA 2006 were launched in early 2006. Following this study, the Delegation and the Government of Grenada agreed to dedicate SFA 2006-2008 to interventions mainly in the agriculture sector.

Funding year	Allocation⁷	Payments in 2006	Payments in total	Balance
SFA 1999	1,017,549	0	457,980	559,569
SFA 2000	507,656	100,219	381,307	126,349
SFA 2001	511,333	69,104	380,636	130,697
SFA 2002	500,000	0	0	500,000

⁷ Including interest

SFA 2003	500,000	0	0	500,000
SFA 2004	500,000	143,892	0	356,108
SFA 2005	500,000	0	0	500,000
SFA 2006	500,000	0	0	500,000
SFA 2007	500,000	0	0	500,000
TOTAL €	5,036,538	313,215	1,363,815	3,672,723

Caribbean Regional Indicative Programmes (CRIP- EDF)

Grenada, as a member of CARICOM/CARIFORUM, benefits from the many regional programmes funded through the EDF. The 7th EDF RIP has a global envelope of €105 000 000, while the 8th EDF RIP has €90 000 000 available. The 9th EDF CRIP is focusing on support for regional economic integration and integration into the world economy, for which an envelope of €57 000 000 is available. The CREP (Regional environment project) has funded some small-scale activities (eco-tourism demonstration area) in the island of Carriacou (dependency of Grenada).

Support from all ACP funds (EDF)

The EC approved €50 000 000 all ACP Trade.Com programme in August 2003, which is aimed at reinforcing the analytical and research capacities for trade policy formulation in; providing immediate assistance for ongoing negotiation and promoting activities for institutional support in the area of trade support services ACP countries. A specific project (“Hubs and Spokes”), designed for the Caribbean region, was initiated in 2004. Under this project the OECS Secretariat is benefiting from the services of a Trade Policy Adviser, soon to be assisted by a Trade Policy Analyst. Although the Contribution Agreement provides for the deployment of 29 Trade Policy Analysts, Grenada is one of six additional countries requesting this service. The Project Coordinating Committee has endorsed this proposal subject to the availability of funds.

The OECS has received funding (€280 000) for the establishment of an OECS Representation Facility in Geneva to follow up WTO matters, under the €10 000 000 WTO Support Facility, as well as for Capacity Building in support of the preparation of the EPA (€350 000) under the €20 000 000 EPA Support Facility. The Caribbean Regional Negotiating Machinery (CRNM) has also received support (€857 652) from the EPA Support Facility. In addition, the NAO Office benefited from 9th EDF Financial and Contractual Procedures Training held in Barbados in January 2005, under an All ACP programme started in 2004.

Thematic Budget lines (EC Budget)

In May 2003 the EC approved a Caribbean regional programme from budget line B7-701 (Promotion and protection of Human Rights) to further restrict the implementation of the death penalty in the Commonwealth Caribbean, with a view to its eventual abolition.

European Commission Humanitarian Aid Office (ECHO)

The European Commission's Humanitarian Aid department (ECHO) launched its first Disaster Preparedness (DIPECHO) Programme for the Caribbean in 1998, making available some €12 000 000 for the activities to prepare the most vulnerable communities for and mitigate against disaster and also, to a lesser degree, for disaster prevention. The fourth DIPECHO plan for the Caribbean was approved by the EC in 2003 and its projects were completed during the period 2004-2005.

During the year 2005, an external evaluation was carried out to assess the impact and the relevance of the DIPECHO programme in the region, and its main conclusions were that this programme had a significant impact in the region, particularly in the most vulnerable communities, and should be further supported. ECHO went along with most of the conclusions and launched its fifth DIPECHO Action Plan for an amount of €3 500 000 covering activities in the whole Caribbean region, but most particularly in Haiti, Cuba, Dominican Republic, Jamaica, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines. The projects to be implemented during this fifth DIPECHO Action Plan were started in 2005 with a duration of 15 months.

In June 2005, a decision for €500 000 was launched to support the Red Cross in the Caribbean through the International Federation of the Red Cross to strengthen their preparedness to respond to disasters. This project includes the training of personnel in evaluation and response mechanisms in water and sanitation, telecommunications, damage assessments and other components. This project should have a direct impact in the Eastern Caribbean Countries through their respective National Societies. The end of the project is foreseen for June 2006 and will be followed by an external evaluation.

In 2004, after Hurricane Ivan, the European Commission's Humanitarian Aid department (ECHO) made available to Grenada €3 000 000 for emergency assistance providing the most vulnerable people with emergency shelter, as well as food, drinking water, emergency communication services, hygiene kits and tarpaulins for house roofing. In 2005, ECHO took a new funding Decision of €1 200 000 to further support the Red Cross, through the French Red Cross, in preparing the communities to face disaster as well as to continue with the rehabilitation of houses affected by Hurricanes Ivan and Emily.

European Investment Bank (EIB)

The EIB has provided a total of €15 200 000 in financial assistance to businesses in Grenada since 1982. The EIB's investment programme provides support for GRENLEC, the island's electricity generator and distributor for their programme of equipment renewal, the construction of a locally owned resort hotel, as well as a financing facility with the Grenada Development Bank aimed at small and medium scale enterprises in the private sector.

The Bank is considering a new financing facility of €5 000 000 with the Grenada Development Bank to support an agricultural diversification programme for the island's farmers and rural businesses sponsored by ARD.

Together with Development Finance Ltd (DFL) based in Trinidad and Tobago, the Bank supports micro-finance in Grenada through a dedicated operation in Grenada, Caribbean Microfinance Ltd Grenada, a DFL subsidiary, which has provided some €680 000 in micro-loans to date.

The Bank continues to provide support at a regional level to small and medium enterprises across the East Caribbean, as well the development of the regional financial services sector, principally through its investments with the Caribbean Development Bank (Barbados), Clico Investment Bank (Trinidad and Tobago) and DFL (Trinidad and Tobago).

Centre for the Development of Enterprise (CDE)

The CDE supports private sector development by providing non-financial services to ACP companies and businesses and support to joint initiatives set up by economic operators of the Community and of the ACP States. In the OECS region the CDE supports private sector development through sector programmes in Construction and Mining, Agro-processing, Wood, Herbal Medicines and Tourism. Over the period 1999-2005, the CDE has assisted in the OECS region a total of 69 projects carrying out 103 interventions at a total cost of €719 035, of which €517 376 was contributed by the CDE. Grenada benefited from 20 interventions for a total amount of €102 895.

The PROINVEST programme, funded from EDF all-ACP funds and managed by the CDE, aims at increasing investments between the Caribbean and Europe. PROINVEST has a fund of €110 000 000 over five years to support private sector development in the Caribbean, African and Pacific Countries. By the end of 2005, the Programme had committed €5 373 679 to activities within the Caribbean region; of this, €2 212 817 was committed during the course of 2005, to support individual company business plans, public-private sector dialogue, company match-making activities, and business development institutional services.

Centre for the Development of Agriculture (CTA)

The CTA supports policy and institutional capacity development and information and communication management capacities of agricultural and rural development organisations in ACP countries. It assists organisations in formulating and implementing policies and programmes to reduce poverty, promote sustainable food security and preserve natural resources. In 2005, the Eastern Caribbean states benefited from CTA support for agricultural and rural development in the Caribbean at the regional and national levels. The activities at the regional level were implemented in collaboration with CARDI (CTA's Regional Branch Office for the Caribbean) and IICA. At the national level, the activities were targeted at the public and non-public sector and implemented through direct partnership arrangements between CTA and the relevant institutions.

3.2 Information on the programmes of the Member States and other donors (complementarity)

The EC, with grants, and the CDB, mainly with loans, are the only two institutions offering comprehensive coverage and a significant level of assistance to the OECS Countries. All other bilateral and multilateral donors and institutions have small programmes, generally at regional or sub-regional (OECS) level.

Member States active in Grenada include France and the UK (DFID), whilst Germany via GTZ has provided technical assistance to the OECS secretariat in St Lucia for the strengthening of technical/vocational training. French operations focus mainly on infrastructure (water sector and architectural preservation) while some support has also been given to marine park protection and trail development for selected tourism sites. DFID

support has been largely targeted at community development, scholarships and technical assistance to different Ministries.

The UK continues to provide significant support to the Commonwealth Caribbean (currently amounting to €15 414 914 for 2005-06). DFID's current strategy within the region emphasises working with and through regional institutions. DFID's programmes in the region are focused on three broad themes: economic management and public service delivery; trade, competitiveness and economic integration; and HIV/AIDS, crime and violence. In addition the UK has provided significant levels of bilateral debt relief to the Caribbean over recent years through the Commonwealth Debt Initiative. Grenada receives bilateral assistance from DFID and benefits from a Public Service Management Improvement Project (€1 142 171), as well as a State Forest Management Project (€1 228 678).

The Caribbean Development Bank (CDB) is a significant donor to Grenada. Funding in the 2000-2003 period was allocated to the following sectors: secondary roads, St. George polyclinic, education, rural sports facilities, IT education and computerisation of the police network. A trip to Libya in August 2001 resulted in the GoG securing grant funds from the Libyan government to the tune of EC\$2 670 000 (€723 199) and a loan of EC\$8 010 000 (€2 169 803), whilst a previous loan of EC\$16 020 000 (€4 338 712) has been written off.

Activities of CIDA, DFID, UN agencies, USAID and the World Bank in the eastern Caribbean are increasingly being conducted on the basis of sub-regional strategies. The principal areas receiving support from these agencies are regional strategic objectives such as institutional support to regional organisations, implementation of the Common Single Market and Economy (CSME), HIV/AIDS programmes, environment programmes, social recovery through economic diversification and job creation, emergency reconstruction and disaster mitigation, increased efficiency and fairness of legal systems, telecom reform, and the development of primary and secondary education.

In April 2006 the IMF approved a Three-Year Arrangement under the Poverty Reduction and Growth Facility (PRGF) in support of the economic and financial policies of the Government of Grenada. Provided that the reforms are implemented, the programme should help improve the economy's resilience to shocks and restore debt and fiscal sustainability.

Grenada receives technical assistance through the Caribbean Regional Technical Assistance Centre (CARTAC), a regional resource based in Barbados, which provides technical assistance and training in core areas of economic and financial management at the request of its participating countries. CARTAC operates like a UNDP project and is funded by all major donors (the largest shares provided by CIDA and DFID), including the EC.

In March 2007 the World Bank (WB) was in the process of appraising a Growth and Social Protection Technical Assistance Credit – GSPTAC – for Grenada. The technical assistance would encompass five broad areas: (i) Modernised Tax Administration Project; (ii) Customs modernisation; (iii) improvement in the investment climate; (iv) implementation of an export strategy; and (v) Social protection in different areas. At the same time, a Public Sector Modernization Technical Assistance Credit has been launched, aimed at improving the efficiency and effectiveness of public service delivery. The project will also provide the Government with the tools needed to “right-size” public sector functions. While it is not primarily directed at private sector development, the project does seek to strengthen the

enabling environment for small business development through support for enhanced State-private sector collaboration.

Following Hurricane Ivan, the Agency for Reconstruction and Development has led the Donor Coordination in the area of natural disasters. The EC is co-funding a school rehabilitation programme with the World Bank.

The donor community present in the Eastern Caribbean region has agreed to work through "Coordination Groups", under the umbrella of UNDP, in order to address specific areas of importance and those requiring immediate action. Groups have been established in the following areas: Disaster Management, Climate Change and Environmental Management (led by CIDA); Governance and ICT (led by DFID); Poverty and Social Sector Development (led by UNDP); and Trade & Private Sector (formerly led by the EC Delegation in Barbados, but to be merged with the CRNM Donor Coordination Group).

The WB and UNDP have introduced an on-line tool to support Donor Coordination: the RedBook On-line (www.redbookline.net). This database contains projects funded by donors in the Eastern Caribbean, as well as relevant documents (Strategy Papers, Art. IV Consultations, Studies, etc.). Once this tool has been finalised it will be widened to the whole Caribbean.

While the EC Delegation has excellent relationships with all donors and works particularly closely with DFID, WB and IMF, especially in the programming of budget support programmes (co-financing is taking place with the WB and DFID in this area), donor coordination so far has been based on ad-hoc interventions and there is therefore a need for a more systematic policy and operational coordination in the Eastern Caribbean. Coordination of policy-based assistance is a major challenge, given the relatively limited role of the WB and IMF in OECS Countries. It is hoped that operational cooperation will be launched with the CDB through a memorandum of understanding and a contribution agreement (subject to an institutional and financial audit). There is room for improvement in relations with the EIB, CDE and CTA. In 2006 the EIB opened a Caribbean Country Office in Martinique that should enhance the EIB's portfolio and cooperation with EC Delegations in the region.

Donor dialogue has recently improved around the OECS Economic Union debate and the various Donors' Country Strategy Papers exercise (the Delegation has been consulted on the new programming strategies of the WB, the IDB, the CDB and UNDP, and vice-versa). There is scope for more structured cooperation, which could be built on:

- the upgrading/scaling up of viable, small pilot projects that some donors implement
- systematic sharing of the significant analytic work
- harmonisation of individual donor CSPs
- complementary interventions between grant donors (EC) and lenders (IDB, CDB, EIB) with the use of co-financing, where feasible
- a working modality of donor cooperation on budget support

3.3 Other EC policies

The EU policy objective of *strengthening regional cooperation between the ACP States and its Overseas Countries and Territories (OCT) and Outermost Regions* is particularly important in the Caribbean given the presence of several British and Netherlands' OCTs and three French Departments. In recent years, the DOMs have considerably strengthened their

relationship with OECS Countries, in particular within the framework of the EU Interreg III-B Caribbean Programme and the Association of Caribbean States (ACS), yet joint cooperation activities are still at an early stage of development. The Clovis Beaugard Conference (Martinique, November 17-18, 2005), gathering together for the first time the Caribbean DOMs and OCTs, CARIFORUM Member States, EU Member States (France, the Netherlands and UK) and the European Commission, paved the way for strengthening regional cooperation between the DOMs, OCTs and the neighbouring Caribbean Countries, and produced a commitment to work in the areas of Trade and Investment, Interconnections, HIV/AIDS and Natural Disasters.

The EC trade and agriculture policies are certainly relevant to Grenada, notably the trade regime concerning bananas as well as the support schemes benefiting Community banana producers. In an increasingly interdependent and globalised world, a major objective of EU development policy is to assist developing countries to better tie together the globalisation process. EU cooperation will be primarily directed towards ensuring that the full CSME and the development-oriented EU-CARIFORUM Economic Partnership Agreement (EPA) enter into force by January 2008. Through the establishment of the EPA, the EU is seeking to help the Caribbean ACP partners to seize the opportunities of the new global challenges and address transitional costs, by combining trade relations with very substantial economic and development cooperation support.

Because of their close relationship, the UK and the Caribbean meet every two years to jointly discuss key issues of concern to the region and the UK. The fifth UK-Caribbean Forum (Barbados, 26-28 April 2006) discussed the impact of EU sugar regime reform on the Caribbean, the need for human resource development, capacity building in legal drafting, further debt relief and support to the CSME-RDF, and national and regional security issues ahead of the 2007 Cricket World Cup.

3.4 Description of the political dialogue between the EC and Grenada

The EU political dialogue with the Caribbean takes place mainly via the joint ACP-EC institutions, in particular the Council of Ministers and the Joint Assembly, which includes Members of Parliament of the signatory States. At the regional level, a specific yearly dialogue between CARIFORUM and the European Commission provides an opportunity for discussing a wide range of issues of mutual interest. The EU and the Caribbean base their political systems on pluralist democracy, fundamental rights and the rule of law, acting together and adopting multilateral approaches to global challenges.

The EC *"renewed strategy" towards Latin America and the Caribbean* underlines the strong determination to strengthen the EU-LAC partnership. The strategy includes stepping up political dialogue between the two regions; stimulating economic and commercial exchanges; encouraging regional integration; tackling inequality; and tailoring development and aid policy more closely to real conditions in Latin America and the Caribbean. The fourth EU-Latin America/Caribbean Summit ("Strengthening the bi-regional strategic association", Vienna, 11-12 May 2006) produced commitments to reinforce cooperation on human rights, protect the environment and combat drug trafficking and poverty.

Following Hurricane Ivan, the Government indicated that it was not ready to hold a political dialogue with the European Commission and EU Member States within the framework of the Mid-term Review in late 2004, as was done in other OECS Countries.

An opportunity for political dialogue arose during the EU-Caribbean Programming Seminar held in Santo Domingo in April 2006 in the presence of Commissioner L. Michel.

3.5 Description of the state of the partnership with Grenada and progress towards harmonisation

In Barbados and OECS Countries, only two Member States are present on the ground and have cooperation programmes, namely UK-DFID and France. Most of the DFID programmes are of a regional nature (CARICOM-wide). DFID has very few bilateral programmes in the OECS (Dominica and Grenada), limited to addressing strategic issues such as Fiscal and Public Sector Reform. As regards France, it has a rather limited cooperation programme since the OECS Countries are no longer part of the *Zone de Solidarité Prioritaire*, and therefore funds small ad hoc activities in these countries.

There is regular consultation, sharing of information and very good cooperation with these Member States, for instance with DFID on the Sugar Adaptation Strategies and Country Macroeconomic Assessments.

An opportunity for consultation was offered to all EU Member States present in the region. Also on 20 June 2006, in St Kitts, the Delegation held an important consultation session on the 10th EDF Programming in Barbados and OECS Countries, attended by the seven NAOs and all major Donors and Agencies, in which the UK and France participated.

CHAPTER 4 – RESPONSE STRATEGY

Based on the analyses made in the previous chapters, the EC response strategy has been formulated taking into consideration the following aspects:

- The challenges and opportunities presented by globalisation and trade liberalisation, especially those posed by the establishment of the Caribbean Single Market and Economy (CSME) and the Economic Union of the Organisation of Eastern Caribbean States (OECS), and the need to adapt a country of limited resources to these new realities;
- The main challenges that need to be addressed in OECS Countries, namely fiscal consolidation/ public sector reform; private sector development; trade and regional integration; skills development; and security enhancement (especially natural disasters);
- The articulation by the Government of a medium-term economic reform programme centred on four key objectives – fiscal adjustment (reduce public debt from its present level of 128% of GDP); structural policies (improve the investment climate and remove policy-induced distortions in the labour and financial markets); reducing vulnerabilities (stemming from extreme weather events and weaknesses in the regulatory framework of the financial sector); and social development agenda (poverty eradication strategy as an interim-PRSP);
- The unprecedented damage amounting to 200 per cent of GDP caused by Hurricane Ivan in 2004 and the impact of Hurricane Emily in 2005, which caused additional damage (mainly in rural areas) estimated at 12 per cent of GDP;
- The approval by the Government of a National Physical Development Plan prepared by the Physical Planning Unit in 2003, which contains a national perspective for development but needs to be complemented by Local Area Plans; the Government has

assigned high priority to improving the shelter conditions of low-income households. A Poverty Eradication Strategy has been in place since 2004 but is being revised to be more strategically focused and better integrated within the medium-term macroeconomic framework.

- The elaboration by the Government of a draft Human Settlement Policy 2005-2015 and the related strategic human settlement programme setting the priorities for planning and implementing the recovery from Hurricanes Ivan and Emily, using the National Physical Development Plan as a guide; “Build Back Better” is the motto of the Government’s draft Human Settlement Policy 2005-2015, which acknowledges the need to address shortfalls such as: 1. the unavailability of affordable land suitable and safe for settlement by low-income households, resulting in a proliferation of hazardous housing settlements often on illegal lands and making it necessary both to relocate families from these high-risk areas and to provide more suitable housing in safer and normal locations; 2. the lack of adequate land use plans and systems for regulating the construction sector, and inadequate enforcement of the building codes having all served to increase the vulnerability of the housing stock to natural hazards; 3. the need for new digital survey data to enhance basic planning functions such as land use planning and physical planning to facilitate the completion of the National Cadastre;
- The approval by the International Monetary Fund of a three-year arrangement with the Government of Grenada under the Poverty Reduction and Growth Facility in April 2006;
- The sectors already covered by past and ongoing EC cooperation as well as by cooperation involving other development partners;
- The recognition that some of the other immediate priorities for Grenada related to improving competitiveness may be addressed at the regional level under the 10th EDF CRIP, which will focus primarily on Regional Integration & TRTA, whereas the non-focal area addresses Vulnerability and Social Issues, specifically including disaster and environment management;
- The objectives of the new EU Development Policy as defined in the EU Communication on a Consensus for Development and in the Communication on an EU-Caribbean Partnership for Growth, Stability and Development, notably as concerns the promotion of good governance in the tax area, and the comparative advantage of the EC as a provider of foreign aid;
- The need for a more effective Donors’ policy and operational coordination around the Countries’ home-grown policies and strategies to ensure full ownership of the interventions funded by Donors.

4.1. Focal Sector: Human Settlement

On the above-mentioned grounds, it is hereby proposed that the "A envelope" be concentrated on supporting Human Settlement in Grenada, with special attention to the consolidation over time of current Government efforts aimed at reducing the economic and environmental vulnerability of low-income households, and to provide them with secure living accommodation, appropriate infrastructure and services.

The impact of Hurricane Ivan in 2004, aggravated by Hurricane Emily in 2005, has significantly worsened Grenada’s social profile, affecting the quality of life of a wide range of the population. Poverty monitoring indicators reveal that the economic situation and quality of life of the poorest segment of the population has declined significantly during the last two years.

(i)

Although significant progress has been achieved with the repair of many homes and the replacement of some, the construction of new settlements remains a major challenge. To coordinate and give direction to the country's reconstruction efforts, the Government established in 2005 the Agency for Reconstruction and Development Inc. (ARD).

Settlements are being designed with the approach of the draft Policy in mind. The Government has secured external funding to finance infrastructure works in two new sites. However, the funding will not be enough to adequately implement this policy so more sustainable sources of funding need to be secured over the medium term.

The structure and management of public finances in Grenada is sound. The immediate fiscal shortfall, including the large financing gap in 2005, has been addressed through a tripartite burden-sharing arrangement: fiscal adjustment, donor assistance, and commercial debt restructuring.

It is thus proposed to dedicate 80% of the A-envelope under the 10th EDF to a Human Settlement Sector Support Programme which will consolidate current Government efforts, with the support of development partners, in terms of addressing human settlement needs in a sustainable manner through the implementation of the Human Settlement Policy 2005-2015.

The overall objective of the programme is the social and economic recovery of Grenada by facilitating improved human shelter conditions for low-income households. The specific objective is to improve the shelter conditions of low-income households in Grenada, on a safe and sustainable basis, by providing infrastructure and services on new human settlements, thereby contributing to improvement in the quality of life of high-risk and low-income households.

Consistency of this strategic choice with the current policies sustained by the Government is evident. The strategic objectives of the Government for the medium term are fourfold – sustained high economic growth; restoring fiscal and debt sustainability; reducing vulnerabilities; and alleviating poverty.

Regarding the implementation modality for delivering EC assistance under the 10th EDF, Sectoral Budget Support (SBS) will be adopted to assist the Government in implementing its Human Settlement Policy 2005-2015 (still at a draft stage) and the derived Human Settlement Programme. In proposing this modality, the EC acknowledges the existence of both a draft sector policy and an overall strategic framework (the PRSP); a medium-term expenditure framework (MTEF) and an annual budget; a three-year PRGF IMF Programme; and a coordination process amongst the donors in the sector, which is being led by the Government.

Cross-cutting issues will be an integral part of the budget support scheme and will be mainstreamed under the aegis of the Government's Human Settlement Sector Programme. Indicators of achievement that will enable the EC to measure progress on policy reforms will ensure that the rights of women, children and other disadvantaged groups of the population are taken into consideration and that adequate protection of the environment is provided. Environmental management is an imperative because of the impact of Hurricane Ivan. This disaster has created a number of severe environmental problems, but it has also presented a unique opportunity to integrate environmental management concerns into the country's development programmes.

On matters related to complementarity with other donors, the proposed programme will take into account ongoing disaster management projects being funded by the EC under the 9th EDF and by other development partners, and specifically the activities implemented by the Caribbean Disaster Emergency Response Agency (CDERA) and supported by WB, OAS, USAID, UNDP and CIDA. Coordination of these efforts is ensured by the Government through the establishment of the Agency for Reconstruction and Development Inc. (ARD) in 2005. All the above agencies will be consulted when the Proposal is drawn up.

The country's commitment to the focal sector as a contribution to implementing the response strategy in this field is contained in the draft Human Settlement Policy 2005-2015 and the related strategic human settlement programme setting the priorities for planning and implementing the recovery from Hurricanes Ivan and Emily, using the National Physical Development Plan as a guide.

Possible risks are primarily related to changing Government priorities over the five years that the programme is expected to last and to deterioration of the macro-economic policy environment prevailing at the time of formulating this proposal.

4.2. *Non-Focal Sector 1: Technical Cooperation Facility*

Approximately 10% of the "A Envelope" will be allocated to the Technical Cooperation Facility, particularly to support Non-State Actors and possibly to provide Trade-Related Technical Assistance.

The overall objective of the TCF is to support the implementation of the NIP and other relevant ad-hoc activities as needs emerge. The specific objective is to provide rapid financing for i) Technical Assistance; ii) Training Support and Capacity Building; and iii) Conferences and Seminars.

It is already envisaged that part of the funds under the TCF could be allocated to the following interventions:

- Good Governance in the Tax Area. This would support efforts in particular to complete the transparency of the tax system to the extent necessary to fulfil obligations under a tax information agreement concluded with EU Member States, to confirm availability to conclude tax exchange of information agreements with EU Member States willing to do so, and to design or amend business tax regimes so as to ensure that they may not have any potentially harmful effect on EU Member States' tax systems. The Government can profit from support in implementing this, and this could go together with capacity building for the administrations concerned.

Support Non-State Actors, notably through consolidation of the NSA National Advisory Panel, as an important instrument for enhanced dialogue among the Government, the EU, the private sector and civil society organisations. NSAs can benefit from the three main areas of intervention of the TCF. The participatory approach of NSAs at all levels in a country's development is one of the fundamental principles of the Cotonou Agreement. NSAs are to be encouraged to take part in the design, implementation and review of national development strategies. For the part of this programme which will support NSAs, the EC may make use of article 15§4 of Annex IV the revised Cotonou Agreement which allows it to appraise programmes and projects and thus be the Contracting Authority, giving rise to the establishment, between the Commission and the NSAs, of grant contracts as defined in article 19a of Revised Cotonou. Support for non-state actors will cover all types of non-state actors

eligible for financing as defined in Article 6 (title I of part one) of the Revised Cotonou Agreement (“private sector, economic and social partners, including trade union organisations; civil society in all its forms according to national characteristics”) Non Governmental Organisations-, CBOs – Community Based Organisations-, FBOs – Faith-based organisations- and more), and in accordance with the criteria laid down by the Council of Ministers. Activities supported will all be not-for profit and will mainly be related to capacity building, advocacy, research, awareness raising, and monitoring/watchdog. "

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- Trade-Related Technical Assistance. As said earlier, organisational capacities and resources in OECS Countries are inadequate to cover the different trade negotiating theatres in which they are involved, as many of the Ministries are very small with limited technical capacity. The Government would therefore benefit from technical assistance in this area, in particular to deal with specific needs linked mainly to the follow-up of international trade negotiations, including the EU-CARIFORUM Economic Partnership Agreements, and the establishment of the Caribbean Single Market and of the OECS Economic Union.

4.3. *Non-Focal Sector 2: Technical Assistance to the NAO*

Approximately 10% of the “A Envelope” will be allocated to providing Technical Assistance to the NAO Office.

The objective is to provide technical assistance to the NAO Office in order to ensure efficient management and coordination of EC (not only EDF) funds and to guarantee an increased implementation rate in the future, while supporting human resources and administrative capacities for the implementation of the SBS. Past and present cooperation has shown the utmost importance of providing the NAO Office with the necessary human resources to ensure more effective, efficient and rapid implementation of EU-funded projects.

PART 2 - NATIONAL INDICATIVE PROGRAMME

1. INDICATIVE PROGRAMME

Introduction

On the basis of the cooperation strategy presented in Part One and in accordance with Article 4 of Annex IV to the Cotonou Agreement, the Indicative Programme has been drawn up as a set of tables showing the intervention framework for each sector, the financial programming timetable and a detailed schedule of activities for all listed programmes over a rolling three-year period.

Amounts mentioned in this chapter indicate the overall breakdown of funds between the focal sector(s), macro-economic support and other programmes. The breakdown may be adjusted in the light of the operational, mid-term, final or ad hoc reviews. However, for any adjustment resulting in a substantial change to the structure of the response strategy, a formal decision in the form of an addendum to the strategy document will be required.

Financial Instruments

The implementation of the EC's cooperation strategy with Grenada will be financed from several financial instruments. The following is an indication of their mobilisation as currently envisaged.

10th EDF, "A" envelope, €6 000 000

This envelope will cover long-term programmable development operations under the strategy, and in particular:

Focal Sector: Human Settlement. This allocation is designed to cover the long-term development activities identified in the context of the response strategy. It will absorb €5 000 000, which represents approximately 84% of the total funds made available by the EC. The implementation modality will be Sector Budget Support if the eligibility criteria are fulfilled.

Non-focal Sector 1: Technical Cooperation Facility (TCF), notably to support Non-State Actors, to promote good governance in the tax area, and possibly to provide Trade-Related Technical Assistance. This will take up to €500 000, which represents approximately 8% of the total allocation.

Non-focal Sector 2: Technical Assistance to the NAO Office. This will take up to €500 000, which represents approximately 8% of the total allocation.

10th EDF, "B" envelope, €3 200 000

This envelope will cover unforeseen needs such as emergency assistance where such assistance cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. In accordance with Article 3(5) of Annex IV to the Cotonou Agreement, this amount may, if necessary, be increased in the light of the operational or ad hoc reviews.

Investment Facility

In addition to the financial instruments mentioned above, of which the A envelope is the main programmable basis for the NIP, the 10th EDF includes an Investment Facility, which is an instrument managed by the European Investment Bank. The Investment Facility is not part of the NIP. Some specific activities may be supported by the Centre for the Development of Enterprise (CDE) and the Centre for the Development of Agriculture (CTA).

Caribbean Regional Indicative Programme (CRIP)

The 10th EDF Caribbean regional indicative programme will cover long-term programmable development operations under the regional strategy for CARIFORUM. The allocation is not part of the Indicative Programme but will clearly have repercussions at national level since the main intervention sector under the CRIP will focus on support for regional integration.

Other financial instruments

Specific activities may be supported by external actions funded by the general budget of the European Community carried out under the financial framework for 2007-2013 subject to special procedure and availability of funds, and out of the own resources of the EIB. Actions funded by the general budget include programmes funded under the Development Cooperation Instrument such as the thematic programmes "investing in people", "non-state actors in development", "migration and asylum", "environment and sustainable management of natural resources" and "food security", as well as actions funded from other instruments such as the stability instrument, the instrument for the promotion of human rights and democracy or the instrument for humanitarian and emergency assistance.

1.2.6. Monitoring and evaluation

Monitoring of results and evaluation of the impact of individual activities (programmes, projects, sectors) under this CSP will be undertaken in line with the Technical and Administrative Provisions that are attached to each individual Financial Agreement drawn up to implement this CSP.

The results and impact of the Community's cooperation with Grenada implemented through the NIP and through other external actions funded by the general budget of the European Community will be assessed by means of an independent external evaluation. This country-level evaluation may be undertaken jointly with EU Member States and possibly also with other donor agencies.

Focal Sector: Human Settlement

An indicative amount of €5 000 000 will be set aside for intervention in this Focal Sector.

The overall objective of the programme is the social and economic recovery of Grenada by facilitating improved human settlement and human shelter conditions for low-income households. The specific objective is to improve the shelter conditions of low-income households in Grenada, on a safe and sustainable basis, by providing infrastructure and services on new human settlements, thereby contributing to improvement in the quality of life of vulnerable and low-income persons.

Through the Human Settlement Development Programme, 2,500 low-income households will have access to homes (house or apartment) with the kind of amenities not previously available to them. This will reduce the economic and physical environmental vulnerability of those low-income households, and provide them with more secure living accommodation. Persons living in vulnerable areas such as along beachfronts, steep hillsides and gullies will be able to be relocated to areas which are less susceptible to storm surges, landslides and flooding, thereby improving their chances of survival during another natural hazard event. The Programme will provide psychological and financial security for beneficiaries because property will serve as a tangible asset that can be used to increase borrowing power, thereby allowing persons to increase their wealth and well-being. The project will contribute to the social and economic recovery of Grenada and thereby have a significant impact on poverty reduction in the country.

The planned intervention is fully in accordance with the Government's own long-term strategy, i.e. from urgency of reconstruction to proper long-term planning and definition of necessary policy, regulatory and legal frameworks, as addressed in the draft Human Settlement Policy 2005-2015, the forthcoming National Land Policy, new draft Planning Regulations and the evolving Construction Quality Assurance Mechanism. Human settlement is an all-embracing approach to the sustainable development of the living environment. It incorporates:

- land use, land ownership, land development
- infrastructural development
- shelter and housing
- productive economic activity particularly related to job creation in the formal and informal sectors
- the provision of social services and recreational, sporting and cultural facilities
- the quality of relationships within the community

The Human Settlement Development Programme is being supported by the development of three major preliminary steps namely: i) the establishment of a land registry (cadastre); ii) a country environmental assessment; iii) a human settlement development plan (the core of the programme, with a 20-30 year horizon). The Government, with the support of the EC and other development partners, is already committed to addressing the first two steps. Additional support will be provided under the 9th EDF TCF to ensure that these three steps are fully addressed before engaging in the intervention.

It is envisaged that the proposed intervention would be implemented through the sector budget support modality, assuming that all required conditions are met. If for any reason this is not the case, the project approach will be used. Sector Budget Support will ensure full ownership of the Human Settlement Sector Programme by the Government based on its Human Settlement Policy and Strategy (now at a final draft stage) and the coordination in place with other Donors. Technical Assistance to the relevant Government Department/Agencies is foreseen as part of the intervention, especially to review and update the sector policies and programmes on a regular basis.

The main sector policy and programme measures to be undertaken by the Government are twofold – finalisation and adoption of the Human Settlement Policy 2005-2015, and securing funding for priority actions. In this regard, the Government has already secured an IDB loan (managed through CDB) for EC\$5 073 000 (€1 373 752) covering 52% of total project costs

to finance infrastructure works at two new sites (Soubise and Mount Gay), and has submitted an application to CARICOM (Petroleum Stabilisation Fund) to fund work at another six sites. The Soubise project is designed to provide a safer location for families on a vulnerable stretch of coastline. Mount Gay is urban in nature, and will be designed to provide desperately needed housing for some of those in the urban sector. The plan is to erect a total of around 345 housing units of varying types and sizes on the two sites. The Submission to CARICOM has two components namely (i) Hazard Mitigation Planning – the provision of hazard mitigation tools through the aerial survey and re-mapping of the country, finalisation of the National Cadastre, and the introduction of Local Area Planning, and (ii) Hazard Mitigation: Human Settlement Infrastructure – the provision of around 400 serviced plots at Dunfermline (St Andrew's), Mount Reuil (St Patrick's), Frequente (St George's), Black Bay (St John's), La Calome (phase2) and Laura (St David's). The first component's total cost is around EC\$2 670 000 (€722 889), while the second has been estimated at EC\$10 413 000 (€2 819 678). Crucially, the Government is pursuing donations being offered by the governments of other countries – People's Republic of China (2000 housing units) and Venezuela (500 units in addition to the 100 already erected). The Government of Grenada is committed to finding further suitable sites to accommodate these donated housing units, and to prepare them with appropriate infrastructure and services. The planned intervention will enable the Government of Grenada to extend its programme of human settlement infrastructure development.

The Government will continue to ensure mainstreaming of cross-cutting issues, such as environmental aspects and community participation, paying special attention to female heads of households, which are deemed of particular importance within the framework of this intervention.

General budget support

The indicative programme does not provide for general budget support. However, in the light of changing needs, it may be decided to reallocate funds from other application points in the NIP to this type of support. Such a decision can be taken in the form of a specific agreement between the Chief Authorising Officer and the National Authorising Officer or within the context of an operational, mid-term, final or ad hoc review if the eligibility criteria are fulfilled.

Other programmes

Technical Cooperation Facility

An indicative amount of €500 000 will be set aside for the Technical Cooperation Facility (TCF), notably to promote good governance in the tax area, non-state actors (NSAs) and possibly to provide Trade-Related Technical Assistance.

The overall objective of the TCF is to support the implementation of the NIP and other relevant ad-hoc activities as needs emerge. The specific objective is to provide rapid financing for i) Technical Assistance, ii) Training Support and Capacity Building, and iii) Conferences and Seminars.

It is already envisaged that part of the funds under the TCF could be allocated to the following interventions:

- Good Governance in the Tax Area. This would support efforts in particular to complete the transparency of the tax system to the extent necessary to fulfil obligations under a tax information agreement concluded with EU Member States, to confirm availability to conclude tax exchange of information agreements with EU Member States willing to do so, and to design or amend business tax regimes so as to ensure that they may not have any potentially harmful effect on EU Member States' tax systems. The Government can profit from support in implementing this, and this could go together with capacity building for the administrations concerned.

Support Non-State Actors, notably through consolidation of the NSA National Advisory Panel, as an important instrument for enhanced dialogue among the Government, the EU, the private sector and civil society organisations. NSAs can benefit from the three main areas of intervention of the TCF. The participatory approach of NSAs at all levels in a country's development is one of the fundamental principles of the Cotonou Agreement. NSAs are to be encouraged to take part in the design, implementation and review of national development strategies. Dialogue between civil society and the Government is well established and long-standing in Grenada. Civil society is quite active and has definitely received a strong boost during the post-hurricane period, when many international organisations (e.g. USAID and the Red Cross) have worked through the local NGOs to reach the communities and have promoted the creation of numerous CBOs. Despite the undoubtedly valuable experience of working together with international organisations, it is felt that there are several areas where the performance of the NSAs of the country could be assisted and, therefore, improved. The intervention would aim at strengthening the capacities of NSAs, in order to support their involvement in the policy dialogue within the country, especially as regards small organisations with the capacity to reach and represent vulnerable or isolated groups of the population, and to allow them to play a more meaningful role on the national scene. This would focus mainly on strengthening the NSAs' internal structure and organisation, broadening their networks, improving their management qualities and setting up sustainable fund-raising mechanisms. Monitoring mechanisms to assess the quality of involvement will also be introduced. Activities that might be envisaged in support of the NSAs include capacity building / training, assistance for establishing a regulatory framework (e.g. registration, NSA legislation), enhancement of NSAs' coordination and networking capacities, launch of a grant scheme and calls for proposals. For the part of this programme which will support NSAs, the EC may make use of article 15§4 of Annex IV the revised Cotonou Agreement which allows it to appraise programmes and projects and thus be the Contracting Authority, giving rise to the establishment, between the Commission and the NSAs, of grant contracts as defined in article 19a of Revised Cotonou. Support for non-state actors will cover all types of non-state actors eligible for financing as defined in Article 6 (title I of part one) of the Revised Cotonou Agreement ("private sector, economic and social partners, including trade union organisations; civil society in all its forms according to national characteristics") Non Governmental Organisations-, CBOs – Community Based Organisations-, FBOs – Faith-based organisations- and more), and in accordance with the criteria laid down by the Council of Ministers. Activities supported will all be not-for profit and will mainly be related to capacity building, advocacy, research, awareness raising, and monitoring/watchdog. "

- Trade-Related Technical Assistance. This would help the Government to deal with specific needs linked mainly to the follow-up of international trade negotiations, including the EU-CARIFORUM Economic Partnership Agreements, and the establishment of the OECS Economic Union and the Caribbean Single Market.

The main measures to be taken by the Government as a contribution to implementing the response strategy in the non-focal areas are:

- *NSAs*: Ensure the establishment and encourage the operation of a NSA forum widely representative of civil society, which should become the legitimate interlocutor within the tri-partite dialogue with the Government and the EU. Facilitate the establishment and functioning of an institutional framework for consultation with civil society on national issues.
- *Good governance in the tax area*: Commit to complete transparency of the tax system to the extent necessary to fulfil obligations under a tax information agreement concluded with EU Member States, by ensuring the availability of bank information for tax purposes also in the case of international banks, mechanisms to identify owners of bearer debt and legal ownership of companies, insofar as this would be requested by EU Member States willing to exchange information for tax purposes with Grenada. Confirm availability to conclude tax exchange of information agreements with EU Member States which are willing to do so. Consider how to remove the potentially harmful effects of its offshore tax regimes by 2013 at the latest. Confirm that similar regimes will not be introduced in the future.
- *TRTA*: Ensure adequate staffing to cover trade negotiations in different fora, in particular in the EU-CARIFORUM EPAs. Remain committed to regional integration and the conclusion of international trade negotiations.

Technical Assistance to the NAO

An indicative amount of €500 000 will be set aside for providing Technical Assistance to the NAO Office.

The objective is to provide technical assistance to the NAO Office in order to ensure efficient management and coordination of EC (not only EDF) funds and to guarantee an increased implementation rate in the future. Past and present cooperation has shown the utmost importance of providing the NAO Office with the necessary human resources to ensure more effective, efficient and rapid implementation of EU-funded projects. It has to be recognised that the NAO Office deals with three different funding instruments (EDF, STABEX, SFA) with different procedures, and this puts a strain on the NAO Office's management capacity.

Intervention Framework & Performance Indicators

Focal Sector – Human Settlement

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objective	The social and economic recovery of Grenada by facilitating improved human shelter conditions for low-income households	Reduction in the number of households occupying lands which are hazardous and unsuitable for housing People living in vulnerable areas such as along beachfronts, steep hillsides and gullies are relocated to areas less susceptible to storm surges, landslides and flooding	Ministry of Social Development and Housing data	Government overall housing recovery policy is implemented
Programme Purpose	Improve the shelter conditions of low-income households in Grenada, on a safe and sustainable basis, thereby contributing to improvement in the quality of life of vulnerable and low-income households	Government shows commitment to implement the HSP in close consultation with stakeholders and donors involved Funds provided under the intervention are efficiently used to support the HSP		Government pursues reconstruction efforts and new house construction in a timely manner Construction management is effective

Results

Review and updating of the HSP 2005-2015

Human Settlement Development Plan drafted

Establishment of Land registry (cadastre)

Country Environmental Assessment (CEA)

Effective enforcement of building codes

Development of Local Area Plans complementing National Physical Development Plan

Housing Development available to low-income households

Revised HSP on a yearly basis

HSDP

Cadastre established

CEA Report

New housing development use building codes

Local Area Plans developed

Increase in the number of housing developments available to low-income households.

Government continued commitment to the development of the housing sector

Beneficiaries are able to access finance for the purchase of properties.

Total Commitments:	€ M		6				
Total Cumulative Commitments :	€ M		6				

Total Commitments :	6 € M		0.2	2.2	0.2	1.2	0.2
Total Cumulative Commitments :	6 € M		0.2	2.4	2.6	3.8	4

Schedule of activities

1 st FOCAL AREA (€5 M)	Indicative allocation	2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		FS*	AF		FD	ζ	AF	ζ	ζ FD	ζ	ζA F	ζ	ζ FD
NON-FOCAL AREAS (€1 M)		2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Technical cooperation facility	€0.5 M		AF	ζ FD	ζ	ζA F	ζ	ζ FD	ζ	ζA F	ζ	ζ FD	
- TA to the NAO Office	€0.5 M		AF	ζ FD	ζ	ζA F	ζ	ζ FD	ζ	ζA F	ζ	ζ FD	

FS: Feasibility Study

AF : Action Fiche

FD: Financing Decision

ζ : Project implementation

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* FS will start before 2008 using 9th EDF funds. (to be confirmed by INFRA Section)

ANNEXES

ANNEX 1 – “Country at a glance” table

A. TABLE OF MACROECONOMIC INDICATORS

Source: World Bank OECS Country Assistance Strategy 2007-2011

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross International Reserves, end of period	384	446	505	543	632	679				
M2 millions of EC\$	986	1090	1167	1260	1483	1518				
Exports (GNFS) ^b		-11	-17	5	-12	-3	48	13	11	11
National accounts (as % of GDP)										
Gross domestic product ^a	100	100	100	100	100	100	100	100	100	100
Agriculture	8,1	8,2	9,7	9,0	8,6	7,7	7,6	7,5	7,3	7,3
Industry	24,1	22,9	22,6	23,7	22,5	22,9	22,2	21,7	21,6	21,0
Services	67,8	68,8	67,7	67,3	69,0	69,4	70,2	70,9	71,1	71,7
Total Consumption	75,8	89,0	90,0	90,2	105,9	102,7	96,7	95,3	95,1	92,8
Gross domestic investment	42,1	32,4	34,7	39,8	27,7	43,3	33,3	30,8	29,1	28,5
Government investment	12,2	15,3	22,4	15,0	7,9	19,2	14,0	12,0	10,5	10,0
Private investment	29,9	17,1	12,3	24,8	19,8	24,1	19,3	18,8	18,6	18,5
Exports (GNFS) ^b	57,5	49,9	42,2	40,7	40,3	37,1	35,9	37,3	37,7	39,2
Imports (GNFS)	75,4	71,3	66,9	70,7	73,9	83,1	65,9	63,4	61,9	60,5
Gross domestic savings	24,2	11,0	10,0	9,8	-5,9	-2,7	3,3	4,7	4,9	7,2
Gross national savings ^c	21,0	6,5	3,3	6,4	-4,7	..	..	..	..	..
<i>Memorandum items</i>										
Gross domestic product (US\$ million at current prices)	410,4	394,6	407,5	443,7	437,3	454,3	497,8	537,3	572,7	610,3
GNI per capita (US\$, Atlas method)	3650	3390	3290	3690	3760,0	..	..	..	..	..
Real annual growth rates (% , calculated from 1990 prices)										
Gross domestic product at market prices	7,0	-4,4	0,8	5,8	-3,0	0,9	7,0	5,4	4,5	4,5
Real annual per capita growth rates (% , calculated from 1990 prices)										
Gross domestic product at market prices	6,2	-5,2	0,0	5,0	-3,8	0,1	6,2	4,6	3,7	3,7
Balance of Payments (US\$ millions)										
Trade Balance	-137	-133	-140	-181	-200,7	-246,4	-207,1	-218,6	-225,6	-233,2
Exports FOB	83,0	63,6	41,4	45,5	35,0	30,4	30,6	28,4	31,1	33,8
Imports FOB	220,4	196,4	181,0	226,4	235,7	276,8	237,7	247,0	256,7	267,0
Services (net)	63,7	48,4	38,8	47,9	53,7	37,7	57,9	78,4	86,8	103,2
Resource balance	-68,5	-67,1	-101,0	-133,0	-177,6	-191,4	-87,7	-94,9	-80,4	-63,6
Current account balance	-88,1	-105,0	-130,3	-144,9	-76,0	-154,0	-179,3	-170,0	-167,7	-157,8
Net private foreign direct investment	37,4	58,7	57,6	82,1	39,6	56,7	78,6	84,8	86,8	89,9
<i>Memorandum items</i>										
Resource balance (% of GDP)	-16,7	-17,0	-24,8	-30,0	-40,6	-42,1	-17,6	-17,7	-14,0	-10,4
Public finance (as % of GDP at market prices)^e										
Current revenues	26,8	26,7	26,6	27,5	25,5	27,8	27,3	29,0	29,9	30,6
Current expenditures	20,8	24,2	25,9	24,3	27,9	31,0	27,6	26,2	25,2	24,5
Current account surplus (+) or deficit (-)	6,0	2,5	0,6	3,2	-2,4	-3,2	-0,3	2,8	4,7	6,1
Capital expenditure	12,2	15,3	22,4	15,0	7,9	19,2	14,0	12,0	10,5	10,0
Primary balance	-1,0	-5,8	-14,5	0,4	3,7	-2,5	-0,7	-1,1	1,4	2,5
Monetary indicators										
M2/GDP	89,0	102,3	106,1	105,2	125,6	123,7	..	..	..	..
Growth of M2 (%)	15,4	10,6	7,1	8,0	17,7	2,3	..	..	..	..
Consumer price index (% change, avg.)	2,2	1,7	1,1	2,2	2,3	3,0	2,0	2,0	2,0	2,0

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Grenada - Key Exposure Indicators

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt outstanding and disbursed (TDO) (US\$m) ^a	231	252	447	488	566	587	603	621	628	630
External debt (US\$)	140	173	340	356	415	450	465	484	491	493
Debt and debt service indicators (%)										
TDO/GDP	56,2	63,7	109,6	110	129,4	129,2	121,1	115,6	109,7	103,3
External debt/GDP	34,1	44,0	83,6	80,2	94,9	99,0	93,4	90,0	85,7	80,8
IBRD exposure indicators (%)										
IBRD TDO (US\$m) ^d	2,2	3,4	4,2	6,4	7,8	9,6	13,0	16,6	18,1	17,0
IBRD DS/XGS	0,0	0,1	0,1	0,2	0,3	..	..	..	..	..
IDA TDO (US\$m) ^d	9,6	9,2	16,2	19,3	21,3	24,7	29,8	34,1	35,8	37,6
IDA DS/XGS	0,1	0,1	0,1	0,1	0,1	..	..	..	..	..
IFC (US\$m)										
Loans	..	..	1,0	..	..	..	..	..	..	..
Equity and quasi-equity /c	..	..	..	..	..	..	..	..	..	..
MIGA	..	..	..	..	..	..	..	..	..	..
MIGA guarantees (US\$m)	..	..	..	..	..	..	..	..	..	..

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

B. TABLE OF INDICATORS FOR THE MDGS

	1994	1997	2000	2003	2004	2005
Goal 1: Eradicate poverty and hunger						
Income share held by lowest 20%	-
Malnutrition prevalence, weight for age (% of children under 5)	-
Poverty gap at \$1 a day (PPP) (%)	-
Poverty headcount ratio at \$1 a day (PPP) (% of population)	-
Poverty headcount ratio at national poverty line (% of population)	-
Prevalence of undernourishment (% of population)	..	7	..	7	7	-
Goal 2: Achieve universal primary education						
Literacy rate, youth total (% of people ages 15-24)	-
Persistence to grade 5, total (% of cohort)	49	79	..	-
Primary completion rate, total (% of relevant age group)	73.7	90.2	90.2	92.5
School enrolment, primary (% net)	-
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliament (%)	..	20.0	20.0	27.0	27.0	-
Ratio of girls to boys in primary and secondary education (%)	-
Ratio of young literate females to males (% ages 15-24)	-
Share of women employed in the non-agricultural sector (% of total non-agricultural employment)	39	41	42	43	43	-
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	87.0	92.0	92.0	99.0	74.0	99.0
Mortality rate, infant (per 1,000 live births)	21	..	18	17
Mortality rate, under-5 (per 1,000)	26	..	21	21
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	100.0	..	100	-
Maternal mortality ratio (modelled estimate, per 100,000 live births)	-
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Children orphaned by HIV/AIDS	-
Contraceptive prevalence (% of women ages 15-49)	-
Incidence of tuberculosis (per 100,000 people)	4.8	-
Prevalence of HIV, female (% ages 15-24)	-

Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	..	-
Tuberculosis cases detected under DOTS (%)	..	..	..	..	..	-
Goal 7: Ensure environmental sustainability						
CO2 emissions (metric tons per capita)	1.7	2.1	2.2	2.2	2.2	-
Forest area (% of land area)	..	..	12	..	12	-
GDP per unit of energy use (constant 2000 PPP \$ per kg of oil equivalent)	..	..	..	..	..	-
Improved sanitation facilities (% of population with access)	..	..	..	97	96	-
Improved water source (% of population with access)	..	..	..	95	95	-
Nationally protected areas (% of total land area)	..	..	..	..	..	-
Goal 8: Develop a global partnership for development						
Aid per capita (current US\$)	187.2	89.2	162.8	99.3	145.4	-
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	6	5	6	15	..	-
Fixed line and mobile phone subscribers (per 1,000 people)	220.0	276.1	351.6	716.3	718.9	-
Internet users (per 1,000 people)	0.0	10.1	40.6	181.6	75.7	-
Personal computers (per 1,000 people)	..	..	118.3	143.4	151.3	-
Total debt service (% of exports of goods, services and income)	7	5	6	16	..	-
Unemployment, youth female (% of female labor force ages 15-24)	58.8	44.9	..	..	..	-
Unemployment, youth male (% of male labor force ages 15-24)	32.1	19.3	..	..	..	-
Unemployment, youth total (% of total labor force ages 15-24)	44.5	30.1	..	..	..	-
Other						
Fertility rate, total (births per woman)	..	3.6	3.2	3.0	3.0	-
GNI per capita, Atlas method (current US\$)	2650.0	2930.0	3650.0	3690.0	3750.0	3920.0
GNI, Atlas method (current US\$) (billions)	0.3	0.3	0.4	0.4	0.4	0.4
Gross capital formation (% of GDP)	35.9	37.8	42.4	40.0	40.0	-
Life expectancy at birth, total (years)	..	71.8	72.5	73.0	..	-
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	-
Population, total (millions)	0.1	0.1	0.1	0.1	0.1	0.1
Trade (% of GDP)	110.2	119.7	131.4	113.6	113.6	-
Source: World Development Indicators database, April 2007-05-10						

ANNEX 2 – Donor matrix

Source: World Bank OECS Country Assistance Strategy 2007-2011

Development Partner	Thematic Areas																
	Private Sector	Financial Sector	Energy	Infrastructure/Transport	Trade	Agriculture & Rural Dev.	Health	Education	Environment	Tourism	Water & Sanitation	Social Protection	Public Sector	Judicial & Legal Reform	Capacity/Inst. Building	Disaster Management	Security & Stability
CDB		X				X	X	X				X	X	X	X	X	
CIDA	X				X				X				X		X	X	
DFID		X			X	X	X	X				X	X				
European Union	X			X	X	X	X	X		X	X	X			X	X	X
France							X					X			X		
Japan	X								X								X
Kuwait				X													
OAS			X		X			X	X	X		X				X	
Taiwan, China													X				X
UNDP	X	X				X		X	X			X	X		X	X	
USAID	X	X					X							X		X	X
World Bank		X	X	X	X		X	X	X		X	X	X		X	X	X

NOTE cannot add to table, please insert the following

Venezuela: Health, Social Protection

PROC: Social Protection, Capacity /Inst. Building

ANNEX 3 – Executive summary of the Country Environmental Profile

In accordance with the terms of *The St. George's Declaration of Principles for Environmental Sustainability in the OECS*, the Government of Grenada, with support from the Environment and Sustainable Development Unit (ESDU) of the Organisation of Eastern Caribbean States (OECS), has embarked upon the formulation of a National Environmental Policy and Management Strategy. This exercise was initiated in July 2003, and was completed in December 2004. It has been carried out by the Ministry of Health, Social Security, the Environment and Ecclesiastic Relations, under the guidance of a Cabinet-appointed Steering Committee comprising representatives of key national agencies involved in environmental management and sustainable development. The National Environmental Policy and Management Strategy proposes a broad policy framework for environmental management in Grenada, and establishes links with policies and programmes in all relevant sectors of economic and social reconstruction and development. It also provides the more specific and practical directions and mechanisms that are needed for effective policy implementation, with an identification of the results expected and the actions necessary to realise the policy objectives.

1. This National Environmental Policy and Management Strategy is a formal expression of Grenada's commitment to arrest and reverse trends of environmental degradation and to ensure that sound environmental management is fully integrated into the national development policy framework. It seeks to complement and build upon the other policy statements and instruments that Grenada has put in place to address issues of environmental quality and sustainability in the country. The purpose of this document is neither to duplicate existing statements, nor to provide a blueprint for environmental management. It is a statement of intent issued by the Government of Grenada on behalf of the nation as a whole. It is an integrating framework that seeks to provide guidance and direction, but also to set clear and specific targets for policy implementation, and to address policy gaps and conflicts wherever they exist.
2. *Vision.* The Government and People of Grenada, Carriacou and Petit Martinique envision a healthy and productive environment that guarantees the sustainability of development activities and processes and that contributes fully to social and cultural development, to economic prosperity, and to the quality of human life.
3. *Policy goal.* The goal of national environmental policy is to provide a coherent framework to ensure that development is environmentally sustainable, while optimising the contribution of that environment to economic, social and cultural development in the short, medium and long terms.
4. This National Environmental Policy and Management Strategy identifies a number of general principles and values that should guide all aspects of policy formulation and implementation. Most critical among these are the principles of precaution, partnership, participation and the rule of law.
5. In order to achieve the goal of environmentally sustainable development, environmental policy must pursue a set of seven broad objectives, which are complementary and mutually-reinforcing:
 - Maintain the diversity of ecosystems, species and genes.
 - Maintain and enhance the natural productivity of ecosystems and ecological processes.
 - Optimise the contribution of natural and environmental resources to the production and trade of economic goods and services.
 - Optimise the contribution of natural and environmental resources to social and cultural development.
 - Prevent and mitigate the negative impacts of environmental change and natural disasters, and build resilience relative to these.
 - Maintain and enhance the contribution of the environment to human health.

- Fulfil regional and international responsibilities and capitalise on opportunities that accrue from regional and international networking.
6. For each objective, the National Environmental Policy and Management Strategy identifies the policy instruments and the programmes that are already in place, as well as the new instruments that are required to fill existing policy gaps. It confirms that a number of environmental management interventions have already been designed and initiated, and that most of Grenada's needs in terms of environmental management would be met by the full implementation of these existing instruments.
 7. In order to implement the policy interventions, the National Environmental Policy and Management Strategy proposes a policy process that provides for the formal endorsement of this document, and for its use as the platform for participatory implementation, and for adaptation over time, on the basis of on-going monitoring and evaluation.
 8. The National Environmental Policy and Management Strategy recognises that institutional arrangements and organisational capacities are critical, and it proposes an overall framework that provides for the sharing of management responsibility among state, private sector and civil society actors, as well as for the effective coordination among these actors. In particular, this document emphasises the need for the establishment of a specific coordinating mechanism.
 9. In order to fill critical policy gaps, this document highlights the need for formal policy statements on land and land use, energy, and climate change adaptation. It recommends that processes be initiated to formulate policies in these three areas.
 10. The document also recommends the establishment of an integrated, efficient and effective legislative framework for environmental management, with a comprehensive review of current sectoral legislation that addresses environmental, natural resource management and sustainable development issues, and with the enactment of required legislation and regulations. In addition, the document identifies a range of specific policy and legal instruments that will be required for effective policy implementation.
 11. Grenada's approach to environmental management will also make use of a range of economic instruments, including fee systems, charges on resource consumption, environmental tariffs, incentives, taxation and fines.
 12. Environmental management institutions and programmes will be funded through a number of sources, including public investments, contributions from the international community, user fees and environmental tariffs and levies. The main provisions of the National Environmental Policy and Management Strategy will be included in project documents and proposals that will form part of a short and medium term action plan.
 13. Effective environmental management requires the active development and use of appropriate technology, including information and communication technologies. It also requires that research become a central part of environmental policy, particularly with the provision of financial and technical support to research institutions, programmes and activities, as well as the creation of linkages with external research agencies and skills.
 14. In order to implement environmental policy, this document identifies eight key strategies that need to be pursued simultaneously, namely:
 - Integrating the environmental dimension in the reconstruction process.
 - Integrating the environmental dimension into the fabric of society.
 - Creating harmony between environment and development objectives and actions.
 - Establishing appropriate institutional arrangements.
 - Building the capacity for environmental management.
 - Developing and using appropriate, fair, effective and efficient instruments of environmental management.
 - Promoting a knowledge-based and scientific approach to environmental management.
 - Developing and sustaining regional and international partnerships.
 15. For each strategy, this document identifies the rationale, the expected results and the actions required for implementation. This section of the document includes a range of specific short-term recommendations that should be integrated into Grenada's reconstruction and development programme over the next five years.

ANNEX 4 – Country migration profile

The International Organization for Migration (IOM) is in the process of implementing with the OAS a regional program on migration management in 13 Caribbean countries (Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Guyana, Haiti, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago). Results should be made available between 2006 and 2007. Availability of statistics has been identified as a serious weakness in the region and IOM and ECLAC are planning to implement a capacity building programme within this area.

Also CARICOM is currently conducting a study on migration in the Caribbean which is intended to identify trends and explain reasons why people in the region migrate. The study follows the release of a United Nations report, which shows a rapid increase in world migration. The report, which should be published by the end of 2006, is expected to pay particular attention to the migration of teachers and nurses from the region, which has left regional educational and health institutions in deep problems.

As a predominantly maritime region, migration has been a significant characteristic in Caribbean history, with a great deal of this conducted informally. Three main flows of irregular migration have been noted in the region today: illegal entry into the Caribbean from other regions, notably China and Latin America, using it as a transit point; illegal emigration from the Caribbean to North America and Europe; and the intra-regional migration within the Caribbean from poor to rich countries. Regulating migration faces several barriers in the island states. First, many of the countries are dependent upon high flows of visitors to their territories as tourism is their primary export, and it is difficult to ensure that all those entering do not overstay. Second, the vast majority of borders are coastal and spreads over a myriad of small islands. Though the US Coast Guard offers a number of Caribbean states joint interdiction services, monitoring these porous borders requires huge resources that are not available in the region.

Though there has traditionally been a considerable amount of intra-Caribbean movement, the impact of globalization has contributed to a rise in migration, and female migration in particular. Many migrants come from poor or working-class circumstances, crossing borders or moving to cities in search of opportunities that will help improve their socioeconomic status. Others may migrate due to the devastation caused by conflict or natural disasters, to join family members or friends, or to seek out better educational opportunities.

The net migration rate for Grenada was estimated in 2006 at -12.59 migrant(s)/1,000 population (Source: TheWorld FactBook).

ANNEX 5 – CSP drafting process: particular attention to involvement of NSA and local authorities

A first round of consultations between the EC and the Government of Grenada took place in April 2006 (Seminar in Santo Domingo) with the presence of Commissioner L. Michel, who stressed the importance attached to the Public Sector Reform and Private Sector Development and to the link between the regional and national programming and to. On a bilateral basis, Commissioner Michel expressed all his distress for the fact that Grenada had been so hard hit by hurricane Ivan in 2004, which had caused widespread human suffering and extensive damage to property and the economy. Attention will thus be given by the EC to Poverty reduction in the context of post hurricane reconstruction: transfer of low-income human settlements from flood prone areas to safer areas, assistance to low-income households in rehabilitation of their homes.

With specific reference to NSAs, during the MTR "in-country-meeting" of December 2004 and with the aim of strengthening civil society involvement in EU/Grenada development partnership, it was agreed that, the National Council for Reconstruction and Development, bringing together representatives from the Government and from various segments of civil society in the country, would function as NSA advisory panel and provide a forum for tripartite dialogue, information and consultation on development cooperation between the EU and Grenada.

In May 2006, a team of international consultants was recruited in order to facilitate consultations and dialogue among stakeholders in the phase of drafting the Country Strategy Paper (CSP) and the National Indicative Programme (NIP). The process has included a first round of meetings with the NAO and relevant government officials, aiming at providing the government with a comprehensive overview of the planning and main elements of the programming exercise, as well as gaining insight on the national priorities, strategies and plans as well as national orientations for the 10th EDF.

This exchange has been followed by further in-country consultations, which have involved both government and Non-State Actors (regrouped under the umbrella of the Forum for Social Dialogue), to present and discuss the 10th EDF programming exercise and programming orientations and priorities for Grenada. Such an exercise aimed at ensuring the dynamic participation of all Grenada key stakeholders in the programming exercise and that the future NSA Advisory Panel meetings will actually represent a national forum for constructive dialogue, mutual understanding and consensus building, with appropriate representation from the civil society.

Within the process of drafting Grenada's CSP and NIP, a Programming Regional Workshop was held at the end of June 2006, involving all NAOs of the seven Eastern Caribbean countries for which the EC Delegation in Barbados is responsible (i.e. Antigua & Barbuda, Barbados, Dominica, Grenada, St Lucia, St Kitts and Nevis, St Vincent and the Grenadines), and representatives of the donors active in the region (CIDA, CDB, CARTAC, ECCB, EIB, French Cooperation, IDB, IMF, OECS, DFID, UNDP, USAID and WB). The workshop aimed at discussing in a comprehensive forum the 10th EDF programming exercise, the main priority reforms at the regional level and for each concerned country, and the possibility for synergies and coordination between the countries in their priorities for cooperation with the EU and other Donors.

A last round of consultation with the NAOs was organised in Barbados in mid-July 2006 in order to agree on the Intervention Framework for the 10th EDF and finalise the CSPs.

ANNEX 6 – The harmonisation road map (where there is one)

Refer to paragraph 3.5 in the main document.

ANNEX 7 – Table including partner country positions in relation to key international conventions

HUMAN RIGHTS – MAIN GLOBAL CONVENTIONS

Convention	Grenada status
Convention on the Prevention and Punishment of the Crime of Genocide	----
Agreement establishing the Fund for the Development of the Indigenous Peoples of Latin America and the Caribbean	----
International Covenant on Economic, Social and Cultural Rights (CESCR)	06 Dec 91 a
International Covenant on Civil and Political Rights (CCPR)	06 Dec 91 a
Optional Protocol to the International Covenant on Civil and Political Rights (CCPR-OP1)	----
Second Optional Protocol to the International Covenant on Civil and Political Rights, aimed at the abolition of the death penalty (CCPR-OP2-DP)	----
International Convention on the Elimination of All Forms of Racial Discrimination (CERD)	s:17 Dec 81
Convention on the Elimination of All Forms of Discrimination against Women (CEDAW)	29 Sep 90
Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW-OP)	----
Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (CAT)	----
Convention on the Rights of the Child (CRC)	05 Dec 90
Optional Protocol to the Convention on the Rights of the Child (CRC-OP-AC)	----
Optional Protocol to the Convention on the Rights of the Child (CRC-OP-SC)	----
International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families (MWC)	----

The dates listed refer to the date of ratification, unless followed by:

an "a" which signifies accession; "d", which signifies succession; "s", which signifies signature only

ILO CONVENTIONS (SOURCE: ILOLEX - 2. 6. 2006)**Grenada ratified 31 instrument(s)**

Convention	Ratification date	Status
C5 Minimum Age (Industry) Convention, 1919	09:07:1979	denounced on 14:05:2003
C7 Minimum Age (Sea) Convention, 1920	09:07:1979	denounced on 14:05:2003
C8 Unemployment Indemnity (Shipwreck) Convention, 1920	09:07:1979	ratified
C10 Minimum Age (Agriculture) Convention, 1921	09:07:1979	denounced on 14:05:2003
C11 Right of Association (Agriculture) Convention, 1921	09:07:1979	ratified
C12 Workmen's Compensation (Agriculture) Convention, 1921	09:07:1979	ratified
C14 Weekly Rest (Industry) Convention, 1921	09:07:1979	ratified
C15 Minimum Age (Trimmers and Stokers) Convention, 1921	09:07:1979	denounced on 14:05:2003
C16 Medical Examination of Young Persons (Sea) Convention, 1921	09:07:1979	ratified
C19 Equality of Treatment (Accident Compensation) Convention, 1925	09:07:1979	ratified
C26 Minimum Wage-Fixing Machinery Convention, 1928	09:07:1979	ratified
C29 Forced Labour Convention, 1930	09:07:1979	ratified
C50 Recruiting of Indigenous Workers Convention, 1936	09:07:1979	ratified
C58 Minimum Age (Sea) Convention (Revised), 1936	09:07:1979	denounced on 14:05:2003
C64 Contracts of Employment (Indigenous Workers) Convention, 1939	09:07:1979	ratified
C65 Penal Sanctions (Indigenous Workers) Convention, 1939	09:07:1979	ratified
C81 Labour Inspection Convention, 1947	09:07:1979	ratified
C86 Contracts of Employment (Indigenous Workers) Convention, 1947	09:07:1979	ratified
C87 Freedom of Association and Protection of the Right to Organise Convention,	25:10:1994	ratified

1948		
C94 Labour Clauses (Public Contracts) Convention, 1949	09:07:1979	ratified
C95 Protection of Wages Convention, 1949	09:07:1979	ratified
C97 Migration for Employment Convention (Revised), 1949	09:07:1979	ratified
C98 Right to Organise and Collective Bargaining Convention, 1949	09:07:1979	ratified
C99 Minimum Wage Fixing Machinery (Agriculture) Convention, 1951	09:07:1979	ratified
C100 Equal Remuneration Convention, 1951	25:10:1994	ratified
C105 Abolition of Forced Labour Convention, 1957	09:07:1979	ratified
C108 Seafarers' Identity Documents Convention, 1958	09:07:1979	ratified
C111 Discrimination (Employment and Occupation) Convention, 1958	14:05:2003	ratified
C138 Minimum Age Convention, 1973	14:05:2003	ratified
C144 Tripartite Consultation (International Labour Standards) Convention, 1976	25:10:1994	ratified
C182 Worst Forms of Child Labour Convention, 1999	14:05:2003	ratified

INTERAMERICAN CONVENTION AGAINST CORRUPTION (1996)

SIGNATORY COUNTRIES	DATE	STATUS
Antigua & Barbuda	01/13/04	RA
Barbados	04/06/01	SI
Dominica	09/14/04	AC
Grenada	11/15/01	RA
St. Kitts & Nevis	08/04/04	RA
St. Vincent & Grenadines	05/28/01	AC

RA = RATIFICATION

SI = SIGNATURE

AC = ACCESSION

ROME STATUTE OF THE INTERNATIONAL CRIMINAL COURT (1998)

Country	Signature	Ratification, Acceptance(A), Approval(AA), Accession(a)
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Antigua & Barbuda	23 Oct 1998	18 Jun 2001
Barbados	8 Sep 2000	10 Dec 2002
Dominica		12 Feb 2001 a
Grenada	----	----
St. Kitts & Nevis	----	----
St. Vincent & Grenadines		3 Dec 2002 a

ANNEX 8 – Debt Sustainability Analysis (if available from the IFIs, where appropriate)

Taken from IMF - Staff Report for the 2006 Article IV Consultation, July 2006

<http://www.imf.org/external/pubs/ft/scr/2005/cr05290.pdf>

Medium-Term Outlook and Debt Sustainability

1. This section assesses the sustainability of Grenada's domestic and external public debt under the program and alternative scenarios.
2. **Under the program scenario, public debt is reduced from 120 percent of GDP in 2005 to close to 60 percent of GDP in 2015** (Table A1a).¹⁵ A large part of this adjustment is achieved during the program period, so that by end-2008 public debt will amount to less than 95 percent of GDP. This sharp decline is largely a function of the sharp improvement in the primary balance during 2006–08 and a pick-up in GDP growth.
3. **In net present value (NPV) terms, public debt is at lower levels and also set to decline more modestly.** In NPV terms, total public debt falls from above 85 percent of GDP in 2005 to about 70 percent by end-2008 and to just above 50 percent by 2015. The NPV calculation takes into account the effects of the restructuring of Grenada's commercial debt, which implied a haircut of 40–45 percent on the NPV of future debt servicing flows (for exit yields in the 9–10 percent range), while leaving the face value of debt unchanged.¹⁶
4. **In addition to the recent commercial debt restructuring, rescheduling by official creditors is expected to lower debt servicing.** In particular, the program scenario assumes that eligible commercial creditors that did not participate in the recent debt restructuring will settle their claims in 2006 on the same terms as the recent debt exchange. In addition, it is assumed that Paris Club debt will be rescheduled on the basis of Houston terms and that the bilateral debt to Taiwan Province of China is restructured on terms comparable to those of the commercial debt exchange.
5. **Alternative scenarios underline the importance of the envisaged fiscal adjustment and measures to foster growth** Keeping the primary deficit at its ten-year historical average of 2 percent of GDP, while also assuming GDP growth in line with the historical average (Alternative Scenario A1) would cause the NPV of government debt to rise to over 100 percent of GDP by 2015. With the program's fiscal adjustment achieved, but GDP growth rates permanently lower than assumed under the program scenario (Alternative Scenario A2), the NPV of debt would initially fall only to rise rapidly after 2010. Bound tests indicate considerable sensitivity to external shocks—in particular with respect to lower GDP growth in 2006/2007, which could bring the NPV of debt-to-GDP ratio on an unsustainable trajectory.

¹⁵ At the end of 2005, public debt amounted to 128 percent of GDP. However, total debt comprises contingent liabilities in the form of government-guaranteed debt, amounting to about 13 percent of GDP. It is debatable whether permanent fiscal adjustment is needed for all of the contingent liabilities. Against this background, it is assumed for the purpose of this exercise that only about half of these guarantees will be called. This assumption implies a starting debt-to-GDP ratio of 120 percent of GDP in 2005.

Statement by IMF Staff at the Conclusion of the 2007 Article IV Consultation Discussions with Grenada

An IMF mission visited Grenada from July 9-16, 2007 to conduct the 2007 Article IV Consultation discussions. The mission held productive discussions with the Prime Minister, the Deputy Prime Minister, other senior government officials, the opposition, and representatives of the business community, trade unions, and civil society. Ms. Nancy Wagner, head of an International Monetary Fund (IMF) staff mission to Grenada, issued the following statement:

"Grenada's economy has made a remarkable recovery after the unprecedented devastation caused by Hurricanes Ivan and Emily. Led by reconstruction activity, Cricket World Cup (CWC) preparations, and the recovery of the tourism sector, real GDP growth averaged 7 percent per year during 2005-06. Moreover, inflation has fallen markedly, from a high of 5.8 percent (on a year-on-year basis) in late 2005 to only 2.2 percent by April 2007. This impressive rebound is a testament to the combined efforts of the Grenadian people, the government, and the creditor and donor communities.

"In the aftermath of the hurricanes' destruction, the government recognized that public debt was unsustainable and initiated a collaborative debt restructuring process (now largely completed). They also launched a home-grown comprehensive medium-term reform program, with the key objectives of sustaining high economic growth, restoring fiscal and debt sustainability, reducing vulnerabilities, and alleviating poverty.

"Progress has been made on each of these objectives of the reform program:

- • On sustaining high economic growth, the country's main road infrastructure has been rebuilt, the agricultural sector is gradually recovering, and several major tourism projects are now coming on stream, which should raise Grenada's profile as an upmarket tourist destination. A National Export Strategy has begun to be implemented, with the aim of diversifying the economic base. Thus, the economic outlook appears highly favorable.
- On restoring fiscal and debt sustainability, a number of measures have been implemented to address the difficult fiscal situation, including introducing the National Reconstruction Levy, adopting a flexible fuel pricing mechanism to isolate revenues from oil price fluctuations, and strengthening the collection of tax arrears. The government's highly successful debt restructuring has resulted in substantial debt service savings, and the government has maintained its strategy of not contracting any further commercial external debt.
- On reducing vulnerabilities, Grenada was the first ECCU member to establish a single supervisory agency—the Grenada Authority for the Regulation of Financial Institutions (GARFIN)—to strengthen supervision over the nonbank financial sector. To mitigate the impact of natural disasters, Grenada is working to strengthen the enforcement of the Building Code and is participating in the World Bank's Caribbean Catastrophe Risk Insurance Facility. The government also plans to enact a new Insurance Act by end-year.
- On alleviating poverty, work is underway on a Country Poverty Assessment to underpin a full-fledged Poverty Reduction Strategy (PRS), and targeted assistance is being provided to the most vulnerable groups (including transport assistance to tertiary-level students and monthly transfers for the needy elderly)

to mitigate the impact of high fuel prices. The government has also been working closely with importers of basic food items to bring down prices.

"The IMF mission commends the government for its progress with these important elements of its reform program.

"But substantial challenges remain, particularly on the fiscal and debt fronts. The 2006 fiscal outturn was worse than expected. Spending on goods and services was greater than projected, reflecting higher utility costs and transfers to households. Government investment reached 20 percent of GDP, about 5 percentage points higher than envisaged, on the back of higher-than-expected costs for reconstruction and preparations for the CWC. These expenditure overruns led to a primary deficit almost 7 percentage points of GDP higher than targeted. As a result, the debt-to-GDP ratio increased from 121 percent at end-2005 to 126 percent by end-2006.

"Data through the first half of 2007 indicate that fiscal slippages have continued this year, with capital expenditure outpacing grant financing owing to substantial shortfalls in grants relative to pledges. On present policies, the overall fiscal deficit could reach 3½ percent of GDP this year.

"Grenada's current public debt level remains high, reducing the country's flexibility to respond to future shocks, such as natural disasters. Placing debt firmly on a sustainable trajectory will require a determined effort, all the more so in light of the fiscal slippages. With reconstruction almost completed, capital spending in 2007 and beyond should be brought in line with identified financing. In this regard, the IMF mission encourages the government to enhance their capacity with intensive training in prioritization and implementation of the public sector investment program, to strengthen their procedures for cash management and expenditure control, and to avoid unsustainable financing sources such as the overdraft facility, the drawdown of bank deposits, or the accumulation of domestic arrears. The mission urges the trade unions and government to contain wage growth in line with consumer price inflation as an important step in addressing the difficult fiscal situation. The possibility of substantial divestment or privatization proceeds would allow the government to begin decisively tackling the rising debt ratio by paying down the most expensive debt.

"The pace of structural reforms also needs to be accelerated to consolidate the growth momentum and to allow Grenada to compete effectively in the challenging external environment. The current strong investor interest in Grenada provides an opportune time to undertake improvements in the business environment. The IMF mission encourages the government to push ahead with creating a one-stop shop for investors, facilitating land transactions, adopting the new Investment Act (including reforming the regime for tax concessions), and implementing the action plan to address the deficiencies identified in the World Bank's "Doing Business Indicators" report. Other critical reforms—introducing the VAT, strengthening tax administration, modernizing the public sector, enhancing the financial sector's regulatory framework, and using the forthcoming PRS to integrate and prioritize the social development agenda within the budget framework—will ultimately ensure Grenada's future economic success."

ANNEX 9 – List of Government’s Commitments

	Governance area	Prospective commitments
1.	Political democratic governance	
	- Human rights	<p>The provisions of the Constitution reflect the Universal Declaration of Human rights. United Nations Declaration of Human Rights ongoing. Equality exists for all under the law.</p> <p>The final draft of a Public Ombudsman Bill is being prepared. Delays in its preparation occurred due to priority drafting of Bills in preparation for World Cup Cricket 2007.</p>
	- Fundamental freedoms	Fundamental freedoms are guaranteed under the Grenadian Constitution, which is respected.
	- Electoral process	<p>The electoral process is ongoing, which allows for all of the interests expressed. Accessibility for all is a given.</p> <p>Recently, the Government of Grenada enacted in Parliament an Act, which provides for the continuous registration of voters, Act no.19 of 2006 <i>Representation of the People (amendment) 2006</i>.</p>
	- Principles of constitutional democracy	<p>The Principles of constitutional democracy is highly respected. There are separation of powers at three levels; Legislative, Judiciary and Executive.</p> <p>Government provides a legal and regulatory framework that facilitates the public.</p> <p>A report was completed in June 2006 on the review of the Constitution (see Annex A for more details on its objectives).</p>
2.	Political governance - rule of law	
	- Judicial and law enforcement system	<p>Government ensures that there is a ‘level playing field’ for all players, conducting its role without fear or favour while recognizing and promoting a desirable degree of separation of powers and respect for the rule of law.</p> <p>Government is continuously examining ways in its day to day functions, to improve performance with respect to efficiency.</p> <p>There is a Criminal Code which sets out the penalties for the Criminal offences, however, the State is seeking to have this as well as other pertinent necessary laws reformed in keeping with the norms of other jurisdictions and in keeping with the needs of Society.</p> <p>Grenada is a member of the OECS Supreme Court, as such does not employ its own Judges, however Judges assigned here are remunerated by the State.</p> <p>The OECS is responsible for the Judicial Educational Institute, which offers continuous programmes for all staff of the Courts at least once per year. The judges also meet annually in caucus and with all Registrars of the Courts. Judicial reform is a priority of the OECS system and through this; measures are being taken to ensure that when</p>

		decisions are taken by the Court, natural justice is also considered.
3.	Control of corruption	<p>Generally, the legal system has the appropriate framework to enable it to fight against corruption. The Government supports any International policy in the fight against corruption. There are Anti money Laundering and Anti Terrorism Laws in Place.</p> <p>The mechanism to enforce integrity in public office is an ongoing process.</p> <p>A Public Sector Complaints Authority Bill has been drafted and consultations on the draft Bill are ongoing. There are also plans on stream to draft a Public Service Reform Bill for consultation by end December 2007.</p>
4.	Government effectiveness	See Annex 3A and attached Annex B for more details
	- Institutional capacity	Process ongoing for streamlining government departments to allow for improved efficiencies and worker productivity.
	- Public finance management	<p>Prospective, framework for strategic planning, allocation and resource utilization through the Public Sector Reform Programme. Commit to complete transparency of the tax system to the extent necessary to perform obligations under a tax information agreement concluded with EU Member States, by ensuring the availability of bank information for tax purposes also in the case of international banks, mechanisms to identify owners of bearer debt and legal ownership of companies, insofar as this would be asked by EU Member States willing to exchange information for tax purposes with Grenada. Confirm the availability to conclude tax exchange of information agreements with EU member states, which are willing to do so. Consider how to remove the potentially harmful effects of its offshore tax regimes by 2013 at the latest. Confirm not to introduce similar regimes in the future.</p> <p>Government is committed towards the improvement of Public Finance Management. Four (4) draft Bills have been prepared for discussion: Public Finance Management Bill and Regulations; Procurement and Contract Bill and Regulations, Government Asset Management Bill and Regulations and an Audit Bill. These Bills when enacted would strengthen the Public Finance Management System.</p> <p>In addition, three new Bills are currently before Parliament. They have gone through the first reading of Parliament, namely; the Public Integrity Bill; and the Professional Services Act. However, the Professional Services Act was deemed to be too broad and as a compromise various individual Acts have been recommended. Priority would be given to the Health Professions Act and Legal Professions Act.</p>
5.	Economic governance	
	- Private sector/market friendly policies	<p>Grenada is committed to ongoing reform measures, including the pursuit of prudent fiscal policy and improved delivery of public services, to enhance the climate for private investment and overall private sector development.</p> <p>As a CARICOM measure, Grenada in January 2007 has passed An <i>Advanced Passenger and Cargo Information System Act</i>.</p> <p>Discussions are ongoing on a draft <i>New Investment Act 200</i>, to be</p>

		<p>enacted in Parliament, which would enhance Private Sector Investment.</p> <p>There is adequate Banking supervision, which is in keeping with Banking regulations laid down by the Eastern Caribbean Central Bank (ECCB)</p>
	- Management of natural resources	Ongoing implementation of relevant aspects of the FAO Code of Conduct for Responsible Fisheries (CCRF).
6.	Internal and external security	
	- Internal stability / conflict	Maintenance of law and order – maintaining social peace and stability
	- External threats and global security	<p>Grenada respects and abides by International Law in managing external Conflicts.</p> <p>There is adherence to the UN Security Council Resolution 1373 (2001) and UN Convention on Terrorism, agreements relating to landmines and illicit arms trafficking and the Regional Security System.</p> <p>At the same time, Government is promoting and safeguarding the regional and International interest of Grenada and securing its borders.</p>
7.	Social governance	<p>Adherence to the ILO fundamental Conventions.</p> <p>There is a Strategic Plan for HIV/AIDS in place, as well as a National Directorate to oversee the HIV /AIDS Programme.</p> <p>Structures have been established to respond to the challenges of gender equality. (1) A Division of Gender and Family Affairs was established. Its mission is to ensure the development and implementation of policies, projects and programmes that will encourage equal participation of all persons in the process of national development. (2) The establishment of a Domestic Violence Unit that provides assistance, support and information to victims of domestic violence through interventions, education and appropriate referral in order to improve self esteem, safety and self empowerment.</p> <p><i>Consultations ongoing for the preparation of a National Strategic Development Plan and a National Gender Policy.</i></p>
8.	International and regional context	
	- Regional integration	<p>Ongoing participation in the CARICOM Single Market and Economy and the OECS Economic Union and commitment to implement its recommendations.</p> <p>All OECS Countries have signed the CSME Agreement in July 2006 with the commitment to implement the free movement of goods, services, capital, right of establishment and free movement of certain category of persons.</p>
	- Involvement in regional peer review mechanisms (e.g. APRM)	<p>Ongoing discussions in Trade related issues in the EPA negotiations. Negotiations expected to conclude by December 31, 2007.</p> <p>Grenada is also a participant in the ongoing negotiations between CARIFORUM and the European Commission.</p>

	- Migration	Migration is not an issue. However there are Immigration and Labour Laws to effectively combat any migration problem(s) that may arise.
9.	Quality of partnership	
	-Political dialogue	EU-Grenada Political Dialogue is a continuous process. The discussions on EU-CARIFORUM and EU-LAC partnership are ongoing.
	-Programming dialogue	Regular consultations with the EC Delegation ongoing.
	-Non state actors	Ongoing operationalisation of the NSA Panel.

Annex 10 – Map of Grenada

