PROJECT CONCEPT DOCUMENT

I. BASIC INFORMATION

Country:	Grenada
Date:	April 19, 2005
Project name:	Grenada Reconstruction, Recovery, and Development Program.
Project number:	RG-L1006
Division Chief:	Ana Maria Rodriguez-Ortiz, RE3/FI3
Project team:	Leader: Hunt Howell; other members: Felipe Morris (consultant); Marie-Laurence Telson (COF/CBA); Kevin McTigue (LEG); Jose M. Cabral RE3/FI3) and also Rosario Gaggero (RE3/FI3) assisted in the preparation of this document.
Date of Project Outline:	April 1, 2005
Borrower:	Caribbean Development Bank
Executing agency:	Caribbean Development Bank
Financing plan:	IDB Loan: FSO US$ 10 million Local: US$ 1.1 million Total: US$ 11.1 million
Tentative dates:	PCD to LC: May 5 Project Report to LC: May 26 Loan Proposal to COW: June 29
PTI:	No
SEQ:	No

II. BACKGROUND

A. Economic Framework

2.1 Grenada is one of eight island states comprising the Eastern Caribbean Currency Union (ECCU), with its 104,000 citizens enjoying a pre-hurricane per capita income of about US$4,200. The country accounts for nearly 15% of the region's GDP. The common currency of the ECCU, the EC dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per US$1 since 1976.

2.2 Prior to Hurricane Ivan, the Government of Grenada (GOGR) was making progress to restore fiscal sustainability and spur growth. The primary fiscal balance registered a surplus in 2003—for the first time in nearly a decade—and

was projected to remain in surplus in 2004. Real GDP was projected to grow by over 4 percent in 2004. This growth was expected to come from the performance of the agricultural sector, tourism, banking and insurance. The economic performance of Grenada before the hurricane was the best among OECS countries.

2.3 These commendable efforts were set back by Hurricane Ivan. On September 7th, 2004, the eye-wall of Hurricane Ivan passed over Grenada, bringing sustained winds of 120 miles per hour and gusts upwards of 135 miles per hour. The hurricane affected the entire island with particularly severe impact in the southern portion of the island below a line drawn roughly from Grenville to St. George's. Visible damage included the partial or total loss of building structures, broken and uprooted trees, broken utility poles and damaged vehicles.

2.4 The productive base of the economy was destroyed by Hurricane Ivan. The critical tourism and agricultural sectors were virtually obliterated. Damage to the island of Grenada is extensive and is estimated at 200% of GDP. Overall, in excess of 80% of building structures on the island have sustained some form of damage, including 90% of the housing stock and nearly every school in the country. Other sectors severely affected include: the power sector, with an estimated 80% of the distribution grid to be replaced; the tourism industry with close to 70% of its infrastructure made unusable; and the agriculture sector, which was significantly affected. Public infrastructure, in particular school and health clinic buildings, suffered major losses.

2.5 The economy contracted by 3 percent in 2004, and is only expected to expand by about 1 percent this year given the depressed level of activity in the two main sectors, tourism and agriculture. The loss of foreign exchange earnings from tourism and agricultural products is also anticipated to be high, about 6 percent of GDP. The National Insurance Scheme (NIS) estimates that about 8 percent of the labor force was displaced by the effects of the hurricane, though some may subsequently have been absorbed in employment in other sectors such as construction. Inflation remains subdued within the framework of the regional currency board arrangement—the annual inflation rate in December 2004 was 2.5 percent. The effects of foreign assistance in reconstruction can help resume growth in 2006. Thereafter, growth is projected to return to a medium-term trajectory of about 4 ½ percent per year.

2.6 The IMF projects a financing gap of EC$66 million in 2005 (5.4% of GDP) even after very strong donor support—grants are expected to be EC$200 million (16 percent of GDP). Financing gaps in the years beyond 2005 are expected to be even larger, as reconstruction expenditures remain high and grant commitments beyond 2005 fall off sharply. Hence, even though revenues are expected to recover—helped by growth and a strong fiscal effort—and current expenditures are assumed to be controlled, the IMF estimates a financing gap of about 10 percent of GDP in 2006 and between 6 and 7 percent per year through 2009.

2.7 The government has responded swiftly to these challenges. Nonessential budgetary expenditures have been streamlined and US$15 million (nearly 3 percent of GDP) of capital expenditures have been reoriented from existing projects to more pressing reconstruction and rehabilitation needs. The Customs' collection system, including physical infrastructure, which was heavily damaged, is being restored. Efforts are also being made to ensure that insurance claims are processed efficiently. Nonetheless, in December 2004 the country defaulted on certain commercial obligations and issued a statement asking its creditors for their cooperation to restructure its commercial debt. With this purpose in mind it hired a financial advisory firm (Bear & Stearns) to assist in this effort. It is worth highlighting that in order to ease the GOGR cash-flow situation, the CDB has rescheduled some of Grenada's borrowing.

B. Bank policy and strategy for lending to Caribbean Non-Bank Members Countries

2.8 The Bank's Charter gives the Bank the authority to finance the development of any members of the Caribbean Development Bank through the provision of loans and technical cooperation to that institution. These resources may be on-lent or allocated to CDB borrowing countries which are not members of the IDB. During the Eighth Replenishment, it was agreed that FSO lending for these countries would be limited to those which are IDA-blend eligible due to their status as "small vulnerable island nations". These countries include Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines.

2.9 This mechanism has proven to be an efficient mechanism for both the Bank and the beneficiary countries, as it provides significant levels of Bank resources for needed development efforts, with low administrative costs.

C. Experience of the Bank in Lending to the Caribbean Development Bank

2.10 The IDB has a long experience of supporting the CDB. The IDB has approved seven loans and 13 technical cooperation projects. As the CDB's institutional capacity has strengthened and in keeping with the objectives of the Bank's policy for sub-regional institutions, which encourages the bank not to direct credit to specific operations, but rather to focus on the capabilities of the institution itself, the last operation approved in 2002 was a global credit loan (Loan 1108/OC-RG). In this program, as in a previous one in 1996, resources were not allocated to predefined projects, but rather project eligibility criteria and guidelines were established in a credit agreement. The CDB then was able to develop programs consistent with the country's development priorities and the CDB's areas of strength that were then financed from the IDB resources.

2.11 The 2002 program consists of one loan of US$20 million (1108/OC-RG) and a technical cooperation grant in three phases (Phase 1, ATN/SF-8237-RG has already been signed and Phase 2, ATN/SF- 9019-RG is to be signed by April 2005). The loan has been fully committed, and disbursements stand at about 33%

of the loan program and 100% of the first phase of the grant. Four sub-loans have been approved under the program by CDB's Board, and three have been signed by the sub-borrowers.[1] These projects total US$32.99 million of which US$12.3 million is to be financed from IDB's resources. There are two remaining projects in the pipeline totaling US$9.75 million of which US$7.7 million is to be financed from IDB resources. The TC program (Phases 1 and 2) has funded six activities and three additional activities are contemplated under Phase 3 in 2005. The CDB estimates that the loan and TC programs will be fully disbursed by 2009.

2.12 It is not yet possible to evaluate the effectiveness of the program, as none of the loan-funded projects has been completed. Nevertheless, the flexibility provided by the operation allowed the CDB to support programs in different sectors that met the priorities of the various countries that received funding. In this regard it should be noted that the bulk of the program's resources have so far gone to projects that improve social sector services.

D. Donor coordination and activities in support of reconstruction after the hurricanes

2.13 There has been a significant donor response and more coordination in Grenada after Hurricane Ivan than there has been with other natural disasters in the Caribbean. The donors conference held at the time of the World Bank & IMF Annual Meetings in October 2004, and the follow-up donors' conference held in Grenada in November were key events to help the country to receive pledges of support in excess of US$100 million.

2.14 USAID is the largest donor with about US$42 million pledged for various interventions in housing, business reactivation and school rehabilitation. These funds have to be spent by December 2005 or they will be cancelled. The World Bank has provided US$20 million, focused primarily on the education sector, rebuilding about 26 schools, and is also working with other donors in the health sector to help rebuild two hospitals and some clinics.

2.15 In the immediate aftermath of Hurricane Ivan, the National Emergency Relief Organization (NERO) put into effect the Emergency Operations Centre (EOC) through which all relief and response efforts were coordinated and channeled. The coordination of the relief effort among international donors and partners on the ground was carried out initially by the United Nations Disaster Assessment and Coordination Team (UNDAC), which arrived in the country shortly after the hurricane struck. The coordination role was taken over by UNDP with the departure of the UNDAC team and the establishment of a UNDP Liaison Office in Grenada.

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[1] The Economic Reconstruction Program – Rehabilitation of Primary Schools in Grenada (US$4.4 million), the Economic Reconstruction Program – Rehabilitation of Primary Schools and Health Clinics in St Lucia (US$6 million), the Disaster Mitigation project in St. Lucia (US$5 million) and the Basic Education II project in St. Vincent and the Grenadines (US$17.59million).

2.16 In anticipation of the several donor flows and the large reconstruction needs, government authorities established the Agency for Reconstruction and Development (ARD) in November 2004 to spearhead and coordinate the reconstruction and development of the country. Bilateral development agencies such as UNDP and CIDA have provided funding and assistance in the form of consultants to help set up the Agency. The ARD held its first board meeting in March 2005.

2.17 It is expected that the ARD will play an important role in enhancing prioritization and planning within the ministries, facilitating coordination between donors, ensuring that the appropriate implementing agency is utilized, and monitoring the impact of the interventions. A critical function envisaged for ARD is to assess the capacity for project planning and implementation in the civil service since it is unevenly distributed among the various Ministries. To expedite the utilization of pledged funds some donors have been managing the implementation of the activities themselves, without Government intervention. While this may be acceptable in the short run, it could lead to misallocation of resources and duplication of efforts due to lack of coordination; thus the importance of a well-implemented ARD.

E. CDB activities in support of reconstruction after the hurricane

2.18 Following the passage of Hurricane Ivan in Grenada, CDB approved immediate assistance in September 2004, amounting to US$620,000 under its Natural Disaster Management Strategy and Operational Guidelines (NDMSOG). This consisted of a grant of US$100,000 through the Caribbean Disaster Emergency Response Center (CDERA) for emergency relief, and a loan of US$500,000 and associated grant of US$ 20,000 to the Government of Grenada for cleaning, clearing of debris and in restoring public services including utilities.

2.19 In line with the NDMSOG, which provides that CDB, in consultation with the affected country, may reallocate available balances under loans already approved, the Board of Directors of CDB, at its October 2004 meeting, approved the reprogramming of approximately US$25 million in undisbursed credits from a number of operations, in accordance with new priorities to be agreed between CDB and the GOGR. This included US$2.7 million in grants under the CDB's Basic Needs Trust program. The GOGR counterpart contribution for projects financed utilizing these redirected resources was also waived. In addition, a budget support loan of US$8.1 million from its Special Development Fund was provided to assist GOGR in meeting its fiscal obligations. CDB also applied to, and obtained from, IDB a grant of US$200,000 for GOGR for relief assistance for the immediate repairs to housing and medical supplies to health clinics. The latter grant was executed through CDERA and was fully disbursed by CDB in March 2005.

F. Program strategy and justification

2.20 The Government of Grenada requested support from the IDB, through the CDB[2], for longer-term support for recovery and reconstruction of the country's economic, social and environmental assets, including housing infrastructure and private sector credit. The program is justified by the extensive damage in Grenada's economy caused by Hurricane Ivan, one of the strongest storms ever in the Caribbean, which passed directly over the country.

2.21 The proposed program is designed to support reconstruction and economic reactivation efforts in Grenada through financing a series of public and private sector subprojects. The resources of the Program consist of up to US$10 million in funds from the IDB's Fund for Special Operations, and up to US$1.1million in counterpart funding to be provided by the Sub-borrowers and/or beneficiaries.

III. THE PROGRAM

A. Objective and Description

3.1 The objective of this program is to provide an effective mechanism to support the economic recovery and reconstruction of Grenada in the aftermath of Hurricane Ivan that hit the island in September 2004. The funds of the Program will be available to the CDB to finance investment projects in the following public and private sectors: housing infrastructure in properties with clear land titles, business revitalization, and environmental and public infrastructure reconstruction. The activities to be financed with loan funds will be specific development projects that are technically, socially, economically, financially, and environmentally viable and sound. Within guidelines agreed by the Bank and CDB, the latter will determine the composition and specific design of the projects to be financed.

3.2 As will be established in the Operating Regulations to be agreed with the CDB, funding to financial intermediaries will be possible with program resources. Resources would be on-lent to private sector enterprises affected by Hurricane Ivan in all economic sectors. The CDB would ensure that these funds are provided, at market rates and conditions (see below), to borrowers affected by the Hurricane for the purpose of restoring their businesses (hotels, manufacturing plants, stores, or other economic activity). Funds will not be used for providing housing mortgage credit. Any economic reactivation activity will only be funded with resources from this Program if the corresponding sector policies, legal and institutional framework, and enforcement mechanisms are adequate.

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[2] Letter of January 12, 2005 addressed from Mr. Compton Bourne, President of CDB to Mr. Bruce Juba, IDB Representative in Barbados.

B. Structure of the program

3.3 Consistent with the original request and current thinking at the CDB about the evolving circumstances in Grenada, and as noted above, the program will broadly support a series of subprojects in Grenada in the following public and private sectors: housing infrastructure, business revitalization, and environmental and public infrastructure reconstruction. An illustrative list of potential subprojects is being developed by the CDB and the Government of Grenada that will include specific reconstruction works and may also include credit lines for financing reconstruction of businesses (hotels, manufacturing plants, stores, etc.) affected by the Hurricane. The environmental safeguards undertaken in conjunction with each of these components are described in Chapter V.

3.4 **Indicative activities**. The following tentative list of subprojects has been discussed with CDB: (i) National Disaster Management – Rehabilitation and Mitigation (US$2.5 million) to assist the GOGR in dealing with landslides resulting from Hurricane Ivan and other public infrastructure rehabilitation work; (ii) Sites and Services preparation on appropriately titled land (US$2.7 million); and (iii) Business Reactivation (US$4.8 million), a subproject that would consist of the following possible components: rehabilitation and restoration of tourist infrastructure especially at heritage sites frequented by cruise ships and a line of credit to deal with credit-risk management issues related to business lending aimed at refurbishment or rehabilitation of all type of business activities in the country, including the commercial and tourist sectors.

3.5 **Requirements for a credit component**. In case it is decided to fund a line of credit through this program, the CDB will act as the second-tier financial institution and will only lend to private first-tier banks. It will be a multisectoral medium/long-term credit line open to all sectors of the economy for reconstruction and recovery activities. (The banking system has considerable liquidity, but it is short-term.) During project preparation, the Project Team will also explore how insurance could be used to complement these term credits, so as to mitigate the increased risk they represent for the lenders. A maximum amount for sub-loans under this line will also be agreed with CDB. The wholesale lending rate of the CDB to first-tier banks in Grenada will be market-based, and the retail lending rate to final sub-borrowers will be freely set by the first-tier banks in Grenada. The interest rate spread earned by the CDB for this component, net of administration and risk costs, will be allocated to an appropriate fund within the CDB for support of their disaster mitigation efforts.

3.6 CDB will be responsible for reviewing the condition of Grenada`s financial system and of its first-tier local banks to determine effective demand for the credit and their eligibility to participate in the program. Such review will be done in accordance with guidelines previously agreed with the Bank. Similarly, the eligibility criteria to be used by CDB to approve access by first-tier banks to the line of credit will be previously reviewed and approved by the Bank.

3.7 Grenada is a member of the ECCU, as such its financial system is regulated under the Eastern Caribbean Central Bank (ECCB) Act and the Uniform Banking Act which provides a common set of financial legislation for financial institutions of all member countries. The uniform Banking Act recognizes the ECCB as the region´s Central Bank with responsibility for the supervision of the financial system. The ultimate authority in the application of the Act is vested in the Minister of Finance of the respective member country.

3.8 Grenada`s financial system consists of one state-owned development bank, 22 credit unions, 25 insurance companies or agencies, one national development foundation, one finance company, one building association, five commercial banks and 13 offshore banks. The five commercial banks are the following: Bank of Nova Scotia and First Caribbean International Bank, both branches of foreign banks, and RBTT Bank Grenada Ltd, Grenada Cooperative Bank Ltd and National Commercial Bank of Grenada, three institutions locally incorporated.

3.9 **Requirements for a sites and services component**. With respect to the Sites and Services preparation sub-project, specific eligibility criteria will be included to ensure that: (i) when the beneficiary takes possession, he or she will also have clear title to the property; (ii) the site is in a safe area; (iii) the housing complies with appropriate building codes (see environmental safeguards discussion in Chapter V); and (iv) an effective beneficiary selection mechanism is in place that targets vulnerable and low-income households.

C. Costs and financing

3.10 In response to the CDB request of January 12, Bank management indicated a willingness to consider a loan of up to US$10 million for the program[3]. Consistent with the Eighth Replenishment mandate, the Bank would provide these resources to the CDB from the Fund for Special Operations (FSO) for on-lending in support of the reconstruction and economic reactivation efforts of the Government of Grenada.

3.11 Bank policy does not specify a counterpart requirement for lending to sub-regional financial institutions such as CDB. Grenada's public finances and export revenues have been affected by the damage caused by Hurricane Ivan, resulting in financing constraints, which would argue for a reduced counterpart requirement if any. However given the reconstruction, as distinct from emergency, nature of the program, the CDB plans to stipulate the same 10% counterpart contribution as it requires for loans to Grenada when funded with resources from its Special Development Fund (Unified). Thus the Government of Grenada will commit to providing US$1.1 million in counterpart funds and the total cost of the project would amount to US$11.1 million. This counterpart requirement could be met with contributions from other donors, GOGR own funds, and/or sub-borrowers.

[3] Letter from Mr. Ciro De Falco, Manager RE3, to Mr Compton Bourne, President of CDB, of January 19, 2005

IV. EXECUTION OF THE PROGRAM

A. The borrower and executing agency

4.1 The Caribbean Development Bank will be the borrower and the executing agency of this program. The CDB was founded in 1970 with the objective of contributing to the economic growth and development of member countries in the Caribbean and to promote economic cooperation and integration among them. Twenty five countries are currently members of the CDB: twenty regional and five non-regional members (Canada, United Kingdom, Italy, Germany and the People's Republic of China). Only Caribbean countries are borrowers (seventeen). The non-borrowing regional members are Colombia, Mexico, and Venezuela.

4.2 The CDB can provide loans to both public and private sector entities in its borrowing member countries that contribute to the countries' social and economic development. The CDB historically provided financing primarily for infrastructure projects. However, since the mid-1990s, the CDB has expanded its lending to the social sectors, and more recently to support economic policy and institutional reforms. Lending to private entities remains limited, due to the higher risks of these projects and the requirement that the project have important and demonstrable development impact.

4.3 CDB has diverse funding sources that it uses to finance its activities, including Ordinary Capital Resources (OCR), Special Funds Resources (SFR) and Other Special Funds (OSF). CDB prepares separate financial statements for each of these Funds and does not have a consolidated financial report. OCR constitutes its largest Fund, and the basis for any financial analysis of the CDB.

4.4 Shareholder support to CDB is reflected by the capital backing secured from its members. As of year-end 2004, the subscribed capital of CDB was US$705 million, of which US$156 million had been paid and the remaining was callable. In addition, unlike most other sub-regional multilateral development finance institutions4, CDB has a substantial portion of callable capital (US$137 million) from member countries rated AAA by Standard & Poors.

4.5 Total Assets reached US$934 million at year-end 2004, of which loans amounted to US$637 million. Loans grew by 24% in 2004, reflecting strong demand from borrowing member countries. 96% of total loans were public sector loans guaranteed by borrowing member countries. There were no non-accruing loans at the end of 2004.

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[4] such as CAF, CABEI, FLAR, etc.

4.6 Since its inception, CDB has strived to achieve an appropriate balance between its development and banking roles and has succeeded in maintaining a strong financial position as evidenced by the AAA rating it has received from Moody´s and Standard & Poors. CDB´s high rating results from careful financial management backed by a comprehensive set of conservative financial policies and operational procedures, coupled with the strong capital backing from its developed member countries, and preferred creditor status with borrowing member countries. The combination of adequate lending practices, controlled administrative expenses and careful financial management has allowed CDB to obtain reasonable rates of return on earning assets. CDB's annual return on average assets has varied between 2% and 3% over the past five years, while annual return on average unadjusted shareholders equity ranged between 3.6% and 5.4%.

4.7 CDB´s net income dropped from US$27.1 million in 2002 to US$19.5 million in 2004 as a result of a combination of factors, including changes in the interest rate environment in the international financial markets which affected its financial margin and the introduction of accounting rule IFRS 39 in 2003 that obliges CDB to treat certain hedging operations as derivatives held for trading with fair value gains and losses reported in income. Nonetheless, in recent years net income has been sufficient to continuing building up the capital base of CDB through allocations to reserves and to support its development activities.

B. Program execution and administration

4.8 The operation will be executed and administered by the CDB. Operations financed by the program will be selected and appraised with the policies and procedures of the CDB and consistent with the policies and objectives of the IDB. Operating Regulations will detail the eligibility criteria and requirements for access to the funds of these programs. In particular, these regulations will limit the use of the funds to sub-projects in Grenada that support its economic recovery and rehabilitation and are socially and economically viable. Moreover, to ensure effective evaluation of the operations supported, measurable indicators of the performance results of the programs must be defined and baseline data established. In addition, the regulations will specify the types of operations and uses of funds that are prohibited by Bank policies. The CDB will provide a copy of its annual report on project implementation which will be sufficient to indicate the extent to which the expected results are being obtained.

4.9 Program resources are expected to be committed over three years and disbursed to the final borrower in five years. This is considerably faster than the previous two programs with CDB, and reflects the special needs of the country and the nature of the operation: to support reconstruction and recovery after a natural disaster.

4.10 **Exceptions to Bank policy.** In order to provide FSO resources to Grenada at a cost that is not substantially more than the cost for Bank members and to coordinate the IDB and CDB's procurement policies, the following waivers to

Bank policy are requested: (i) The Bank's inspection and supervision fee, as well as commitment fees; (ii) Limiting of advance of funds to 10% of the loan amount (to allow for an advance of funds up to one-third of the loan amount.); and (iii) Country eligibility for procurement (to include members of the CDB that are not members of the IDB.)

4.11 **Procurement.** The CDB has procurement policies and procedures similar to those of the Bank and is participating in the World Bank-led effort to harmonize procurement policies of multilateral development banks. The procurement procedures for the proposed operation will follow the model of the Global Credit Facility (Lo. 1108/SF-RG), currently in execution.

4.12 **Program Evaluation and Monitoring.** During project preparation a results framework will be jointly developed which will be the basis for CDB to monitor program progress and report to the IDB. The Bank will also agree with CDB on the mechanisms for a mid-term evaluation of the program that would allow the implementation of corrective actions if deemed necessary. A final evaluation will also be conducted.

V. DEVELOPMENT IMPACT

A. Project beneficiaries

5.1 The program will benefit Grenada by providing low-cost resources to implement socially and economically viable projects to support its economic recovery and rehabilitation. The following activities will be supported: infrastructure and social sector improvement (including housing infrastructure), natural disaster damage repair or mitigation, and private economic activity reactivation. It is expected that these activities will have a very strong and positive impact in the population, particularly in the low-income segment that has been hard hit by the Hurricane, in many cases losing their jobs or revenue generating activities, and lack the means to recover their businesses or reconstruct their houses. Finally, the program ensures that strong relations are maintained between the IDB and the CDB for mutual collaboration and support in the region.

B. Environment impact

5.2 **Potential Impacts**. Given the nature of the Program, the anticipated environmental and social impacts will mainly be significantly positive. However if adequate socio-environmental management and mitigation measures are not properly implemented negative impacts are possible, particularly in the housing component.

5.3 Sub-projects related to business revitalization (reconstruction and repair of business establishments such as hotels, stores, offices, etc.), environmental restoration (cleaning up and stabilization of areas in which mass movements have occurred) and infrastructure rehabilitation (repair, restoration and maintenance of

roads and bridges) are likely to generate only minor to moderate, limited, short-term, spatially-restricted and easily preventable and mitigable impacts during the execution of civil works.

5.4 On the other hand, the housing component, which involves the provision of lots with services to install prefabricated houses donated by third parties, is the only Program component with the potential to produce moderate to significant negative impacts, since eventual housing sites have not been identified. The potential negative impacts of this component are: (i) generation of dust, noise and gases due to use of construction equipment, asphalt plants and vehicles; (ii) traffic congestion, creation of hazardous driving conditions and temporary obstruction of access to various areas during construction; (iii) risk of on-the-job accidents and sickness for workers; (iv) removal of secondary vegetation during the execution of earth movement operations; (v) soil erosion and landscape degradation with possible sedimentation of nearby water bodies, resulting from earth movement; (vi) soil and water contamination and landscape degradation due to wastes and effluents; and (vii) landscape degradation and contamination of water bodies due to inadequate disposal of removed waste pavement. As mentioned, other Program components could produce some of these impacts, in particular the first three, but in lesser magnitudes.

5.5 **Environmental and Social Strategy (ESS).** The ESS designed by the Project Team to ensure the environmental and social sustainability of the Program consists of actions and measures in the following areas: (i) impact prevention and mitigation, and (ii) supervision and follow up. The details of the Strategy are elaborated in the Environmental and Social Annex (available in FI3 files).

5.6 **Impact Prevention and Mitigation.** The Program will use the environmental and social review and management procedures of the executing agency, the Caribbean Development Bank (CDB). The CDB has developed adequate *Environmental Review Guidelines* and *Guidelines for the Social Analysis of Development Projects* in order to classify proposed projects based on their environmental and social impacts, and determine the corresponding breadth and depth of the socio-environmental analyses and impact management measures required. Both of these instruments are consistent with IDB's *Environmental and Safeguards Compliance Policy* currently under review. The Project Team envisages the need to implement a series of socio-environmental measures and studies described in detail in the Environmental and Social Annex and summarized as follows:

i. Regarding **Business Revitalization**, the reconstruction and repair of structures will be required to meet the design, material and construction standards contained in the Organization of Eastern Caribbean States (OECS) Building Codes and Guidelines, formally adopted by Grenada in 2004, which meet international standards for protection against natural hazards and include the corresponding norms and criteria for relevant to hurricanes and other natural disasters. In addition, contractors must obtain construction permits.

ii. For **Environmental Restoration,** construction contractors will be required to meet technical environmental specifications agreed upon by CDB and the Project Team, which will be incorporated into construction contracts. Contractors will also need to obtain the applicable permits, concessions or authorizations for the use of natural resources. Projects in the *Infrastructure Rehabilitation,* component additionally must prepare Environmental Management Plans (EMPs), which will be part of bidding documents and construction contracts.

iii. The application of CDB's *Environmental Review Guidelines* and *Guidelines for the Social Analysis of Development Projects* to potential **housing sites** will determine the specific socio-environmental analyses required, which may include Environmental Impact Assessments (EIA). In addition, the CDB will establish eligibility criteria, which incorporate exclusion lists, effectively prohibiting construction in environmentally or socially sensitive (e.g. prone to natural hazards, geotechnically unstable, wetlands) areas. The resulting EMPs, as well as technical environmental specifications to be defined for the Program will be incorporated into bidding documents and construction contracts. Contractors must obtain required construction permits, as well as authorizations or permits for the use of natural resources. The prefabricated housing structures to be installed on the selected sites must conform to the OECS Building Codes and Guidelines, particularly those related to natural hazard protection. Only sites where land property rights are clear and undisputed may be used.

5.7 **Supervision and Follow Up.** The CDB will encourage engineering firms with good track records to bid for the supervision of Program components with the potential to cause moderate to significant adverse impacts (i.e., infrastructure rehabilitation and housing sites). Construction supervision firms will be required to have environmental specialists on their staffs. Periodic environmental reporting by supervisory firms will be established. Also CDB staff will conduct periodic supervision missions during construction.

5.8 **Legal and Institutional Framework for Environmental Management in Grenada.** The Environmental Impact Assessment process is governed by the Physical Planning and Development Control Act (2002). The Planning and Development Authority (PDA) has lead authority for EIA procedures. Land developers must submit EIAs and the PDA must inform other agencies and departments responsible for issuing licenses, permits, approvals, and other consents related to the proposed project. The PDA may not grant permission for land development for which an EIA has been requested without taking into account the EIA report. At the end of 2004, Grenada approved its first National Environmental Management Strategy (NEMS). The country now has an institutional and legislative framework for integrating environmental management in its development agenda.

5.9 Even before the devastating impacts of Hurricane Ivan in Grenada, the Government demonstrated its commitment to develop and/or approve several critical instruments for environmental and natural hazard management. These include the adoption of a National Building Code and Guidelines, the enactment of the Physical Planning and Development Control Act and the National Physical Development Plan, the endorsement of the Comprehensive Disaster Management Strategy, and the adoption of a National Hazard Mitigation Policy and Strategic Framework (December 2004), which provides for mainstreaming disaster risk reduction into the post Hurricane Ivan reconstruction process.

5.10 Although environmental management capacity is limited, the country has made progress in strengthening this capacity in recent years and continues to do so with support from CDB, CARICOM and the UNDP through the OECS.

5.11 **Environmental and Social Management Capacity of Executing Agency.** As mentioned previously, the CDB's *Guidelines* are consistent with IDB's draft *Environmental Safeguards and Compliance Policy* currently under review. CDB´s environmental and social review functions are centralized in the Poverty Reduction and Environment Unit (PREU), in the Social Development Division of the Projects Department.

VI. SPECIAL ASPECTS OF THE PROJECT

A. Socio Economic viability

6.1 Due to the nature of this program, the Bank has not estimated the socioeconomic viability of the individual sub-projects. Nonetheless, the CDB usually requires as part of its appraisal the estimation of economic rates of return of its programs, as well as the definition of indicators to measure the improvement in access and quality of social services for social sector programs. In addition, all projects are evaluated during appraisal for their effectiveness and relevancy to reduce poverty as well as for their institutional development impact.

6.2 When economic rates of return cannot be estimated, the CDB requires the estimation of the costs of at least three alternative technically feasible methods to achieve the project objective in order to assure that the project meets its development goals at the least cost. This appraisal and evaluation process assures that CDB financed projects are socially and economically viable.

B. Risks

6.3 **Credit Risk.** It is worth indicating that IDB and CDB face different types of credit risk under this program. The credit risk faced by IADB in this operation is different than those of other loans to Bank members because repayment depends on the ability of the CDB, a multilateral agency currently rated AAA by Moody's and Standard & Poors. It does not hinge on the repayment ability of a single country borrower. Given the expectation of continued prudent financial policies at

the CDB, these resources provide a strong level of support, to service the loan. On the other hand, the CDB faces the typical country risk since all the funds will be on-lent to a single country, Grenada. Furthermore Grenada has a relatively high debt burden and has experienced recent repayment problems on its commercial debt. Nonetheless, CDB officials have indicated that they are quite comfortable with the ability of Grenada to repay the loan.

6.4 **Implementation Risk.** The success of the program will hinge on the execution capacity of the CDB and of the agencies of the Government of Grenada. The latter suffered significant loss of institutional infrastructure during the Hurricane and has limited capabilities to coordinate the many donor-supported initiatives. The CDB will work through the appropriate Government agencies making sure that they have adequate capabilities, thus mitigating this risk. The recently created Agency for Reconstruction and Development (ARD), financed by the government and other donors, should also help in this respect as it is responsible for coordinating the reconstruction and development activities of the stakeholders. During project preparation more details of the implementation risks of this operation will be developed, including an analysis of effective demand for the proposed components and other factors that could affect the execution of the Program.

6.5 **Environmental risk.** The risk associated with the limited enforcement capacity of the Planning and Development Authority is mitigated by CDB's independent oversight of the projects to be financed. In addition the Authority's enforcement capacity continues to be strengthened by international agencies including the CDB, UNDP, and CARICOM.

VII. STATUS OF PREPARATION

7.1 Project preparation work, data collection and inter-agency consultation is ongoing. A mission visited Barbados from March 15 to 18 to discuss the design of the subject program with officials of the Caribbean Development Bank. The mission and CDB authorities developed and agreed on a draft set of Operating Regulations which provide the framework for preparing and implementing the specific projects to be carried out as well as the terms and conditions of the loans from CDB for their financing.

7.2 The CDB will further develop and refine its list of proposed activities to be financed by the program once approved. The Bank and CDB project teams will continue their collaboration on the Project Report so as to be able to expedite its processing as soon as the PCD is approved.