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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

GRENADA

# PROJECT PAPER

ECONOMIC SUPPORT FUNDS

AID/LAC/P-415

Project Number: 538-0141.01

UNCLASSIFIED

CLASSIFICATION

| AID 1120-1 (5-80) PAAD | DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT<br>PROGRAM ASSISTANCE APPROVAL DOCUMENT | 1. PAAD NO. 538-0141.01<br>2. COUNTRY Grenada<br>3. CATEGORY Cash Transfer<br>4. DATE July 1987 |
|---|---|---|

5. TO
James S. Holtaway
Director, RDO/C

6. OYB CHANGE NO

7. FROM
Robert A. Phillips
PO/ED

8. OYB INCREASE

TO BE TAKEN FROM
Economic Support Fund (ESF)

9. APPROVAL REQUESTED FOR COMMITMENT OF
$ 5,000,000

10. APPROPRIATION - ALLOTMENT
LES7-87-35538-KG31 Budget Plan Cod

11. TYPE FUNDING: ☐ LOAN ☒ GRANT (XX)

12. LOCAL CURRENCY ARRANGEMENT: ☒ INFORMAL ☐ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD: July 1987-June 1988

14. TRANSACTION ELIGIBILITY DATE: Date of Agreemen

15. COMMODITIES FINANCED

| 16. PERMITTED SOURCE | | 17. ESTIMATED SOURCE | |
|---|---|---|---|
| U.S. only: | | U.S.: | $5,000,000 |
| Limited F.W.: | | Industrialized Countries: | |
| Free World: | | Local: | |
| Cash: | $5,000,000 | Other: | |

18. SUMMARY DESCRIPTION

RDO/C proposes to support the development of a medium-term structural adjustment program by financing $5.0 million of the fiscal gap brought about in part by the GOG's initial implementation steps of this program. A major tax reform program, in place in 1986, resulted in a simplification of the revenue system and a tax structure that greatly reduced fiscal disincentives to private sector productive activity. At the same time, it was recognized that the level of public expenditures supported from domestic revenues was too high. The GOG in 1987 began a fiscally prudent civil service retrenchment program to pare the size of the civil service and thereby permit a significant reduction in public sector recurrent spending. The most viable approach to longer term expenditure reduction is the retrenchment program, but the initial financial costs of this retrenchment program, primarily in severance payments, will exceed the expenditure reduction during the program. Conditionality attached to the program assistance proposed in this PAAD will (a) encourage the GOG to proceed with the civil service retrenchment program and (b) encourage the GOG to enter into a formal medium-term structural adjustment program.

Per State 186646 dated June 18, 1987, Funds are available upon signature of AA/LAC or his designee. Mark S. Matthews, Regional Controller

| 19. CLEARANCES | DATE |
|---|---|
| D/DIR:ABisset AB | 7/20/87 |
| RLA:RJohnson (draft) | 7/20/87 |
| C/PDD:KFinan | 7/20/87 |
| RDO/C/G:MSchwartz | 7/17/87 |
| PDD:EWarfield (draft) | 7/20/87 |

20. ACTION

☒ APPROVED ☐ DISAPPROVED

James S Holtaway 7/21/87
AUTHORIZED SIGNATURE DATE

James S. Holtaway, Director
TITLE

CLASSIFICATION:

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ECONOMIC STRUCTURAL ADJUSTMENT PROGRAM II (ESAP II)

FOR GRENADA, 1987

# I. SUMMARY AND RECOMMENDATIONS

## A. Recommendation

We recommend that the Mission Director, RDO/C, authorize an Economic Support Fund Grant of $5.0 million to Grenada. The Grantee will be the Government of Grenada (GOG) acting through the Ministry of Finance, Planning, Trade and Industrial Development. RDO/C's concept paper recommended delegation of authority to the Mission Director, RDO/C, to approve the Program Assistance Approval Document (PAAD) to authorize an Economic Support Fund Grant of $5.0 million to Grenada. Annex A incorporates approval of this recommendation by AID/W into the PAAD.

## B. Program Summary

In late 1986, the GOG began the development of a multidonor-funded medium-term structural adjustment program, a key to the successful implementation of which is greatly improved public savings. RDO/C proposes to support the development of this program by financing $5.0 million of the fiscal gap brought about in part by the GOG's initial implementation steps of this program. A major tax reform program, in place in 1986, resulted in a simplification of the revenue system and a tax structure that greatly reduced fiscal disincentives to private sector productive activity. At the same time, it was recognized that the level of public expenditures supported from domestic revenues was too high. The GOG in 1987 began a fiscally prudent civil service retrenchment program to pare the size of the civil service and thereby permit a significant reduction in public sector recurrent spending. The most viable approach to longer term expenditure reduction is the retrenchment program, but the initial financial costs of this retrenchment program, primarily in severance payments, will exceed the expenditure reduction in the first year. Conditionality attached to the program assistance proposed in this PAAD will (a) encourage the GOG to proceed with the civil service retrenchment program and (b) encourage the GOG to enter into a formal medium-term structural adjustment program.

## II. BACKGROUND

Between the October 1983 intervention and the end of the second quarter of FY1987, A.I.D. obligated and disbursed US$21 million in budgetary support to the GOG (see Table 1). In addition, over US$50 million in project assistance was disbursed in that period, in bilateral projects alone. In the same period, Grenada's GDP totalled just over US$300 million, implying that A.I.D.'s total assistance (including regional projects) was equivalent to about one-fourth of GDP. That total assistance level was also equivalent to about forty percent of overall GOG spending in the same period.

Table 1. AID's Bilateral Project and Non-Project Assistance to Grenada*

(US$ '000)

| | Obligations | | Disbursements | |
|---|---|---|---|---|
| | Project | Non-Project | Project | Non-Project |
| FY 1984 | 39,166 | 10,000 | 11,627 | 7,000 |
| FY 1985 | 8,124 | 3,000 | 19,789 | 4,500 |
| FY 1986 | 2,162 | 6,000 | 15,817 | 7,500 |
| FY 1987** | | 2,000 | | 2,000 |
| TOTAL | | 21,000 | | 21,000 |

This resource input has resulted in many changes in Grenada. Considering only the effects of the non-project assistance, the US$21 million in budgetary support has encouraged the GOG to make a broad range of policy changes. The majority of those changes are discussed in detail in the project paper for Economic Structural Adjustment Program I (ESAP I; 538-0156), and are not detailed here. The actions taken by the GOG in 1984-86 covered the following areas: fiscal reform, foreign exchange controls, fiscal incentives, interest rate controls, price controls, import monopolies and licensing, and privatization of agricultural and non-agricultural assets. Although not all the recommended policy changes were completed to AID's satisfaction, it is fair to say that the policy environment has become one increasingly supportive of an export-oriented, private enterprise-driven economy.

The primary goals of ESAP I (the most recent budgetary support program for Grenada, which was disbursed in the latter half of FY 1986 and the beginning of FY 1987) were to:

(a) ensure the timely implementation of fiscal reforms and support the temporary revenue shortfall associated with the reforms;

(b) encourage the GOG to begin negotiations to develop a medium-term structural adjustment program under the TCG ("tighter" consultative group) mechanism.

The ESAP I program generally achieved these goals and the GOG continues to work on additional tasks related to them.

*Excludes Grenada components of RDO/C's regional project portfolio.
**First half fiscal year only.

## III. PROGRAM RATIONALE

### A. Nature of the Economic Problem

The Government of Grenada (GOG) has been engaged for the past three years in a series of structural adjustment measures which were encouraged by a series of USG budgetary support programs. It is now prepared to consider a multidonor-funded, donor-approved program to provide a framework for structural adjustment in the 1987-90 period. The steps taken by the GOG cover the range of economic policy changes, as discussed above in Section II.

As one of the most significant of those past measures, the GOG carried out a drastic reform in its tax system, a reform which ended up costing the GOG about EC$15 million in revenues in 1986, the first year. (The "costs" of such a program are defined as the difference between what total revenues would have been in the absence of reform and what total revenues actually turned out to be.) Mission and other observers anticipate that in the second year, the costs will be far lower than in 1986, and will turn to benefits, from the standpoint of the Ministry of Finance, by 1988 or 1989.

An important objective of the revenue reforms in Grenada was to implement a revenue structure that provided the maximum in incentives to production in the simplest possible manner, while allowing the Government to obtain a reasonable level of revenues. In that regard, the reforms were adjustment-oriented. In lieu of severely reducing aggregate demand by slashing expenditures (to compensate for the decrease in revenues), the GOG elected to compensate by a combination of domestic borrowing, external budgetary grants, and increases in arrears.

The GOG entered 1987 with the prospects of an impending structural adjustment program and with the knowledge that it must successfully implement fiscal stabilization measures if structural adjustment were to be effective. As it had in its 1986 budget, the GOG again made provision for a 25-percent reduction in the size of the civil service. This "retrenchment" program would in fact increase 1987 outlays, but would result in substantial savings in recurrent spending in 1988 and beyond. If carried out, the retrenchment would better enable the GOG to increase the level of public savings and to thereby reduce the financing gap on fiscal account. Taken together with other adjustment measures, the reduced expenditure levels would increase Grenada's financial self-sufficiency and creditworthiness. To assist the GOG in its adjustment program, the donors intended to provide performance-tied budgetary support over the period between 1987 and 1990.

The details of the overall adjustment program, as well as the specific interests of A.I.D. in terms of structural adjustment measures, are provided below in Sections IV and V, below. While those measures are important, the most immediate problem facing the GOG is to stabilize in preparation for that program. Although recurrent revenues are expected to increase by nearly 20 percent in 1987 (the GOG expects nearly a 25 percent increase) expenditures overall will be higher if the GOG is to meet all its obligations. The net increase in recurrent spending will be about 8 percent, two-thirds of which is attributable to the one-time redundancy payments related to the retrenchment. Current amortization payments on domestic and external debt in 1987 (excluding IMF repurchases), compared with actual 1986 payments, are nearly twice as great. Furthermore, the GOG has budgeted for an arrears-reduction program in 1987, compared to the build-up that actually occurred in 1985 and 1986. Generally, there is no increase budgeted for capital formation compared with 1986.

To cover its local capital formation costs (i.e., domestically financed construction plus counterpart contribution to donor-funded projects), the GOG plans to borrow domestically. To cover principal payments (EC$18 million), arrears reduction (EC$5 million), and its recurrent deficit (EC$2 million by the GOG's account and EC$8 million by ours), the GOG must seek extraordinary financing. The IMF and IBRD, as part of the TCG program, are prepared to contribute EC$7 million in 1987. The balance (EC$25 million to EC$31 million) must be covered in other ways.

The proposed USG program for Grenada would contribute EC$13.5 million and, added to the EC$7 million of support by the IMF and IBRD, would permit the GOG to cover (a) its planned EC$2 million recurrent deficit, (b) all its arrears excluding those on debt to Libya and the GDR, and (c) all current principal payments with the exception of the EC$4.1 million due to Libya and the GDR. Implicitly, therefore, the GOG would have to find ways to cover (a) the likely additional EC$6 million in recurrent deficit and (b) its EC$4 million in principal payments to Libya and the GDR.

The proposed USG support would also permit the GOG to carry out its retrenchment program, the net cost of which is approximately EC$5 million in 1987. It would permit the GOG to cover its planned recurrent expenditures, assuming that recurrent revenues reach the planned level.

If the EC$20.5 million in budgetary support is made available in 1987, a condition of its release will be a GOG commitment to a three-year program, an important element of which will be fiscal prudence. If the GOG can hold expenditures in 1988-90 to the levels likely to be embodied in that three-year program, the required amount of budgetary support will be reduced, year-on-year over that period. If the GOG can continue to contain expenditures (largely by holding the wage bill constant) beyond that period, there should be no need for budgetary support beginning in 1991.

B. Objectives of a Three-Year Structural Adjustment Program

The "tighter consultative group" (TCG) concept arose in response to a request by the OECS states to the CGCED (Caribbean Group for Cooperation in Economic Development) donors that a pool of non-project assistance funds be provided to assist the OECS states in meeting (a) capital formation counterpart costs and (b) debt-service requirements. The CGCED donors were unable legally to provide such a pool of funds, and the World Bank counterproposal was that available program assistance (such as IBRD SAC/SAL funds, IMF SAF funds, funds made available by the CDB, and bilateral budgetary support funds from A.I.D.) be provided to individual OECS states on a case-by-case basis if the state in question agreed to a medium-term structural adjustment program. That program would be defined in the PFP (policy framework paper) which is the basic SAF (Structural Adjustment Facility) document. The TCG idea was to bring all the donors together into a consultative group that was tighter than the regular CGCED subgroup session, in that the recipient in question would have agreed to a more coherent program than most presented to subgroup sessions, and in that the donors would be expected to make the resources they provided conform to that program's requirements.

In September 1986, the GOG requested that the IBRD and the IMF accelerate plans to carry out the analysis that leads to TCG-type funding from those institutions. The multilaterals acceded to this request but indicated that to carry out the analysis, the IBRD would require technical assistance from the donors in putting together a team to analyze Grenada's PSIP (public sector investment program). In November 1987, an AID-funded team carried out preliminary analysis of the PSIP, followed by concurrent IBRD and IMF missions in December. The IBRD mission was to complete the PSIP work begun by the November team. The IMF mission was to take a preliminary look at the fiscal situation. Both teams noted that they were unable to carry their analyses as far as they had hoped because the GOG was not only unable to discuss fiscal projections for 1988-90, but was unable to discuss any details of the 1987 budget.

In March 1987, both the IBRD and the IMF returned to Grenada with missions to further the analysis. The IBRD mission was characterized as a "preappraisal mission," to discuss with the GOG not only the 1987-90 PSIP, but also the general economic policy framework. The IMF mission combined a scheduled Article IV consultation with further discussions with the GOG on the 1987 fiscal situation and projections for the future. At the end of their missions, both the IBRD and the IMF agreed that they would return to Washington to draft the PFP, which they would return to Grenada in late July to negotiate. Both agreed that their missions in Grenada had been fruitful.

The late 1986 IBRD and IMF missions to Grenada each provided the GOG, at the latter's request, a document describing the multilaterals' views of the policy situation in Grenada. The short IMF document, which the November 1986 IMF mission prepared at the GOG's request, noted the preeminent problem of the public finances and urged the GOG to take action immediately. Noting that there it was undesirable for the GOG to significantly increase the tax burden on the economy, the IMF stated that adjustment must come on the expenditure side. The IMF further urged the GOG to refrain from wage increases (not only to help keep down expenditures, but also to encourage the private sector in wage restraint to improve Grenada's competitiveness), and urged the GOG to seriously undertake retrenchment.

The IBRD document, a more formal piece appended to a letter from the IBRD to the Prime Minister, purports to summarize the "provisional" findings of the mission. That document is divided into six sections:

(1) the fiscal situation;
(2) the Government's general economic objectives;
(3) the short-term macroeconomic situation;
(4) general measures to enhance Grenada's competitiveness;
(5) longer-term development strategy; and
(6) sectoral priorities.

The mission concurred with the Government's general economic objectives:

"reducing the currently excessive size of government; significantly reducing the number of public employees; enhancing Grenadian creditworthiness by substantially reducing or eliminating debt service arrears; providing support and encouragement to private investment and production; and promoting agricultural, manufacturing and tourism exports."

The IBRD document pointed out that Grenada must in the longer-term increase its level of domestic savings, including public savings, and that it must supplement this with foreign private capital, particularly because it appears that the most recent levels of public assistance will fall somewhat. The IBRD also encouraged the Government to improve its overall planning capability and to upgrade its public sector investment programming abilities.

Both documents (from the IMF and IBRD) provide the GOG with a good preview of the areas of substance that will be covered in the PFP. In order to further clarify these areas and to be even more specific, the IMF in March left with the GOG a draft document entitled "Grenada: Tentative Summary of Policies to be Discussed Further in Preparation of the Structural Adjustment Program for 1987-90." The "Tentative Summary" covers the following policy areas:

(1) fiscal policy;
(2) public enterprises and statutory bodies;
(3) public sector investment program;
(4) banking sector;
(5) sectoral policies;
(6) debt management;
(7) exchange rate; and
(8) statistical information.

Under these eight headings appear thirty-plus policy actions, the relevant policy objective for each, and the year or years in which each is expected to take place.

In Mission's discussions with the GOG and the IMF, it has become clear that although many of these actions prescribed by the IMF will not be controversial, there are several that will be so. As an example of the former, both the IMF and the GOG agree that the GOG should hold no more than 40 percent of the shares in the National Commercial Bank and the Grenada Bank of Commerce. On the other hand, the IMF believes that the GOG should maintain a flat nominal wage bill in 1989 and 1990, based upon the level in 1988, but the GOG believes that this level should be permitted to rise at the same rate as recurrent revenues.

### C. AID's Policy Agenda for Grenada

At a CGCED Expanded Steering Committee meeting convened in Grenada on 15 May 1987, the IBRD solicited from the donors their views on Grenada's policy framework, in response to a request from the bilateral donors that their views be reflected in the forthcoming policy framework paper. RDO/C has sent a letter to the IBRD which is an expanded version of the following.

First, the USG believes that the Government of Grenada must improve its ability to finance its own recurrent programs, cover its debt repayments, and contribute to a portion of its capital formation requirements. The Government is at present unable to do this fully, but the U.S. Government believes that this goal should be at least a 1990 goal of any structural adjustment program which your Government undertakes. Grenada's revenue share of GDP is already high, and consequently expenditure restraint should be an element of any program. The Government has signalled its intention to carry out a civil service retrenchment program which should contribute significantly to this goal.

Second, Grenada's budget process must be improved if the government is to ensure the most efficient use of its resources. This is true for both the recurrent and capital components of the budget. Currently, links between the Ministry of Finance and the line ministries are tenuous, with little apparent agreement on the elements of a budget even after the budget estimates are officially approved. Furthermore, there is no consideration in either the budget process, or in setting out future funding requirements, for the public sector enterprises. The Government is currently in the midst of a technical assistance program to improve the budget process, and the U.S. Government believes that implementation of the technical assistance proposals must become a top priority of Government's.

Third, the Government should be encouraged to be as receptive to investors, domestic and foreign, as possible. This means, in part, improving the functioning of the Industrial Development Corporation (IDC). It also means accelerating and clarifying the fiscal incentives approval process. Again, the Government is currently receiving technical assistance in this area, and should press solutions home as rapidly as feasible.

Fourth, the Government should improve its public sector investment planning capability. At present, there is evidence that the Government does not carry out adequate preliminary analysis of projects before putting them into the public sector investment program (PSIP), and that Government plans do not extend beyond the current year. When such planning is done, it has normally been carried out by external analysts for a specific purpose, and Government has been generally unable to assume a fully active role in that process. As a result, the exercise often is not the Government's own exercise, and the Government does not appear to have the skills to carry out the exercise in the future, given other demands on civil servants.

Fifth, although the Government has gone far to remove quantitative restrictions on trade and to reduce controls on prices, the U.S. Government believes that there still exist areas where more could be done. Price ceilings on products, such as fish, and on the rate of interest still are in force, and there is evidence that such price controls have increased in recent months. Very serious consideration should be given to further relaxation of controls. The Government of Grenada licenses imports, nominally to provide the Finance Ministry with revenue-enhancing information. A more efficient way to provide this information would be to improve customs administration, which is an important facet of the ongoing fiscal reform program.

Sixth, the Government is much more involved in productive sector activities than the U.S. Government believes that it can afford to be, given other more pressing demands on the civil service. Consequently, operational efficiency has suffered in these activities, and the U.S. Government believes that privatization is a necessary solution. Indeed, the Government of Grenada in 1985 developed a "privatization" plan that provides an indication of what Government intends to do with a series of public enterprises. The Government since then has taken steps to privatize some of these enterprises, and is now in the course of privatizing the two state-owned commercial banks. All these are positive moves, and should provide the Government with a stream of cash and at the same time make any truly viable enterprises more efficient. This privatization effort should continue, and the U.S. Government encourages the Government to reassess the conclusions set forth in the privatization plan, in order to determine whether it is possible to move faster than was deemed possible when the initial plan was devised. For example, the U.S. Government believes that one enterprise to which the Government should turn its attention as a candidate for further privatization is the Marketing and National Importing Board.

## D. Analysis of Grenada's Fiscal Accounts, 1986-90

### 1. 1986 Fiscal Situation

The GOG ended 1986 with a fiscal situation which was considerably worse than that in the budget estimates approved by the GOG early that year. Instead of budgeted revenues of EC$108 million, the outturn was only EC$93.7 million, and recurrent spending (excluding principal payments) was EC$108.9 million, or EC$10.6 million higher than budgeted. As a consequence, instead of turning in the budgeted recurrent surplus of EC$9.6 million, public savings were negative, at EC$15.2 million. This fiscal picture was considerably poorer than in 1985, which showed only an EC$0.9 million recurrent deficit.

#### a. Recurrent Revenues

The revenue picture in 1986 was significantly influenced by the fiscal reforms the government undertook that year (see Table 2). At the time the budget was announced (in February 1986), many observers believed it highly unlikely that the GOG would be able to take in EC$108 million in revenues. Projections prepared by the AID-funded Fiscal Reform Team (FRT), prior to the budget announcement, estimated revenues at about EC$98 million, but the FRT estimates declined to EC$93 million in April 1986 and went as low as EC$85 million in July 1986.

As the year turned out, revenues came in at EC$93.7 million for 1986, somewhat higher than the FRT's most pessimistic estimates but decidedly lower than the GOG planned in the budget. In fact, the April 1986 FRT estimates, which were included in the ESAP I PAAD, turned out to be the most accurate projections. Sharp departures from the budgeted revenues on (a) the value-added tax and (b) the business levy account for the bulk of the revenue shortfall. In the case of the former, the departure was primarily due to the series of temporary and permanent VAT exemptions granted by the GOG in the months following the budget address. The temporary exemptions were granted to cover existing stocks of goods produced or imported prior to, but not yet sold at the time of the

Table 2. The Government of Grenada Budget, 1984-89

(EC$ '000)

| | 1984 | 1985 | Budget 1986 | Actual 1986 | IMF Proj 1987 | Budget 1987 | RDO/C Proj 1987 | Proj 1988 | Proj 1989 |
|---|---|---|---|---|---|---|---|---|---|
| RECURRENT REVENUES | 87,300 | 100,500 | 108,000 | 93,728 | 112,000 | 117,028 | 111,778 | 115,000 | 122,000 |
| 1.Customs/Excise | 29,027 | 36,144 | 68,907 | 57,260 | | 71,320 | 72,070 | | |
| VAT | 0 | 0 | 42,612 | 31,875 | 46,000 | 47,000 | 47,750 | | |
| Import Duty | 12,145 | 17,913 | 21,893 | 20,425 | | 22,400 | 22,400 | | |
| Other | 16,882 | 18,231 | 4,402 | 4,960 | | 1,920 | 1,920 | | |
| 2.Taxes | 46,915 | 54,584 | 23,100 | 20,508 | | 29,870 | 23,870 | | |
| Business Levy | 6,596 | 6,884 | 6,300 | 2,231 | | 8,000 | 5,000 | | |
| Foreign Exchange | 5,221 | 6,765 | 3,690 | 4,408 | | 4,000 | 4,000 | | |
| Property Tax | 0 | 776 | 80 | 808 | 4,000 | 5,000 | 4,000 | | |
| Land Transfer Tax | 0 | 0 | 0 | 0 | 5,000 | 7,000 | 5,000 | | |
| Other | 35,098 | 40,159 | 13,030 | 13,061 | | 5,870 | 5,870 | | |
| 3.Departmental Income | 5,864 | 6,880 | 8,449 | 8,902 | 8,400 | 9,386 | 9,386 | | |
| 4.Other | 5,494 | 2,892 | 7,544 | 7,058 | | 6,452 | 6,452 | | |
| RECURRENT EXPENDITURE | 85,000 | 100,600 | 98,345 | 108,909 | 119,200 | 119,100 | 119,701 | 102,700 | 106,600 |
| 1.Personal Emoluments | 47,000 | 55,400 | 49,332 | 57,102 | 59,400 | 59,948 | 59,948 | 50,300 | 50,300 |
| 2.Interest Payments | 11,000 | 9,400 | 11,090 | 11,451 | 10,600 | 10,553 | 10,553 | 10,900 | 12,200 |
| Domestic Debt | 4,400 | 3,800 | 4,284 | 5,789 | 4,700 | 4,651 | 4,651 | 4,600 | 5,100 |
| External Debt | 6,600 | 5,600 | 6,806 | 5,662 | 5,900 | 5,902 | 5,902 | 6,300 | 7,100 |
| 3.Other | 27,000 | 35,800 | 37,923 | 40,356 | 49,200 | 48,599 | 49,200 | 41,500 | 44,100 |
| RECURRENT BALANCE | 2,300 | (100) | 9,655 | (15,181) | (7,200) | (2,072) | (7,923) | 12,300 | 15,400 |
| CAPITAL EXPENDITURE | 67,900 | 80,000 | 110,400 | 67,476 | 54,100 | 80,025 | 54,100 | 62,200 | 57,800 |
| OVERALL BALANCE | (65,600) | (80,100) | (100,745) | (82,657) | (61,300) | (82,097) | (62,023) | (49,900) | (42,400) |

9a

imposition of the VAT. The GOG, responding to pressure primarily of importers, continued to extend the period of grace beyond the originally planned period. In addition, several categories of goods and services (including hotel rooms, electricity and telephones) were given permanent exemption from VAT imposition and manufactures were taxed at a reduced rate. These exemptions were responsible for EC$11 million of the shortfall. The business levy, originally described as a fixed rate of gross profits in the budget, in fact was not implemented at all in 1986, and the remaining EC$4 million of the total EC$15 million shortfall is attributable to this.

The GOG increased its revenues in 1985 by 19 percent, but decreased its revenues in 1986 by about 9 percent. And although there was a serious shortfall when the 1986 actual figures are compared with the 1986 budget, it is important to note that the GOG was able to take in approximately EC$9 million more in revenue than the most pessimistic, August 1986, estimates of the Fiscal Reform Team. RDO/C concurred with those pessimistic estimates, cabled them to AID/W in August 1986, and formally, in a P.I.L., asked the GOG to comment on them.

b. Recurrent Expenditures

After growing by over 20 percent in 1985, the GOG's recurrent expenditures showed a small 4 percent increase in 1986 (see Table 2). Despite this apparently positive turn of events, GOG recurrent expenditures in 1986 were some EC$10.5 million more than was budgeted for that year. The primary reason for the overspending was that the civil service retrenchment program, which the GOG had accounted for in its 1986 budget, was not carried out in that year. Consequently, the civil service wage bill for 1986 was about EC$8 million higher than the budgeted figure. The budgeted amount was too low, and few observers expected retrenchment to actually occur in 1986.

Grenada's civil service is on a per capita basis considerably larger than that of any other OECS state, and the wage bill as a share of recurrent revenues rose from 57 percent in 1985 to 61 percent in 1986. In fact, the number of full-time equivalent civil servants declined in 1986, compared with 1985, although by only about 5 percent, and the wage bill also dropped. Had the retrenchment program actually been carried out in 1986, these numbers would probably have declined more significantly.

c. Capital Expenditures

Capital expenditures declined dramatically in 1986, by about 16 percent, after increasing by about that amount in 1985 (see Table 2). Grenada's public sector investment program (PSIP) is financed largely by grants and concessional loans, which have amounted to about 90 percent of the total PSIP in 1985 and 1986. This leaves a balance of between EC$5 million and EC$10 million which the GOG must finance from its own resources, a significant amount when public savings are negative. Capital grants account for the bulk of the concessional funding, and the average over the 1984-86 period was on the order of EC$500 per capita, or EC$50 million per year.

As is usually the case in OECS countries, where capital expenditure planning is not well developed, the budgeted PSIP is typically much higher than actual expenditures during the year. For example, in both 1985 and 1986, the actual public investment levels were only 60 percent of the budgeted amounts. In part, this is because for political reasons the budget contains myriad projects which are proposed by individual ministries, but for which financing is not secured either domestically or externally. Due to the lack of adequate investment planning, it is not clear that those projects that are actually carried out are uniformly of higher priority than alternative projects.

d. Debt Amortization

In addition to the EC$11.5 million that the GOG spent on interest payments on public debt, the 1986 budget called for (a) EC$3.1 million expenditures on the "sinking fund" (to salt funds away for future payments on existing debt), and (b) EC$24.5 million for principal repayments (see Tables 3 and 4). The latter figure includes EC$2.9 million for domestic debt amortization and EC$21.7 million for external debt. Of the external debt figure, over one third (EC$7.5 million) was earmarked to cover arrears on principal payments on debt to Libya and the German Democratic Republic. If the GOG has made all its debt payments, over 40 percent of its 1986 revenues would have gone to cover debt.

By year end 1986, however, the GOG had gone further into arrears on principal payments on external debt. First, the GOG made no payments into the sinking fund for its Plessey-ECGD debt, rescheduled in 1985. Second, the GOG made no principal payments on its debt to Libya, Algeria, or the GDR, going further into arrears. As a result, actual debt amortization outlays in 1986 were only EC$14 million, only about half of the EC$27.6 million planned in the budget for the year.

e. Financing the 1986 Gap

Grenada, like the other OECS states, depends heavily on external financing (capital grants and concessionary financing) to cover its capital formation expenditures. Therefore, it seems reasonable to define a fiscal gap after these financing items are included rather than before they are. Using this definition, the GOG had a financial gap of EC$34.1 to fill in 1986, including EC$15.2 million which was the recurrent budgetary gap (see Tables 3 and 5). According to the GOG's 1987 budget estimates, the 1986 gap was filled by (a) taking in EC$21.8 million in recurrent grants from the USG, (b) borrowing EC$10.2 million domestically from the National Insurance Scheme, (c) borrowing EC$4 million from the domestic banking system, and (d) going into arrears for the balance. Thus the GOG had to indulge in extraordinary financing means for about one fifth of its overall budgetary outlays, a significant proportion.

2. The 1987 Budget

The GOG in late February 1987 approved and released its 1987 budget. Recurrent revenues for 1987 were pegged at EC$117 million (a 25 percent increase over the actual 1986 figure), recurrent expenditures were slated to increase less rapidly (by 13 percent), and public savings was scheduled to improve but be negative at EC$2 million (or 1 percent of projected GDP). While the latter figure appears good, Grenada's public debt financing requirements suggest that extraordinary financing (as defined above) will still be on the order of 1986's financing requirements. In the budget, the GOG included EC$29.5 million of external grant financing, some EC$9 million above that expected from all identified donors.

According to the GOG, the fiscal gap for 1987 is EC$29.5 million, and the budget includes that amount in budgetary support. External observers, however, believe that the gap is likely to be closer to EC$32 million, and that even after available budgetary support is provided, there remains an unfinanced gap of about EC$11.5 million.

a. Recurrent Revenues

The GOG has budgeted recurrent revenues at EC$117 million, EC$23.3 million above actual 1986 revenues (see Table 2). The major components of the increase are (a) an increment of EC$15 million in revenues from the VAT, (b) EC$7 million from the Land Transfer Tax which is scheduled to go into effect this year, (c) EC$5.0 million from the Property Tax, also scheduled to go into effect this year, and (d) EC$8 million from the newly installed Business Levy. These increases, which sum to EC$35 million, will be balanced by reduced earnings on several revenue items under the fiscal reform effort, including the personal income tax and the stamp duty.

Based on the GOG's experience, external observers (including RDO/C) believe that the GOG is too optimistic by about EC$5 million to EC$10 million in its revenue projections. The RDO/C funded Fiscal Reform Team, which it will be recalled somewhat underestimated 1986 revenues, believes that a range of EC$102 million to EC$113 million is conceivable, with the latter figure still below the GOG budget projections. The IMF has estimated a likely level of recurrent revenues to be EC$112 million, some EC$5 million below the GOG budgeted level. (IMF staff has explained that they believe their estimate to be on the high side, but that they have deferred to the Government). RDO/C's estimate is for revenues to be close to EC$112 million, given the realities of the situation in Grenada and given the newness of the revenue measures.

b. Recurrent Expenditures

The GOG has budgeted EC$119.1 million for recurrent expenditures (excluding arrears payments, or EC$122.6 million if arrears are included), 13 percent more than actual recurrent expenditures in 1986 (see Table 2). Five percentage points of this increase are attributable to the planned retrenchment program that the GOG has determined to carry out in 1987, cutting out 1,800 positions from the government. (The increase is a one-time extra outlay in the first year, when redundancy payments will exceed the savings on civil service salaries by about EC$5 million). The civil service wage bill, which amounts to a high 60 percent of recurrent revenues in 1987, has built into it an EC$6 million for a pay rise. That pay rise is meant to give those civil serviants who remain in government by the end of 1987 a retroactive pay increase, from January 1986, and the unions in Grenada are strongly disputing such a low increase. With the pay rise included, the GOG's outlays for civil service salaries (and excluding redundancy payments) would in 1987 be EC$59.9 million, a 5 percent increase over actual 1986 outlays.

Excluding civil service salary payments, redundancy payments, and interest payments on debt, the remainder of the recurrent budget is 17 percent less than in 1986, a positive indication of the GOG's attempts to reduce its level of recurrent spending. (Interest payments on debt do not differ markedly from 1986 to 1987).

c. Capital Expenditures

The GOG budget contains EC$80 million for capital expenditures, a figure comparable to the actual level in 1985 but some 50 percent higher than in the PSIP (public sector investment program) discussed with the IBRD in its recent missions to Grenada (see Table 2). Those missions intended to set a reasonable level of capital formation spending for the 1987-90 period, in preparation for a TCG program for Grenada. The GOG has basically agreed to the lower figure, but this agreement occurred after the budget estimates were approved by Parliament.

The IMF and IBRD predict that capital expenditures will be about EC$54 million (compared to the EC$80 millicn in the budget), and that of that sum, the bulk will be covered by grants and concessionary loans. This level of public capital formation is 25 percent lower than in 1986, and reflects a more normal level than the extraordinarily high amounts of assistance to Grenada in the immediate aftermath of the October 1983 inteventíon.

d. Debt Amortization

Despite a budgeted deficit on recurrent account of EC$2 million (which will likely be larger), despite an additional recurrent arrears reduction requirement of EC$3.5 million, and despite about EC$10 million to cover on capital formation account, the GOG has planned EC$23.7 million in principal payments, of which all but EC$500,000 are current payments (see Tables 3 and 4). Of this amount, EC$5.6 million is for contributions to the "sinking fund" (to set aside funds for future principal payments on existing debt), another EC$5 million is for payments on domestic debt, and the balance (EC$13 million) is to amortize external debt. An additional EC$12.2 would be required to cover arrears on external debt, to Libya and the G.D.R., which have not been included in the budget for 1987.

e. 1987 Financing Requirements

The GOG plans to borrow EC$10.1 million domestically to help cover its financial gap in 1987. In addition, approximately EC$29.5 million in external grant financing is included in the budget to balance out costs and revenues. Of the EC$29.5 million, EC$7 million is slated to come from the TCG mechanism (IMF and IBRD) and RDO/C plans to provide EC$13.5 million. Therefore, the GOG must find EC$9 million in recurrent grants elsewhere, an unlikely proposition. To the extent that RDO/C is correct in its assumption that recurrent revenues will be EC$112 million versus the EC$117 million now in the budget, this EC$9 million gap figure is more likely to be about EC$14 million.

Table 3. Financing the Government Budget, 1984-89

(EC$ '000)

| | 1984 | 1985 | Budget 1986 | Actual 1986 | IMF Proj 1987 | Budget 1987 | RDO/C Proj 1987 | Proj 1988 | Proj 1989 |
|---|---|---|---|---|---|---|---|---|---|
| FINANCING | 65,500 | 80,100 | 100,670 | 82,252 | 49,022 | 82,025 | 50,022 | 35,800 | 34,900 |
| 1.Grants | 68,700 | 76,600 | 99,275 | 68,800 | 45,100 | 60,948 | 45,100 | 31,000 | 22,000 |
| Current | 28,600 | 15,000 | 18,000 | 21,800 | 20,500 | 29,250 | 20,500 | 0 | 0 |
| Capital | 40,100 | 61,600 | 81,275 | 47,000 | 24,600 | 31,698 | 24,600 | 31,000 | 22,000 |
| 2.Concessionary Loans | 15,300 | (1,800) | 18,581 | 6,931 | 14,000 | 29,992 | 14,000 | 14,600 | 20,500 |
| Drawings | 17,800 | 5,200 | 23,750 | 12,100 | 22,100 | 38,092 | 22,100 | 25,000 | 30,000 |
| Amortization | (2,500) | (7,000) | (5,169) | (5,169) | (8,100) | (8,100) | (8,100) | (10,400) | (9,500) |
| 3.Nonconcessionary Loan | (15,500) | (500) | (9,686) | (6,143) | (3,778) | (3,615) | (3,778) | (7,000) | (5,600) |
| Foreign | (5,000) | (1,800) | (4,893) | (4,893) | (2,700) | (2,700) | (2,700) | (2,600) | (1,600) |
| Drawings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amortization | (5,000) | (1,800) | (4,893) | (4,893) | (2,700) | (2,700) | (2,700) | (2,600) | (1,600) |
| IMF | (2,900) | (6,600) | (4,114) | (5,304) | (2,300) | (2,137) | (2,300) | (2,100) | (1,700) |
| Drawings | | | | | | | 0 | | |
| Repurchases | (2,900) | (6,600) | (4,114) | (5,304) | (2,300) | (2,137) | (2,300) | (2,100) | (1,700) |
| Domestic | (11,700) | 4,200 | (2,856) | (3,023) | (4,978) | (4,978) | (4,978) | 0 | 0 |
| Drawings | | | | | 0 | 0 | 0 | 0 | 0 |
| Amortization | | | (2,856) | (3,023) | (4,978) | (4,978) | (4,978) | | |
| NIS | 3,500 | 4,900 | 5,300 | 10,200 | 5,600 | 5,600 | 5,600 | 1,600 | 1,600 |
| Other | 600 | (1,200) | (3,123) | (3,123) | 600 | 600 | 600 | (3,900) | (3,900) |
| 4.Arrears | (3,000) | 5,800 | (7,500) | 12,664 | (6,300) | (5,300) | (5,300) | (2,800) | (2,000) |
| CAPITAL REVENUES | 100 | | | | 300 | 300 | 300 | 100 | 100 |
| FINANCING GAP | 0 | 0 | (75) | (405) | (11,978) | 228 | (11,701) | (14,000) | (7,400) |
| GDP, CURRENT PRICES | 242.2 | 260.4 | 276 | 276 | 304.3 | 304.3 | | | |
| REVENUE/GDP | 36 | 39 | 39 | 34 | 37 | 38 | | | |
| EXPENDITURE/GDP | 35 | 39 | 36 | 39 | 39 | 39 | | | |
| PUBLIC SAVINGS/GDP | 1 | (0) | 3 | (6) | (2) | (1) | | | |

Table 4. Government of Grenada Debt Service, 1984-89*

(EC$ '000)

| | 1984 | 1985 | Budget 1986 | Actual 1986 | IMF Proj 1987 | Budget 1987 | RDO/C Proj 1987 | Proj 1988 | Proj 1989 |
|---|---|---|---|---|---|---|---|---|---|
| DEBT SERVICE | 33,100 | 20,600 | 28,122 | 29,840 | 28,678 | 28,468 | 28,631 | 26,000 | 25,000 |
| Interest | 11,000 | 9,400 | 11,090 | 11,451 | 10,600 | 10,553 | 10,553 | 10,900 | 12,200 |
| Domestic | 4,400 | 3,800 | 4,284 | 5,789 | 4,700 | 4,651 | 4,651 | 4,600 | 5,100 |
| External | 6,600 | 5,600 | 6,806 | 5,662 | 5,900 | 5,902 | 5,902 | 6,300 | 7,100 |
| Principal | 22,100 | 11,200 | 17,032 | 18,389 | 18,078 | 17,915 | 18,078 | 15,100 | 12,800 |
| Domestic | 11,700 | (4,200) | 2,856 | 3,023 | 4,978 | 4,978 | 4,978 | 0 | 0 |
| External | 10,400 | 15,400 | 14,176 | 15,366 | 13,100 | 12,937 | 13,100 | 15,100 | 12,800 |

*Exclusive of arrears.

Table 5. Highlights of Government of Grenada Budget, 1984-89

(EC$ '000)

| | 1984 | 1985 | Budget 1986 | Actual 1986 | IMF Proj 1987 | Budget 1987 | RDO/C Proj 1987 | Proj 1988 | Proj 1989 |
|---|---|---|---|---|---|---|---|---|---|
| RECURRENT BALANCE | 2,300 | (100) | 9,655 | (15,181) | (7,200) | (2,072) | (7,923) | 12,300 | 15,400 |
| LOCAL CAPITAL EXPENDITURE | 10,000 | 13,200 | 5,375 | 8,376 | 7,400 | 10,235 | 7,400 | 6,200 | 5,800 |
| DEBT AMORTIZATION | 22,100 | 11,200 | 17,032 | 18,389 | 18,078 | 17,915 | 18,078 | 15,100 | 12,800 |
| FINANCING NEEDED | 29,800 | 24,500 | 12,752 | 41,946 | 32,678 | 30,222 | 33,401 | 9,000 | 3,200 |
| FINANCING AVAILABLE | 29,700 | 24.500 | 12,677 | 41,541 | 20,400 | 30,150 | 21,400 | (5.100) | (4,300) |
| BUDGETARY SUPPORT | 28,600 | 15,000 | 18,000 | 21,800 | 20,500 | 29,250 | 20,500 | 0 | 0 |
| CHANGE IN ARREARS | (3,000) | 5,800 | (7,500) | 12,664 | (6,300) | (5,300) | (5,300) | (2,800) | (2,000) |
| DOMESTIC BORROWING | 3,500 | 4,900 | 5,300 | 10,200 | 5,600 | 5,600 | 5,600 | 1,600 | 1,600 |
| OTHER | 600 | -1200 | -3123 | -3123 | 600 | 600 | 600 | -3900 | -3900 |
| UNFINANCED GAP | (100) | 0 | (75) | (405) | (12,278) | (72) | (12,001) | (14,100) | (7,500) |

Clearly, the GOG must find means to save on expenditures at the same time as it proceeds with the retrenchment program that will cost it a net of EC$6 million in 1987, the first year. An obvious candidate for exclusion from the 1987 budget is the EC$6 million in salary increase. Although this may be financially prudent, the GOG will probably be unable to avoid this payment for political reasons, if retrenchment is to take place. The GOG could go further into arrears on its debt payments to Libya and the GDR, saving EC$4 million. If, in addition to this, the GOG were to not carry out its planned arrears reduction program, EC$5.3 million more would be saved. The remaining EC$5 million could be found through a combination of revenue enhancement and expenditure reduction.

3. The Immediate Financial Situation

According to information provided by the GOG on 13 July, the cumulative financing gap (on an accrual basis) for the first six months of 1987 has been over EC$19 million (see Table 7, which may be compared to Table 6). This figure is some EC$1.5 million higher than GOG projections earlier in the year because, although recurrent expenditures were slightly below the planned level, revenues were lower by more than expenditures were down in the first quarter. This EC$19 million gap has been financed by delaying payment of vouchers, increasing the GOG's overdraft facility well beyond EC$3 million (the level with which the GOG began this year and which is the standard overdraft extended to the GOG by the banking system), and by borrowing extensively from the National Insurance Scheme. In fact, nearly 100 percent of the assets of the NIS are held by the GOG. Revenue performance has been poor, and the GOG is currently esimating that the revenue shortfall for the year as a whole will be on the order of about EC$20 million, or that revenues will be only about the level realized in 1986.

The retrenchment program, which began as planned in April, has moved much more slowly than origanally planned. To date, only about 110 civil servants have been retrenched, far short of the 700-plus the GOG was planning to retrench by the end of July. The GOG is currently reexamining its retrenchment plan and will include a revised plan in the Grant Agreement.

The GOG has argued that the USG, in order to demonstrate its financial support for the GOG and for the retrenchment program, should accelerate disbursement of budgetary support, rather than waiting until the expected August 1987 Letter of Intent on the TCG program. Mission proposes that this in fact be done, but that release of funds from the special account into which the local currency equivalent of the disbursement is deposited be linked to retrenchment performance.

5 4. The Fiscal Gap in 1988 and 1989

The IMF and IBRD teams in Grenada over the past few months have prepared some budgetary projections for the years beyond 1987. The basic element in those projections, an element with which Mission agrees totally, is that without wage restraint, the GOG will be unable to improve its ability to balance its budget. The IMF recommendation is likely to be that the wage bill should not be permitted to grow in

Table 6. Monthly and Quarterly Cash Flows, Government of Grenada 1986 Budget*

(EC$ '000)

| | JAN | FEB | MAR | Actual APR | Actual MAY | Actual JUN | JUL | AUG | SEP | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Recurrent Revenue | 8,471 | 5,499 | 6,732 | 6,490 | 7,832 | 8,615 | 5,929 | 9,857 | 8,669 | 7,408 | 7,594 | 10,631 |
| Recurrent Expenditure | 10,861 | 8,173 | 7,846 | 8,652 | 8,928 | 8,421 | 10,022 | 8,974 | 7,772 | 7,950 | 9,543 | 11,650 |
| Ministries | 10,072 | 7,382 | 7,585 | 7,969 | 7,661 | 8,052 | 9,205 | 7,585 | 7,575 | 7,706 | 8,010 | 8,676 |
| Redundancy | | | | | | | | | | | | |
| Interest | 789 | 797 | 261 | 683 | 1,267 | 369 | 817 | 1,383 | 197 | 244 | 1,533 | 2,974 |
| Recurrent Balance | (2,390) | (2,630) | (1,114) | (2,162) | (1,096) | 194 | (4,093) | 883 | 897 | (542) | (1,949) | (1,019) |
| Principal Pay'ts | 2,416 | 698 | 1,943 | 836 | 768 | 1,541 | 1,327 | 1,386 | 106 | 1,074 | 1,085 | 676 |
| Capital Expenditure | 1,100 | 674 | 809 | 719 | 597 | 916 | 658 | 478 | 603 | 606 | 601 | 418 |
| Overall Balance | (5,906) | (4,052) | (3,866) | (3,717) | (2,461) | (2,263) | (6,078) | (981) | 188 | (2,222) | (3,635) | (2,112) |
| Financing | 9,834 | 2,504 | 1,200 | 958 | 2,525 | 1,500 | 5,640 | 3,290 | 0 | 32 | 6,940 | 1,643 |
| USAID Current | 7,034 | 2,500 | 1,200 | 66 | 25 | 0 | 5,400 | 0 | 0 | 0 | 5,440 | 140 |
| Local | 0 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 32 | 0 | 3 |
| NIS | 2,800 | 0 | 0 | 892 | 0 | 0 | 240 | 3,290 | 0 | 0 | 1,500 | 1,500 |
| Local Borrowing | 0 | 0 | 0 | 0 | 2,500 | 1,500 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unpaid Vouchers | | | | | | | | | | | | |

| | 1ST Q | 2ND Q | 3RD Q | 4TH Q | 1986 |
|---|---|---|---|---|---|
| Recurrent Revenue | 20,702 | 22,937 | 24,455 | 25,633 | 93,727 |
| Recurrent Expenditure | 26,886 | 26,001 | 26,768 | 29,143 | 108,798 |
| Ministries | 25,039 | 23,682 | 24,365 | 24,392 | 97,478 |
| Redundancy | 0 | 0 | 0 | 0 | 0 |
| Interest | 1,847 | 2,319 | 2,403 | 4,751 | 11,320 |
| Recurrent Balance | (6,184) | (3,064) | (2,313) | (3,510) | (15,071) |
| Principal Pay'ts | 5,057 | 3,145 | 2,819 | 2,835 | 13,856 |
| Capital Expenditure | 2,583 | 2,232 | 1,739 | 1,625 | 8,179 |
| Overall Balance | (13,824) | (8,441) | (6,871) | (7,970) | (37,106) |
| Financing | 13,538 | 4,983 | 8,930 | 8,615 | 36,066 |
| USAID Current | 10,734 | 91 | 5,400 | 5,580 | 21,805 |
| Local | 4 | 0 | 0 | 35 | 39 |
| NIS | 2,800 | 892 | 3,530 | 3,000 | 10,222 |
| Local Borrowing | 0 | 4,000 | 0 | 0 | 4,000 |
| Unpaid Vouchers | 0 | 0 | 0 | 0 | 0 |

*The 1986 budget according to 10 March 1987 information

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Table 7. Monthly and Quarterly Cash Flows, Government of Grenada 1987 Budget*

(EC$ '000)

| | JAN | FEB | MAR | Actual APR | Actual MAY | Actual JUN |
|---|---|---|---|---|---|---|
| Recurrent Revenue | 5,974 | 6,967 | 7,000 | 7,100 | 9,000 | 10,000 |
| Recurrent Expenditure | 8,181 | 7,656 | 8,482 | 8,771 | 10,012 | 8,920 |
| Ministries | 7,419 | 7,397 | 8,045 | 8,000 | 8,900 | 8,700 |
| Redundancy | | | | 260 | 1,200 | 1,190 |
| Interest | 762 | 259 | 437 | 771 | 1,112 | 220 |
| Recurrent Balance | (2,207) | (689) | (1,482) | (1,671) | (1,012) | 1,080 |
| Principal Pay'ts | 1,276 | 967 | 967 | 3,207 | 602 | 679 |
| Capital Expenditure | 431 | 661 | 434 | 800 | 900 | 900 |
| Overall Balance | (3,914) | (2,317) | (2,883) | (5,678) | (2,514) | (499) |
| Financing | 3,914 | 2,317 | 2,883 | 622 | 622 | 622 |
| USAID Current | | | | | | |
| Debentures | | | | | | |
| NIS | | | | 622 | 622 | 622 |
| Local Borrowing | 1,785 | 836 | 2,060 | 5,056 | 1,892 | (123) |
| Unpaid Vouchers | 2,129 | 1,481 | 823 | | | |
| Cash Balance (EOM) | 5,319 | 6,155 | 8,215 | 13,271 | 15,163 | 15,039 |

| | JUL | AUG | SEP | OCT | NOV | DEC |
|---|---|---|---|---|---|---|
| Recurrent Revenue | 13,500 | 10,000 | 11,000 | 11,500 | 12,000 | 13,000 |
| Recurrent Expenditure | 10,530 | 10,110 | 10,100 | 10,500 | 11,300 | 12,200 |
| Ministries | 8,800 | 8,900 | 8,900 | 9,000 | 10,000 | 11,100 |
| Redundancy | 1,190 | 1,190 | 1,190 | 1,190 | 1,220 | 1,370 |
| Interest | 1,730 | 1,210 | 1,200 | 1,500 | 1,300 | 1,100 |
| Recurrent Balance | 2,970 | (110) | 900 | 1,000 | 700 | 800 |
| Principal Pay'ts | 1,900 | 2,000 | 2,500 | 2,000 | 1,900 | 5,500 |
| Capital Expenditure | 900 | 1,000 | 1,000 | 1,000 | 1,100 | 1,200 |
| Overall Balance | 170 | (3,110) | (2,600) | (2,000) | (2,300) | (5,900) |
| Financing | 622 | 6,022 | 622 | 622 | 8,722 | 622 |
| USAID Current | | 5,400 | | | 8,100 | |
| Debentures | | | | | | |
| NIS | 622 | 622 | 622 | 622 | 622 | 622 |
| Local Borrowing | (792) | (2,912) | 1,978 | 1,378 | (6,422) | 5,278 |
| Unpaid Vouchers | | | | | | |
| Cash Balance (EOM) | 14,247 | 11,335 | 13,313 | 14,690 | 8,268 | 13,546 |

| | 1ST Q | 2ND Q | 3RD Q | 4TH Q | 1987 |
|---|---|---|---|---|---|
| Recurrent Revenue | 19,941 | 26,100 | 34,500 | 36,500 | 117,041 |
| Recurrent Expenditure | 24,319 | 27,703 | 30,740 | 34,000 | 116,762 |
| Ministries | 22,861 | 25,600 | 26,600 | 30,100 | 105,161 |
| Redundancy | 0 | 2,650 | 3,570 | 3,780 | 10,000 |
| Interest | 1,458 | 2,103 | 4,140 | 3,900 | 11,601 |
| Recurrent Balance | (4,378) | (1,603) | 3,760 | 2,500 | 279 |
| Principal Pay'ts | 3,210 | 4,488 | 6,400 | 9,400 | 23,498 |
| Capital Expenditure | 1,526 | 2,600 | 2,900 | 3,300 | 10,326 |
| Overall Balance | (9,114) | (8,691) | (5,540) | (10,200) | (33,545) |
| Financing | 9,114 | 1,867 | 7,267 | 9,967 | 28,214 |
| USAID Current | 0 | 0 | 5,400 | 8,100 | 13,500 |
| Local | 0 | 0 | 0 | 0 | 0 |
| NIS | 0 | 1,867 | 1,867 | 1,867 | 5,600 |
| Local Borrowing | 4,681 | 6,824 | (1,727) | 233 | 10,012 |
| Unpaid Vouchers | 4,433 | 0 | 0 | 0 | 4,433 |

*The 1987 budget, according to 15 April 1987 information nominal terms beyond 1988, for at least two years. (That level for 1988 should be the currently budgeted 1987 level, prior to any deduction for retrenchment savings, less (a) the EC$12.6 million which will be saved through retrenchment, and (b) the EC$3 million that the GOG has included in this year's budget for payments retroactively covering 1986). The GOG will also have no redundancy payments to make in 1988, assuming that the retrenchment is completed by the end of 1987, and this will reduce recurrent expenditures overall by EC$10 million compared with the 1987 level, according to GOG estimates. On the negative side, the sudden retirement of a large part of the civil service will require about an EC$2 million increase in pension payments starting in 1988.

As can be seen in table 2, the overall gap before any current grants is projected to be EC$14.7 million (or US$5.4 million) in 1988 and EC$9.3 million (or US$3.4 million) in 1989.. Given projected levels of financing available from the IMF, the IBRD., the CDB, and the USG, Mission believes that the gap is not unmanageable.

This will also vastly improve public savings, which will move from a negative 1 percent of GDP in 1987 to 3.0 percent of GDP in 1988, 3.4 percent in 1989, and nearly 4 percent of GDP in 1990, bringing Grenada in line with Mission's expectations for the remainder of the OECS states.

E. AID's Project Assistance and the Public Sector Investment Program

The Government of Grenada and the IBRD are putting the finishing touches on Grenada's public sector investment program (PSIP) for the 1987-90 period. Several analyses of the PSIP have been carried out since October 1986, using consultants and World Bank staff. The final GOG-IBRD discussions on the PSIP will take place when the PFP is negotiated in Grenada in August 1987.

The public sector investment program (PSIP) is one of the two key pieces of the medium-term structural adjustment program into which the GOG will enter. Only when the GOG and the IBRD settle on the PSIP, can the IBRD and the IMF work with the GOG on the PFP. At the same time, the IMF cannot actually negotiate a SAF (Structural Adjustment Facility) arrangement until the first year of the PSIP (in this case 1988) is fully funded. The gap in funding of the 1988 program (see below) is serious, and if the funding is not forthcoming, the IBRD will have to agree with the GOG on a smaller PSIP.

As of late May 1987, the GOG has proposed a 1987-90 PSIP consisting of ongoing project costing EC$253.6 million and new projects costing EC$180.9 million. For the new projects, the IBRD recommends a slightly lower level, i.e., EC$167.3 million. The similarity in these amounts for new projects in the PSIP masks some basic differences between the IBRD and the GOG on distribution of the available investment resources among sectors (see Table 8). For example, in the "productive sectors" portion of the new PSIP projects, the IBRD has proposed that the GOG severely reduce planned investment in agriculture and in tourism, in favor of investment in manufacturing. In the "infrastructure" section of the new PSIP projects, the IBRD argues for an increase in investment in works and water, in favor of investment in health and housing.

Table 8: GRENADA - PSIP, 1987-90

(EC$ Million)

| | Total, 1987-1990: Government Allocation (Nov. 1986) | Total, 1987-1990: Proposed | Proposed Annual Expenditure 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|
| I. TOTAL PSIP | | 253.6 | 76.1 | 68.6 | 59.1 | 49.8 |
| II. TOTAL ONGOING PROJECTS | | 86.3 | 55.8 | 22.5 | 8.0 | 0.0 |
| III. TOTAL NEW PROJECTS | 180.9 | 167.3 | 20.3 | 46.1 | 51.1 | 49.8 |
| A. PRODUCTIVE SECTORS | 32.4 | 25.8 | 6.7 | 4.3 | 7.8 | 7.0 |
| 1. Crops or Livestock | 12.1 | 4.0 | 0.7 | 2.0 | 1.0 | 0.3 |
| 2. Fisheries | 0.4 | 1.5 | 1.0 | 0.5 | 0.0 | 0.0 |
| 3. Forestry | 1.2 | 1.2 | 0.3 | 0.5 | 0.4 | 0.0 |
| 4. Tourism | 16.5 | 2.7 | 1.2 | 0.8 | 1.7 | 1.0 |
| 5. Industry | 1.3 | 9.4 | 3.5 | 0.5 | 2.7 | 2.7 |
| 6. Other | 0.9 | 5.0 | 0.0 | 0.0 | 2.0 | 3.0 |
| B. INFRASTRUCTURE | 132.1 | 125.7 | 10.8 | 37.9 | 39.0 | 38.0 |
| 1. Works | 54.7 | 70.4 | 4.4 | 20.9 | 23.0 | 22.1 |
| 2. Health | 33.1 | 15.7 | 3.6 | 6.1 | 3.5 | 2.5 |
| 3. Housing | 16.9 | 9.4 | 0.0 | 2.0 | 4.0 | 3.4 |
| 4. Water | 12.4 | 17.2 | 1.1 | 6.6 | 4.5 | 5.0 |
| 5. Energy | 15.0 | 13.0 | 1.7 | 2.3 | 4.0 | 5.0 |
| C. OTHER | 16.4 | 15.8 | 2.8 | 3.9 | 4.3 | 4.8 |
| 1. Education | 11.7 | 11.7 | 0.8 | 2.5 | 3.6 | 4.8 |
| 2. Administration | 4.7 | 4.1 | 2.0 | 1.4 | 0.7 | 0.0 |

At a May 1987 Expanded Steering Committee meeting of the CGCED, held in Grenada, the IBRD presented this version of the PSIP and discussed funding gaps with the donors. In the productive sectors, funding for 1988 exists for EC$4.2 million of the EC$6.2 million recommended by the IBRD for new projects. In infrastructure, of the EC$37.9 million recommended by the IBRD for new projects in 1988, only about EC$26 million in funding commitments has been received. The yet-unfunded infrastructure components consist of EC$6.4 million in works, EC$2 million in housing, EC$1.2 million in water, and EC$2.3 million in energy.

RDO/C's plans for resource expenditure on projects in Grenada falls within the recommended PSIP. In 1988, for example, RDO/C plans to provide about EC$2.4 million for industrial estates, accounting for over one third of the total expenditure on new "productive sector" projects. In new "infrastructure" projects, RDO/C accounts for EC$7 million of the EC$37.9 million; half of this is for road construction and half is for a sewerage project that falls under the health sector.

## IV. PROGRAM STRATEGY

### A. Goals

1. To encourage the GOG to enter into a multidonor-funded medium-term structural adjustment program under the aegis of the "tighter consultative group," before the end of 1987.

2. To encourage the GOG to carry through with its 1987 plans for a major civil service retrenchment program which will permit a sharp improvement in public sector savings beginning in 1988.

This paper has discussed in detail the need, from the standpoint of the public finances, to reduce recurrent expenditures. With the 1986 tax reforms designed to raise incentives now in place, the GOG has deliberately reduced its revenue-to-GDP ratio in order to stimulate economic growth. In order to improve the public finances, a critical step if structural adjustment measures are to be meaningful, the GOG must now effect a reduction in expenditures. Although from the fiscal standpoint such a reduction might better have come last year (and indeed was planned for last year), the GOG rationally argued that, from a political standpoint and from an administrative standpoint, retrenchment last year would have been imprudent.

At the same time, the GOG has been in negotiations with the IBRD and the IMF since November 1986 on the elements of a medium-term structural adjustment program. It is expected that these negotiations will result in the GOG's commitment to a medium-term program in either August or September 1987. AID has been closely following the development of this program, and has been providing inputs into both the analysis and the recommendations for that program since the inception of the negotiations. If AID judges that the GOG's program is acceptable, and if AID judges that the GOG's commitment to that program is genuine, an important goal of this ESAP II program will have been realized.

### B. Strategy

Disbursements under ESAP II will be in three tranches. The first tranche ($1.2 million) will be disbursed as soon as procedural conditions precedent have been met, and the local currency equivalent of the tranche will be deposited into a special account established by the GOG in a domestic bank in Grenada. $200,000 of the local currency will be immediately deposited in an account designated by AID, for the use of RDO/C in meeting operational expenses in Grenada. The GOG will have access to the balance (i.e., $1.0 million equivalent) of the funds in that account only to the extent that equivalent amounts of GOG funds have been expended on severance payments related to the civil service retrenchment program. The second tranche ($1.8 million) will be disbursed as soon as the GOG has delivered to AID a satisfactory Letter of Intent indicating the GOG's commitment to a structural adjustment program, satisfactory to AID, and attached to that Letter. In addition to this condition, the GOG must have met certain expenditure-related performance targets. Release of the local currency equivalent of this second tranche, deposited into the special account, will not be contingent upon retrenchment performance. The third tranche ($2.0

million) will be disbursed when the GOG has exhausted the funds from the first disbursement, i.e., when the sum total of the severance payments to date has exceeded the local currency equivalent of $1.0 million. In addition, the third tranche may not be disbursed until the GOG has received the second tranche, i.e., AID must have accepted a satisfactory Letter of Intent committing the GOG to a medium-term program. Furthermore, conditionality governing disbursement of the third tranche includes performance targets relating to public expenditures. Finally, the program includes various financial and program covenants relating to expenditures, to closing the fiscal gap, and to carrying out the civil service retrenchment program according to plan.

C. Proposed Conditionality for Program Assistance

In the following conditions precedent and covenants, references to "Annex I" and "Annex II" are references to those annexes of the Grant Agreement, attached to this PAAD as Annex B.

1. Conditions Precedent to Initial Disbursement

Prior to the first tranche of $1,200,000 under this Grant or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) An opinion from the Chief Legal Officer of the Grantee stating that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

(b) A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee together with a specimen signature of each person certified as to its authenticity;

(c) Evidence that the Grantee has established an account into which the U.S. dollar proceeds of the Grant can be disbursed;

(d) Evidence that (1) a special and separate local currency account has been established in Grenada into which the E.C. dollar equivalent of the Grant will be deposited, and (2) the Grantee is committed to use the deposited local currencies for uses in accordance with the provisions of Annex I - Program Description;

(e) A commitment that the Grantee will deposit into the special account, immediately upon disbursement of each tranche of the Grant proceeds, an amount in local currency equivalent to the dollar disbursement under the Grant; and

(f) A mutually agreed upon list of Government of Grenada budget line items, on which funds from the special account will be expended.

2. Conditions Precedent to Disbursement of Second Tranche

Prior to the disbursement of the second tranche of $1,800,000, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, and, subject to availability of Funds in accordance with Section 1.2, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.ID.

(a) A Letter of Intent that commits the Grantee to undertake a medium-term structural adjustment program, as described in a policy framework paper attached to that Letter;

(b) Evidence that the GOG has not exceeded cumulative 1987 monthly expenditures on Direct and Indirect Personnel Emoluments, as set forth in Annex II to this Agreement, as of the month preceding this disbursement; and

(c) Evidence that the GOG has not exceeded cumulative 1987 monthly recurrent expenditures (defined, for purposes of this Condition Precedent, as total expenditures less capital formation outlays and less payments on debt principal and less redundancy payments), as set forth in Annex II to this Agreement, as of the month preceding this disbursement.

3. Conditions Precedent to Disbursement of Third Tranche

Prior to the disbursement of the third tranche of $2,000,000, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, and, subject to availability of Funds in accordance with Section 1.2, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.

(a) evidence that the funds disbursed into the special account under the first tranche of this program have been fully liquidated, in keeping with the purposes of this program, as set forth in Annex I, Program Description;

(b) evidence that conditions precedent to the second tranche have been met;

(c) Evidence that the GOG has not exceeded cumulative 1987 monthly expenditures on Direct and Indirect Personnel Emoluments, as set forth in Annex II to this Agreement, as of the month preceding this disbursement;

(d) Evidence that the GOG has not exceeded cumulative 1987 monthly recurrent expenditures (defined, for purposes of this Condition Precedent, as total expenditures less capital formation outlays and less payments on debt principal and less redundancy payments), as set forth in Annex II to this Agreement, as of the month preceding this disbursement; and

(e) Evidence that the GOG is closing the fiscal gap for 1987, as set forth in Annex II to this Agreement.

4. Covenants

(a) Records

The Grantee will maintain financial records, in accordance with generally accepted accounting principles, to assure compliance with this Agreement, such records to be maintained for at least three years after the date of last disbursement hereunder and to be made available upon request for examination at any reasonable time by authorized representatives of A.I.D.

(b) Local Currency Special Account

The Grantee, using the highest lawful rate of exchange existing on the date of the local currency deposit, will immediately upon disbursement of the Grant cause the East Caribbean Central Bank to deposit the local currency into the previously established special and separate account, the equivalent amount of the Grant proceeds, which special account shall, except as A.I.D. may otherwise agree in writing, be established and used by the Government of Grenada as specified by the terms and conditions of the Grant Agreement.

(c) Miscellaneous Financial and Program Covenants

Except as A.I.D. may otherwise agree in writing, the Grantee covenants that:

(i) it will provide A.I.D. on a monthly basis with a detailed cash flow analysis of the Grantee's finances, current to date and including projections for the balance of the fiscal year, within four weeks of the end of the month on which the cash flow analysis is reporting;

(ii) it will not exceed the total expenditures on Direct and Indirect Personnel Emoluments, or the total recurrent expenditures (defined, for purposes of this Covenant, as total expenditures less capital formation outlays and less payments on debt principal and less redundancy payments), as set forth in Annex II to this Agreement, as of end of calendar year 1987; and

(iii) it will in preparing its 1988 budget estimates endeavor to set a level of expenditures on Direct and Indirect Personnel Emoluments that fully captures the savings inherent in the retrenchment program planned for 1987, using the approach set forth in Annex II to this Agreement;

(iv) it will carry out the civil service retrenchment program, as set forth in Annex II to this Agreement;

(v) it will close the fiscal gap for 1987 as set forth in Annex II to this Agreement; and

(vi) all local currency expenditures detailed in Section 2.1(f) of the Grant Agreement or as subsequently amended will have been carried out by year-end 1987.

(d) Imports from the United States

The Grantee covenants to import from the United States during the twelve month period after execution of the Agreement goods and services in an amount at least equal to Five Million United States Dollars, excluding those goods to which an attribution is made under any predecessor program assistance grants. Documentation evidencing such imports shall be maintained in form and substance satisfactory to A.I.D. by the Grantee and shall be made available in accordance with Section 5.1. hereof.

(e) Reports

The Grantee, unless A.I.D. agrees otherwise in writing, will furnish to A.I.D. periodic reports on the status of the funds, and the use thereof, of the local currency equivalent of the U.S. Dollar proceeds in a format acceptable to A.I.D. The first report will be due three months after initial disbursement with the final report due one month after the final disbursement of United States dollars.

(f) Publicity

The Granteee covenants that it will give appropriate publicity to the grant and activities funded thereunder as a program to which the United States has contributed.

(g) Consultation

The Grantee covenants to meet at regular intervals with A.I.D. in order to consult concerning the effectiveness of the activities undertaken through the Agreement and to monitor progress on economic policy matters generally.

(h) Execution of Program

(i) The Grantee shall carry out the program or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications herein, approved by A.I.D. pursuant to this Agreement; and

(ii) Provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the program, and, as applicable for continuing activities, cause the program to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the program.

D. Use of U.S. Dollar Resources

In light of the guidance provided in State 52618, and in the guidance cable attached as Annex A to this PAAD, RDO/C understands that ESAP II is [illegible] resources be tracked, RDO/C will as in previous program assistance grants to Grenada require only that the GOG report that Grenada has imported from the U.S. goods and service in an amount at least equivalent to the amount of program assistance provided under this Grant.

Despite the foregoing, the guidance cable authorizing Mission approval of this PAAD asked that "the Mission...discuss in the PAAD the practicality and feasibility of establishing a mechanism for tracking of ESF US dollar funds for all member states of the ECCB for future consideration." In fact, any discussion of this issue that contains solid recommendations would require negotiations with not only the Eastern Caribbean Central Bank, but also with the member governments. And the central bank would be in no position to consider modifications of its existing practices without formally conferring with its member governments. The following paragraphs are a preliminary discussion of this issue, and Mission will follow up this discussion with a cable to AID/W by the end of this fiscal year that contains a complete discussion of the situation.

The first point to be made about the currency union in effect in the Eastern Caribbean is that the convertible currencies maintained by the ECCB are held in a pool, without any country designations attached. In other words, it is the union that owns convertible currency resources, not individual member governments. When convertible currencies in the hands of governments are exchanged at the ECCB for Eastern Caribbean (EC) dollars, the converting government has a claim on the pool for the convertible currency equivalent of the EC dollars it now holds. Therefore, the government does not have a claim on exactly those convertible currency resources that it surrendered to the ECCB. Consequently, any tracking of US dollar resources required by the US Government would require the establishment of totally new procedures at the ECCB, and these procedures would be in conflict with the established procedures in the Articles of the ECCB.

In theory, however, it would be possible for the ECCB to set aside incoming convertible currency for a particular country. The ECCB could then track the specific uses of those convertible currency resources. The utility of this approach is not immediately evident, except as a means of meeting U.S. Government requirements. In the case of the OECS countries, imports from the U.S. on an annual basis are several times the level of conceivable program assistance for a similar period. Thus, it would not in principle appear difficult for RDO/C's program assistance recipients to meet the requirements of State 208446. The willingness of ECCB members (and hence the central bank itself) to establish a mechanism, however, must await further consultation.

E. <u>Use of Local Currency</u>

The local currency equivalent of US$4.8 million will be used to help fund the central government's unfinanced deficit. (The local currency equivalent of US$200,000 will be deposited into a trust fund account to assist AID in financing local currency operational expenses.) Prior to initial disbursement, the GOG will agree with AID on the budget line items to which local currency expenditure will be attributed. Primary among these will be locally funded capital expenditures and local counterpart to donor-funded capital expenditures. Second will be elements of the recurrent budget which AID believes should not go unfunded, in the event of the inevitable financial crunch. The local currency attribution items may include expenses incurred from January 1987 through December 1987.

Local currency will be released from the special account in a somewhat different manner as that of the preceding program assistance arrangements with the GOG. For the first and third tranches, the local currency equivalent should not be released from the account unless a comparable amount of GOG central government expenditures have occurred on retrenchment. For the second tranche, this retrenchment consideration is not relevant. Although AID will not directly approve or disapprove release of funds under this arrangement, the Mission will be closely monitoring performance. The GOG will be expected to maintain records on not only the attribution expenses, but also the retrenchment program's progress.

F. Trust Fund

$200,000 of the funds from this ESAP II program will be used by the Mission to defray the Mission's operating costs in Grenada. Expenses expected to be included in this expenditure of trust fund resources include costs such as office rental, utility bills, local salaries, transport, and other expenses related to AID operations in Grenada.

## V. IMPLEMENTATION ARRANGEMENTS

### A. Disbursements

Program assistance will be used in support of GOG CY 1987 structural adjustment program. Immediately following PAAD authorization of the $5.0 million requested, RDO/C will negotiate and sign a grant agreement (ESAP II) obligating the entire $5.0 million

### B. Method of Payment

The US$5.0 million will be disbursed in three tranches. Using the electronic funds transfer method of payment, AID will advise when conditions have been satisfied for each disbursement, indicating that the U.S. dollars should be deposited in the ECCB account in the Federal Reserved Bank of New York. The fund transfer request will ask the ECCB to credit the local commercial bank account designated by the GOG with the local currency equivalent of the U.S. dollar disbursement. The RDO/C Controller's Office in Barbados and the RDO/C Grenada office will be notified by cable when the electronic funds transfer has been completed.

### C. Monitoring

Compliance with the covenant requiring an equivalent amount of imports of goods and services from the US within twelve months of each disbursement will be monitored from the listing of eligible imports purchased during each quarter, which will be submitted to AID on a quarterly basis from the date of first disbursement. Compliance with all other conditions and covenants of the agreement will be reviewed as needed by the two parties.

Program Agreement Number: 538-0141

GRANT AGREEMENT

BETWEEN

GOVERNMENT OF GRENADA

AND THE

GOVERNMENT OF THE UNITED STATES OF AMERICA

ACTING THROUGH THE

AGENCY FOR INTERNATIONAL DEVELOPMENT

FOR

ECONOMIC STRUCTURAL ADJUSTMENT PROGRAM II

Dated: July 21, 1987

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PROGRAM GRANT AGREEMENT



2b

GRANT AGREEMENT

BETWEEN

GOVERNMENT OF GRENADA

AND THE

GOVERNMENT OF THE UNITED STATES OF AMERICA

FOR

ECONOMIC STRUCTURAL ADJUSTMENT PROGRAM II

AGREEMENT, dated the of , 1987, between the Government of the Commonwealth of Grenada ("Grantee") and the United States of America acting through the Agency fo International Development ("A.I.D."), together referred to as the "Parties".

Whereas, the Government of the United States, acting through A.I.D., desires to assist the Government of Grenada to achieve economic structural adjustment ends;

Now, therefore, the Parties hereto agree to as follows:

Article I. The Assistance

SECTION 1.1. The Grant

A.I.D. agrees to grant to the Grantee, under the terms of this Agreement, not to exceed Five Million United States Dollars (US$5,000,000) (the "Grant") to assist the Government of Grenada in attaining structural adjustment goals. The Grant will provide a more secure basis for undertaking structural economic reform in Grenada. The Grant will also provide for the establishment of a trust fund special account for the operational expenses of administering the U.S. economic assistance program in Grenada. The total grant program calls for disbursement in three tranches subject to the conditions precedent set forth below. The activities contemplated herein are amplified in the Program Description set forth at Annex I.

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## Article II. Conditions Precedent to Disbursement

### SECTION 2.1. Conditions Precedent to Initial Disbursement

Prior to the first tranche of $1,200,000 under this Grant or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) An opinion from the Chief Legal Officer of the Grantee stating that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

(b) A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee together with a specimen signature of each person certified as to its authenticity;

(c) Evidence that the Grantee has established an account into which the U.S. dollar proceeds of the Grant can be disbursed;

(d) Evidence that (1) a special and separate local currency account has been established in Grenada into which the E.C. dollar equivalent of the Grant will be deposited, and (2) the Grantee is committed to use the deposited local currencies for uses in accordance with the provisions of Annex I - Program Description;

(e) A commitment that the Grantee will deposit into the special account, immediately upon disbursement of each tranche of the Grant proceeds, an amount in local currency equivalent to the dollar disbursement under the Grant; and

(f) A mutually agreed upon list of Government of Grenada budget line items, on which funds from the special account will be expended as funds are withdrawn under the conditions as set forth in Annex I to this Agreement.

(g) A mutually agreed upon plan which identifies a program to close the fiscal gap for the 1987 budget as outlined in Annex II to this Agreement.

### SECTION 2.2. Conditions Precedent to Disbursement of Second Tranche

Prior to the disbursement of the second tranche of $1,800,000, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, and, subject to availability of Funds in accordance with Section 1.2, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.ID.

(a) A Letter of Intent that commits the Grantee to undertake a medium-term structural adjustment program, as described in a policy framework paper attached to that Letter;

(b) Evidence that the GOG has not exceeded cumulative 1987 monthly expenditures on Direct and Indirect Personnel Emoluments, as set forth in Annex II to this Agreement, as of the month preceding this disbursement; and

(c) Evidence that the GOG has not exceeded cumulative 1987 monthly recurrent expenditures (defined, for purposes of this Condition Precedent, as total expenditures less capital formation outlays and less payments on debt principal and less redundancy payments), as set forth in Annex II to this Agreement, as of the month preceding this disbursement.

SECTION 2.3. Conditions Precedent to Disbursement of Third Tranche

Prior to the disbursement of the third tranche of $2,000,000, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, and, subject to availability of Funds in accordance with Section 1.2, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.

(a) evidence that the funds disbursed into the special account under the first tranche of this program have been fully liquidated, in keeping with the purposes of this program, as set forth in Annex I, Program Description;

(b) evidence that conditions precedent to the second tranche have been met;

(c) Evidence that the GOG has not exceeded cumulative 1987 monthly expenditures on Direct and Indirect Personnel Emoluments, as set forth in Annex II to this Agreement, as of the month preceding this disbursement;

(d) Evidence that the GOG has not exceeded cumulative 1987 monthly recurrent expenditures (defined, for purposes of this Condition Precedent, as total expenditures less capital formation outlays and less payments on debt principal and less redundancy payments), as set forth in Annex II to this Agreement, as of the month preceding this disbursement; and

(e) Evidence that the GOG is closing the fiscal gap for 1987, as set forth in Annex II to this Agreement.

SECTION 2.4. Notification

When A.I.D. has determined that the conditions precedent to disbursement specified in Section 2.1., 2.2. and 2.3. have been met, it will promptly notify the Grantee.

SECTION 2.5. Terminal Date for Conditions Precedent

If the conditions precedent set forth in Section 2.1., 2.2. and 2.3. have not been met within a reasonable time from the date of this Agreement, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

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Article III. Disbursement

SECTION 3.1. Deposit of Disbursed Funds

After satisfaction of the applicable conditions precedent, at the written request of the Grantee, A.I.D. will deposit the proceeds of the Grant in the designated U.S. correspondent bank.

SECTION 3.2. Date of Disbursement

Disbursement by A.I.D. will be deemed to occur on the date(s) the proceeds of the Grant are deposited in the bank or banks designated pursuant to Section 3.1.

SECTION 3.3. Terminal Date for Use of Special Account Funds

Except as A.I.D. may otherwise agree in writing, the terminal date for use of the Grant proceeds deposited in the special account shall be June 30, 1988.

Article IV. Purposes of Funds

SECTION 4.1.

The Grantee agrees that the Grant funds will be used for purposes set forth in Article I and will not be used for (i) financing military requirements of any kind, including the procurement of commodities or services for military purposes, or (ii) luxury items or pesticides which are not registered by the U.S. Environmental Protection Agency without restriction.

Article V. Covenants

SECTION 5.1. Records

The Grantee will maintain financial records, in accordance with generally accepted accounting principles, to assure compliance with this Agreement, such records to be maintained for at least three years after the date of last disbursement hereunder and to be made available upon request for examination at any reasonable time by authorized representatives of A.I.D.

SECTION 5.2. Local Currency Special Account

The Grantee, using the highest lawful rate of exchange existing on the date of the local currency deposit, will immediately upon disbursement of the Grant cause the East Caribbean Central Bank to deposit the local currency into the previously established special and separate account, the equivalent amount of the Grant proceeds, which special account shall, except as A.I.D. may otherwise agree in writing, be established and used by the Government of Grenada as specified by the terms and conditions of the Grant Agreement.

SECTION 5.3. Miscellaneous Financial and Program Covenants

Except as A.I.D. may otherwise agree in writing, the Grantee covenants that:

(a) it will provide A.I.D. on a monthly basis with a detailed cash flow analysis of the Grantee's finances, current to date and including projections for the balance of the fiscal year, within four weeks of the end of the month on which the cash flow analysis is reporting;

(b) it will not exceed the total expenditures on Direct and Indirect Personnel Emoluments, or the total recurrent expenditures (defined, for purposes of this Covenant, as total expenditures less capital formation outlays and less payments on debt principal and less redundancy payments), as set forth in Annex II to this Agreement, as of end of calendar year 1987; and

(c) it will in preparing its 1988 budget estimates endeavor to set a level of expenditures on Direct and Indirect Personnel Emoluments that fully captures the savings inherent in the retrenchment program planned for 1987, using the approach set forth in Annex II to this Agreement;

(d) it will carry out the civil service retrenchment program, as set forth in Annex II to this Agreement;

(e) it will close the fiscal gap for 1987 as set forth in Annex II to this Agreement; and

(f) all local currency expenditures detailed in Section 2.1(f) of the Grant Agreement or as subsequently amended will have been carried out by year-end 1987.

SECTION 5.4. Imports from the United States

The Grantee covenants to import from the United States during the twelve month period after execution of the Agreement goods and services in an amount at least equal to Five Million United States Dollars, excluding those goods to which an attribution is made under any predecessor program assistance grants. Documentation evidencing such imports shall be maintained in form and substance satisfactory to A.I.D. by the Grantee and shall be made available in accordance with Section 5.1. hereof.

SECTION 5.5. Reports

The Grantee, unless A.I.D. agrees otherwise in writing, will furnish to A.I.D. periodic reports on the status of the funds, and the use thereof, of the local currency equivalent of the U.S. Dollar proceeds in a format acceptable to A.I.D. The first report will be due three months after initial disbursement with the final report due one month after the final disbursement of United States dollars.

SECTION 5.6. Publicity

The Granteee covenants that it will give appropriate publicity to the grant and activities funded thereunder as a program to which the United States has contributed.

SECTION 5.7. Consultation

The Grantee covenants to meet at regular intervals with A.I.D. in order to consult concerning the effectiveness of the activities undertaken through the Agreement and to monitor progress on economic policy matters generally.

SECTION 5.8. Execution of Program

(a) The Grantee shall carry out the program or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications herein, approved by A.I.D. pursuant to this Agreement; and

(b) Provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the program, and, as applicable for continuing activities, cause the program to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the program.

Article VI. Refunds

(a) In the case of any disbursement, or release of funds from the special account, which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement or release in U.S. dollars to A.I.D. within sixty (60) days after receipt of a request therefor;

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that the Grant is not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement in U.S. dollars to A.I.D. within sixty days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

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Article VII. Miscellaneous

SECTION 7.1. Communications

The Grantee undertakes to provide to A.I.D. such information relating to the economic and financial situation of Grenada as may be necessary. Any notice, request, documents, or other communication submitted by either party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

| | |
|---|---|
| To the Grantee: | Minister of Finance |
| Mail Address: | Ministry of Finance<br>St. George's, Grenada |
| Cable Address: | 3418-GA |
| To A.I.D.: | Director, Regional Development Office/Caribbean |
| Mail Address: | P.O. Box 302, U.S. Embassy<br>Bridgetown, Barbados |
| Cable Address: | 2259 USEMB BGI WB |

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

SECTION 7.2. Representatives

For all purposes relevant to this Agreement, the Grantee will be represented by the individuals holding or acting in the position of Minister of Finance or Director General of Finance, Government of Grenada and A.I.D. will be represented by the individual holding or acting in the position of the A.I.D. Principal Officer in Grenada each of whom, by written notice, may designate additional representatives. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized an instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

IN WITNESS WHEREOF, the Government of Grenada and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the date and year first above written.

GOVERNMENT OF GRENADA

By: ______________________
Herbert A. Blaize

Title: ______________________
Prime Minister

UNITED STATES OF AMERICA

By: ______________________
John C. Leary

Title: ______________________
Charge d'Affaires

By: ______________________
James S. Holtaway

Title: ______________________
Director
RDO/C

TRUST FUND AGREEMENT

between the

GOVERNMENT OF GRENADA

and the

UNITED STATES OF AMERICA

Whereas, the Agency for International Development (A.I.D.) on behalf of the United States of America and the Government of Grenada (The "Parties") on , 1987 have entered into Economic Structural Adjustment Program II with the Government of Grenada in the General Agreement for Economic, Technical and Related Assistance signed with the United States of America on May 7, 1984 have agreed to contribute fully within the limits of its resources and general economic conditions to its development program; and

Whereas, the Agency for International Development in the course of administering an economic assistance program in Grenada will incur substantial operational costs;

Now, Therefore, the Parties agree as follows:

In accordance with the provisions of the Economic Structural Adjustment Program II Agreement, local currency funds in the equivalent amount of US$200,000 shall be deposited by the Government of Grenada into a special Trust Fund account at the direction of and in accordance with instructions issued by A.I.D., such instructions to take into account the status of disbursement under the tranche method of disbursement.

Disbursements from the Trust Fund may be made on behalf of the Government of Grenada by A.I.D. exclusively for operating expenses of the A.I.D. program in Grenada.

A.I.D. shall maintain records and provide the Government of Grenada with an annual accounting of the uses made of the funds so deposited and, at any other interval agreed upon by the Government of Grenada.

Interest earnings, if any, on funds held in trust pursuant to this Agreement shall be added to the Trust Fund. Any balance remaining in the Trust Fund upon termination of this Agreement or of the U.S. economic assistance program in Grenada, whichever is later, shall be returned to the Government of Grenada.

In witness whereof, the Parties, acting through their respective duly authorized representatives, have caused this Trust Fund Agreement to be signed in their names as delivered as of the day and date first above written.

GOVERNMENT OF GRENADA

By: ______________________
Herbert A. Blaize

Title: ______________________
Prime Minister

UNITED STATES OF AMERICA

By: ______________________
John C. Leary

Title: ______________________
Charge d'Affaires

By: ______________________
James S. Holtaway

Title: ______________________
Director
RDO/C

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Annex I

## PROGRAM DESCRIPTION

### The Program

The Economic Structural Adjustment Program II (ESAP II) consists of the incremental disbursement of an estimated US$5,000,000 to the Government of Grenada (GOG). The grant proceeds will be deposited in the Eastern Caribbean Central Bank (ECCB) for the account of the GOG. The ECCB, immediately upon receipt of the dollar proceeds, will transfer the local currency equivalent of the dollar amount made available under the Grant into an appropriate special GOG local currency account to be maintained in a commercial bank in Grenada.

The major purpose of this Grant is to enable the GOG to carry out various programs which will lead directly to reduced recurrent spending in 1988 and beyond. If the GOG is successful in carrying out these programs, it is expected that by the end of 1987 Grenada will be engaged in a multidonor-funded structural adjustment program for the 1987-90 period, under the "tighter consultative group" (TCG) mechanism. For example, the GOG has initiated a civil service "retrenchment" program which is expected to produce a one-time twenty-percent reduction in the wage bill. However, the initial costs of such a retrenchment program, in terms of redundancy payments mandated by Grenadian law, will be high, and the savings in the retrenchment program will not fully accrue to the Government until 1988. This Grant is intended to assist the GOG in this endeavor, primarily by covering non-retrenchment budgetary costs, thus freeing up GOG resources for retrenchment requirements.

In ESAP I, the GOG agreed that any future budgetary assistance from A.I.D. to the GOG would be "provided only in connection with development of a medium-term structural adjustment program in the framework of the TCG mechanism," and that it was anticipated that such a program would be in place in calendar year 1987. The current timing for development of this TCG program is that (a) considerable analysis by and discussion between the donors and the GOG has already occurred, (b) the GOG will negotiate in August with the multilateral donors on the contents of a "policy framework paper" (PFP) to guide the proposed TCG program, and (c) the GOG will submit in August or September a Letter of Intent to not only the multilateral donors but to A.I.D., as well, signifying GOG commitment to the program set out in the PFP and agreed to by the donors at the staff level.

It is anticipated that the first tranche of the program assistance (US$1.2 million) will be provided nearly immediately after the Grant Agreement is signed. The funds will be deposited in a special account for GOG use in covering agreed-upon budgetary expenses, on which the GOG must maintain appropriate documentation. The GOG agrees that funds deposited into the special account from this tranche will be released only to the extent that comparable funds have been expended on severance payments associated with the retrenchment program. The second tranche (US$1.8 million) will be disbursed when the GOG has presented A.I.D. with a letter of intent on a medium-term structural adjustment program, and this is expected to occur in August or September. For the funds disbursed under this tranche, unlike those for the first and third tranches, there will be no requirement that funds released from the special account be matched by a comparable amount of retrenchment expenditures. The third tranche (US$2.0 million) is scheduled for November, and will be disbursed if (a) the second tranche has been disbursed, (b) the GOG's expenditures to date on retrenchment severance payments amount to more than the equivalent of US$1.0 million, (c) the GOG has met performance targets, and (d) the GOG provides evidence that it is closing the fiscal gap as described in Annex II. Upon deposit into the special account, the GOG will be expected to use the funds for the agreed-upon uses and will be expected to draw on the funds from this tranche (as is the case for the first tranche) only to the extent that a comparable amount of retrenchment expenditures have been made.

A. Support of Central Government Budget:

The local currency equivalent of US$4,800,000 will be used to support the recurrent budget and the public sector investment program of Grenada in order to enable the Government of Grenada to enter into a comprehensive, medium-term structural adjustment program under the "tighter consultative group" mechanism. Specific uses of this local currency equivalent will be agreed upon jointly prior to the first disbursement.

B. Trust Fund:

From the local currencies deposited by the Grantee into a separate local currency account as a result of compliance with the Program Description and Section 2 the Grantee shall deposit local currency into a special Trust Fund account in accordance with the provisions of a separate Trust Fund Agreement, executed this date, between A.I.D. and the Government of Grenada.

Such deposit shall be made in accordance with instructions from A.I.D. and shall be made in accordance with the following schedule:

- Deposit of US$200,000 equivalent upon disbursement by A.I.D. of first tranche.

The Trust Fund shall be used as set forth in the separate Trust Fund Agreement referred to above.

Annex II

PROGRAM TARGETS

A. The purpose of this Annex is to establish the program targets which are referred to in Sections 2.1., 2.2., and 2.3., and in Section 5.3 of the Grant Agreement.

B. The following table contains mutually agreed targets for recurrent expenditures and for the subset of those expenditures which relate to personnel payments, by quarter (EC$000):

| | Q1 | Q2 | Q3 | Q4 | 1987 |
|---|---|---|---|---|---|
| RECURRENT EXPENDITURE | 24.537 | 29.653 | 35.650 | 28.160 | 118.000 |
| Personnel | 13.737 | 14.405 | 24.327 | 16.244 | 68.713 |

The recurrent expenditure targets in the above table are exclusive of principal and redundancy payments, and are on an accrual basis. The subset of recurrent expenditure which is denoted as "Personnel" is the sum of direct and indirect personnel emoluments.

C. The following calculations, based on GOG budget estimates for 1987, indicate the level of total expenditures on Direct and Indirect Personnel Emoluments that both Parties to this Agreement understand will form the basis for establishing total expenditures on Direct and Indirect Personnel Emoluments on an annualized basis once the retrenchment program is completed in 1988.

CALCULATION METHOD:

Step 1. From total 1987 personnel expenditure in Section B, above, SUBTRACT EC$11.9 million, the projected annual savings resulting from civil service retrenchment which will occur in 1988.

Step 2. From the result of Step 1, SUBTRACT EC$4.5 million, the amount of the proposed 1987 civil service wage settlement that covers 1985 and 1986.

Result EC$52.313 million.

Both Parties further understand that reclassification of existing Central Government budget Programmes resulting in the removal of any such Programmes from the Central Government will lower this level accordingly.

D. The GOG agrees to carry out during 1987 a civil service retrenchment program according to the following plan, with the following implications with respect to recurrent expenditures:

TOTAL CIVIL SERVICE SECTOR RETRENCHMENT BY MONTH

| Month | Total Number Employees | Approximate Annual Savings (EC$) | Approximate Redundancy Payments (EC$) |
|---|---|---|---|
| May/Sept 1987 | 177 | 1,239,000 | 909,000 |
| Oct 1987 | 168 | 1,176,000 | 920,000 |
| Nov 1987 | 168 | 1,176,000 | 920,000 |
| Dec 1987 | 169 | 1,183,000 | 920,000 |
| Jan 1988 | 171 | 1,197,000 | 977,143 |
| Feb 1988 | 171 | 1,197,000 | 977,143 |
| Mar 1988 | 171 | 1,197,000 | 977,143 |
| Apr 1988 | 171 | 1,197,000 | 977,143 |
| May 1988 | 221 | 1,547,000 | 1,262,857 |
| June 1988 | 213 | 1,491,000 | 1,217,143 |
| TOTALS | 1,800 | 12,600,000 | 10,000,000 |

E. The GOG agrees to the following program to close the fiscal gap for the 1987 budget (EC$):

| | EC$ |
|---|---|
| RECURRENT REVENUES | |
| RECURRENT EXPENDITURES | |
| RECURRENT BALANCE | |
| CAPITAL EXPENDITURES | |
| CAPITAL GRANTS AND CONCESSIONARY LOANS | |
| PRINCIPAL REPAYMENTS ON DEBT | |
| OVERALL BALANCE BEFORE BORROWING | |
| FINANCING | |
| "DOMESTIC BORROWING | |
| BUDGETARY GRANTS | |
| UNFINANCED GAP | |
| CLOSING THE UNFINANCED GAP | |
| REVENUE ENHANCEMENT | |
| EXPENDITURE REDUCTION | |
| ..... | |
| ..... | |

# 5C(1) - GRENADA COUNTRY CHECKLIST

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481(h)(1); FY 1987 Continuing Resolution Sec. 528. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or part, in such country or transported through each country, from being sold illegally within the jurisdiction of such country to United States government personnel or their dependents or from entering the United States unlawfully? — No

2. FAA Sec. 481(h)(4). Has the President determined that the recipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country or narcotic and psychotropic drugs or other controlled substances, (b) the transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge or illegal drug traffickers? — (a) No (b) No (c) No

3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered were (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? — No

4. FAA Sec. 620(e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? — No

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| | | |
|---|---|---|
| 5. | FAA Sec. 620(a), 620(f), 620(D); FY 1987 Continuing Resolution Secs. 512 and 513. Is recipient country a Communist Country? If so, has the President determined that the assistance to the country is important to the national interests of the United states? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? | No. |
| 6. | FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property? | No |
| 7. | FAA Sec. 610(l). Has the country failed to enter into an agreement with OPIC? | No. |
| 8. | FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? | (a) Yes. One One U.S. fishing boat was seized approx. 15 miles off-shore. This is within Grenada's claimed 200 mile economic zone. |
| | (b) If so, has any deduction required by the Fisherman's Protective Act been made? | (b) No |
| 9. | FAA Sec. 620(q) FY 1987 Continuing Resolution Sec. 518. (a) Has the Government been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds? | (a) No<br>(b) No |
| 10. | FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? | Yes, taken into account by the Administrator at the time of approval of the Agency OYB. |

11. FAA Sec. 620(t). Has the country served diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?

Grenada is currently in arrears on payment of its obligations to U.N. Agencies. Yes, taken into account by the Administrator at the time of approval of the Agency OYB.

13. FAA Sec. 620A; FY 1987 Continuing Resolution Sec. 521. Has the President determined that the country (a) grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise supports international terrorism? Has the Government of the recipient country aided or abetted, by sanctuary from prosecution to, any individual or group which has committed or is being sought by any other government for prosecution for any war crime or act of international terrorism?

(a) No

(b) No

14. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No

15. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

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| | | |
|---|---|---|
| 16. | FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) | No |
| 17. | FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported illegally (or attempted to export illegally) from the United States any material, equipment, or technology which would contribute significantly to the ability of such country to manufacture a nuclear explosive device? | No |
| 18. | ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? | No |
| 19. | FY 1987 Continuing Resolution. If assistance is from the population functional account, does the country (or organization) include as part of its population planning programs involuntary abortion? | N/A Project is ESF funded. |
| 20. | FY 1987 Continuing Resolution Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? | No |

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? — No

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent patter of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest? — No

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## 3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

Yes

A. FY 1987 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

Congressional Notification sent on June 16, 1987

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country. What is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action is required.

3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

Although a bilateral agreement with the Grantee, this program is part of an AID regional structural adjustment program and supports development of a 3-year structural adjustment program that will receive multilateral support.

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| | |
|---|---|
| 4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions. | The program will: (a) have a positive impact on international trade. (b) encourage private initiative and competition. |
| 5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). | The program will have a positive effect on the Government of Grenada's financial stability and encourage accelerated growth of the private sector, thereby encouraging U.S. private trade and investment. |
| 6. FAA Secs. 612(b), 636(h); FY 1987 Continuing Resolution Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. | Under the program, the Government of Grenada contributes the local currency equivalent of $200,000 to finance AID's local expenses. |
| 7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? | The U.S. does not own excess foreign currency in Grenada. |
| 8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? | N/A |

9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds? — N/A

10. FY 1987 Continuing Resolution Sec. 532. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? — No

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extend feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? — Yes

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities? — No

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? — N/A

d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used? — N/A

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e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

N/A

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost-effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development;

(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) 75 percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under section 103 through 106 of the FAA;

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

f. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country (1) is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlateloclo"), (2) cooperates fully with the IAEA, and (3) pursues nonproliferation policies consistent with those of the United States? — No

g. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? — N/A

h. FY 1987 Continuing Resolution. If assistance is in the form of a cash transfer to any country which receives in excess of a total of $5 million as cash transfer assistance in the current fiscal year: (a) are all such cash payments to be maintained by the country in a separate account and not to be co-mingled with any other funds? (b) will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which required such local currencies to be made available to the U.S. Government as the U.S. determines necessary for the requirements of the U.S. government, and which requires the remainder to be used for programs agreed to by the U.S. government to carry out the purposes for which new funds authorized by the FAA would themselves be available)? — N/A. Assistance under this program does not exceed $5 million.

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## 5C(3) - STANDARD ITEM CHECKLIST

A. Procurement

| | |
|---|---|
| 1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishings of commodities and services financed? | Yes |
| 2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him. | Yes |
| 3. FAA Sec. 604(d). If the Cooperating country discriminates against marine insurance companies authorized to do business in the U.S. will commodities be insured in the United States against marine risk with such a company? | Grenada does not discriminate against against marine insurance companies authorities to do business in the U.S. |
| 4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in the U.S.) | Yes. |
| 5. FAA Sec. 604(g). Will construction of engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries? | No |

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6. FAA Sec. 603 Is the shipping excluded from compliance with requirement in Section 901(b) of the Merchant Marine Act of 1936, as amended, that at lease 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates? — No

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal Agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? — Yes

8. International Air Transport. Fair Competitive Practices Act, 1974 If air transportation of persons or property is financed on a grant basis, will U.S. carriers be used to the extent such service is available? — Yes

9. FY 1987 Continuing Resolution Sec. 504 If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — Yes

B. Construction

1. FAA Sec. 601(d). If capital (e.g. construction) project, will U.S. engineering and professional services be used? — Yes. To the extent feasible.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — Yes

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)? — Yes

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at lease 2% per annum during grace period and at least 3% per annum thereafter? — N/A. This is an ESF Grant funded activity.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes

4. Will arrangements preclude use of financing: — Yes

a. FAA Sec. 104(f); FY 1987 Continuing Resolution Act Sec. 525: (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

a(1) Yes

(2) Yes

(3) Yes

(4) Yes

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b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? — b. Yes

c. FAA Sec. 620(q). To compensate owners for expropriated nationalized property? — c. Yes

d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — d. Yes

e. FAA Sec. 662. For CIA activities — e. Yes

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — f. Yes

g. FY 1987 Continuing Resolution Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? — g. Yes

h. FY 1987 Continuing Resolution Sec. 505. To pay U.N. assessments, arrearages or dues? — h. Yes

i. FY 1987 Continuing Resolution Sec. 506. To carry out provisions of FAA Section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? — i. Yes

j. FY 1987 Continuing Resolution Sec. 511. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? — j. Yes

k. FY 1987 Continuing Resolution Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — k. No

l. FY 1987 Continuing Resolution Sec. 515. To be used for publicity purposes within U.S. not authorized by Congress? — l. No