

# CLIMATE INVESTMENT FUNDS

PPCR/SC.11/CRP.3

November 1, 2012

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Meeting of the FIP Sub-Committee

Istanbul, Turkey

November 1, 2012

**REQUEST FROM THE GOVERNMENT OF GRENADA  
REGARDING ITS ALLOCATION OF PPCR FUNDING**

**(LETTERS SUBMITTED BY THE GOVERNMENT OF GRENADA AND THE WORLD BANK)**

## **INTRODUCTION**

1. On October 19, 2012, the CIF Administrative Unit received the attached correspondence from the Government of Grenada with the request to substitute grant financing in the amount of US\$3.8 million for in the equivalent amount of concessional financing that was requested under its SPCR which was endorsed in April 2011.
2. A letter signed by the World Bank as the implementing MDB in Grenada, was received on October 26, 2012 to express the World Bank's support for Grenada's request. The letter also provides further information on the current debt situation in Grenada.
3. It is recommended that this request be considered when the PPCR Sub-Committee discusses agenda item 6, *Allocation of PPCR Resources*.

Ref. No. ....  
In replying the above  
Number and date of this  
letter should be quoted.



**MINISTRY OF FINANCE,  
PLANNING, ECONOMY,  
ENERGY AND  
CO-OPERATIVES  
FINANCIAL COMPLEX,  
THE CARENAGE,  
ST. GEORGE'S,  
GRENADA, W.I.**

October 19, 2012

Ms. Patricia Bliss-Guest  
Senior Advisor  
Climate Investment Funds  
Administration Unit  
Washington DC

Dear Ms. Bliss-Guest,

The purpose of this letter is to request the conversion of concessional financing in the amount of US\$3.8 million received from the Climate Investment Funds (CIF) under the Pilot Program for Climate Resilience (PPCR) into grants.

Grenada's Strategic Program for Climate Resilience (SPCR) was endorsed by the PPCR Sub-Committee on April 19, 2012 for a total of US\$8 million in grants and US\$12 million in highly concessionary loans. In the endorsed SPCR, the list of projects that were agreed to further develop included: (a) the Regional Disaster Vulnerability Reduction Project, for a total of US\$16.2 million (US\$8 million in grants and US\$8.2 million in concessional financing), which was subsequently approved by the PPCR Sub-Committee on April 20, 2011; and (b) the Grenada Reforestation Project for US\$3.8 million in concessional financing, which is currently under preparation and is expected to be submitted to the PPCR Sub-Committee for approval in mid 2013.

Upon approval, the Reforestation Project will be added to the Regional Disaster Vulnerability Reduction Project as additional financing. The Regional Disaster Vulnerability Reduction Project has been under implementation for over a year and is disbursing successfully. The Project will help improve climate resilience in Grenada, and we anticipate that a successful implementation of the Project will reduce the risks and economic costs associated with climate change and natural disasters impacts, which are directly contributing to our high debt-levels due to our past and future need for post disaster recovery and reconstruction financing.

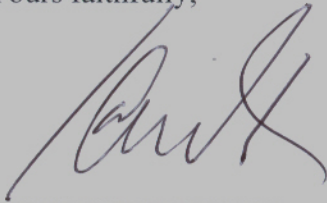
Given the huge indebtedness situation of Grenada, we welcome the conversion of the US\$3.8 million in concessional financing for the Grenada Reforestation Project to grants. We understand that there might be additional funding available to PPCR pilot countries in the form of grants, and should any of these funds be made available, Grenada would support the option of

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substituting the US\$3.8 million in concessional loan allocated for the Reforestation Project with a grant in the equivalent amount.

Looking forward to your cooperation.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Timothy N.J. Antoine', written in a cursive style.

.....  
Timothy N.J. Antoine  
**PERMANENT SECRETARY**

**The World Bank**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

**Francoise Clottes**

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October 31, 2012

Ms. Patricia Bliss-Guest  
Senior Advisor  
Climate Investment Funds  
Administration Unit  
Washington, DC

Dear Ms. Bliss-Guest,

The purpose of this letter is to express the World Bank's support for the recent request received from the government of Grenada to substitute concessional financing in the amount of US\$3.8 million received from the Climate Investment Funds (CIF) under the Pilot Program for Climate Resilience (PPCR) for a grant in the equivalent amount.

Grenada's Strategic Program for Climate Resilience (SPCR) was endorsed by the PPCR Sub-Committee on April 19, 2012 for a total of US\$20 million - of which US\$8 million was in the form of a grant and US\$12 million in highly concessional credits. In the endorsed SPCR, the two projects that were agreed to be further developed included the: (a) Regional Disaster Vulnerability Reduction Project (RDVRP), for a total of US\$16.2 million (US\$8 million in grants and US\$8.2 million in concessional financing), which was subsequently approved by the PPCR Sub-Committee on April 20, 2011; and (b) Grenada Reforestation Project for US\$3.8 million in concessional financing, which is currently under preparation and is expected to be submitted to the PPCR Sub-Committee for approval in mid-2013.

The RDVRP is aiming to improve climate resilience in numerous sectors in Grenada. The Reforestation Project would scale up the development impact of the RDVRP through an integrated watershed management approach to vulnerability reduction.

The rationale for the Reforestation Project stems from the long-term negative impacts caused by Hurricane Ivan (Category 3) that struck Grenada in 2004. It is well documented that Hurricane Ivan had a devastating impact on the natural and physical environment in Grenada. Over two-thirds of the housing stock was destroyed and losses were estimated in excess of 900 percent of GDP (2003). Additionally, 91 percent of the upper forests and watershed areas were stripped of vegetation. A fear of water supply shortages stemming from the upper watershed's inability to facilitate the re-generation of Grenada's aquifers continues, and the poor condition of watersheds has resulted in flash floods and landslides during heavy rainfall. The Reforestation Project would reduce vulnerability to such events through the restoration and preservation of valuable forest resources through an integrated ridge to reef approach. Additionally, the Project would be designed to contribute to carbon sequestration efforts and provide sustainable livelihoods for rural communities that rely on the forest for material inputs – particularly women who rely on the forest for their livelihoods.

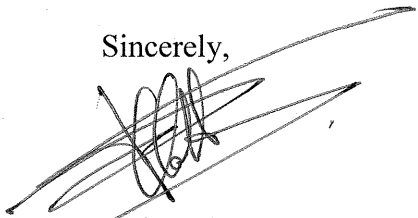
The government of Grenada has expressed their desire to move forward with the Reforestation Project as quickly as possible. We support Grenada's request as the Project would increase Grenada's resilience to climate change in the following ways: 1) reduce the potential for landslides, 2) facilitate the re-generation of Grenada fresh water supply, 3) reduce the risk of flood by reducing hydraulic flow, 4) promote carbon sequestration, and 5) stabilize localized temperature fluctuations. Needless to say, if the Project does not go forward as planned it would be an opportunity lost to build resilience in Grenada

In recent months, Grenada has experienced serious economic difficulties due to their high debt-levels, which is largely due to costs associated with reconstruction following natural disaster events. The IMF ranked Grenada as in "high risk of debt distress" following its' Debt Sustainability Risk Assessment (DSA) conducted on March 8, 2012. More recently, the IMF updated Grenada's DSA in July 2012, which reconfirmed Grenada's debt crisis. Furthermore, it was noted that the macro-economic situation had further worsened since the March 2012 assessment.

Under World Bank policies, Grenada's risk of debt distress is factored into IDA's credit worthiness assessment, which determines a country's eligibility to borrow. Under the IDA policy, countries considered to be high risk of debt distress are only eligible for grants; however, this does not apply to Grenada because its IDA eligibility is a special case as a small island development state, and does not qualify as a Low Income Country (LIC). Therefore, under IDA terms Grenada is not eligible for grants, which is unfortunate given Grenada's current debt crisis.

Therefore, we support Grenada's request to substitute concessional credits allocated for the Reforestation Project to an equivalent grant given that it will be very difficult at this time for the government to take on any additional credits. We understand that there are additional grants available for PPCR Pilot Countries and that a decision on the allocation of these additional funds will be decided upon at the upcoming PPCR Sub-Committee Meeting to be held in Istanbul, Turkey. We hope that the PPCR Sub-Committee will consider Grenada's request when the decision is made to allocate these additional funds.

Sincerely,



Françoise Clottes  
Director  
Caribbean Country Management Unit  
Latin America and the Caribbean Region