Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: March 10, 2019 | Report No: 136087
### BASIC INFORMATION

#### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>P165220</td>
<td>First Fiscal Reform and Resilience Development Policy Credit</td>
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<thead>
<tr>
<th>Region</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)(s)</th>
<th>Financing Instrument</th>
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<tbody>
<tr>
<td>Latin America and the Caribbean</td>
<td>May 30, 2019</td>
<td>MTI</td>
<td>Development Policy Financing</td>
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<tr>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tr>
<td>Government of St. Vincent and the Grenadines</td>
<td>Ministry of Finance</td>
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**Proposed Development Objective(s)**

*The program development objectives of the First Fiscal Reform and Resilience Credit are to:* (i) support the GoSVG in strengthening fiscal policy and public financial management; and (ii) reinforce climate resilience and adaptation.

**Financing (in US$, Millions)**

<table>
<thead>
<tr>
<th><strong>SUMMARY</strong></th>
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<tr>
<td><strong>Total Financing</strong></td>
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<th><strong>DETAILS</strong></th>
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<td><strong>Source:</strong></td>
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<td>IDA</td>
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**Decision**

The Regional Operations Committee (ROC) Decision Meeting authorized appraisal of the operation.
B. Introduction and Context

Country Context

Saint Vincent and the Grenadines (SVG) is a very small, open economy that is highly exposed to external economic shocks, including global economic conditions, but particularly to natural disasters such as hurricanes, earthquakes, and floods. Frequent natural disasters have resulted in fiscal pressures leading to rising debt levels, a loss of productive infrastructure, and increased physical, personal, asset and resource vulnerability. In response, this proposed Development Policy Credit is designed to support the Government of St. Vincent and the Grenadines (GoSVG) in strengthening fiscal policy and public financial management and reinforcing climate resilience and adaptation. This US$30 million credit is the first development policy financing operation extended to the GoSVG.

Relationship to CPF

Bank programming in SVG is guided by the Regional Partnership Strategy (RPS) for the Organisation of the Eastern Caribbean States (OECS) FY15–19 and the Performance and Learning Review (PLR) of the RPS published May 2018. The objective of the RPS is to contribute to laying the foundations for sustainable inclusive growth through three areas of engagement: (i) competitiveness, (ii) public sector modernization, and (iii) resilience. The PLR noted the continued relevance of these programming priorities but added, “The PLR strengthens the strategic focus on macro-fiscal issues due to these countries continued economic volatility and heavy debt burden, and deepens engagement to support resilience, . . .”. Furthermore, the PLR notes that, “Support . . . will be provided through a combination of financing instruments, including budget support . . .”. This proposed budget support operation thus directly addresses the priorities noted in the RPS and the increased focus on macro-fiscal issues and resilience stated in the PLR. In particular, this operation seeks to address issues of resiliency, in an effort to reinforce macroeconomic stability and enhance resilience to shocks. The operation is specifically designed to build on complementarities between strengthening resilience to climate change and natural disasters, and the fiscal aspects that arise from such recurrent climatic events, such as increased macroeconomic instability and rising debt levels. As such, the operation is closely aligned with the key objectives noted in the RPS and the PLR, as well as clearly articulated regional and national priorities.

C. Proposed Development Objective(s)

The program development objectives of the Fiscal Reform and Resilience Credit are to: support the GoSVG in: (i) strengthening fiscal policy and public financial management; and (ii) reinforce climate resilience and adaptation.

Key Results

Results include measurable indicators on the fiscal front such as: Public debt converging to the ECCU target of 60 percent of GDP; reduction in fiscal and liquidity risks by increasing level of funds in the contingency fund; greater transparency in procurement, with publication of an analysis of government-wide procurement spending; improved income tax collection; and stronger oversight over SOE finances, with analysis of commercial SOEs’ arrears (to the Government and to other SOEs) with a reconciliation plan.
On the resilience side, results indicators include: share of permit applications for new buildings approved in compliance with the updated building codes guidelines; decrease in domestically-mined coastal sand volumes; no imported single-use plastic bags by 2020; priority pollution watch sites regularly monitored and monitoring results publicly disclosed; increase in number of SVGCF permanent revenue sources; and number of private-public partnerships implementing sustainable aquaculture projects.

D. Program Description

The proposed First Fiscal Reform and Resilience Development Policy Credit is the first in a series of two operations that aims to support Saint Vincent and the Grenadines’ (SVG) comprehensive approach to support blue growth and enhance resilience. This initial US$30 million credit is the first development policy financing operation extended to the GoSVG. The proposed second operation in the series will consider combining two instruments -- a DPC and a Catastrophe Deferred Drawdown Option (Cat DDO). The potential inclusion of a Cat DDO as part of the second operation will specifically support the Government’s efforts to increase resilience to natural disasters, not only by supporting policy reforms through a DPC, but also by providing substantial, quick-disbursing financing in the immediate aftermath of a natural disaster. A two-operation programmatic approach has also been adopted to support a sustained reform effort and to reinforce effective implementation of key reforms.

Pillar 1 seeks to strengthen fiscal policy and public financial management in an environment prone to recurrent natural disasters. The supported measures seek to create fiscal space and reduce debt levels by increasing domestic revenue mobilization, through measures focused on improving tax compliance and adjusting tax rates. The establishment and operationalization of a contingency fund to better respond to natural disasters should allow for a faster and less disruptive fiscal response after events occur. Improving the efficacy of public spending also contributes to this objective, through improvements in budget planning, procurement reform and strengthened oversight of state-owned enterprises.

Pillar 2 supports measures that enhance climate resilience and adaptation to recurrent natural disasters. Supported reforms will reduce both the impact of natural disasters when they occur and foster the creation of a natural environment more able to withstand and adapt to the effects of climate change. The implementation of new building codes should result in more resilient infrastructure, including housing, hence reducing fiscal demands by limiting damages and losses. Furthermore, the approval of several new environmental policies, including an Oceans Policy and Fisheries Policy, together with a restriction on sand mining, which currently increases coastal vulnerability, should minimize the impact of natural disasters on the natural environment and again reduce demands on the overall fiscal position and public debt levels.
E. Implementation

Institutional and Implementation Arrangements

The Bank has discussed the importance of developing a monitoring and evaluation process with the relevant institutions to ensure adequate feedback to policymakers. Monitoring and evaluation is traditionally weak in small island economies, including SVG, and the Government recognizes the need to strengthen mechanisms. The results framework agreed to by the Government and the World Bank includes indicators to be assessed at the end of 2020 following completion and implementation of the measures to be supported under the second operation in the series. The Bank will maintain an ongoing dialog with counterparts in the MOF and other involved ministries regarding the monitoring and evaluation of reforms supported by the operation.

F. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Prior actions under Pillar 1 are not expected to have a significant direct impact on poverty. Income Tax Act amendments are expected to have a minimally negative effect on low-income groups as these are related to corporate transfer pricing issues. Provided the contingency fund supports a scaleup of the social safety net by redirecting transfers toward affected households and a restoration of key public infrastructures that will shorten the transition back to the pre-disaster livelihoods and infrastructure levels, it is expected to prevent an increase in poverty in the aftermath of future disasters and to mitigate the long-term effects of such events. Furthermore, in the medium term, a potential positive effect can be expected if revenue mobilization leads to an increase in public spending on poverty reduction and social spending.

Prior actions under Pillar 2 are expected to have positive effects on the poor and the vulnerable in the medium term by promoting resilience to natural disasters. A World Bank report estimated that the impacts of disasters are more than twice as significant for poor people than anyone else. This is because low income communities tend to be located in the low-cost risk prone areas with fragile dwellings, and commonly have no, or limited, access to credit or insurance to mitigate the post-disaster impacts. They are also affected the most from post-disaster disruptions in infrastructure services such as electricity, roads and running water. Actions and triggers that improve coastal resilience by restricting sand mining would reduce risks from climate change, such as flooding, storm surge and wave damage. The National Oceans Governance Policy and the Fisheries Policy are also pro-poor over the medium- to long-term as they strengthen natural and livelihood resilience that are so important to poor households that rely on natural resource base for their livelihoods, such as fisheries, but are also, as noted, vulnerable to the devastating effects of natural disasters.

Environmental Aspects
Reforms supported under Pillar 1 involving budget planning, procurement and tax reform, and SOE oversight will have no significant effects on the environment, forests and natural resources. These measures do not involve investments, policy reforms involving production decisions, regulatory matters, or any measures that could reasonably be expected to impact the environment. The establishment of a contingency fund will not have an immediate direct impact on the environment. However, the medium- to long-term impact should be positive as resources are set aside and become available for more rapid and fulsome responses to events such as hurricanes and floods.

Measures supported under Pillar 2, however, are directly linked to environmental resiliency and strengthened management of environmental resources. These reforms are specifically designed to increase environmental resilience and protect the natural environment. Reforms restricting sand mining is of paramount importance to strengthened environmental stewardship in SVG in strengthening the country’s natural defenses against storms and the effects of climate change. The Ocean Governance Policy will allow for the improved, effective and sustainable use of marine resources and reduce both land-based and ship-based pollution in SVG waters, with the increased monitoring and enforcement of marine solid waste disposal directly and positively affecting tourism and related livelihoods. The Fisheries Policy will support the establishment of the South East Protected Area and seek to ensure increased and sustainable harvesting of the fisheries industry.

G. Risks and Mitigation

The risk associated with this operation is considered “substantial”, given that there are a number of risks to the achievement of the program’s objectives. Macroeconomic risks are improving but are still considered high. As a largely tourism-based economy SVG is highly vulnerable to global economic conditions. While the global economy is relatively buoyant at present, tourism is one of the first discretionary expenditures to be cut during times of slow growth or recession. A sluggish global economy, particularly in the US, could impede the expected resurgence of the tourism industry, thereby slowing GDP growth and reducing FDI. Due to inherent vulnerability to natural disasters and climate change, environmental risks are substantial. Natural disasters could seriously impact operation objectives by disrupting economic activity, such as agriculture and tourism, and generating significant fiscal costs that could affect macroeconomic stability and particularly public debt levels. This operation is specifically designed to help strengthen the Government’s capacity to manage disasters, evaluate environmental risks and protect fiscal stability, which would help reduce the fiscal cost of a large-scale disaster, but the occurrence of a natural disaster in the short-term, prior to full implementation and effectiveness of many of the supported reforms could derail the fiscal trajectory and seriously compromise stated objectives. It should also be recognized that measures supported under this operation to strengthen fiscal and climate resilience are set within an environment of broader risk mitigation instruments, including instruments such as CAT DDOs, the Caribbean Catastrophe Risk Insurance Facility, the IMF’s Rapid Financing Instrument, and other avenues of support through bilateral and multilateral channels. Fiduciary risks are also considered substantial as are institutional capacity risks. The 2012 PEFA assessment indicated that SVG’s PFM environment has shortcomings in policy-based budgeting, predictability and control in budget execution, accounting, recording and reporting, and external scrutiny and audit. A PFM Reform Action Plan was developed after the 2012 PEFA assessment but was only partially implemented. Being a small island state, SVG’s institutional and human resource capacity is limited. Capacity to implement and sustain supported reforms relies on a small group of individuals, with decision-making and technical capacity for implementation concentrated in the hands of a few. While these individuals are capable and committed, this small cadre is stretched rather thin and saddled with numerous responsibilities.
CONTACT POINT

World Bank

David Cal MacWilliam or Ana Luisa Gomes Lima
Senior Economist Senior Environmental Specialist
(202) 473-8137 202 458-5794
cmacwilliam@worldbank.org alima1@worldbank.org

Borrower/Client/Recipient

Edmond Jackson
Director General Finance and Planning
Ministry of Finance
(784) 457-1343
eajackson@gov.vc

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s): David Cal MacWilliam and Ana Luisa Gomes Lima

Approved By

Country Director: Tahseen Sayed