Public Disclosure Authorized

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 02-Nov-2020 | Report No: PIDA30455

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
St. Lucia	P174346	Saint Lucia COVID-19 Response, Recovery and Resilience Development Policy Credit (P174346)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
LATIN AMERICA AND CARIBBEAN	15-Dec-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Saint Lucia	Ministry of Finance		

Proposed Development Objective(s)

The proposed operation aims to mitigate the negative economic effects and risks from COVID-19 on the most vulnerable and to strengthen medium-term resilience and sustainability by: (i) protecting lives and livelihoods in response to COVID-19, (ii) ensuring business continuity and financial resilience, and (iii) enhancing public sector and public debt management for the post-crisis recovery

Financing (in US$, Millions)

SUMMARY

Total Financing	30.00

DETAILS

Total World Bank Group Financing	30.00
World Bank Lending	30.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

The proposed Development Policy Credit (DPC) for $30 million will support the Government of Saint Lucia (GoSL) to mitigate the adverse effects from COVID-19 on the most vulnerable and strengthen medium-term resilience and sustainability. Saint Lucia (SLU), as with other small island developing states, is highly vulnerable to external shocks, especially from natural disasters. A lack of economic diversification and high debt levels constrain economic growth and the government's ability to respond to shocks. The COVID-19 pandemic hit Saint Lucia when the economy was growing steadily, and public debt had stabilized from prudent fiscal policies and revenues from the citizenship-by-investment program. The current standstill in tourism is anticipated to result in a GDP contraction of 18-21 percent and a surge in debt by 25 percent in 2020 because of the economic contraction and additional expenditures. Almost 45 percent of the labor force lost jobs (Central Statistical Office, 2020), and the poverty headcount index is estimated to have increased by about 3 percentage points. These challenges and ability to recover from the COVID-19 crisis could be further exacerbated by natural disaster shocks.

The Government has responded quickly to contain the virus and mitigate the negative impacts on the most vulnerable groups. The International Monetary Fund (IMF) approved emergency financing under the Rapid Credit Facility (RCF, ~ US$29 million); and Saint Lucia is also participating in the Debt Service Suspension Initiative (DSSI), which is expected to release additional fiscal space. Regional organizations, including the Caribbean Development Bank (CDB) and the Eastern Caribbean Central Bank (ECCB), have also approved additional financing. These efforts, along with the World Bank's Fast Track Facility and this proposed operation, are expected to largely meet Saint Lucia's gross financing needs. Meanwhile, the Government recognizes the importance of structural reforms to bring the country back to a sustainable and resilient path. The operation leverages support from sectors across the World Bank Group and is aligned with the objectives of the Sustainable Development Financing Policy (SDFP) that aims to enhance debt transparency and reduce debt vulnerabilities. The proposed operation supports government's actions for protecting lives, livelihoods, facilitating business continuity, and strengthening economic resilience and recovery in the immediate- and longer-term. The policies supported through this DPC are fully aligned with the World Bank's *COVID-19 Crisis Response Approach* and complement the joint efforts from the other international financial institutions. The DPC is also expected to strengthen resilience to climate change and benefit women, especially from poor and vulnerable groups.

The macroeconomic policy framework is deemed adequate for the proposed operation, with substantial downside risks. This assessment is based on the sustained economic growth evidenced prior to the pandemic (GDP growth at 3.5 per cent), supported by strong tourism and major tourism-related construction projects. As per the IMF's RCF in April 2020, Saint Lucia's debt is assessed as sustainable although with elevated risks, as the Government has strongly committed to enacting a fiscal responsibility framework (FRF) once the crisis abates. The strong commitment to fiscal resilience and improved public sector governance also enshrined in the principles of the Public Financial Management (PFM) Act, are expected to bring debt to a sustainable trajectory and enhance efficiency of the PFM system. Over the longer term, the Economic Recovery and Resilience Plan (ERRP) anchors the Government's strategy to build a resilient and productive economy. These efforts are further supported with the programmatic policy, performance actions (PPAs) that were agreed to by the Government (in October 2020) under the SDFP. The World Bank will continue to provide technical assistance (TA) and assist the authorities to reduce debt vulnerabilities and enhance debt transparency.

Relationship to CPF

Bank programming in Saint Lucia is guided by the Regional Partnership Strategy (RPS) for the Organization of the Eastern Caribbean States (OECS) FY15–19 and the Performance and Learning Review (PLR) of the RPS published in

May 2018, as well as the Systematic Regional Diagnosis (SRD) released in June 2018. The CPF, which was extended to FY20 by the PLR, aims to lay the foundations for sustainable inclusive growth through (i) Fostering conditions for growth and competitiveness; and (ii) Enhancing resilience with a broader resilience agenda. The SRD identified the main opportunities for the region, emphasizing building cross-cutting "360-degree" resilience and strengthening the blue economy, human capital development, new technologies, and regional integration and connectivity. This proposed budget support operation directly addresses the constraints noted in the RPS and SRD, while taking account of the extraordinary situation with COVID-19. In particular, this operation aims to improve access to finance and market liquidity over the medium term and build resilience in both strengthening the social protection system and public financial management. 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.

The World Bank flexibly adapted its program in SLU to respond to the COVID-19 crisis. The Contingent Emergency Response Component (CERCs) was activated under the Saint Lucia Health System Strengthening Project (for procurement of medical equipment and supplies) and under the Disaster Vulnerability Reduction project (to refurbish and adapt health facilities) to treat COVID-19 patients. This operation addresses the second, equally important aspect of the COVID-19 crisis as it focuses on the macroeconomic consequences of the crisis, as well as on fostering growth and competitiveness and enhancing resilience for recovery.

C. Proposed Development Objective(s)

The proposed operation aims to mitigate the negative economic effects and risks from COVID-19 on the most vulnerable and to strengthen medium-term resilience and sustainability by: (i) protecting lives and livelihoods in response to COVID-19, (ii) ensuring business continuity and financial resilience, and (iii) enhancing public sector governance and public debt management transparency for the post-crisis recovery

Key Results

Key results to support lives, livelihoods, and jobs include: number of tourism operators issued with the COVID-19 Compliance Certificate; increasing the supply of medical articles through a waiver of import duties; number of beneficiaries having received income support; and number of accurately targeted beneficiaries through the Educational Assistance Program (using the revised Saint Lucia National Eligibility Test tool, SL-NET3.0). Result indicators to support business continuity and protect jobs include: number of fisherfolk enrolled to benefit from the climate risk insurance policy - Caribbean Oceans and Aquaculture SusTainability Facility (COAST); and number of beneficiary entities receiving liquidity. To enhance governance and transparency and improve debt sustainability, result indicators focus on the number of ministries that have adopted an e-Procurement system, and also the publication of timely debt and gurantee data in debt review/reports.

D. Project Description

This DPC aims to support the Government in protecting lives and livelihoods and in facilitating business continuity and structural transformation both in the short term in response to the COVID-19 pandemic and over the long term to build economic sustainability and resilience. The proposed operation is aligned with the World Bank's approach to respond to the COVID-19 crisis as well as the Government's strategies to respond to the crisis. It builds on World Bank's technical engagement with Saint Lucia on fiscal reforms, which will be critical to support macro-sustainability post-crisis and to facilitate sustainable recovery.

The primary objective of the Prior Actions (PA) under Pillar A is to help the GoSL respond to the health threat posed by COVID-19 and protect affected workers, and poor and vulnerable households, from the economic and social impact of the crisis. The actions focus on both short-term relief and longer-term strengthening of the social protection system. First, the pillar will support the temporary measures implemented by the Government to limit the spread of

COVID-19 and mitigate the short-term impacts on workers that have lost their jobs, and poor households that are also vulnerable to natural disasters due to a lack of financial protection. Second, over the long term, the operation emphasizes strengthening of the social protection system, especially through social assistance for poor households with school-age children. During crises, children from poor households are more likely to drop out from school than children from non-poor households. The GoSL aims to reduce a potential spike in school dropouts by reducing the cost of schooling. The strategy includes increasing coverage and improving the accuracy of the targeting mechanism for social assistance interventions to reduce the burden on poor families and to increase school attendance, aiming to increase human capital accumulation over the long term.

The second pillar of the operation aims to support the GoSL in its counter-cyclical measures aimed to ensure business continuity by supporting firms to stave the pandemic and to promote financial resilience. These steps would help firms survive and facilitate a more resilient recovery. The temporary relief measures are expected to help firms address short-term liquidity needs and avoid exiting the market due to the crisis. This would otherwise result in large job losses and lack of essential services. Further, the operation supports the approval of the parametric insurance mechanism to promote climate and financial resilience of the fisheries sector, which is highly vulnerable to climate change and natural disasters; and it also includes a large proportion of female workers. Prior actions under Pillar B, in combination with those under Pillar A, enable resources to flow to vulnerable communities and micro, small, and medium enterprises (MSMEs), which increases their ability to rebound from shocks, including climate-related risk.

Despite the uncertainties and negative impacts from COVID-19, it is critical to plan forward towards the post-crisis recovery and maintain a focus on long-term development objectives. Pillar C is to support SLU with structural reform measures to achieve a resilient, inclusive, and sustainable recovery by strengthening policies and institutions aligned with sound practices on public financial management, governance, and transparency. In this context, strong governance and institutions ensure appropriate (re)prioritization of government interventions and actions, including enhancing efficiency of spending through better design and implementation of projects.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance will be the main agency responsible for the monitoring, evaluation, and results framework and will coordinate actions across relevant ministries and agencies involved in the operation. The agencies responsible for the implementation of the Prior Actions supported by the DPC include the following: (i) Pillar A: Ministry of Finance; Ministry of Health and Wellness; and Ministry of Equity, Social Justice, Empowerment, Youth Development, Sports and Local Government; (ii) Pillar B: Ministry of Finance, including the Inland Revenue Department; and Ministry of Agriculture, Fisheries, Physical Planning, Natural Resources and Co-operatives; and (iii) Pillar C: the Financial Administration Unit and the Debt and Investment Unit under the Ministry of Finance. The World Bank will be monitoring the implementation of the DPC program through regular supervision missions. The World Bank will maintain close dialogue with counterparts throughout preparation and collaborate with Ministry of Finance for the monitoring of indicators.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The Prior Actions under the three pillars supported by the operation are expected to have mostly positive (direct and indirect) effects on the poor and vulnerable population and no negative impacts. Pillar 1 is predominantly expected to have direct positive impacts on the poor and vulnerable. Under this pillar, measures are expected to attenuate the impact of job losses for formal workers, and thus reduce the risk of falling in poverty (PA2). It will also benefit the poor through improved targeting and relieving the financial burden of education for poor families (PA3). Under Pillar 2 the measures will have a direct positive effect on poverty reduction by protecting small-scale fishery workers and their families and helping MSMEs weather the current economic crisis triggered by the pandemic. Moreover, poor and vulnerable households will benefit indirectly through reforms under Pillar 3 that promote long-term growth and strengthen public sector governance. By enhancing debt transparency and strengthening PFM, measures supported by PA6 and PA8 will foster macroeconomic stability, help prevent fiscal imbalances that could threaten pro-poor spending, and reinforce the necessary conditions for accelerated growth and therefore benefit poor and vulnerable households indirectly. The first and seventh prior actions (PA1 and PA7) on health response to COVID-19 pandemic and on procurement are not expected to have any immediate impact on poverty or inequality.

Environmental, Forests, and Other Natural Resource Aspects

The proposed DPC is not expected to have any significant negative impacts and may have positive impacts on SLU's environment and natural resources. Furthermore, the DPC is likely to provide benefits to vulnerable stakeholders, including in sectors that rely on natural resources, such as fisheries. The PAs are not expected to result in significant land use changes or construction that would result in pollution, degradation, or other negative environmental impacts. Moreover, SLU has a comprehensive regulatory framework to manage relevant environmental issues, including related to waste management, land use change and management, water, fisheries, and climate change. Instead, the focus of the DPC is on enhancing social protection and providing resources to vulnerable communities and MSMEs. Measures under Pillar B will increase resilience of the fishing community to climate-related risks which get compounded by the COVID-19 pandemic. In particular, the COAST mechanism benefits individuals who rely on natural resources for their livelihoods by providing relief for damages from extreme weather events, such as cyclones or hurricanes. Specifically related to uptake of the COAST mechanism, this operation will help to improve the resilience of SLU's fisheries sector, including the livelihoods of fisherfolk, to climate change and extreme weather events. The operation includes the enactment of the PFM act, which will improve SLU's resilience to climate change by facilitating rapid response in the event of a natural disaster and ensuring that financial resources are channeled to programs and agencies where they are needed and in a timely manner. Finally, the operation includes the adoption of an e-procurement system, which will allow the Government to operate paperless procurement and store files online. This system will reduce travel and transaction time to physically submit hard copies and provide business continuity and protect government information in the event of natural disasters.

G. Risks and Mitigation

The overall risk rating for the proposed DPC series is substantial. Although the Government has committed to the implementation of the FRF once the crisis abates, high macroeconomic risks arise from how the pandemic evolves, the depth of recession and speed of recovery of major economies and natural disasters. Thought mitigation measures have been implemented, the materialization of residual macroeconomic risks could compromise the achievement of the objectives of the proposed operation. Implementation capacity risks are substantial, given the small pool of technical experts in the country. While SLU's institutional and technical capacity are relatively robust by regional standards and has received extensive TA from the World Bank, a limited number of technical experts in core ministries, and scarce fiscal resources may pose risks to implementing the reforms supported by the DPC. Amid the pandemic, economic crisis, and current hurricane season, the institutional capacity for reform implementation could be further constrained. The Government has been proactive in mitigating these risks and benefiting from collaboration with international and regional organizations, including the World Bank. Saint Lucia has a well-established legal and institutional framework for managing disaster and climate risks which strengthens the Government's ability to assess, reduce, and manage fiscal risks from natural disasters. The operation aligns with the PPAs being formulated under the SDFP. These programmatic PPAs, which include structural reforms to reduce debt vulnerabilities and enhance debt transparency, are for three years and would thus provide a continuum of TA and advisory support to the GoSL to help reduce macroeconomic risks. The debt monitoring mechanism under the DSSI also helps identify and mitigate the risks. In addition, there is strong coordination with the IMF, as well as continuing TA to strengthen the capacity for reform implementation.

CONTACT POINT

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APPROVAL

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