



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 26-Jun-2019 | Report No: PIDC27312



BASIC INFORMATION

A. Basic Project Data

Country St. Vincent and the Grenadines	Project ID P169956	Project Name Second Fiscal Reform and Resilience Development Policy Credit CAT/DDO (P169956)	Parent Project ID (if any) P165220
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Dec 10, 2019	Practice Area (Lead) Environment & Natural Resources	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The program development objective is to support the Government of St. Vincent and the Grenadines in building a more resilient economy through: (i) strengthening fiscal policy and public financial management; and (ii) strengthening climate resilience and adaptation.

Financing (in US\$, Millions)

SUMMARY

Total Financing	25.00
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DETAILS

Total World Bank Group Financing	25.00
World Bank Lending	25.00

Decision

The review did authorize the preparation to continue

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\$25 million credit is the second operation in a programmatic series of development policy financing operations extended to the GoSVG. The DPC combines upfront financing and a disaster-contingent financing component through a Catastrophe Deferred Drawdown Option (Cat DDO), specifically will support the Government's efforts to increase resilience to natural disasters by providing quick-disbursing financing in the immediate aftermath of a natural disaster.

SVG's macroeconomic policy framework is adequate for the DPC, despite the presence of substantial risks. SVG currently benefits from a stable and sound macroeconomic outlook supported by recently approved fiscal measures (including those supported by this DPC series) and a strong commitment to further economic and fiscal reforms. This assessment is reflected in: improving short- and medium-term growth; a consistently low and stable rate of inflation of 2 percent or less; and demonstrated commitment to bring debt levels down to more sustainable levels, as reflected through the attainment of primary budget surpluses.

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 objective is to support the Government of St. Vincent and the Grenadines in building a more resilient economy through: (i) strengthening fiscal policy and public financial management; and (ii) strengthening 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; EC\$ 30 million available in the contingency fund; greater transparency in procurement, with publication of an analysis of government-wide procurement spending; increase in Revenues collected from taxes on income and profits; and stronger oversight over SOE finances.

On the resilience side, results indicators include: the share of new buildings obtaining permits in compliance with updated building codes guidelines; a decrease in coastal sand mining volumes; an increase in the number of SVGCF



permanent revenue sources; a decrease in amount of single-use plastic bags manufactured or imported; and regular monitoring and disclosure of monitoring results of priority pollution watch sites.

D. Concept Description

This DPC series aims to support the GoSVG in strengthening fiscal policy, public financial management and strengthening climate resilience and adaptation. Following up on the first stage of reforms support by DPC1, this operation supports additional policies to increase fiscal space, create fiscal buffers and generate growth by focusing on key sectors for promoting a blue economy. 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 funding 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. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

The DPC-supported policies are expected to have positive social and poverty impacts. Prior actions under Pillar 1 are expected to have a positive impact on poverty in the medium-term if the additional revenue is used for development, poverty reduction, social spending, and public services. By mobilizing revenues and improving efficiency in revenue collection and public spending, the GoSVG can raise additional resources for public services without imposing a tax burden on low-income groups. The positive impact of a contingency fund on the poor could be substantial, as poor households are often the most vulnerable and least able to accommodate negative shocks to income, wealth or physical assets. Prior actions under Pillar 2 are expected to have positive effects on the poor and the vulnerable in the medium-term by promoting natural and livelihood resilience.

Environmental Impacts

Reforms 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.

Policies 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. The adoption of revised guidelines for enforcing building regulations and revisions to improve physical planning are expected to enhance the resilience of the country's physical infrastructure, as well as protection of its natural resources. 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 and its subsequent regulations (such as phase out of single use plastic bags and standards for effluent control) 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, couple with the business plan for sustainable aquaculture, will seek to ensure increased and sustainable harvesting of the fisheries industry.

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APPROVAL

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