Program Information Document (PID)

Concept Stage | Date Prepared/Updated: December 20, 2018| Report No: 133127

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
St. Vincent and the Grenadines	P165220	First Fiscal Reform and Resilience Development Policy Credit	
Region	**Estimated Board Date**	**Practice Area (Lead)(s)**	**Financing Instrument**
Latin America and the Caribbean	March 19, 2019	MTI	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Government of St. Vincent and the Grenadines	Ministry of Finance		

Proposed Development Objectives

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) reinforceclimate resilience and adaptation.

Financing (in US$, Millions)

SUMMARY

Total Financing	$23 million

DETAILS

Source: IDA	$23 million

Decision

The decision from the concept review meeting was to proceed with the preparation 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 fiscal, infrastructure and resource resilience to climate change and natural hazards. This US$20 million credit is the first development policy financing operation extended to the GoSVG.

Relationship to CPF

Bank programming in SVG is guided by the OECS Regional Partnership Strategy (RPS) for 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; improved VAT collection rates; MOF conducting and publishing an analysis of government-wide procurement spending; MOF conducting an analysis of arrears of commercial state-owned enterprises together with a reconciliation plan; and the level of reserves in the contingency fund. **On the resilience side, results indicators include**: the percentage of new buildings in compliance with the building code; a decrease in coastal sand mining; an expansion in marine protected areas; and a decrease in the amount of single-use plastic bags and plastic straws manufactured or imported, among others.

D. Concept Description

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. 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 fiscal, infrastructural and resource resiliency to recurrent natural disasters. Supported reforms will reduce both the impact of natural disasters, hence lessening the demand for a fiscal response, as well as ensuring greater fiscal capacity to respond to such occurrences. 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. The implementation of new building codes should limit fiscal demands by reducing damages and losses. Furthermore, the approval of several new environmental policies, including an Oceans Policy and Forestry Policy, together with a restriction on sand mining, which currently increases coastal vulnerability, should minimize the impact of natural disasters on the overall fiscal position and public debt levels.

E. 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. 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.[1] 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. Established as part of a medium-term fiscal strategy, the contingency fund aims at financing disaster relief and offsetting the high cost of public debt incurred in reconstruction and post-disaster assistance. Provided that the 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. The prior action that improves coastal resilience by restricting sand mining would reduce risks from climate changes such as flooding, storm surge and wave damage. They are expected to have positive effects on the coastal communities and the vulnerable especially those who live in low-lying coastal areas.

Environment Impacts

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.

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. 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. The revision of building codes will have a positive environmental impact, as buildings, including residences, become more able to withstand natural disasters, thus requiring less reconstruction, less use of local resources, including sand and aggregates, and less creation

[1] Hallegatte, Stephane; Vogt-Schilb, Adrien; Bangalore, Mook; Rozenberg, Julie (2017). *Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters. Climate Change and Development*. Washington, DC: World Bank.

of detritus post-disaster. In addition, the building codes are written to reduce electricity consumption through the design of increasingly efficient buildings. Reforms restricting sand mining and revision of the Forestry Policy, are both of paramount importance to strengthened environmental stewardship in SVG. These actions will strengthen the country's natural defenses against storms and the effects of climate change, as well as increase fish stocks and biodiversity. Combined with reforestation of 60 acres per year, this policy will support the GoSVG in meeting their obligations stated in their Intended Nationally Determined Contributions (INDCs). 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.

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