Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 21-May-2020 | Report No: PIDA28662

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
St. Vincent and the Grenadines	P169956	Second Fiscal Reform and Resilience Development Policy Credit with a Cat DDO (P169956)	P165220
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	18-Jun-2020	Environment, Natural Resources & the Blue Economy	Development Policy Financing
Borrower(s)	Implementing Agency		
Ministry of Finance	Ministry of Finance		

Proposed Development Objective(s)

The development objective is to support the GoSVG in: (i) responding to the COVID-19 pandemic to protect the vulnerable; (ii) strengthening fiscal resilience; and (iii) enhancing climate and disaster resilience.

Financing (in US$, Millions)

SUMMARY

Total Financing	40.00

DETAILS

Total World Bank Group Financing	40.00
World Bank Lending	40.00

Decision
Other

Explanation
The review authorized the team to appraise.

B. Introduction and Context

Country Context

The proposed Second Fiscal Reform and Resilience Development Policy Credit (DPC) with a Catastrophe Deferred Drawdown Option (CAT DDO) is the second in a programmatic series of two operations for St. Vincent and the Grenadines (SVG). 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. This operation arises in the context of the COVID-19 pandemic, which has caused significant economic, social and fiscal stress and has increased the need for financial support. In response, the DPC aims to support the efforts of the Government of St. Vincent and the Grenadines (GoSVG) to respond to the COVID-19 pandemic (through a new Pillar 1), while, at the same time, creating the conditions needed for the country's recovery by enhancing fiscal, climate, and disaster resilience and unlocking more growth from SVG's coastal and marine assets (through Pillars 2 and 3). This second operation, which was under development prior to the pandemic, is now even more important given both immediate COVID-19 needs and reforms required for post-pandemic recovery and hurricane preparedness.

The DPC combines upfront budget support, in the amount of US$20 million, with a disaster-contingent financing component through a Cat DDO in the amount of US$20 million. The latter will specifically support the GoSVG'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 this 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 operation) and a strong commitment to further economic and fiscal reforms. This assessment is reflected in improving growth prospects; consistently low and stable inflation of 2 percent or less; and a forecast decline in debt following the port investment, through the maintenance of primary budget surpluses and the enshrinement of such targets in a Parliamentary approved Fiscal Responsibility Resolution (FRR). Planned public investment levels, including the port project, as well as the COVID-19 pandemic, have added some increased risk to the macroeconomic framework, but the authorities are committed to addressing the impact of the port investment and managing the pandemic, in order to limit the effect on fiscal and debt variables. As noted in the recently completed (May 2020) joint Bank-Fund Debt Sustainability Analysis (DSA), completed in conjunction with the IMF's Rapid Credit Facility (RCF) financing, debt is considered sustainable though SVG remains at high risk of debt distress. The authorities are committed to achieving primary balances of no less than 2.5 percent of GDP by 2025, which will put the debt-to-GDP ratio on a solid downward path after 2021.

Relationship to CPF

Bank programming in SVG is guided by the OECS Regional Partnership Strategy (RPS) dated October 2014 and the Performance and Learning Review (PLR) dated 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. This operation directly addresses the priorities noted in the RPS and the increased focus on macro-fiscal issues and resilience stated in the PLR. This operation seeks to address issues of resiliency and disaster management 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. Reforms supported under this operation and Cat DDO will contribute to the World Bank Group's twin goals of ending extreme poverty and promoting shared prosperity.

C. Proposed Development Objective(s)

The program development objective is to support the GoSVG in: (i) responding to the COVID-19 pandemic to protect the vulnerable; (ii) strengthening fiscal resilience; and (iii) enhancing climate and disaster resilience.

Key Results

Result indicators include the number of people and households receiving financial assistance in response to the pandemic.

Results also include measurable indicators on the fiscal front such as: Public debt converging to the Eastern Caribbean Currency Union (ECCU) target of 60 percent of GDP; greater transparency in procurement, with publication of an analysis of government-wide procurement spending; increased revenues collected from taxes on income and profits.

On the climate resilience side, results indicators include: a decrease in coastal sand mining volumes; an increase in the number of SVG Conservation Fund (SVGCF) permanent revenue sources; a decrease in amount of single-use plastic bags imported; and the preparation of aquaculture business plans.

In terms of disaster risk management, results are: EC$50 million available in the contingency fund; the share of new buildings obtaining permits in compliance with updated building codes guidelines; and an increase in the number of schools used as emergency shelters that have completed comprehensive disaster management plans and submitted to the Ministry of Education.

D. Project Description

This operation aims to support the GoSVG in responding to the COVID-19 pandemic and in creating the conditions for the country's economic recovery by strengthening fiscal policy, public financial management (PFM), growth, climate resilience, adaptation, and comprehensive disaster risk management (DRM). The operation consists of three mutually reinforcing pillars: Pillar 1 supports actions taken for COVID-19 response; Pillar 2 supports the GoSVG's efforts to strengthen fiscal resilience, thus contributing to macroeconomic stability and strengthened debt sustainability; and Pillar 3 supports policy and institutional reforms that enhance growth prospects, reinforce climate and disaster resilience, and strengthen comprehensive DRM for emergencies and natural disasters. Pillar 3 reforms also reflect the inclusion of a CAT

DDO, which provides quick-disbursing financing in the event of a future natural disaster, thereby strengthening SVG's capacity for emergency response and recovery and its ability to absorb the fiscal shock of disasters.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance (MOF) will be responsible for overall implementation and coordinating actions by other relevant ministries and agencies. 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 are traditionally weak in small island economies, including SVG, and the Government recognizes the need to strengthen mechanisms. The results framework has been agreed to by the Government and the World Bank. Several government institutions are responsible for execution of various prior actions and the communication of results to the MOF. 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 Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The supported policies across all three pillars are expected to have positive social and poverty impacts. Prior actions under Pillar 1 are expected to have a direct and positive impact on poverty by supporting incomes, livelihoods and household consumption over the pandemic period. Actions under Pillar 2 are also 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. Prior actions under Pillar 3 are expected to have positive effects on the poor and the vulnerable in the medium-term by promoting natural and livelihood resilience, and for supporting those groups to recover from the economic losses associated with the pandemic. The estimated impact of disasters is more than twice as significant for poor people than anyone else. This is because low-income communities tend to live in low-cost risk prone areas in fragile dwellings, and commonly have no, or limited, access to credit or insurance to mitigate the post-disaster impacts. They are also the most adversely affected by post-disaster disruptions in infrastructure services such as electricity, roads and running water. 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.

Environmental, Forests, and Other Natural Resource Aspects

Reforms under Pillar 1 and 2 involving household support, budget planning, procurement and tax reform 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.

Under Pillar 3, positive impacts should be realized. This includes protecting coastal areas from the depletion and other impacts caused by uncontrolled sand mining. This action will strengthen the country's natural defenses against storms and the effects of climate change, as well as increase fish stocks and biodiversity. Banning the use of plastic bags and food service containers will reduce the impacts caused by plastics pollution and the direct impact to SVG's marine environment. While the contingencies fund will not have an immediate direct impact on the environment, the medium- to long-term impact of this action should be positive, as resources are set aside and become available for more rapid responses to events such as hurricanes, floods, among others. Implementation of Building regulations, and a School Safety Policy could lead to positive indirect environmental impacts. Policies supporting the structural integrity of existing infrastructure and building resilient new public buildings, schools and homes, offer the possibility of providing children with access to adequate infrastructure.

G. Risks and Mitigation

The risk associated with this operation is considered "substantial", given there are several risks to the achievement of the program's objectives. Areas of particular concern include macroeconomic, institutional capacity, fiduciary and environmental risks given exposure to natural disasters. **Macroeconomic risks continue to be considered high.** COVID-19 poses considerable risk to the macroeconomic framework, as growth, fiscal and debt outcomes could be significantly impacted depending on the pandemic's evolution. This uncertainty leads to remaining substantive residual risk. Tourism is one of the first discretionary expenditures to be cut during times of slow growth or recession and the fear of flying has become significant. Ongoing reforms supported by this operation, as well as other reforms, are expected to significantly enhance the macroeconomic framework over time, which will help mitigate these risks, though significant residual risk remains. **Institutional capacity risk is also considered substantial,** as being a small island state, SVG's institutional and human resource capacity is limited. **Fiduciary risks are also substantial.** 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. **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.

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APPROVAL

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