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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR

PROPOSED CREDITS

IN THE TOTAL AMOUNT OF US$40 MILLION TO

ST. VINCENT AND THE GRENADINES

FOR THE

SECOND FISCAL REFORM AND RESILIENCE DEVELOPMENT POLICY CREDIT WITH A CATASTROPHE DEFERRED DRAWDOWN OPTION

May 29, 2020

Environment, Natural Resources & The Blue Economy Global Practice
Latin America and Caribbean Region

St. Vincent and the Grenadines

GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of March 29, 2019)
Currency Unit: East Caribbean dollar (EC$)
US$1.00 = EC$2.70

ABBREVIATIONS AND ACRONYMS

CARICOM	Caribbean Community
CARTAC	Caribbean Regional Technical Assistance Centre
Cat DDO	Catastrophe Deferred Drawdown Option
CERC	Contingency Emergency Response Component
CCA	Climate Change Adaptation
CPF	Country Partnership Framework
DPC	Development Policy Credit
DRF	Disaster Risk Financing
DRM	Disaster Risk Management
DSA	Debt Sustainability Analysis
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
FDI	Foreign Direct Investment
FRR	Fiscal Responsibility Resolution
GDP	Gross Domestic Product
GNP	Gross National Product
GoSVG	Government of St. Vincent and the Grenadines
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IPCC	International Panel on Climate Change
LDP	Letter of Development Policy
MOF	Ministry of Finance, Economic Planning, Sustainable Development and Information Technology
MTEF	Medium-Term Expenditure Framework
NAP	National Adaptation Plan

NDC	Nationally Determined Contributions
NEDM	National Emergency and Disaster Management Act No. 15 of 2006
NEMO	National Emergency Management Organization
OECS	Organization of Eastern Caribbean States
PER	Public Expenditure Review
PFM	Public Financial Management
PLR	Program Learning Review
PPP	Public-Private Partnership
PSIP	Public Sector Investment Plan
RCF	Rapid Credit Facility
RDVRP	Regional Disaster Vulnerability Reduction Project
RPS	Regional Partnership Strategy
SEMCAR	Supporting Economic Management in the Caribbean
SVG	St. Vincent and the Grenadines
TAA	Tax Administration Act
VAT	Value-Added Tax

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ST. VINCENT AND THE GRENADINES

SECOND FISCAL REFORM AND RESILIENCE DEVELOPMENT POLICY CREDIT WITH A CAT DDO

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P169956	Yes	2nd in a series of 2

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.

Organizations

Borrower: MINISTRY OF FINANCE

Implementing Agency: MINISTRY OF FINANCE

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**40.00**

DETAILS

International Development Association (IDA)	40.00
IDA Credit	40.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results Indicators

Indicator Name	Baseline value (date)	Target value (date)
Number of beneficiaries who received emergency transfers:	0 (January 2020)	5300
Public debt convergence to the ECCU target of 60 percent of GDP by 2030	73.5 percent (2017)	84.4 percent (2020)
Analysis of government-wide procurement spending published by MOF	No analysis (2018)	Analysis completed and published (2020)
Revenue from taxes on income and profits:	EC$ 151 million (2017)	EC$ 150 million (2020)
Volume of domestically-mined coastal sand reduced:	35,370 m^3 (2018); milestone (2020): 17,685 m^3	0 m^3 (2021)
Imported single-use plastic bags reduced:	453.4 tons (2017)	0 tons (2021)
Number of St. Vincent and the Grenadines Conservation Fund's sustainable revenue sources:	0 (2018)	2 (2021)
Number of aquaculture business plans prepared:	0 (2018)	2 (2021)
Level of funds in the contingencies fund:	0 (2017) milestone (2020): EC$30 million	EC$50 million (2022)
Share of permit applications for new buildings approved in compliance with the updated building codes guidelines:	0 percent (2018)	100 percent (2022)
Number of schools used as emergency shelters that have completed comprehensive disaster management plans and submitted to the Ministry of Education:	5/45 (2019)	20/45 (2022)

IDA PROGRAM DOCUMENT FOR A SECOND FISCAL REFORM AND RESILIENCE DEVELOPMENT POLICY CREDIT WITH A CAT DDO TO ST. VINCENT AND THE GRENADINES

1. INTRODUCTION AND COUNTRY CONTEXT

1. **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).** 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 further 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 response needs and reforms required for post-pandemic recovery and hurricane preparedness. This operation is closely aligned and coordinated with support being provided to SVG by the Caribbean Development Bank (CDB), the Eastern Caribbean Central Bank (ECCB), and, in particular, the IMF under a Rapid Credit Facility (RCF) financing. The proposed operation comprises two credits: US$ 20 million for the DPC and US$ 20 million for the Cat DDO.

2. **SVG is a small, tourism-based economy that is highly dependent on its natural environment and suffers from high debt, low growth, and vulnerability to natural disasters**. Together, these factors limit fiscal space and constrain effective response to natural disasters and external shocks, including health emergencies. In this context, the COVID-19 pandemic has caused significant economic, social, and fiscal stress to SVG – which could be exacerbated by the upcoming hurricane season – increasing the need for immediate financial support in controlling contagion, providing medical care to infected people, and mitigating social and economic impacts. The DPC will provide the GoSVG with much-needed immediate financing to mitigate the economic and health impacts of the current crisis; and the Cat DDO will provide quick-disbursing financing in the event of a future natural disaster.

3. **As a small state with limited resources and capacity, SVG has been severely impacted by COVID-19.** Impact includes a near-halt in tourist arrivals, increased health expenditures, and reduced productivity due to social distancing and other prevention measures. There were at least 18 known cases of COVID-19 as of May 23, 2020. The GoSVG has imposed travel restrictions, encouraged social distancing measures, established quarantine facilities, closed schools and non-essential services, and has introduced several measures and programs intended to mitigate the economic and social impact of the crisis on the vulnerable. Job losses are estimated to be significant given the current standstill in tourism.

4. **As part of the Windward Islands, SVG is at high risk of hydro-meteorological and geophysical hazards, which affect the country's economic and fiscal stability and the safety and wellbeing of its population.** The impact of these natural hazards is exacerbated by the adverse effects of climate change, poor enforcement of building codes, no formal housing policies, and unplanned urban growth that place increased stress on infrastructure, water availability, agricultural production and livelihoods. While all 110,000 inhabitants are adversely affected, the poor and vulnerable are disproportionately impacted. SVG's small size (389 km2) and the concentration of its economic base in sectors vulnerable to climatic events (agriculture, fisheries, tourism) also contribute to its vulnerability. In December 2013, excessive rainfall resulted in nine deaths and extensive physical damage and economic losses of approximately

US$108.4 million (15 percent of GDP). Heavy rains in October and November 2016, starting with Hurricane Matthew, resulted in damage and losses of about US$36.3 million (5 percent of GDP).

5. **This operation 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.** Given SVG's vulnerability to weather-related disasters, a Cat DDO has been under consideration since the inception of the series. The GoSVG intends to trigger disbursement from the Cat DDO only in the event of a future natural disaster. In addition to providing quick-disbursing financing in the event of a disaster, the Cat DDO also supports improvements to the policy and institutional framework to reduce vulnerability to disasters. Combining the DPC and Cat DDO in one operation helps underpin more robust DRM actions, improves efficiency and coherence, streamlines the reporting process, and responds to the unique characteristics and limited capacity of a small state. It is also well-aligned with the World Banks' Road Map for Small States and broader global sustainable development goals (SDGs).

6. **This operation is set within a broader international response to the pandemic crisis in SVG**. In addition to this operation, the Bank is providing COVID-19 Fast Track Facility financing in the amount of US$2.5 million and has activated Contingent Emergency Response Components of ongoing projects for immediate COVID-19 needs. The IMF has approved a Rapid Credit Facility (RCF) of US$16 million, the CDB is considering foregoing debt repayments for the remainder of the calendar year, and the ECCB has reduced the interest rate on government borrowings from 6.5 percent to 2 percent. Bilateral assistance is not yet fully confirmed but available international support totals US$60 million to date, or approximately 7.5 percent of GDP, including the US$20 million in DPC resources provided through this operation. Given this available financing, the authorities have stated that they do not intend to withdraw the Cat DDO funds to respond to COVID-19 and will reserve it for a future natural disaster, given SVG's vulnerabilities during the annual Atlantic hurricane season.

7. **SVG is implementing reforms aimed at achieving fiscal sustainability while facing fiscal pressures emerging from the pandemic and the need to replace the country's aging port.** SVG's fiscal sustainability had seen marked improvement during the pre-COVID-19 crisis period. Total public debt fell substantially from around 83 percent of GDP to about 75 percent of GDP between 2016 and 2019 as a result of fiscal consolidation, the maintenance of primary fiscal surpluses, and Venezuela's forgiveness of SVG's PetroCaribe debt. However, construction of a needed new port, financed through the loans from the CDB and grants from the UK, will exert significant pressure on the fiscal deficit over the coming years, as will the implications of the short-term shock imposed by the COVID-19 pandemic. The port is now 50 years old, exceeding its original design life of 30 years, and is in need of immediate modernization. A strategic national asset critical to economic development, the port represents a public investment in excess of 20 percent of GDP given the size of the small island economy. As such, ongoing and further fiscal reforms -- including the recent enactment of a Fiscal Responsibility Resolution (FRR) -- remain critical for fiscal and debt sustainability.

8. **Given the COVID-19 pandemic, Pillar 1 supports actions taken by the GoSVG to economically support vulnerable groups negatively impacted by the pandemic**. Given limited surge capacity, urgent action is needed to handle a larger amount of cases as there are insufficient supplies, hospital beds, isolation units, and human resource capacity. Capacity to respond to the social and economic effects of the health emergency is also limited. As such, while other Bank instruments directly support the health

response, Pillar 1 of this DPC includes policy reforms for broader economic and social response to the crisis, including the protection of jobs, livelihoods and household consumption.

9. **In Pillar 2, the DPC supports Government efforts to strengthen fiscal resilience.** This is key to creating the fiscal space necessary to deliver better social services, provide resources for needed infrastructure, and reduce public debt. The COVID-19 pandemic has clearly illustrated the need for fiscal buffers to deal with recurrent shocks suffered by the economy and households in the context of emergencies – from natural disasters or health shocks. PFM weaknesses can become bottlenecks after such events and, even in normal circumstances, reduce the efficiency of spending. These requirements place further urgency on building a fiscal framework able to generate savings that can be used when shocks materialize, and on creating new financing mechanisms for climate and disaster resilience. This operation supports critical reforms in these areas.

10. **Pillar 3 supports policy and institutional reforms that enhance growth prospects and reinforce climate and disaster resilience.** As SVG's economic base depends on its natural assets, those policies will be key to the country's economic recovery after the COVID-19 pandemic. The country's marine and coastal ecosystems provide a wide array of economic goods and services, such as fisheries; tourism and recreation; life-cycle maintenance for fauna and nutrient cycling; erosion prevention; and other coastal protection services. These assets help reduce the country's vulnerability to natural disasters and contribute to sustainable livelihoods. However, this environment is vulnerable given the higher frequency and severity of hurricanes, droughts, and other extreme weather events in recent years, which have disrupted livelihoods and economic production, destroyed physical infrastructure, and imposed high costs for reconstruction and rehabilitation. In this context, the GoSVG has embarked on a series of policy reforms to ensure sustainable use of natural resources, while enhancing adaptation and resilience to the impacts of climate change.

11. **Pillar 3 also focuses on comprehensive disaster risk management reforms for emergencies, including disasters from natural hazards and health shocks.** This includes strengthening the legal and institutional framework by incorporating DRM and climate change adaptation (CCA) into budgeting processes, strengthening management of the contingencies fund, promoting resilient urban development, fostering improved housing standards and school safety, as well as strengthened sectoral policies. The COVID-19 pandemic emphasizes the need for improved emergency planning and for contingency financing, such as that provided through a Cat DDO for countries such as SVG that remain highly vulnerable to natural disasters.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

12. **SVG is a small, middle-income island economy that depends primarily on services and whose previously stable macroeconomic and fiscal framework has been severely disrupted by the pandemic.** Per capita GDP (2020) is approximately US$7,500 (Atlas method). The tourism sector alone accounts for approximately 25 percent of GDP and nearly 50 percent of total exports. Agriculture and fishing are also important sources of jobs and incomes. Tourism has essentially ceased in SVG during the pandemic and growth in 2020 is expected to be -5.5 percent, down from a pre-COVID forecast of 2.3 percent.

13. **Like many small island states, SVG suffers from issues associated with high debt, low growth and vulnerability to natural disasters -- issues which have been further exacerbated by COVID-19.** Growth picked up moderately in 2018 to 2.2 percent, though slowed to 0.4 percent in 2019 (see Table 2). Tourism picked up in 2018 and 2019 with the opening of the new airport, new flight connections[1], and tourist diversion from other Caribbean islands following the September 2017 hurricanes. Unfortunately, tourism is expected to fall by up to 50 percent in 2020 following the global pandemic.

14. **Poverty has declined over the past two decades but remains a cause for concern.** Just over 30 percent of the population fell under the national poverty line in 2008.[2] Inequality dropped markedly over the same period, with the Gini coefficient falling from 0.56 to 0.40. The data at that time reflected progress attributed to improved delivery and access to health care services, increased access to education, and increased female labor participation rates. High unemployment rates create challenges for poverty reduction. The frequent and persistent shocks suffered by the economy and households, coupled with a lack of macroeconomic tools to smooth economic cycles, is a barrier to poverty reduction.

15. **The GoSVG responded rapidly to the pandemic**. Before the first case, a 14-day quarantine requirement was instituted for persons arriving from worst hit areas. Following the first confirmed case of COVID-19 in SVG on March 11, the GoSVG: closed schools; cancelled the biggest carnival in the country scheduled for June 26-July 7; distributed protective equipment to health care workers; increased the number of intensive care unit beds and respirators; and built a new isolation and testing center. The Argyle International Airport has now been closed and all commercial flights, both international and inter-Caribbean, have been suspended. Cruise ship arrivals and passenger traffic at the port through inter-island ferry services have ceased. However, the Government has not declared a state of emergency, and businesses have been allowed to continue activities.

16. **On March 25, 2020, the Prime Minister announced a fiscal stimulus package in order to limit potential livelihood losses and increases in poverty**, with the main measures being: (1) increased health spending; (2) waiving of VAT and duties on health and hygiene products; (3) relief to the hardest-hit sectors (i.e. tourism, transport, and agriculture); (4) expansion of the social safety net; and (5) deferred payment of personal income taxes and various license fees. Fiscal stimulus-related measures include: infrastructure works on roads, bridges, etc., to create employment opportunities; support to agriculture and fisheries, which are large employment and livelihood sectors, including seeds, fertilizer and input assistance; broadening the social safety net systems; support to youth entrepreneurs; support to the airport given the initial dramatic decline in traffic and now closure; and small business support, particularly in the arts and culture areas. The costs associated with these interventions are summarized in Table 1.

[1] The new airport, Argyle International Airport, has generated increased tourist arrivals since its completion, particularly from Canada via direct Toronto flights, and pre-COVID-19 held significant promise for increased economic growth.
[2] Poverty rates are based on headcounts rates in percent in 2008 (latest data), as measured against the nationally established poverty line. Extreme poverty rates fell more substantially: to 2.9 percent in 2008 from 25.7 percent in 1995. The next household survey and poverty assessment is to be finalized in 2020 and IDA is supporting data development in the OECS, including in SVG.

Table 1: Supplementary Fiscal Measures in Response to COVID-19

	EC$ Million	Percent of GDP
Expenditure Measures	**67**	**3.1**
COVID-19 health spending	10	0.5
Public works program	30	1.4
Support to farming and agriculture sectors	12	0.6
Expanded social safety net and worker insurance	6	0.3
Support to Tourism Authority and Airport	3	0.1
Other initiatives and costs	6	0.3
Tax Measures	**10**	**0.5**
Total Costs	**77 (US$28)**	**3.6**

Source: Ministry of Finance and Planning.

17. **SVG has registered large but moderating current account deficits, primarily financed by foreign direct investment (FDI).** The current account deficit is expected to increase to 17.5 percent in 2020 due to the dramatic decline in tourism receipts. The current account deficit had narrowed as exports of agricultural products to regional markets increased and imports of capital goods declined with the completion of the new airport. Nonetheless, SVG remains highly import dependent. The vast majority of food, fuel, and consumer and capital goods are imported and, as a small island state, it is difficult to meaningfully reduce these imports. 73 percent of goods exports are food and beverages, largely wheat flour (SVG has a mill and exports refined flour to other Caribbean islands), beer, and some tropical fruits and vegetables, including arrowroot and bananas. The balance, 25 percent of goods exports, are light-manufactured products. Tourism receipts exceed 25 percent of GDP in a typical year and make a substantial contribution to financing the trade deficit, as do net remittances, at about 3.5 percent of GDP. FDI also helps finance the current account deficit, though given the small size of the economy it can fluctuate significantly.

18. **SVG is a member of the Eastern Caribbean Currency Union (ECCU), and monetary policy and bank supervision are managed by the Eastern Caribbean Central Bank (ECCB).** The ECCB focuses on price stability as a precondition for achieving sustainable growth and high employment. This policy has been successful in maintaining a low inflation rate and stable currency to support growth and investment. The ECCB has maintained a fixed exchange rate peg of EC$2.70 to US$1.00 since July 1976. Inflation has been maintained under 3.0 percent over the past decade. The domestic banking system remains stable, with capital and liquidity ratios comfortably above regulatory requirements.

19. **The fiscal deficit had fallen in recent years, generating primary budget surpluses, though it deteriorated in 2019 and will further deteriorate in 2020, highlighting the criticality of fiscal reforms for macroeconomic sustainability**. The primary balance had remained in surplus since 2015 as a result of fiscal consolidation and revenue mobilization measures and, pre-COVID-19, was projected to remain so. The fiscal position can be volatile due to the sizeable impact of one-off fiscal measures in a very small economy. Given the impact of the COVID-19 pandemic, and an ambitious initial budget, the Government introduced Supplementary Estimates to Parliament on March 26th, 2020. The 2020 budget now presents a clear indication of the GoSVG's revenue and expenditure intentions and incorporates the impact of the pandemic. Going forward, maintaining primary surpluses is a key priority, as stated in the recently approved Fiscal Responsibility Resolution (FRR), see Text Box 1. This will be challenging given the immediate and

potentially uncertain prolonged impact of COVID-19 and public investment demands, including the new sea port project, as detailed in the following section.

20. **Continued fiscal reform is necessary to create fiscal space for the planned port investment as well as build fiscal buffers to face future shocks**. Although SVG has the highest tax revenue to GDP ratio in the ECCU, domestic revenue mobilization measures were taken in 2017 and 2018, and more may be needed. These measures included: a doubling of the airport service charge to EC$100 per departure; increasing the VAT rate by an additional 1 percentage point, from 15 to 16 percent in the general system and from 10 to 11 percent on tourist-related accommodations; imposing a US$3.00 per night tourist accommodation levy; and increasing taxes on imported vehicles. The VAT registration threshold on businesses was raised to EC$300,000 from EC$120,000 to increase the focus and oversight on large taxpayers. The license fee for non-resident landholdings was raised from 6.0 percent to 7.5 percent on properties exceeding EC$100,000. Tax revenue was 25.1 percent of GDP in 2018 and 24.9 percent in 2019, while total revenue rose slightly to 29.9 percent of GDP in 2019 from 29.1 percent in 2018. Total expenditures have remained relatively stable in recent years, at 30.0 percent of GDP in 2018 and 32.3 percent in 2019. Public-sector wages totaled 13.7 percent of GDP in 2019, or 42.3 percent of total expenditures, which together with transfers and subsidies represent 65.4 percent of total public expenditures. Total revenues in 2020 are expected to decline to 28.7 percent of GDP as tax revenues fall to 23.9 percent. Expenditures will increase in 2020 to 35 percent of GDP. Efforts are being made, as detailed in the following section, though expenditure reform is difficult given small-state issues of limited capacity, breadth of responsibilities within the civil service yet limited numbers of staff, and economies of scale issues across all government functions and services.

Text Box 1: The Fiscal Responsibility Resolution (FRR)

Parliament passed the FRR together with the 2020 budget during the first week of February 2020. The FRR originally established the following fiscal targets, targets which have been revised given the pandemic and the port investment:

a. Primary surpluses (total expenditures less interest payments) of 1 percent of GDP;
b. Growth in current expenditure not greater than growth in nominal GDP;
c. A limit on the wage bill of 15.5 percent of GDP and not more than 50 percent of current expenditures; and
d. A public debt target of 60 percent of GDP by 2030.

The primary balance and the wage bill targets have been revised due to the COVID-19 pandemic and the port investment. The revised primary balance target now adopts a phased approach to reflect larger primary deficit targets in 2020 through 2023 (average primary deficit of 1.2 percent of GDP), and larger primary surpluses of 2.7 percent of GDP in 2024 and thereafter to reflect the fiscal consolidation necessary to achieve the 60 percent of GDP target by 2030. The wage bill target notes a maximum of 13.0 percent of GDP in 2021 and no more than 12.5 percent in 2022 and thereafter (in 2020 it is estimated to be over 14 percent).

The FRR also includes oversight mechanisms to ensure compliance. These include the creation of a committee, including members from the private and public sector, to review annual budgets and budget implementation for compliance, and to review proposals by the Minister of Finance for a return to compliance in those instances where deviation is projected. Furthermore, the FRR requires the submission to Parliament of a fiscal adjustment plan by the Minister of Finance should budget performance not comply with FRR established targets.

The proposed targets as well as the mechanisms in place for oversight and compliance are largely appropriate. Given the COVID-19 pandemic, achievement of the 1 percent primary surplus target will not be possible in 2020 and the port project will make achievement difficult in 2021 and 2022 as well. Reaching a 60 percent of GDP public debt target by 2030 will require further fiscal consolidation in the range of 2 percent of GDP over the medium term.

The authorities recognize the divergence between originally projected budget outcomes and the FRR over the short term, **which were addressed in part by subsequent Supplementary Estimates**. This is clearly attributable to COVID-19 in 2020, but also an unfamiliarity with the FRR mechanism due to its newness, historical budget preparation processes, and the unique impact of the port project on public investment. Supplementary Estimates were introduced in Parliament and the budget now reflects projected budgetary outcomes more accurately. The FRR now requires the preparation of annual Medium-Term Economic and Fiscal Outlook (MTEFO) Reports. These will be approved by Cabinet and be used to guide the setting of fiscal policy objectives, budget ceilings, and strategic policies and priorities. Ministries and departments shall align budget submissions with the instructions of the Budget Circular, ensure they are timely, and reflect the policy priorities and budget ceilings as noted in the MTEFO. Furthermore, the FRR oversight process includes a review of the MTEFO and proposed annual budgets. This process is expected to better maintain proposed budgets within FRR parameters.

To note, with the new supplementary budget and Annual MTEFO, the historical gap between approved budgets, actual budgetary outcomes and FRR targets should be reduced going forward. These commitments are reflected in the Letter of Development Policy, see Annex 3.

21. **Although high, total public debt has declined to 75.2 percent of GDP in 2019 since its 2016 peak of 82.8 percent.** Public financing of the Argyle International Airport had contributed to the growth of public debt along with the financing needs arising from natural disasters, the latter estimated to have contributed 15 percent of GDP to the national debt. Debt reduction was supported partly by revenue mobilization reforms, including increased taxes and levies on tourism and travel. In addition to fiscal consolidation and continuing primary fiscal surpluses, Venezuela's forgiveness of SVG's PetroCaribe debt in 2017 and 2018 further reduced debt. External public debt was 53.4 percent of GDP at end-2019. Domestic public debt predominantly comprises bonds and treasury bills (58 percent). Current debt levels put pressure on the Government to maintain prudent fiscal discipline, while at the same time, implement growth-enhancing reforms, invest in productive and high-return infrastructure such as a new sea port and build buffers to natural disasters and other shocks. Although there are trade-offs, the authorities are taking steps to consolidate the fiscal position, limit budget deficits and maintain primary budget surpluses, including through the FRR.

Table 2. Key Economic Indicators, 2015–25

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
									Proj.		
						(annual percentage growth)					
Real sector											
Real GDP (market prices)	0.8	0.8	1.0	2.2	0.4	-5.5	4.1	3.0	2.9	2.7	2.7
Consumer price index (avg.)	-1.7	-0.2	2.2	2.3	0.9	0.9	1.6	2.0	2.0	2.0	2.0
Monetary											
Broad money (M2)	4.8	3.0	1.2	1.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Credit to private sector	2.4	1.3	1.1	0.1	-0.2	0.5	0.7	0.8	1.0	1.2	1.6
Fiscal											
Revenue	27.9	29.8	30.0	29.1	29.9	28.7	31.3	32.7	30.3	30.3	30.3
Expenditure	30.0	28.7	30.5	30.0	32.3	35.0	35.8	37.2	34.4	32.0	30.7
Overall balance	-2.1	1.1	-0.4	-0.9	-2.4	-6.2	-4.5	-4.5	-4.1	-1.7	-0.4
Primary balance	0.1	3.2	1.9	1.5	0.1	-3.7	-1.9	-1.8	-1.1	1.1	2.1
Public debt	79.4	82.8	73.5	75.6	75.2	85.8	85.4	85.4	84.7	82.1	78.4
External debt	46.4	56.4	46.9	45.7	53.0	63.0	66.4	68.7	70.4	69.8	66.1
External											
Current account balance	-14.5	-15.2	-11.6	-12.0	-10.0	-17.5	-12.1	-12.7	-10.8	-9.6	-8.3
Exports (goods and services)	37.4	37.9	37.0	38.2	40.1	26.7	35.5	40.6	43.0	43.1	44.6
Imports (goods, services)	54.5	55.7	53.3	55.1	53.5	46.7	50.1	55.1	54.7	54.3	55.3
Foreign direct investment	6.6	21.1	4.2	7.2	3.8	4.6	5.4	10.0	9.4	8.0	4.2
Terms of trade (2002=100)	121	120	119	116	117	124	121	118	117	115	115
Exchange rate (EC$/US$)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Memorandum items											
Nominal GDP (EC$ million)	2040	2081	2139	2191	2226	2131	2255	2370	2487	2607	2731

Sources: ECCB, IMF, and World Bank staff estimates.

Table 3. Balance of Payments, 2017-25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		(EC$)				proj.			
Current Account Balance	**-248**	**-263**	**-223**	**-374**	**-274**	**-301**	**-270**	**-250**	**-226**
Trade balance	-666	-714	-682	-558	-632	-783	-811	-842	-886
Exports of goods	120	128	136	130	141	147	155	160	189
Imports of goods	785	842	818	688	773	930	967	1002	1075
o/w fuels	73	120	90	50	55	61	66	71	75
Services (net)	318	343	384	131	302	440	518	549	595
tourism	503	543	586	305	486	634	722	763	819
other nonfactor services	-185	-199	-202	-174	-184	-194	-204	-214	-224
Primary income (net)	-10	-4	-39	-25	-59	-78	-102	-87	-71
Secondary income (net)	109	112	115	78	115	120	125	131	136
Private transfers	75	75	76	40	77	81	85	89	93
Official transfers	34	37	39	38	39	39	41	42	43
Capital account balance	**206**	**15**	**61**	**61**	**95**	**117**	**62**	**65**	**68**
Financial (net)	**-182**	**-95**	**-161**	**-313**	**-178**	**-184**	**-207**	**-185**	**-158**
Direct investment	-385	-92	-161	-80	-105	-128	-249	-246	-219
Portfolio investment	28	-14	0	4	6	5	0	3	4
Other investment	202	44	-15	-129	-128	-111	-69	-63	21
Commercial banks	34	-6	-12	6	-4	2	11	13	19
Change in reserves (increase -)	**-28**	**-34**	**15**	**-108**	**48**	**50**	**110**	**122**	**37**
Errors and commissions	-140	152	0	0	0	0	0	0	0
Stock of international reserves	**487**	**455**	**518**	**410**	**458**	**508**	**617**	**739**	**775**
In months of imports	4.8	4.6	6.2	4.4	4.2	4.5	5.2	5.9	5.9
			(percent of GDP)						
Current account	**-11.6**	**-12.0**	**-10.0**	**-17.5**	**-12.1**	**-12.7**	**-10.8**	**-9.6**	**-8.3**
Exports f.o.b.	5.6	5.9	6.1	6.1	6.2	6.2	6.2	6.1	6.9
Imports f.o.b.	36.7	38.4	36.8	32.3	34.3	39.2	38.9	38.4	39.4
Net private transfers	3.5	3.4	3.4	1.9	3.4	3.4	3.4	3.4	3.4
Tourism exports	26.6	27.8	29.4	15.9	24.6	29.8	32.1	32.3	33.0
Direct investment	18.0	4.2	7.2	3.8	4.6	5.4	10.0	9.4	8.0

Sources: ECCB, IMF, and World Bank staff estimates.

Table 4. Key Fiscal Indicators, 2015–25

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(Share of GDP)					Proj.					
Revenue and grants	**27.9**	**29.8**	**30.0**	**29.1**	**29.9**	**28.7**	**31.3**	**32.7**	**30.3**	**30.3**	**30.3**
Tax revenue	23.6	25.5	25.4	25.1	24.9	23.9	25.0	25.6	25.6	25.6	25.6
Tax on income and profits	6.4	7.5	7.1	6.7	6.3	6.2	6.6	6.6	6.6	6.6	6.6
Taxes on property	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Tax on international trade	7.3	7.4	10.2	10.8	10.4	9.8	10.3	10.7	10.7	10.7	10.7
of which VAT	3.3	3.4	4.0	4.2	4.2	4.0	4.3	4.3	4.3	4.3	4.3
Tax on domestic transact.	9.8	10.4	8.0	7.4	8.0	7.6	7.9	8.0	8.0	8.0	8.0
of which VAT	3.8	3.9	3.5	3.6	4.3	4.2	4.2	4.3	4.3	4.3	4.3
Non-tax revenue	1.8	3.0	2.2	2.1	2.1	2.0	2.1	2.1	2.1	2.1	2.1
Capital revenue	1.3	0.1	0.3	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Grants	1.2	1.2	0.3	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Expenditures and net lending	**30.0**	**28.7**	**30.5**	**30.0**	**32.3**	**35.0**	**35.8**	**37.2**	**34.4**	**32.0**	**30.7**
Current expenditures	25.1	24.9	26.4	26.2	27.1	29.4	28.4	27.8	27.3	26.5	25.7
Wages and salaries	12.6	13.2	13.1	13.2	13.7	14.6	14.0	13.6	13.3	12.9	12.7
Interest	2.2	2.1	2.3	2.4	2.4	2.6	2.6	2.7	3.0	2.8	2.6
Domestic	1.5	1.5	1.5	1.5	1.6	1.4	1.1	0.9	0.9	0.8	0.7
Foreign	0.9	0.9	0.9	0.9	0.9	1.2	1.5	1.8	2.0	2.0	1.8
Transfers and subsidies	6.8	6.4	7.3	7.1	7.5	8.2	8.0	7.7	7.5	7.3	7.1
Goods and services	3.6	3.3	3.7	3.5	3.5	4.0	3.8	3.7	3.6	3.5	3.4
Capital expenditure[1]	4.9	3.8	4.1	3.8	5.2	5.6	7.4	9.5	7.1	5.4	5.0
Port investment	…	…	…	…	0.4	0.6	5.4	8.1	4.3	0.6	…
Non-port investment	4.9	3.8	4.1	3.8	4.8	5.0	2.0	1.3	2.8	4.8	5.0
Net lending	-0.3	0.4	0.1	…	…	…	…	…	…	…	…
Overall Balance	**-2.1**	**1.1**	**-0.4**	**-0.9**	**-2.4**	**-6.2**	**-4.5**	**-4.5**	**-4.1**	**-1.7**	**-0.4**
Primary Balance	0.1	3.2	1.9	1.5	0.1	-3.7	-1.9	-1.8	-1.1	1.1	2.1
Gross public sector debt	**79.4**	**82.8**	**73.5**	**75.6**	**75.2**	**85.8**	**85.4**	**85.4**	**84.7**	**82.1**	**78.4**

Source: MOF, IMF, and World Bank staff estimates.
1. Capital expenditure is total capital expenditure less contingencies fund capitalization of approximately 0.5 percent of GDP.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

22. **COVID-19 has added an additional element of risk and uncertainty**. SVG, like the Caribbean region more broadly, is highly susceptible to a global slowdown and shocks to international travel. The most direct transmission channel of a COVID-19 related shock will be through the external sector, notably, through tourism, foreign direct investment and remittances, particularly if the pandemic is protracted. Indirect impacts through the fiscal accounts will also be pronounced given lower revenues from trade and tourism taxes and increased domestic spending for prevention and support to vulnerable groups.

23. **Economic growth in 2020 is forecast to contract by approximately 5.5 percent of GDP with post-COVID-19 growth stabilizing over the medium term at around 2.7 percent.** Medium-term GDP growth is driven largely by increased tourist arrivals, helped by the new airport. Air Canada was operating a twice-weekly flight to the new airport, with a reported 85 percent occupancy rate. This had increased arrivals from Canada by 30 percent and overall arrivals by 1.5 to 3.0 percent in 2018 and an estimated further 5.0

to 6.0 percent in 2019.[3] Furthermore, Caribbean Airlines began operating direct flights from New York (JFK) early in 2018, while American Airlines began operating direct flights from Miami late in 2018. The eventual re-opening of St. Vincent's largest hotel, Buccament Bay Resort, should also contribute to increased tourist arrivals and growth over the medium term, as will the construction of new hotels in the pipeline with an additional 1,000 rooms. As tourist arrivals increase, tourist-related private investment can be expected to further spur growth. Rehabilitation and construction of new port facilities planned over 2021-24 (US$185 million) should also support modest growth, as will geothermal energy developments. Price pressures are expected to remain muted over the short to medium term and to remain around 2.0 percent.

24. **The COVID-19 pandemic has created new fiscal pressures**. The pre-COVID fiscal deficit was projected at 2.0 percent with a primary surplus. This is now unlikely and an overall deficit of 6.2 percent of GDP is projected in 2020 driven by pandemic related expenses and lower than expected revenues. Current estimates are that additional COVID-19 related public expenditures will total EC$65 million and revenues losses EC$10 million (Table 1). Authorities announced a fiscal package for increased health spending, employment support and social measures (described in paragraph 16). With limited fiscal space and limited room to immediately reallocate current expenditures, contraction in the public investment portfolio accommodates to some extent the increased COVID-19 related expenditures, though the fiscal deficit will widen.

Text Box 2: Impact of COVID-19

SVG has been particularly affected by the COVID-19 pandemic. While the COVID-19 crisis is still unfolding, its impacts on the world economy to date are expected to surpass those of the 2008 global financial crisis. SVG's economy has been affected through numerous channels, though tourism remains the most important. Tourism represents slightly more than 25 percent of GDP and up to half of foreign exchange earnings. Tourism is highly responsive to changes in disposable income in tourism source countries, which for SVG are the US, Canada and the UK -- together accounting for nearly two thirds of total arrivals. In addition to lower growth in source countries, a fear of travelling, tighter border controls and travel restrictions have contributed to an essential halt in tourism arrivals. All major cruise companies have suspended operations. A nearly 50 percent decline in overall tourism arrivals is expected in 2020.

While necessary to save lives, COVID-19 containment measures are expected to have further economic and social impacts. The Government reacted quickly to the arrival of COVID-19 in announcing a range of measures to contain the spread of the virus and ensure the availability of resources for the health. These measures included: establishment of quarantine facilities; closure of schools; social distancing measures; cancellation of cultural events; closure of the airport and ferry services; among others. These measures affected almost all sectors of the economy, either through scarcity of labor, lack of demand, or disruptions in production chains.

In a baseline scenario, where the spread of the virus is controlled by mid-2020, GDP growth is expected to contract by 5.5 percent in 2020, compared to the 2.3 percent positive growth forecast prior to the pandemic. While the economy is expected to recover in 2021, should the pandemic be prolonged and the 2021 peak January through March tourist season disrupted, growth in 2021 could turn significantly negative as well. The contraction will result in job losses and reduced income for a large number of households. In response the Government has implemented stimulus measures to protect the vulnerable. These are noted elsewhere in this document and several are supported as prior actions. These actions focus on the provision of support to households directly affected by the loss of employment and livelihoods in the tourism industry, such as hotel workers, tour operators and taxi

[3] Prior to the direct Toronto-St. Vincent flight all international passengers arrived via flight connections from elsewhere in the Caribbean, such as Barbados, Trinidad or Antigua.

drivers, as well as those serving the tourism industry such as those providing agricultural and fishery products. Measures have also been implemented to broaden the social safety net to cover other vulnerable households.

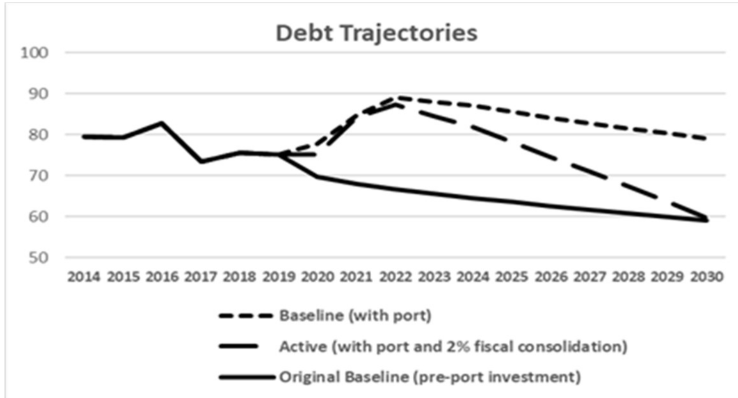
The COVID-19 crisis and necessary responses will affect macro stability, resulting in increases of the fiscal deficit and public debt. Despite fiscal consolidation efforts in recent years and the maintenance of primary fiscal balances since 2015, the crisis will add significant spending pressures. Expenditures are expected to increase by approximately EC$25 million in line with the measures noted previously. Additionally, though the government has implemented several tax reform and revenue mobilization measures over the past few years, revenues are expected to decline by approximately EC$10 million as a result of tax relief in light of the pandemic and slowing economic activity.

A deeper than expected global contraction, and a widespread domestic COVID-19 outbreak would call for additional reprioritization of public expenditure. In this context, a real GDP contraction of 8.7 percent is envisaged for 2020 and the fiscal deficit could approximate 10 percent of GDP, pushing the stock of public debt over 90 percent of GDP. This scenario would require stronger adjustment efforts in the medium term to return to a downward trajectory for public debt.

25. **In addition to COVID-19, the planned public investment pipeline, and especially the port modernization project, presents a short-term fiscal challenge but has medium-to longer-term benefits**. The port has operated 20 years beyond its design life. Consequently, structural defects have rendered some sections of the port unusable and resulted in unsafe and inefficient operations. This suboptimal operation negatively impacts border security, trade, economic efficiency, and ultimately the earning potential of the port. However, sizeable public investments, such as the port project, can temporarily negatively impact fiscal outcomes in very small economies such as SVG. At approximately 22 percent of GDP for a single public investment, the port project would represent a highly atypical public investment in most economies as a percentage of GDP. SVG's relatively recent experience with the Argyle International Airport shows how they can implement quickly and return to a fiscally sustainable position. Like the port, the new airport was a substantive public investment and resulted in fiscal deficits of 3 percent of GDP, primary deficits of 1 percent and an increase in debt levels from under 75 percent of GDP to 82.8 percent. However, subsequent to the airport investment the authorities returned to primary surplus positions and the debt incurred over the construction phase began to fall.

26. **Figure 1 below highlights three public debt trajectories:** (i) the pre-port investment debt trajectory, i.e., with no port investment; (ii) the debt trajectory including the port investment with no fiscal consolidation to create fiscal space for the port; and (iii) the debt trajectory with the port investment and a 2 percent of GDP fiscal adjustment. As illustrated, a 2 percent of GDP fiscal consolidation results in achievement of the 60% of GDP public debt target by 2030.

Figure 1: Debt Trajectories Incorporating the Port Modernization Project



Source: World Bank and IMF estimates.

27. **Envisaged fiscal consolidation to accommodate the port investment is expected to lead to primary surpluses approaching 3.0 percent of GDP over the medium term and a fall in public debt levels.** To accommodate the port investment, the non-port investment portfolio has been reprioritized and current expenditure and wage bill reductions are forecast. The GoSVG reached agreement with public sector labor unions in January 2019 on wage increases between 1.0 and 2.0 percent over the short to medium term and the wage bill is thus expected to contract. Unions have agreed not to request wage increases in 2021. Pension reform is also under consideration, as public sector pensions are generous and are not sustainable in the long term under present conditions and trajectories. While pension reform remains politically sensitive, political will exists to address pension issues and to reduce the current burden on the budget and ensure sustainability. SVG is also reforming state-owned enterprise (SOE) governance (including through measures supported by this operation), which will enhance transparency, facilitate oversight of such institutions, and reduce budgetary transfers.

28. **Potential also exists in terms of additional domestic revenue mobilization, though projections have been conservatively estimated.** Measures taken on the tax policy side (including those supported by this operation), should generate higher revenues and further support consolidation over the medium term. Revenues are expected to fall to 28.7 percent of GDP in 2020 compared to 31.5 percent pre-COVID, as the impact of the pandemic strains revenues despite the implementation of revenue enhancing measures. Revenues are conservatively expected to increase to near 32 percent of GDP in 2021 and 2022 post-COVID. Improved tax compliance following introduction of the new Tax Administration Act should further support domestic revenue mobilization. There is also room to reduce tax exemptions, both at the border and on income tax and investment-related exemptions.

29. **Fiscal reforms and financial sector strengthening are expected to enhance investor confidence**. As fiscal consolidation proceeds over the medium term in line with fiscal targets expressed in the FRR, overall debt levels post-port investment should stabilize and indeed decrease, debt service ratios should fall, and expenditures can be increasingly directed toward growth-enhancing investments rather than debt service. The fiscal position should return to primary surpluses relatively quickly with commensurate declines in debt.

30. **The current account deficit is expected to increase over the medium term and be covered largely by FDI, remittances and external financing related to the port project.** Lower tourism receipts in 2020

and perhaps 2021 will negatively affect the current account deficit (CAD). Financing for the port project will be covered by Caribbean Development Bank financing (US$110 million), grants from the United Kingdom (US$32 million) and self-financing (US$43 million). Agriculture may also benefit from efforts to increase linkages between tourism and domestic farmers, thus reducing imports. Furthermore, improved air connectivity and growth in agriculture could stimulate some increased export growth in specialized agricultural products. Reserves held by the ECCB are expected to be maintained at adequate levels.

31. **Table 5 presents gross government financing needs**. It can be noted that existing and expected financing sources will fully cover current needs. The financing sources do not include the Cat DDO element of this operation. The authorities have expressed a preference to reserve the Cat DDO as a buffer against future natural disasters, particularly given the approaching hurricane season. Nonetheless, disbursement in response to the COVID-19 pandemic remains a possibility should the situation deteriorate further or the pandemic be prolonged.

Table 5: Gross Financing Needs, 2020

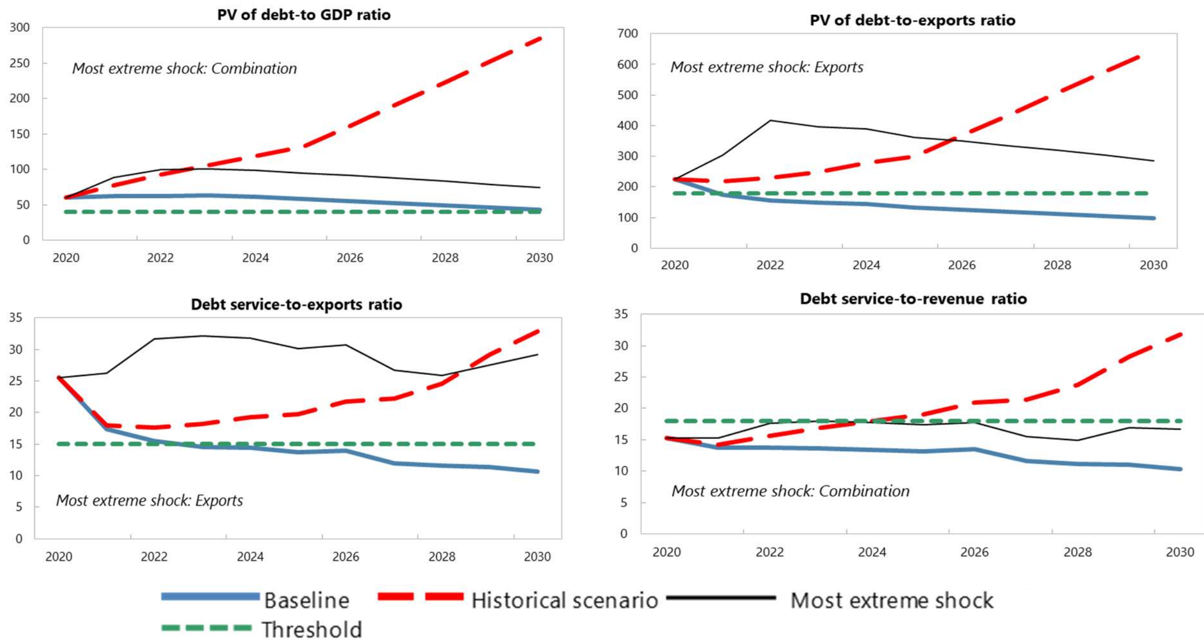
	EC$ million	US$ million	Share of GDP
Total gross financing needs	**332**	**123**	**15.6**
Overall deficit	136	50	6.4
Domestic debt amortization	78	29	3.7
Short term	11	4	0.5
Medium and long term	67	35	3.1
External debt amortization	118	44	5.5
Short term	32	12	1.5
Medium and long term	86	32	4.0
Financing	**332**	**123**	**15.6**
Roll over of T-Bills (100%)	44	16	2.0
External	233	86	10.9
Official	233	86	10.9
Existing	64	24	3.0
WB	64	24	3.0
Prospective	169	62	7.9
IMF (RCF)	43	16	2.0
WB	61	23	2.9
CDB	30	11	1.4
Others	35	13	1.7
Commercial	0	0	0
Domestic	55	20	2.6
Drawdown of deposits	10	4	0.5
Government bonds and bank borrowing	45	17	2.1

Source: Ministry of Finance and IMF.

32. **Debt continued its downward trajectory, from 82.8 percent of GDP in 2016 to approximately 75.2 percent at end-2019.** The joint Bank-Fund debt sustainability analysis (DSA), updated to include the port project (see Figure 2), finds that SVG remains at high risk of debt distress. The port investment and other public investment projects will exacerbate the debt position over the medium term. While the debt-service-to-exports ratio and the debt-service-to-revenue ratio remain within acceptable levels, the present value of external debt to GDP exceeds thresholds through 2030. In the baseline projection, nominal public debt is expected to fall to approximately 60 percent of GDP by 2030, in line with the regional goal. The DSA also indicates that public debt becomes unsustainable under the low-growth,

natural disaster and historical scenarios. Achieving debt sustainability will require sustained efforts on the fiscal front and continued fiscal consolidation efforts – efforts all the more pressing in light of the pandemic. The low-growth and natural disaster scenarios, as in the case of most small island states, underscore the inherent risks to external shocks, which could significantly alter the debt trajectory and underline the importance of building fiscal buffers and strengthening resilience, efforts supported under this operation. Furthermore, although debt/GDP rises in the short term as a result of the public investment program, the revised LIC Debt Sustainability Framework (2017) makes room for such cases. It is recognized that scaling up productive public investment, while increasing debt ratios in the short run, can generate higher growth, revenue, and exports, leading to lower debt ratios over time. The planned public investments, including the port, geothermal investment, and new hotels are expected to have a positive impact on growth.

Figure 2: Indicators of Public and Publicly Guaranteed External Debt Sustainability



Source: IMF and World Bank. Notes: External public and publicly guaranteed debt.

33. **The debt burden remains vulnerable to natural disasters and other exogenous shocks**. In line with the FRR, reforms in expenditure control and tax policy are expected to result in annual primary surpluses approaching 3.0 percent of GDP in the medium term, which will provide some buffer to natural disasters. The contingencies fund, with a balance of 1.5 percent of GDP at end-2019, and other resiliency measures should further mitigate the impact of natural disasters on expenditures and debt levels. The authorities are implementing a Medium-Term Debt Management Strategy (MTDS) that was developed in conjunction with the World Bank, the IMF and the ECCB. The key objectives of the MTDS are to manage interest rate and roll-over/refinancing risks.

34. **Furthermore, the authorities are actively managing the debt implications of the port by front-loading the grant element of the financial assistance**. Port project disbursements will be undertaken on a 50:50 grant/loan basis until the grant element (US$32.5 million) is fully disbursed and loan withdrawals will access the most concessional funds first. Furthermore, the GoSVG is actively pursuing asset sales, the

proceeds from which will be applied to debt reduction, as was done in December 2019 in the amount of EC$65 million.

35. **SVG's macroeconomic policy framework is adequate for this development policy financing operation, despite the presence of substantial risks.** This is 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 FRR. Planned public investment levels, including the port project, as well as the COVID-19 pandemic, have added increased risk to the macroeconomic framework. 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 DSA, completed in conjunction with the IMF's 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.

2.3. IMF RELATIONS

36. **In response to the pandemic, the IMF is proceeding with the provision of financial assistance to SVG under the Rapid Credit Facility (RCF) exogenous shock window in the amount of US$16 million, equivalent to 100 percent of quota**. This reflects the external financing gaps arising from the deterioration of the balance of payments position and the fiscal needs to immediately increase public health spending and support the most vulnerable. In addition to this financing, the GoSVG maintains a regular dialogue with the IMF on macroeconomic policy through Article IV consultations and technical assistance. The latest Article IV staff report was discussed at an IMF Executive Board meeting on February 15, 2019. The IMF's Caribbean Regional Technical Assistance Centre (CARTAC) provides technical assistance in several areas, including tax administration, public financial management, financial supervision, external sector statistics, and national accounts statistics. An IMF Assessment Letter is included as Annex 4.

37. **This operation has been designed in close collaboration with the IMF and is closely coordinated with the IMF's RCF financing**. Bank and Fund staff worked closely together on the design of both operations and joint discussions with the authorities around the Fund's RCF operation ensured coherence between the programs. The CDB was also involved in several discussions, as financing of the port investment supported by the CDB is integral to the macroeconomic and fiscal framework. Macroeconomic and fiscal assumptions and parameters were discussed and agreed with the authorities and this operation and the RCF share a common macro/fiscal framework.

3. GOVERNMENT PROGRAM

38. **The GoSVG's development vision and strategy is outlined in its National Economic and Social Development Plan (NESDP) 2013–25.** The Plan envisages the continued development and strengthening of national institutions and the improvement of technical and administrative capacity to deal with constraints and capitalize on opportunities. The plan advances five strategic goals and objectives. These

are: (i) re-engineering economic growth; (ii) enabling increased human and social development; (iii) promoting good governance and increasing the effectiveness of public administration; (iv) improving physical infrastructure, preserving the environment, and building resilience to climate change; and (v) building national pride, identity, and culture. Thus, this series directly addresses the Government's objectives as stated in their NESDP of: increasing the effectiveness of public administration, through the series' focus on fiscal reform and public financial management; and in building resilience to climate change.

39. **The GoSVG has also made several commitments to combating climate change.** The Sustainable Development Unit, located in the Ministry of Finance, is responsible for coordinating the implementation of the Environmental Sustainability portfolio of the GoSVG, including mainstreaming climate resilience in all sectors. SVG has also adopted an Energy Action Plan to achieve a 2025 energy efficiency target and SVG submitted its first Nationally Determined Contributions (NDCs) to the United Nations Framework on Climate Change (UNFCCC) and communicated an unconditional 22 percent reduction in emissions by 2025, compared to a business-as-usual scenario. In terms of adaptation, which is of far greater relevance in SVG, the NDC details the country's vulnerabilities and adaptation plans.

40. **SVG has a well-established legal and institutional framework for managing disaster and climate risks.** DRM has been a high priority for SVG over the last two decades, as evidenced by the country's considerable efforts to improve the overall national DRM system. Disaster preparedness and response, including responses to health emergencies, are implemented under the authority of the National Emergency and Disaster Management (NEDM) Act No. 15 of 2006, the Emergency Powers Act No. 45 of 1970, and the Natural Disaster (Relief) Act of 1947, through the National Emergency Management Organization. For COVID-19, NEMO has been working in close collaboration with the Chief Medical Officer on SVG's emergency response. On disaster mitigation, SVG is party to international and regional agreements and programs. The GoSVG has also signed onto the Antiguan Declaration of Safe Schools (2017), a regional agreement to address critical issues around DRM in the education sector. These policies also recognize the importance of gender dimensions in DRM and support the calls for the inclusion of all members of society in implementing programs. Annex 5 provides an assessment of the DRM Program.

41. **Notwithstanding the important strides achieved to date, the current legal, institutional and policy frameworks governing DRM have a strong orientation to disaster preparedness, response and recovery, and lesser emphasis on disaster risk prevention and ex-ante risk reduction and financing approach**. Establishing a robust DRM and CC system in SVG still requires additional critical policy measures and reforms, particularly around strengthening emergency preparedness at the sectoral levels. Some actions are incorporated into this proposed operation.

42. **The GoSVG is also building a comprehensive approach to financial resilience against emergencies, anchored in its broader management of fiscal risks, to become a more effective risk manager rather than an emergency borrower.** To address high severity and low frequency events, SVG was a founding member of the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF-SPC), a parametric pooled risk transfer mechanism aimed at addressing emergency costs and has maintained coverage since 2007. To address the lower layer of risk from more frequent events, the Government has established a disaster contingencies fund, included in this operation, which should allow for a faster, less disruptive fiscal response to disaster impacts. In addition,

the GoSVG can access funds under the Contingency Emergency Response Component (CERC) of the Regional Disaster Vulnerability Reduction Project (RDVRP) and the OECS Regional Health Project.

43. **The Cat DDO, which aims to address the medium layer of risk, is a key part of the country's approach to diversifying its disaster risk financing (DRF) instruments**, ensuring that SVG has greater access to rapid liquidity for emergency response and recovery and is better prepared to absorb the fiscal shock of disasters. Combining CCRIF-SPC with SVG's growing and consistently capitalized contingencies fund for disaster response and immediate liquidity from a Cat DDO can help cover this basis risk in a cost-effective manner and provide resources to carry out immediate relief activities.

44. **Preliminary analysis of PFM related to disaster expenditures showed that the existing budgetary systems need to facilitate comprehensive tracking of disaster-related expenditures.** Post disaster funds are executed on a project basis, which makes it challenging to track. Inconsistent records of post-disaster expenditure limit the Government's ability to quantify contingent liabilities associated with disasters, plan for future expenditures, and optimize financial protection strategies. To address this, the GoSVG needs to strengthen its budgetary framework to classify and report on post-disaster expenditures through the revision of its chart of accounts and establishment of a post-disaster classification code.

45. **Assessment of the health emergency response system has identified gaps that highlight the need to scale up preparedness for health emergencies.** Rapid needs assessments following the Zika outbreak, carried out by the World Bank in collaboration with the Pan-American Health Organization (PAHO), revealed the country has been challenged by outbreaks of new and emerging diseases. There is limited surge capacity to handle a large amount of cases for a pandemic as there are insufficient supplies, hospital beds, isolation units and human resource capacity. The GoSVG is taking steps to address these gaps including updating the Highly Infectious Diseases and Health Multi-hazard Plans as well as upgrading health facilities under the Smart Health Facilities[11] initiative. The Bank is supporting the GoSVG on these and other initiatives through the OECS Regional Health Project and has triggered the CERC to respond to COVID-19. More information is provided in Annex 5.

4. THE PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

46. **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, PFM, growth, climate resilience, adaptation, and comprehensive 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

47. **This operation is also complementary to the GoSVG's stated commitment under the IMF's RCF financing**. In line with the RCF financing, the GoSVG has committed to maintaining macroeconomic stability, fostering broad-based economic growth, and supporting the most vulnerable, as evidenced by the pandemic response. To ensure fiscal sustainability, this includes: an agreement with the public sector union to maintain central government wages at current levels in 2021; limiting growth of the public wage bill to 2.0 percent annually over the medium term; capping the total amount of capital spending at EC$1 billion over 2020-2025; focusing on the port project and cutting back non-port projects; enhancing taxpayer compliance by adhering to the recently enacted Tax Administration and Procedures Act; and rationalizing exemptions on import duties and VAT on imports. These targets are also broadly reflected in the FRR supported as a prior action under this operation.

48. **Climate co-benefits for the proposed operation are high as climate change adaptation considerations are explicitly integrated in all prior actions. Climate change is projected to increase the temperature and** increase the rainfall intensity and cyclone intensity with negative implications for agriculture, food security, and infrastructure in the country. The program will enhance the country's capacity to adapt to climate change.

49. **The Cat DDO allows rapid access to financing in the event of a natural catastrophe**. Funds can be disbursed after the declaration of a state of emergency described below. Drawdown conditions and renewals of the instrument are as follows:

a. **Drawdown Trigger**:

- In accordance with the NEDM Act, the Prime Minister may declare that a "disaster for the state, or a part of the state" has occurred; after which the Attorney General's Office would produce a legal instrument of declaration that specifies whether the disaster is national or local. This legal instrument will be provided to the Bank. Declarations of disasters have been issued previously in 2010 and 2013.

- In accordance with the Constitution (1979, amended 1988), the Governor General may, "by proclamation which shall be published in the Official Gazette, declare that a state of emergency exists if the Governor is satisfied that a public emergency has arisen as a result of the occurrence of any volcanic eruption, earthquake, hurricane, flood, fire, outbreak of pestilence or of infectious disease, or any other calamity similar to the foregoing."

- These declarations shall be done via a Disaster Notification Service or a formal announcement via national broadcast and evidenced in the form of a copy of the Disaster Declaration Document.

b. **Drawdown period and renewal:** The drawdown period for this operation will be three years and is renewable one time for an additional three-year period during which the funds can be disbursed. Renewal would require: (i) that the Government is implementing its policy reform program described in the Letter of Development Policy; (ii) confirmation on the adequacy of the macroeconomic framework; (iii) approval of the Regional Vice President of the World Bank; and (iv) that it takes place no earlier than one year and no later than six months before closing date of the Cat DDO.

50. **Several lessons have been drawn from broader Bank programming, including in the sub-region.** Experience has demonstrated that support for cross cutting resilience buidling in small state contexts

demonstrates positive results. Examples include Grenada, where reforms focused on fiscal resilience were combined with climate change and environmental resilience efforts, and in the Pacific where combining DRM/DDO components and fiscal reslience measures proved successful. A key lesson learned is that it is important to position the Cat DDO within a broader DRF strategy. Experience also shows that such an approach is technically appropriate due to multi-sector engagement between and among the associated policy and structural reforms and that a coordinated operation also responds to small state capacity constraints by reducing transaction costs associated with preparing and supporting multiple and parallel reform programs, especially when the prior actions are on a similar timeline. In addition, multisectoral reforms are required for institutionalizing a comprehensive approach to DRM and climate change adaptation. Furthermore, policy based lending adds value when anchored in strong technical and knoweldge support and where there is continuity of support. This operation benefits from broad engagement on PFM, fiscal, procurement, disaster risk financing, and climate change issues and the provision of related technical assistance.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

51. **The program's 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.** The inclusion of the first objective supports and recognizes government efforts to protect the vulnerable during the COVID-19 pandemic. Given SVG's vulnerability to weather-related natural disasters, a Cat DDO has been discussed since the first DPC and is included in this operation and reflected in the program objective.

Pillar 1: Responding to COVID-19 to protect the vulnerable

52. **The GoSVG's response to the COVID-19 pandemic was rapid and appropriately focused**. SVG recorded its first positive COVID-19 test result on March 11, 2020. On March 25, 2020, the Prime Minister of SVG announced a number of measures both to contain the spread of the virus and to respond to the potential economic and social impact of the pandemic. As of May 23, 2020, a total of 18 positive test results have been confirmed. The GoSVG has imposed travel restrictions, social distancing measures, established quarantine facilities, closed schools and non-essential services. While, as of now, SVG has been able to contain the pandemic, it is facing serious social and economic impacts because of country, regional and global containment actions. The Government has instituted several measures and programs to protect the vulnerable from the economic and social impact of the crisis. Those supported by this operation are as follows:

***Prior Action 1**: Approval of a supplementary income program for displaced hotel and other affected workers for up to three months and including support to taxi, water taxi and tour operators affected by the cancellation of cruise ships.*

***Prior Action 2**: Approved a support program for small businesses and cultural workers, as well as a direct support program for farmers and individuals engaged in the fishing sector.*

***Prior Action 3**: The National Insurance Service has approved a pre-payment program of pension benefits to pensioners and a Temporary Unemployment Benefit designed to provide relief to employees who have directly lost income as a result of the effects of the pandemic and the government has approved a program* *of Interim Assistance Benefits (IAB) for vulnerable citizens who are neither pensioners nor social welfare beneficiaries.*

Revisions from the first operation: *All of these prior actions and related results indicators are new, were not envisaged at the time of the first operation, and are in direct response to the onset of the COVID-19 pandemic.*

53. **Rationale**: Tourism is the sector most directly affected by the pandemic. Containment measures have, appropriately, resulted in the closure of the Argyle International Airport and the cessation of cruise ship travel. As a result, tourism has effectively ended in SVG (25 percent of GDP contribution), affecting a substantive proportion of the population directly engaged in the sector. Furthermore, industries and activities, such as agriculture, fisheries, arts, crafts, and cultural events and sites that support tourism are suffering as well. These sectors, while not solely dependent on tourism, have experienced a loss in income and earning potential and represent a further vulnerable portion of the population. Prior actions 1 and 2 focus on these vulnerable households who have directly lost income and livelihoods through the sudden stop in tourism. Prior action 3 extends benefits to vulnerable segments of the population not captured by other programs, particularly those that are not otherwise captured by the social safety net, those not benefiting from existing social assistance programs and those who have lost jobs other than in the tourism sector.

54. **Substance of prior actions**: Government support for vulnerable and affected persons is forecast to total approximately EC$75 million. Prior actions 1 and 2 address the economic impact of the pandemic on those engaged directly in the tourism industry who now find their livelihoods threatened. These measures provide direct, temporary income support – one-time payments in the case of taxi, water taxi, and tour operators and support for three months to those who have lost employment in hotels and the tourism sector. Support to those indirectly affected focus on affected households in the areas of farming, animal husbandry, fishing, and culture and the arts, such as: additional support for the Farmers' Support Company; free seeds; subsidized inputs; and the provision of fishing boats and farm animals on generous terms. Under prior action 3 the IAB is to be provided for persons not on public assistance nor in receipt of a pension and those not otherwise captured by the social safety net and will extend until December 31, 2020.

55. **Expected Outcomes**: The objective of these measures is to ensure financial relief is directed to those households and businesses most directly affected by the pandemic so that the pandemic does not result in substantive numbers of financially distressed households and businesses, and that the poverty impacts of the crisis are minimized to the extent possible given available resources. This will be measured by the number of recipients served by the supported programs.

Pillar 2: Strengthening Fiscal Resilience

56. **Strengthening fiscal resilience is key to creating the fiscal space necessary to deliver better social services, provide resources for needed infrastructure, reduce public debt, and to better accommodate recurrent shocks, especially those stemming from natural disasters.** This requires addressing PFM weaknesses in basic budget processes, including budget preparation and execution;[4] gaps in financial

[4] To reduce the gap between the budget, budget projections and actual execution, the Government will prepare annual Medium-Term Economic and Fiscal Outlook (MTEFO) Reports, which will be approved by Cabinet, and be used as the document to guide

information systems; and constraints and delays in public procurement. This operation supports critical reforms to build a fiscal framework that can generate savings to be used when natural disasters materialize and contribute to maintaining fiscal and macroeconomic stability.

Prior Action 4: *The Recipient, through its Parliament, has approved a Parliamentary Fiscal Responsibility Resolution that outlines declaratory fiscal responsibility principles, and sets targets for spending, fiscal balances and public debt level.*

Revisions from the first operation: *Minor wording adjustments to the prior action only. The result indicator on public debt as a percentage of GDP has been adjusted to reflect the impact of COVID-19 pandemic and the decision to proceed with the port modernization project. The indicator has been revised upward from 72.0 percent of GDP to 84.4 percent at end-2020.*

57. **Rationale:** The lack of alignment among policy, planning and budgeting is one of most important causes of poor budgeting outcomes in developing countries. In DPC1, the GoSVG established a formal process to prepare an annual medium-term fiscal framework (MTFF), around which budget planning would reflect Government priorities and incorporate macroeconomic projections, changing demographics, and external economic conditions. Building on the MTFF, under DPC2 the GoSVG has strengthened fiscal rules through Parliamentary approval of the FRR and the adoption of explicit policy principles, targets, and review and compliance mechanisms to ensure consistency and adherence to fiscal responsibility. Given the COVID-19 pandemic and the port project, the MTFF timeframe has been extended to five years from three in order to better reflect and plan for the budgetary impact of those events. The MTFF thus reflects and incorporates medium- to long-term fiscal consolidation measures to reflect the fiscal consolidation necessary to accommodate increased COVID-19 expenditures and revenue implications as well as the port investment.

58. **Substance of prior action:** The targets established under the FRR aimed to generate annual primary budget surpluses of at least 1.0 percent of GDP, reduce the debt to GDP ratio to 60 percent of GDP by 2030, limit public expenditure growth to no more than nominal GDP growth, and place a ceiling on the wage bill. The FRR also mandates the creation of an independent fiscal oversight council to review fiscal performance and adherence to the FRR, and to prepare public reports to Parliament on fiscal performance. The FRR also includes mechanisms for the Council and Parliament to recommend fiscal adjustments should performance deviate from established targets as well as time-bound responses and actions from the Minister of Finance and the administration to address such deviations. However, the FRR primary balance target will be unattainable in 2020 due to the impact of COVID-19 and port investment. The FRR has been revised to reflect this fact and seek more ambitious targets over the medium term to maintain debt sustainability. Fiscal projections going forward thus reflect a more substantive fiscal consolidation on the wage bill, current expenditures and the non-port public investment portfolio.

59. **Expected outcomes:** The reforms to budget planning and implementation, through the preparation of an annual MTFF and the establishment of explicit fiscal policy principles and fiscal and expenditure

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the setting of fiscal policy objectives, budget ceilings, and strategic policies and priorities of the Government. Ministries and departments shall ensure budget submissions accord with the instructions of the Budget Circular, are timely, and reflect the policy priorities and budget ceilings as noted in the MTEFO. Discussion with Government is underway on conducting a Public Expenditure and Financial Accountability (PEFA) assessment over the coming months -- to further identify PFM issues and weaknesses, including budget preparation processes, in order to strengthen PFM performance.

targets were originally expected to further strengthen fiscal performance and reduce the debt to GDP ratio from 73.5 percent in 2017 to 72.0 percent in 2020. Considering COVID-19 and resultant increased fiscal costs, this target is now unlikely to be met, hence the revised target.

Prior Action 5: *The Recipient, through its Cabinet, has adopted procurement regulations in support of, and as required by, the new Public Procurement Act.*

Revisions from the first operation: *None.*

60. **Rationale:** SVG spends significant fiscal resources on goods, civil works and services through its procurement system. Having an efficient system enables more competition, transparency, and better value for money, generating efficiencies and fiscal savings over the medium term. As public procurement in SVG was governed by outdated legislation, DPC1 supported the drafting of a new Public Procurement Act in accordance with international best practices. The application of regulations, as stipulated by the new procurement code, are supported under the current operation to ensure the timely implementation of the provisions of the new Act.

61. **Substance of prior action:** Through this second operation, the GoSVG has issued regulations to implement the new Public Procurement Act. The Bank has supported introduction of the new procurement regulations through substantive TA. The Bank is also supporting SVG in analyzing government spending, including procurement, and the preparation of related reports. The regulations include the establishment of procurement methods appropriate to the needs of the GoSVG, underpinned by requirements for transparency in the conduct of procurement proceedings. They also establish a modern organizational structure, including a Procurement Board, which will oversee operations and the creation of a new post of Chief Procurement Officer, who will drive policy formulation. There are also provisions for improving the transparency of procurement and establishing the legal basis for the use of modern techniques, including framework agreements and e-procurement.

62. **Expected outcomes:** Implementation of the new Public Procurement Act through the adoption of necessary regulations will result in several important improvements, including: greater value for money and increased public trust in the procurement system; more effective policy development and oversight of compliance; a more robust information disclosure requirements. The analysis of government spending, including procurement, is a substantive result, and the first such report will be produced in 2019 and annually thereafter. Moving from a manual procurement system to an e-procurement system will make the collection and publication of procurement information faster, easier and more comprehensive. Issues identified in such reports will be followed up on by the Audit Office and contribute to greater transparency and accountability.

Prior Action 6: *The Recipient, through its Parliament, has approved a revised Tax Administration Act aimed at increasing transparency, consistency, and increasing domestic resource mobilization by facilitating compliance.*

Revisions from the first operation: *The indicator on revenues from taxes on income and profits was revised downward from EC$165 million to EC$150 million to reflect the impact of the pandemic on revenues.*

63. **Rationale:** The tax system has been adjusted over the years on a tax-by-tax basis. This piecemeal approach has led to important gaps, inconsistencies and a lack of coherence across various tax measures.

In DPC1, the GoSVG amended the Income Tax Act to address some existing challenges, including on transfer pricing. With the support of DPC2, the GoSVG has enacted a new comprehensive Tax administration Act (TAA) (previously referred to as the Tax Administration and Procedures Act), aimed at enhancing the Inland Revenue Department's (IRD) ability to administer all tax laws and ensure the efficient collection of taxes and other fees. It also increasingly clarifies taxpayer responsibilities, protections and ensures time-bound settlement of taxpayer disputes.

64. **Substance of prior action**: The TAA reflects international best practices and facilitates effective tax administration. It is an adapted version of the regional model TAA developed by CARTAC and addresses several outstanding weaknesses. The introduction of a unique taxpayer identification number under the act will facilitate the routine identification of taxpayers and together with improved access to third party information will improve the effective monitoring of taxpayer obligations and compliance. Furthermore, the IRD will now have sufficient power to serve liens, seize assets, or collect taxes from third party debtors. Finally, taxpayers lacked clear requirements to guide compliance, including procedural safeguards (right to information), public and advanced rulings (to secure their transactions), and time limits on issues such as penalty payments and tax administration response times.

65. **Expected outcomes:** Implementation of the TAA will contribute to improved effectiveness in tax revenue management and compliance. Accordingly, revenues from taxes on income and profits were expected to increase to approximately EC$165 million by 2020, though this target is now revised due to the current situation. These anticipated improvements in the tax system are prerequisites for mobilizing additional revenue to help reduce the debt to GDP ratio and ensure fiscal sustainability.

Completed trigger from the first operation: *The Recipient, through its Cabinet of Ministers, will strengthen SOE oversight by approving a broader SOE reporting framework, including the creation of a Monitoring and Oversight Committee and the definition of its composition, mandate, roles and responsibilities.*

66. **The above trigger (Trigger 5 in the first operation) has been completed and remains an important part of the Government's program.** Commercial state-owned enterprises (SOEs) play an important role in SVG. However, there are significant governance shortcomings in SOEs that hinder the Ministry of Finance's ability to monitor their financial health, oversee performance and reduce their spending inefficiencies. This can pose significant risks to fiscal sustainability through large budget transfers, forgone tax revenue, and accumulation of arrears and debt. These shortcomings include delays in submission of SOEs' financial reports; limited statistical coverage of their operations due to weak reporting requirements, and lack of capacity or lack of effective coordination. In DPC1, the GoSVG established financial and operational performance reporting standards and requirements for SOEs, and the GoSVG has further established a strengthened SOE oversight reform program through the approval of SOE oversight regulations which were originally included as a trigger. The SOE oversight regulations include the creation of an SOE Oversight and Monitoring Committee, more stringent financial, operational and performance reporting guidelines, the preparation of annual reports, and a fiscal risk analysis function. These policy reforms are an important step to: (i) enhance overall accountability of SOEs; (ii) support the implementation of policies needed to contain fiscal risks, and (iii) contribute to the predictability and control of transfers to public entities.

Pillar 3: Enhancing Climate and Disaster Resilience

67. **Pillar 3 applies to the Cat DDO financing instrument and will be implemented through a separate Financing Agreement in-line with Cat DDO operational procedures.**

68. **SVG's marine and coastal ecosystems provide a wide array of economic goods and services.** However, this environment is vulnerable to an increasing frequency and severity of extreme weather events, which have disrupted livelihoods and economic production, destroyed physical infrastructure, and imposed high costs for reconstruction and rehabilitation. The impact of these events has been magnified by unsustainable practices. In this context, the GoSVG has embarked on policy reforms to ensure sustainable use of natural resources, to remain competitive and unlock growth in key sectors (e.g. tourism, fisheries), while enhancing adaptation and resilience to the impacts of climate change. These policies will be key to the country's economic recovery after the COVID-19 pandemic, especially in the tourism and fisheries sectors. To strengthen its climate resilience, the GoSVG has also developed a Climate Change Policy and a National Adaptation Plan, which lays out an institutional framework for an integrated and coordinated response that engages all stakeholders for climate change adaptation and mitigation and seeks to enable harmonization across sectoral policies and plans. Meanwhile, the National Adaptation Plan (NAP) provides a strategic roadmap to mainstream climate change adaptation into development planning and implementation. Both instruments outline priority areas for action to reduce vulnerability and adapt to climate change, including fisheries, coastal zones, health, tourism, water resources, and waste management – which are also essential to respond to and then recover from the COVID-19 pandemic.

69. **The GoSVG also recognizes the importance of emergency planning for sustainable development**. It has embarked on a set of reforms to establish and strengthen the legal and institutional framework by incorporating DRM and CCA into fiscal resilience, resilient construction, urban development, housing, and school infrastructure. The global COVID-19 pandemic further highlights this importance of emergency planning and disaster financing. The GoSVG has also enhanced DRF through the establishment of a contingencies fund with clear operational guidelines. It has taken significant steps towards improving the infrastructure and to strengthen its education programs to prepare for emergencies, including health emergencies, and enable them to address the dual needs of schools that serve as educational institutions and emergency shelters.

70. **Access to funding in emergencies is critical and both the Cat DDO and the Contingencies Fund are ex-ante DRF instruments that can be utilized in emergencies, from natural hazards or health crises**. The need for safe buildings is highlighted even more by COVID-19 as more people are spending time at home and indoors with social distancing measures. With hurricane season starting, there is increased vulnerability in SVG. The revised Building regulations, which better take into account climate realities, provide the regulatory framework for safer buildings. With COVID-19, the need for emergency planning in all sectors, and particularly the education sector is critical. In fact, the Ministry of Education is currently developing a plan for the reopening of schools after closure due to COVID-19, and is drawing upon the guidance in the School Safety Policy.

Prior Action 7: *The Recipient, through its Cabinet, has adopted a time-based phase out of coastal sand mining throughout the national territory.*

Revisions from the first operation: *No revisions to the prior action. The result indicator has been revised to note a 50 percent reduction in sand mining milestone for 2020 and a final target of zero coastal sand mining by 2021, the latter being a new result target.*

71. **Rationale:** Beaches and dunes provide natural defenses against storms and other services that are key for coastal protection and repeat tourism. Given the limited land mass available for mining sand domestically, beach sand has been used in construction for most of the country's public works and private buildings. Uncontrolled sand mining has devastated beaches and sand dunes, leading to significant coastal erosion, habitat loss for flora and fauna, damage to nearby housing and infrastructure, and extended salt spray onto significant acreages of formerly productive land. Considering those impacts, the GoSVG has embarked on a phase out of coastal sand mining. In DPC1, the GoSVG adopted a partial ban of coastal sand mining and established a monitoring mechanism for remaining active sites to ensure that environmental impacts remained limited. In DPC2, after assessing the economic, social and environmental effects of alternative interventions, the GoSVG has adopted a time-based plan to completely phase-out coastal sand mining, rebuilding coastal resilience.

72. **Substance of prior action:** The GoSVG banned sand mining at Brighton and Diamond beaches in May 2018. While the GoSVG acknowledged the need to completely ban coastal sand mining, given the high cost of imported sand compared to local beach sand, the political economy and economic implications of such measure required a thoughtful time-based approach to this reform. Following the analysis of cost implications, including the identification of potential sources of imported sand, the GoSVG has adopted a time-based plan to completely phase out coastal sand mining by December 2020, after which all sand will be imported or sourced from inland sources such as the Rabacca site. In addition to granting sand import licenses, the phase-out plan includes the following measures: (i) adopting pricing scheme regulations and tax incentives for importation; (ii) setting forth quality and environmental criteria for imported sand (e.g. environmental certification in place of extraction); (iii) enforcing new strategy for improved control and oversight of previous mining sites; and, (iv) issuing quarterly monitoring report on the phase-out action plan.

73. **Expected outcomes:** These reforms are expected to: (i) reduce dependence on coastal sand mining, as imported sand increasingly replaces the use of domestic sand; and, (ii) eliminate further beach erosion at the Brighton and Diamond sites and over time as these beaches should naturally restore themselves, thereby increasing the resilience of these areas to climate change impacts (hurricane winds, storm surges). The outcome was to be initially measured by a 50 percent decrease in the volume of domestically-mined coastal sand from 35,370 m^3 (2018) to 17,685 m^3 (2020). As the ban will be fully effective by December 2020, the new target is to reduce coastal sand being mined to zero (2021) and the original target of a 50 percent reduction has been retained as a milestone for 2020.

Prior Action 8: *The Recipient, through its Minister of Health, Wellness and the Environment, has phased out the importing, distribution and use of single-use plastic bags and plastic food service containers to reduce waste generation and marine pollution.*

Revisions from the first operation: *The original trigger was intended to support a complete phase out of the use of plastic bags. However, the Government's phase-out plan is in two stages: 1. the phasing out of plastic bag imports; and 2. the phasing out of plastic bag usage. Additionally, the GoSVG went beyond the scope of the original trigger and extended the phase out to plastic food service containers as well.*

74. **Rationale:** SVG's marine and coastal resources provide livelihoods for fisherfolk and key resources for nature-based tourism activities, which are significant contributors to the country's economy. However, this environment is threatened on several fronts. Evidence indicates that marine litter, globally, has contributed to the accumulation of plastic in the ocean and coastal areas, with negative impacts on fisheries, marine biodiversity and tourism. During the rainy season, discarded waste creates a breeding ground for mosquito vectors, which cause the spread of Dengue, Chikungunya and Zika viruses, endangering the population and contributing to health costs while dampening tourism. In DPC1, the GoSVG adopted the National Ocean Policy and Strategic Action Plan, which provides the country's vision for integrated ocean governance. In DPC2, the GoSVG is phasing out the importation and eventual sale and use of single-use plastic bags and plastic food service containers. Both policies will contribute to the protection of SVG's natural assets and, consequently, to maintaining the country's attractiveness to tourism – a sector that is key to economic recovery following the COVID-19 pandemic. With the ocean environment and the blue economy throughout the SVG archipelago being the main driver of tourism, protecting and enhancing this environment is also important for fiscal and economic resilience. A healthy marine and coastal environment will therefore contribute to greater natural resilience to climate and economic shocks.

75. **Substance of prior action:** The phase out plan for plastics will be in two phases. Imports of plastic bags and plastic food service containers will be banned as of March 1st, 2020 and August 1st, 2020, respectively. The distribution, sale, and use of plastic bags and plastic food service containers will be banned as of August 1st, 2020 and January 1st, 2021. The phased schedule will allow for a transition period and for the sale of existing stocks, including those currently in-transit or already contracted. With this time-based approach, SVG can respond to a potential increase in the demand for single-use packaging associated with hygiene concerns during the COVID-19 outbreak.

76. **Expected outcomes:** These measures are expected to contribute to reducing marine litter and to improving health of the marine environment and increased protection of SVG's marine and coastal environment[5]. The outcomes of these policies will be measured by a decrease from 453.4 tons of plastic bags imported into SVG to zero tons.

Prior Action 9: *The Recipient, through its Cabinet, has approved regulations for the operation of the contingencies fund.*

Revisions from the first operation: *This action was included as a trigger under Pillar 1 of DPC1. It has been included under Pillar 3 of this operation as, while it is a fiscal instrument, it also directly relates to DRF and serves as a complementary financing instrument to the Cat DDO. It has also been revised to reference approval by Cabinet rather than Parliament as these are regulations not legislation. The indicator has been revised to include the original indicator as a milestone for 2020 and a more ambitious indicator for 2022.*

77. **Rationale:** Natural catastrophes can negatively affect economic growth and development progress, particularly if resources are not available immediately and the government reallocates resources from other priorities. Over the last 20 years, SVG experienced average annual losses of US$21 million[6] from hydrometeorological events, of which the GoSVG would need to cover about 15-25 percent to address its

[5] In 2017, the GoSVG banned imports of Styrofoam containers. After phasing out single-use plastic bags, the GoSVG plans to phase out disposable plastic utensils.
[6] https://www.preventionweb.net/english/hyogo/gar/2015/en/home/data.php?iso=VCT

public sector contingent liabilities. SVG utilizes a few ex-ante risk financing instruments however, these instruments have been insufficient to address the costs to the GoSVG in the immediate aftermath of a disaster. Contingency funds and contingent financing, like a Cat DDO are two instruments that can cost effectively provide financing following a disaster. As supported under DPC1, the GoSVG established a contingencies fund to ensure funds are available when needed and reduce liquidity risk. To resource the fund, the general VAT rate was increased by one percentage point from 15 to 16 percent and the VAT rate on tourist accommodations and other tourist related activities was increased by one percent from 10 to 11 percent to directly resource the contingencies fund. In addition, Cabinet approved the Climate Resilience Levy Act which contributes to the capitalization of the Contingencies Fund by making a provision for US$3 to be collected per night per visitor staying in a hotel for up to 30 days. Under DPC2, the authorities, with Bank technical support, prepared guidelines for triggering release of the funds and for the administration and disbursement of the proceeds in order to ensure effective and efficient management of the resources of the fund.

78. **Substance of prior action:** This reform was undertaken through an amendment to the Financial Administration Act and submission of the contingencies fund guidelines to Parliament, thus enshrining the reform in legislation. The guidelines establish clear rules and criteria for access, disbursement, use, and public reporting on contingencies fund finances to ensure transparency and accountability in the use of funds. The new guidelines outline the modalities for the accumulation of resources in the fund, the management of the fund, the investment of fund balances, the mechanisms for the release of funds, and the type of expenditures that can be covered.

79. **Expected Results:** The contingencies fund will enhance fiscal resilience by providing a financing source for the bottom layer of disaster risk. It is expected to accumulate EC$10 million dollars annually, or about 0.5 percent of GDP per annum. Total deposits had reached EC$30.5 million by January 2020. Liquidity provided by the fund is expected to reduce fiscal and liquidity risks and thus also contribute to the achievement of debt targets. The results framework includes a milestone of EC$30 million in 2020 in keeping with the DPC timeline, and a target of EC$50 million, in keeping with the Cat DDO timeline. A result indicator has also been added to include the preparation of annual reports on the contingencies fund receipts and expenditures. Intervening in time with rapid liquidity can prevent adverse coping actions from the Government, households and businesses, which, in the absence of external assistance, have increasingly pronounced negative consequences, such as reduced food consumption, distressed productive asset sales, and diversion of funds from otherwise critical development projects. Well-governed contingency reserve funds are a recommended complement to other risk retention and risk transfer instruments like Cat DDOs and CCRIF-SPC.

Prior Action 10: *The Recipient, through its Minister, has adopted revised Building Regulations in the Town and Country Planning Act relating to the enforcement and application of OECS Building Codes to strengthen resilience to natural disasters.*

Revisions from the first operation: *This action was included as a trigger under Pillar 2 of DPC1. It has been revised and included under Pillar 3 of this operation as it is directly related to disaster risk preparedness and is key to limiting the impact of natural disasters.*

80. **Rationale:** Hurricanes and other extreme weather events pose a significant risk to SVG's physical infrastructure, to livelihoods and economic production, and impose high costs for reconstruction and rehabilitation. The GoSVG seeks to enhance resilience of its physical infrastructure, to: (i) reduce risks

from and improve its response to natural disasters; and (ii) reduce costs of disaster management and recovery. In response, the GoSVG has revised the Building Regulations to enforce the 2016 OECS Building Codes – a set of standards to prevent or mitigate damage caused by natural disasters, particularly earthquakes and hurricanes.

81. **Substance of prior action:** The Building Regulations in the Town and Country Planning Act provide the regulatory framework for the implementation of the OECS Building Codes, which set forth building standards to prevent or mitigate the damage caused by natural disasters, particularly hurricanes and earthquakes. The updated Codes apply to both private and public structures. They also differentiate between sizes and uses of construction in residential housing to ensure that poorer households are not priced out of the housing market because of over-stringent standards. They include detailed information, specifically tailored to the country's context, on the standards required for protecting buildings from hurricanes of categories 3 and 4. They also promote the use of energy efficient materials and technology, thereby contributing to meeting SVG's NDC target of a 15 percent reduction in national electricity consumption by 2025. A strengthened Town and Country Planning Act, incorporating the revised Building Regulations, will further improve development planning. The GoSVG is also developing a housing policy that integrates existing housing initiatives and directives and provides a strategic vision for the housing sector. It focuses on strengthening the social housing program to reduce the vulnerability faced by those in need of the program, generally the poor, elderly and disabled members of society.

82. **Expected Results:** This measure is expected to improve the climate resilience of the country's physical development. This will be measured by an increase from 0 (2017) to 100 percent (2022) of permit applications for new buildings that are approved in compliance with the updated Building Codes outlined in the Building Regulations.

Prior Action 11: *The Recipient, through its Cabinet, has approved the School Safety Policy to enhance physical, environmental and social protection levels at education facilities.*

Revisions from the first operation: *This action is new and is directly related to the Cat DDO financing instrument, which was not a fully developed pillar under DPC1. A new indicator has been included to reflect this action.*

83. **Rationale:** There are 231 educational institutions in SVG, accommodating over 13,000 students. Forty-five of these are dual-purposed – serving also as shelters during natural hazard impacts -- thus heightening the need to ensure the buildings are structurally sound, that comprehensive disaster management plans are in place for each institution, and that contingency plans exist that allow schooling to resume as soon as possible following an emergency. Due to COVID-19, schools have been closed since March 2020 and a Coronavirus Action Plan was developed to be annexed to the policy. The GoSVG conducts annual assessments of school buildings to identify critical maintenance needs, and requests that educational institutions develop disaster management plans that encompass water storage and safety, waste management and contingency measures. With COVID-19 social distancing measures in place, the GoSVG is starting the review of the facilities earlier in order to complete the annual assessments prior to the start of hurricane season. The GoSVG is also implementing two projects that facilitate physical, social, health, and environmental assessments of all schools and examine guidelines for the design, construction and maintenance of safe schools. A legal framework is now required that establishes the standards for school safety and mandates that disaster risk reduction measures are incorporated and maintained in these institutions at the physical and operational levels.

84. **Substance of prior action:** The School Safety Policy provides a governing framework for integrating disaster risk reduction measures into the plans, operations and curricula of educational institutions, thereby anchoring the ongoing activities. It aims to: (i) strengthen SVG's institutional systems for DRM in the education sector at the national and community levels; (ii) protect learners and education workers from death, injury and harm in schools in case of disaster; (iii) plan for educational continuity in the face of emergencies; (iv) safeguard education sector investments; and (v) strengthen risk reduction and resilience through education. It mandates: (i) the development and testing of schools' disaster plans; (ii) annual risk assessments of educational institutions; (iii) establishment of school safety committees responsible for disaster planning, preparedness and management; and (iv) integration of disaster risk reduction content into curricula to educate and promote awareness. This policy is critical to support the health and safety of students for all types of emergencies, including but not limited to natural hazards and health emergencies.

85. **Expected Results:** This measure is expected to result in strengthened development and standardization of schools' disaster management planning and operations, and improved construction, maintenance and safety standards for all school buildings. This will be evidenced by the number of schools that have developed disaster management plans.

Table 6. Prior Actions and Analytical Underpinnings

Prior actions	Analytical Underpinnings
Pillar 1: Responding to COVID-19 to protect the vulnerable	
Prior Action 1: Approval of a supplementary income program for displaced hotel and other affected workers for up to three months and including support to taxi, water taxi and tour operators affected by the cancellation of cruise ships.	Poverty and Distributional Impacts of COVID-19: Potential Channels of Impact and Mitigating Policies. World Bank, April 2020. COVID-19 Implications for Ongoing Operations: Implementation, Oversight and Reporting. World Bank, April 2020. Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures. Working Paper, April 2020. Evaluating the initial impact of COVID-19 containment measures on economic activity. OECD, March 2020. Making the Fight against the Coronavirus Pandemic Sustainable. IFO Institute, March 2020.
Prior Action 2: Approved a support program for small businesses and cultural workers, as well as a direct support program for farmers and individuals engaged in the fishing sector.	
Prior Action 3: The National Insurance Service has approved a pre-payment program of pension benefits to pensioners and a Temporary Unemployment Benefit designed to provide relief to employees who have directly lost income as a result of the effects of the pandemic and the government has approved a program of Interim Assistance Benefits (IAB) for vulnerable citizens who are neither pensioners nor social welfare beneficiaries.	
Pillar 2: Strengthening fiscal resilience	

Prior actions	Analytical Underpinnings
Prior Action 4: The Recipient, through its Parliament, has approved a Parliamentary Fiscal Responsibility Resolution that outlines declaratory fiscal responsibility principles, and sets targets for spending, fiscal balances and public debt levels.	Public Expenditure and Financial Accountability (PEFA) assessment (World Bank, 2012). Public Expenditure Management Handbook (World Bank, 1998).
Prior Action 5: The Recipient, through its Cabinet, has adopted procurement regulations in support of, and as required by, the new Public Procurement Act.	TA missions assisting SVG in drafting their procurement code. OECS/Jamaica Strengthening Public Expenditure Management and Digital Governance. Public Expenditure and Financial Accountability (PEFA) assessment (World Bank, 2012).
Prior Action 6: The Recipient, through its Parliament, has approved a revised Tax Administration Act aimed at increasing transparency, consistency, and increasing domestic resource mobilization by facilitating compliance.	Numerous TA missions, BTORs, reports and analyses of direct application to TAA and income tax revisions. OECS Regional Tax Model as developed by CARTAC. Tax Administration Reforms in the Caribbean: Challenges, Achievements, and Next Steps (IMF, 2017)
Pillar 3: Enhancing climate and disaster resilience	
Prior Action 7: The Recipient, through its Cabinet, has adopted a time-based phase out of coastal sand mining throughout the national territory.	Unbreakable: Building the Resilience of the Poor in the Face of Disasters (World Bank 2017). Nature-based Solutions for Disaster Risk Reduction: Coastal Resilience (World Bank 2017). Implementing Nature-based Flood Protection (World Bank 2017). Rapid Damage and Loss Assessment (DaLA): December 24-25, 2013 Floods (Government of SVG, World Bank and European Union, 2014). Small Island States Resilience Initiative -- Knowledge Notes (World Bank 2016 – various notes). Sand mining in St. Vincent: impacts and options (USAID, 2010).
Prior Action 8: The Recipient, through its Minister of Health, Wellness and the Environment, has phased out the importing, distribution and use of single-use plastic bags and plastic food service containers to reduce waste generation and marine pollution.	Diez, S.M., Patil, P.G., Morton, J., Rodriguez, D.J., Vanzella, A., Robin, D.V., Maes, T., Corbin, C. (2019). Marine Pollution in the Caribbean: Not a Minute to Waste. Washington, D.C.: World Bank Group. Patil, P., Virdin, J., Diez, S., Roberts, J., Singh, A. 2016. *Toward a Blue Economy: A Promise for Sustainable Growth in the Caribbean.* World Bank, Washington, DC.
Prior Action 9: The Recipient, through its Cabinet, has approved regulations for the operation of the contingencies fund.	TA provided to the authorities and delivery of a paper entitled “Thoughts on a Contingency Fund for St. Vincent and The Grenadines” (World Bank 2018). Managing disaster-related contingent liabilities in public finance frameworks (OECD 2017). Grenada Contingencies Fund Regulations (2019). Dominica draft FAA amendments on incorporation of a contingencies fund (2016). Cummins, Mahul. 2009. Catastrophe Risk Financing in Developing Countries. World Bank. The book makes a compelling case for public intervention to enhance catastrophe risk financing strategies and lays out steps on how to mitigate the economic and fiscal impacts of disasters. Leigh, et al. 2017. Unleashing Growth and Strengthening Resilience in the Caribbean. IMF. The analysis highlights the need for Caribbean economies to make a concerted effort to break the feedback loops between weak macroeconomic fundamentals, notably pertaining to fiscal positions, financial sector strains and structural impediments, which have depressed private investment and growth.

Prior actions	Analytical Underpinnings
	World Bank. 2018. Financial Protection against Natural Disasters: An Operational Framework for Disaster Risk Financing and Insurance. The publication concentrates on areas for strengthening public financial management of disasters and argues the importance of having national contingency reserves in place to complement risk transfer and contingent financing solutions.
Prior Action 10: The Recipient, through its Minister, has adopted revised Building Regulations in the Town and Country Planning Act relating to the enforcement and application of OECS Building Codes to strengthen resilience to natural disasters.	World Bank. 2013. Building Resilience: Integrating Disaster and Climate Resilience into Development. This paper highlights the importance of climate and disaster resilient development and contends that it is essential to eliminate extreme poverty and achieve shared prosperity by 2030. It argues for the need to integrate climate and disaster resilience into broader development processes. UN-Habitat (United Nations Human Settlements Program). 2017. Action Framework for Implementation of the New Urban Agenda, April, Nairobi (Adopted: 19 April 2017, New York). UN-Habitat. 2017. Subregional Action Plan for the implementation of the New Urban Agenda in the Caribbean. Prioritizing sub-regional challenges and opportunities. ECLAC. 2017. Regional Action Plan for the Implementation of the New Urban Agenda in Latin America and the Caribbean. UN-Habitat. 2016. Urbanization and Climate Change in Small Island Developing States. This paper discusses the challenges of urbanization in SIDS due to natural hazards and the impacts of climate and promoted the importance of building resilience. World Bank-GFDRR in collaboration with the Government of Japan. 2012. Sendai Report. This report argues that the DRM practice is a defining characteristic of resilient societies and should therefore be integrated into all aspects of development.
Prior Action 11: The Recipient, through its Cabinet, has approved the School Safety Policy to enhance physical, environmental and social protection levels at education facilities.	The Model Policy for SMART Health Facilities (PAHO 2013). World Bank and GFDRR. 2017. Roadmap for Safer Schools, Global Program for Safer Schools. Washington, DC. This report notes that site location, physical planning and quality building regulations are critical elements to be considered in regulatory criteria to reducing risk and making schools and their communities safer. UNISDR. 2013. Worldwide initiative on safer schools. This initiative promotes good practices and achievements in safer school implementation for replication globally.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

86. **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 that extended the RPS to FY2020.** The objective of the RPS is to help lay 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, 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. 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.

87. **Several ongoing and planned projects directly complement this operation.** These operations provide financial and technical assistance, as well as institutional capacity-building in mutually reinforcing areas. These include the Regional Disaster Vulnerability Reduction Project (US$68.2 million), Caribbean Regional Oceanscape Project (US$6.3 million), OECS Regional Tourism Competitiveness Project (US$5 million), OECS Regional Agricultural Competitiveness Project (US$4.3 million), OECS Regional Health Project (US$6 million), SVG Human Development Service Delivery Project (US$10.7 million), SVG Urban Transformation and Resilience for Inclusive Economic Growth TA and the Regional Caribbean Risk Information Program TA.

88. **Support from the SEMCAR Program financed by Global Affairs Canada as well other initiatives illustrate the close links between this operation and technical assistance and capacity building support provided in the region by the Bank.** The Canada Resilience TF, managed by the Bank, further supports PFM engagement, particularly DRM-related PFM capacity. The GoSVG formulated numerous requests for TA through the SEMCAR initiative and others to help implement measures supported under this operation. The Government, as noted, is mainstreaming climate resilience into national development planning and public investment. Staff from the PSIP Unit and line ministries have received training under the C-CORAL Initiative[7]. The Government requested additional TA to improve the entire public investment management cycle and the Bank helped develop an implementation roadmap to include screening processes that incorporate resilience measures for all public investment projects.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

89. **The proposed operation is in-line with the NESDP 2013¬25, which was developed following a substantive consultative process.** As such, the objectives and results sought through this operation are consistent with public opinion and expressions of citizens' priorities. Feedback from consultations have guided the priority areas for interventions included in the policies. For example, the School Safety Policy was developed based on a global template tailored for the Caribbean region through CDEMA, and incorporates feedback from UNICEF, UNDRR and other partners, and was finalized based on consultations with stakeholders and beneficiaries held on August 6, 2019 funded by the European Union's (EU's) Africa, Caribbean and Pacific-EU Natural Disaster Risk Reduction (ACP-EU NDRR) Program.

90. **The authorities have consulted a wide range of stakeholders on the measures supported by this operation.** Measures in the PFM space have been discussed with development partners involved in SEMCAR, including Global Affairs Canada, CARTAC and the IMF. CARTAC is also active in providing advice, guidance and TA in the areas of budget planning, expenditure management and tax policy. Furthermore, the private sector firms and industry associations were consulted on supported reforms and measures in the areas of procurement and tax reform. On climate reliance and DRM measures many development partners are active in this area including the CDB, CDEMA, the EU, the Inter-American Development Bank, Canada, the Department for International Development of the Government of the United Kingdom (DFID), the Global Facility for Disaster Reduction and Recovery (GFDRR) and others. The Governments of Canada and Japan, as well as the United Nations Development Programme (UNDP) also contribute to the DRM agenda and the UN Habitat contribute to the urban resilience and housing agendas. In addition, reforms

[7] C-CORAL refers to the Caribbean Community Climate Change Centre's is a system which helps decision makers to assess activities through a 'climate' or 'climate change' lens, and to identify actions that minimize climate related loss, take advantage of opportunities and build climate resilient development in their countries.

around the Building Regulations, Climate Change Policy and the National Ocean Policy in particular, involved close coordination and consultation across line ministries as responsibilities, oversight and policy functions are spread across ministries. This operation complements and builds upon past and ongoing work from these agencies also prioritizing DRM and CCA. The Government also held extensive consultations with the public and various civil society organizations on resilience and DRM measures. Lastly, relevant to this operation, financial support has been provided by GFDRR through the ACP-EU NDRR program, to provide technical assistance for this operation

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

91. **The supported policies across all four pillars are expected to have positive social and poverty impacts. Unfortunately, the lack of updated poverty data limits the quantitative accuracy of poverty impact projections.** This analysis relies on information from the 2008 household budget survey and the 2015 labor force survey, and a qualitative analysis is used to assess possible poverty and distributional impacts.[8]

92. **Supported measures under Pillar 1 are aimed at protecting and safeguarding the incomes, livelihoods and household consumption of vulnerable populations arising from the COVID 19 crisis in the short run**. Prior actions 1, 2 and 3 are expected to have a positive impact on welfare by limiting the increase of unemployment and labor income losses due to the COVID-19 shock. These measures should also support businesses and avoid firm closures, particularly small and medium sized enterprises and associated loss of employment opportunities. Supported measures are expected to improve the welfare situation and maintain the consumption levels of beneficiary households and thus limit the number of households and persons that might otherwise fall into poverty as economic opportunities contract in a pandemic environment.

93. **Prior actions under Pillar 2 (prior actions 4, 5 and 6) are expected to have a positive impact on poverty in the medium term**. A potential positive effect can be expected if revenue mobilization leads to an increase in social spending. Revenue mobilization through the revised TAA is expected to have a minimally negative effect on low-income groups, given that the tax-free personal allowance is EC$20,000. As such, the effect on the poor is insignificant as their income remains below EC$3,450 per annum.[9] Low-income individuals also tend to be self-employed or own a small business, as preliminary estimates from the labor force survey suggest that small business owners or self-employed persons on average earn 47 percent less than salaried workers and 56 percent less than large business owners. Nevertheless, the effect of improving VAT compliance on low-income individuals who are self-employed or own a small business is also marginal as the VAT registration threshold in SVG is relatively high at EC$300,000, and only registered businesses are subject to the VAT payable to the Government. Improved efficiency in revenue collection and government spending should allow the Government to raise additional resources for public spending without imposing a tax burden on low-income groups or those who are already compliant with tax rules. A positive distributional impact can thus be expected in the medium term

[8] A more detailed analysis will be carried out when new poverty data become available. The next Country Poverty Assessment is expected to be conducted in 2020 under the CDB's Enhanced Country Poverty Assessment Project.
[9] EC$3,450 corresponds to the regional poverty line for Latin America and the Caribbean at US$5.5 per day in 2011 PPP.

provided the additional revenue is used for development, poverty reduction, social spending, and public services. Furthermore, the new TAA, by better delineating IRD and taxpayers' responsibilities and rights will help ensure fairer and more consistent treatment of taxpayers.

94. **By promoting climate and disaster resilience under Pillar 3, supported reforms are expected to have a significant positive impact on the poor and most vulnerable.** More specifically, prior action 7, by restricting sand mining, reduces risks from climate change such as flooding, storm surge and wave damage not only in those localities where sand mining is currently taking place, but also in adjacent areas where the loss of beaches in the mining areas is causing sand and beach loss further afield due to coastal erosion and sand replenishment dynamics. Total job losses in coastal sand mining operations are limited to four or five people, and these BRAGSA employees will move elsewhere in that SOE, likely to the in-land Rabacca sand and gravel site.

95. **In terms of disaster management and resilience, a World Bank report estimated that the impacts of disasters are more than twice as significant for poor people than anyone else**.[10] This is because low-income communities tend to be located 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 disruptions in infrastructure services such as electricity, roads and running water. COVID-19 highlights the vulnerability of the poorer and the importance of the proposed policy actions in building their resilience.

a. In this sense, prior action 9 concerning a management and operational framework for the contingencies fund is expected to have a positive impact on poor households. To the extent that the contingencies fund effectively responds to adverse shocks and provides fiscal flexibility in smoothing government expenditures and leads to countercyclical government expenditures, the impact 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. Provided the fund supports a scale up of the social safety net by redirecting transfers toward affected households and a restoration of key public infrastructure that will shorten the transition back to the pre-disaster 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.

b. Updating the building regulations (prior action 10) are important to strengthen and render physical infrastructure more resilient in the face of recurrent natural disasters. With poor households frequently living in sub-standard housing, and more dependent on public infrastructure, the strengthening of land planning, more resilient building codes and greater enforcement of zoning and building standards should reduce the vulnerability of poor households. Although the building codes and guidelines may appear to lead to higher costs of buildings especially for low income households, the cost of upgrading a house to the minimum acceptable standard will in most cases be small compared to the costs of complete rebuilding, which is often necessary in the event of damage by a hurricane.

c. The School Safety Policy (prior action 11) will have positive social impacts. The School Safety policy will provide teachers and administrators with an overarching framework to develop school

[10] 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.

specific disaster management plans which would provide step by step actions for what to do in the event of an emergency as well as contingency plans to reduce the loss of class time should the schools be used as emergency shelters. Continued access to schools is beneficial and critical because poor and vulnerable families participate in the school feeding program which provides students with access to daily meals.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

96. **The DPC-supported policy reforms are not expected to have significant negative environmental effects**. On the contrary, policy reforms under Pillars 3 and 4 are directly linked to strengthened environmental management and climate resilience.[11] Reforms supported under Pillars 1 and 2 (prior actions 1 through 6) will have no significant negative environmental effects. These measures do not include policy reforms involving production decisions, regulatory matters, or any measures that could reasonably be expected to impact the environment and natural resources.

97. **Policy reforms supported under Pillar 3 are directly linked to strengthened environmental management, climate resilience and disaster management.** Prior actions 7 through 9 are specifically designed to increase environmental protection and resilience. Phasing out of coastal sand mining (Prior Action 7) is of paramount importance to strengthened environmental stewardship in SVG. Positive impacts will be derived through protecting coastal areas from the depletion caused by uncontrolled sand mining and its impact on other coastal areas affected by the movement of sand that results from mined areas. 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 is considered a critical reform to reduce the significant environmental damage caused by plastics pollution and the direct impact to SVG's marine environment through the effects of plastics on marine flora and fauna, as well as on coasts, beaches, reefs, and seabeds. Plastic bags and other plastics also pose serious problems in SVG through their accumulation in SVG's rivers, streams and drainage infrastructure, causing increased flooding and damages during adverse weather events.

98. **Similarly, strengthening disaster resilience directly contributes to strengthened environmental management.** Prior action 10 related to the contingencies fund will not have an immediate direct impact on the environment. However, 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. The negative repercussions of such events on the environment can become aggravated if left unaddressed. Effective contingencies fund management should ensure more timely and appropriate responses. Implementation of Building regulations, a housing policy 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, including the development of disaster risk management plans that encompass water storage and safety, waste management and contingency measures for emergencies.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

[11] The percentage of climate co-benefits over total IDA commitments will be approximately 37 percent.

99. **SVG's PFM systems have improved but there is need for a comprehensive reform action plan to further support GoSVG policy objectives.** The 2012 PEFA assessment indicated that SVG's PFM environment had shortcomings in: (i) credibility of the budget; (ii) comprehensiveness and transparency; (iii) policy-based budgeting; (iv) predictability and control in budget execution; (v) accounting, recording, and reporting; and (vi) external scrutiny and audit. A PFM Reform Action Plan was developed after the 2012 PEFA assessment, to address some of these shortcomings, but was only partially implemented, with the support of CARTAC PFM and Tax Administration Programs, the Canada-funded Supporting Economic Management in the Caribbean (SEMCAR) project, and PFM in the Caribbean Programs. A PEFA is being planned and will be undertaken early in the IDA-19 period to provide greater clarity on PFM issues, identify areas of progress and highlight areas in need of further improvement.

PFM reforms and initiatives since 2012 are ongoing and include:

- **Credibility of the budget.** Through Pillar 1, Prior Action 1 of the First Fiscal Reform and Resilience Development Policy Credit (P165220) budget visibility has been strengthened through a strengthened MTFF process, though budget credibility is weak and there remains a disconnect between the approved budget and actual outcomes. Budgeting processes should be further strengthened through Prior Action 1 of the current operation as well through ongoing TA. Institutional capacity was strengthened through public sector investment program (PSIP) workshops, focusing on the entire project preparation process. It is expected that variances between capital expenditure projections and actual execution will diminish over time as these tools and techniques are consistently practiced and with rigorous monitoring by the PSIP Unit. At present, current expenditures are routinely monitored, through a monthly Fiscal Operations summary and a quarterly report.

- **Comprehensiveness and transparency.** The GoSVG implemented a new Chart of Accounts (CoA) consistent with the IMF's Government Financial Statistics Manual 2014 which would facilitate improved budget formulation and reporting based on administrative, economic, and functional classifications. Also, through Prior Action 3, the supervision of SOEs will be strengthened. Furthermore, to improve public access to key fiscal information, the MOF has established quarterly fiscal reports and monthly, quarterly and annual procurement reports, which are published on government websites and in the local newspaper.

- **Policy-based budgeting.** The budget-policy link is improving through the continued strengthening of the process and preparation of SVG's MTFF, though further improvement is necessary. Additionally, budget preparation will be guided by new macroeconomic and fiscal forecasting techniques and information provided by using the Medium-Term Economic and Fiscal Outlook (MTEFO) paper and the NESDP (2013 to 2025). Also, all ministries now prepare program and performance budgeting (PPB) statements based on performance-oriented budgets.

- **Predictability and control in budget execution.** To increase revenue collection and improve tax compliance, IRD has initiated registration database review and enhancements and large/medium and small/micro taxpayer programs and performance measurements. Additionally, the Customs and Excise Departments are implementing a Gold Card initiative and have begun to conduct post clearance audits, through desk audits and onsite visits to private importer's premises. The GoSVG has implemented the Automated System for Customs Data (ASYCUDA) World project, which allows for verification of revenue receipts and the networking of ASCUYDA World with the port authority's system (UNITRAC). Finally, a cash management committee was established in 2017, with the TOR approved by Cabinet, and various ministries and MOF departments are being trained on forecasting techniques.

- **Accounting, recording and reporting. In January 2018, the GoSVG's integrated financial management information system (SmartStream) was upgraded to SmartStream 8.04.** Draft financial instructions were completed in 2017 and the Government's financial statements for 2015-2017 have been drafted in accordance with International Public Sector Accounting Standards (IPSAS).

100. **SVG publishes an annual budget, including the annual budget address and Estimates of Revenue and Expenditure on its website and makes them available in print form.** The MOF also provides in-year budget execution reports to Parliament. Monthly and quarterly reports on government financial operations are available to the public on the ECCB website. Year-end financial statements and audit reports are also accessible, but only after they have been submitted to Parliament.

101. **Further reforms are needed to mitigate residual PFM risks. SVG has started to modernize its PFM legislative framework, Draft Government Asset Regulations have been prepared, procurement regulations have been approved (prior action 1), and the Tax Administration Act approved by Parliament (Prior action 2).** Nonetheless, SVG's PFM system still needs further improvements to address the residual weaknesses noted in quality and efficiency of public expenditures, accounting, recording, and reporting of government expenditures, and external scrutiny and audit. External audit is mainly a compliance-oriented transaction audit with some elements of system reviews, occasionally highlighting substantive concerns. The Audit Office of the St. Vincent and the Grenadines (AOSVG) has capacity limitations and has not fully complied with its legislative mandate of performing timely annual audits of Government financial statements. Annual audits have backlogs of several years. The executive response to audit observations is weak and legislative scrutiny of audit findings is almost entirely absent, as the Public Accounts Committee does not meet regularly. The authorities have undertaken a Post Disaster - Public Financial Management assessment to identify post disaster PFM issues and weaknesses, including budget preparation processes, in order to strengthen post disaster PFM performance.

102. **The foreign exchange control environment of the ECCB, which manages the foreign exchange reserves of the ECCU, including SVG, is adequate. The IMF completed a Safeguards Assessment of the ECCB in April 2016.** In response to the assessment, a time bound action plan was agreed and has been satisfactorily implemented. The ECCB operates a currency board that maintains 100 percent foreign-exchange backing for all issued currency. The ECCB has well-established procedures to ensure the integrity of its operations. It also has a well-functioning internal audit department, and its accounts are audited by an independent external auditor. The ECCB Board of Directors has an audit sub-committee, which provides additional oversight.

103. **Disbursement and Auditing Arrangements: The proposed DPC element of US$20M will follow the World Bank's standard disbursement procedures for development policy support.** Credit proceeds for the Cat DDO of US$20M, governed through a separate financing agreement, may be withdrawn upon declaration of the 'disaster of the state', which has been elaborated in para 49 of the project document. The proceeds of the credit will be disbursed against satisfactory implementation of the program (specified prior actions achieved) and maintenance of an adequate macroeconomic policy framework. The Bank will disburse the credit proceeds, denominated in US$, into SVG's foreign-exchange account at the ECCB. The

ECCB will then ensure that, upon deposit in said account, an equivalent amount in Eastern Caribbean Dollars (EC$) will be immediately credited to SVG's account, which will become available to finance budgeted expenditures. Within 30 days of the funds transfer, the GoSVG, through the MOF, will provide the Bank with written confirmation of the amount deposited into SVG's foreign-currency account at the ECCB and that the equivalent EC$ amount has been accounted for in the country's budget management system in the account used to finance budgeted expenditures. If the proceeds of the Credit or any part thereof are used for ineligible purposes, as defined in the Financing Agreements, the Bank will require the Borrower to promptly return such amount to the Bank. The amount refunded shall be cancelled from the Credit. No specific audit of the deposit of the credit proceeds will be required. However, the Bank reserves the right to request such an audit at its discretion.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

104. **The MOF will be responsible for coordinating actions by other relevant ministries and agencies, including the Ministry of Housing, Informal Settlements, Lands & Survey and Physical Planning (responsible for prior action 10) and the Ministry of Education (responsible for prior action 11).** The results framework agreed to by the Government and the Bank is presented in Annex 1. The above-mentioned institutions are responsible for execution of various prior actions and communication of results to the MOF, who is responsible for providing written progress report to the World Bank on an agreed upon basis.

105. **Monitoring and evaluation (M&E) of the reform program will be undertaken jointly by the Government and World Bank teams.** Result indicators have been specifically selected to reflect available data sources in SVG and build on lessons learned from earlier policy-based lending operations that recommend the use of simple and manageable results frameworks using available secondary sources of data. The results framework presented in Annex 1 will be used as a monitoring tool by both the Government and the World Bank.

106. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche-release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank attention and World Bank management has been given an opportunity to respond. For information on how to submit complaints to the GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Inspection Panel please visit *http://www.inspectionpanel.org*

6. SUMMARY OF RISKS AND MITIGATION

107. **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. Bank engagement in these areas is expected to continue during the IDA19 period.

Table 1. Systematic Operations Risk-Rating Tool (SORT)

Risk Categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	Moderate
9. Other	Moderate
Overall	Substantial

108. **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. An adverse external environment could also exacerbate the external financing gap and make the process of fiscal adjustment more difficult. The substantive public investment program also raises risk in that fiscal management and the maintenance of primary surpluses and minimal budget deficits will be increasingly challenging. Being at a high risk of debt distress, and despite measures taken to limit growth in debt, the risk of significant natural disasters, increases susceptibility to macroeconomic, fiscal and debt instability. 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.

109. **Institutional capacity risk is considered substantial.** 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. Both time and resources to implement reforms is limited. As noted earlier, significant follow-up and TA support will be maintained to support reform and implementation momentum.

110. **Fiduciary risks are substantial.** The 2012 PEFA assessment indicated that SVG's PFM environment has shortcomings in policy-based budgeting, predictability and control in budget execution, accounting, recording, reporting, and external scrutiny and audit. With the support of CARTAC, SEMCAR, the Canada-funded Program, and through Pillar 1 of this operation, some of these shortcomings are being addressed and mitigated but residual weaknesses remain. Along with the Post Disaster - Public Financial Management Assessment, the Bank will engage in policy dialogue with the GoSVG to support preparation of a comprehensive PFM Reform Action Plan (PFM Action Plan). Further support on PFM and fiduciary areas would also be considered under potential programmatic policy based lending during IDA19 period.

111. **Due to inherent vulnerability to natural disasters and climate change, environmental risks are also 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, as well as disaster management and preparedness, are set within an environment of broader risk mitigation instruments, including instruments such as the Caribbean Catastrophe Risk Insurance Facility, the IMF's Rapid Financing Instrument, and other avenues of support through bilateral and multilateral channels.

ANNEX 1: POLICY AND RESULTS MATRIX

Pillar 1: Responding to COVID-19 to protect the vulnerable				
Prior Action		**Result**	**Baseline**	**Target**
Prior Action 1: Approval of a supplementary income program for displaced hotel and other affected workers for up to three months and including support to taxi, water taxi and tour operators affected by the cancellation of cruise ships.		**Result indicator:** Number of beneficiaries who received program support.	0 (January 2020)	1400
Prior Action 2: Approved a support program for small businesses and cultural workers, as well as a direct support program for farmers and individuals engaged in the fishing sector.		**Result indicator:** Number of beneficiaries who received program support.	0 (January 2020)	400
Prior Action 3: The National Insurance Service has approved a pre-payment program of pension benefits to pensioners and a Temporary Unemployment Benefit (TUB) designed to provide relief to employees who have directly lost income as a result of the effects of the pandemic and the government has approved a program of Interim Assistance Benefits (IAB) for vulnerable citizens who are neither pensioners nor social welfare beneficiaries.		**Result indicator:** Number of beneficiaries who received pre-payments, TUB benefits, and IAB support.	0 (January 2020)	3500
Pillar 2: Strengthening fiscal resilience				
Prior Actions under DPF 1	**Prior Actions Under DPC 2**	**Indicator Name**	**Baseline**	**Target**
Prior Action 1: The Recipient, through its Cabinet of Ministers, has required the annual preparation of a medium-term fiscal framework (MTFF), and related timetable for its preparation, that sets fiscal policy targets to anchor the fiscal account on a sustainable path.	**Prior Action 4:** The Recipient, through its Parliament, has approved a Parliamentary Fiscal Responsibility Resolution that outlines declaratory fiscal responsibility principles, and sets targets for spending, fiscal balances and public debt levels.	**Result Indicator:** Public debt convergence to the ECCU target of 60 percent of GDP by 2030.	73.5 percent (2017)	84.4 percent (2020)

Prior Action 2. The Recipient, through the House of Assembly, has approved a revised Public Procurement Act, which is aligned with international good practice.	**Prior Action 5:** The Recipient, through its Cabinet, has adopted procurement regulations in support of and as required by the new Public Procurement Act.	**Result Indicator:** Analysis of government-wide procurement spending published by MOF.	No analysis (2017)	Analysis completed and published (2020)
Prior Action 3: The Recipient, through its Minister of Finance, has submitted to the House of Assembly, amendments to the Income Tax Act aimed at addressing transfer pricing issues.	**Prior Action 6:** The Recipient, through its Parliament, has approved a revised Tax Administration Act aimed at increasing transparency, consistency, and increasing domestic resource mobilization by facilitating compliance.	**Result Indicator:** Revenue from taxes on income and profits.	EC$ 151 million (2017)	EC$ 150 million (2020)
Prior Action 4: The Recipient, through its Cabinet of Ministers, has issued an order mandating quarterly and annual financial reporting standards and requirements for SOEs.		**Result Indicator:** Analysis of the performance of commercial SoEs published.	0 (2017)	1 (2020)
Pillar 3: Enhancing climate and disaster resilience				
Prior Action 5: The Recipient, through its Cabinet of Ministers, has adopted a partial ban of coastal sand mining and has established a monitoring mechanism for remaining active sites, to gradually implement a sand mining ban and increase coastal resilience.	**Prior Action 7**: The Recipient, through its Cabinet of Ministers, has adopted a time-based phase out of coastal sand mining throughout the national territory.	**Result Indicator:** Volume of domestically-mined coastal sand reduced.	35,370 m^3 (2018) Milestone (2020): 17,685 m^3 (50 percent reduction)	0 m^3 (2021)
Prior Action 6: The Recipient, through its Cabinet of Ministers, has approved the National Oceans Policy and Strategic Action Plan,	**Prior Action 8:** The Recipient, through its Minister of Health, Wellness and the Environment, has phased out the importing,	**Result Indicator**: Imported single-use plastic bags reduced.	453.4 tons (2017)	0 tons (2021)

with a view to enhancing benefits from the marine environment to sustainable development, and has created the National Ocean Coordinating Committee, to strengthen its capacity for ocean governance and coastal and marine geospatial planning.	distribution and use of single-use plastic bags and plastic food service containers to reduce waste generation and marine pollution.			
Prior Action 7: The Recipient, through the Board of the St. Vincent and the Grenadines Conservation Fund (SVGCF), has (a) by amending its by-laws, strengthened SVGCF for financing and implementing environmental management, ecosystems conservation and climate resilience initiatives, including projects targeting women and girls, and (b) has signed a Partnership Agreement with the Caribbean Biodiversity Fund (CBF) to increase revenue generation for SVGCF.		**Result Indicator**: Increase in number of St. Vincent and the Grenadines Conservation Fund's sustainable revenue sources.	0 (2018)	2 (2021)

Prior Action 8: The Recipient, through its Cabinet of Ministers, has adopted the National Fisheries and Aquaculture Policy for the effective management, sustainable use and development of fisheries and aquaculture resources and related ecosystems.		**Original Result Indicator (no longer valid):** Number of private-public partnerships implementing sustainable aquaculture projects. **Revised Result Indicator:** Number of aquaculture business plans prepared:	0 (2018) 0 (2018)	1 (2020) 2 (2021)
	Prior Action 9: The Recipient, through its Cabinet, approves regulations for the operation of the contingencies fund.	**Result Indicator 1:** Level of funds in the contingencies fund.	no funds (2017) Milestone (2020): EC$ 30 million	EC$ 50 million (2022)
	Prior Action 10: The Recipient, through its Minister, has adopted revised Building Regulations in the Town and Country Planning Act relating to the enforcement and application of OECS Building Codes to strengthen resilience to natural disasters.	**Result Indicator:** Share of permit applications for new buildings approved in compliance with the updated building codes guidelines.	0 percent (2018)	100 percent (2022)
	Prior Action 11: The Recipient, through its Cabinet, has approved the School Safety Policy to enhance physical, environmental and social protection levels at education facilities.	**Result Indicator:** Number of schools used as emergency shelters that have completed comprehensive disaster management plans and submitted to the Ministry of Education	5/45 (2019)	20/45 (2022)

ANNEX 2: ENVIRONMENT AND POVERY/SOCIAL ANALYSIS TABLE

Prior actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
	Pillar 1: Responding to COVID-19 to protect the vulnerable	
Prior Action 1: Approval of a supplementary income program for displaced hotel and other affected workers for up to three months and including support to taxi, water taxi and tour operators affected by the cancellation of cruise ships.	No significant positive or negative effects.	Positive poverty effects as the measure will protect income, livelihood and household consumption level of groups most negatively affected by the COVID-19 pandemic.
Prior Action 2: Approved a support program for small businesses and cultural workers, as well as a US$6 million direct support program for farmers and individuals engaged in the fishing sector.	No significant positive or negative effects.	Positive poverty effects as the measure will protect income, livelihood and household consumption level of groups most negatively affected by the COVID-19 pandemic.
Prior Action 3: The National Insurance Service has approved a pre-payment program of pension benefits to pensioners and a Temporary Unemployment Benefit designed to provide relief to employees who have directly lost income as a result of the effects of the pandemic and the government has approved a program of Interim Assistance Benefits (IAB) for vulnerable citizens who are neither pensioners nor social welfare beneficiaries.	No significant positive or negative effects.	Positive poverty effects as the measure will protect income, livelihood and household consumption level of groups most negatively affected by the COVID-19 pandemic.
	Pillar 2: Strengthening fiscal resilience	
Prior Action 4: The Recipient, through its Parliament, has approved a Parliamentary Fiscal Responsibility Resolution that outlines declaratory fiscal responsibility principles, and sets targets for spending, fiscal balances and public debt levels.	No significant positive or negative effects.	No direct significant positive or negative effects. This prior action improves the conduct of fiscal management to promote fiscal sustainability and fiscal stabilization. No direct poverty or social effect is expected. However, improved fiscal management lays the foundation for sustainable economic growth and poverty reduction.

Prior actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Prior Action 5: The Recipient, through its Cabinet, has adopted procurement regulations in support of and as required by the new Public Procurement Act.	No significant positive or negative effects.	No direct significant negative effects on poverty, potential positive effects. Improved procurement practices and increased efficiency and effectiveness in public expenditure should have medium- to long-term positive impact on poverty reduction.
Prior Action 6: The Recipient, through its Parliament, has approved a revised Tax Administration Act aimed at increasing transparency, consistency, and increasing domestic resource mobilization by facilitating compliance.	No significant positive or negative effects.	No direct significant positive or negative effects 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.
Pillar 3: Enhancing climate and disaster resilience		
Prior Action 7: The Recipient, through its Cabinet of Ministers, has adopted a time-based phase out of coastal sand mining throughout the national territory.	Positive environmental effects are associated with this measure. Coastal sand mining poses significant environmental risks. By protecting coastal areas from the depletion, 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.	No significant negative effects, potential positive effects. While no direct poverty or social effect is expected, improved coastal resilience to climate change could have positive effects on the welfare of coastal communities and the vulnerable especially those living in low-lying coastal areas.
Prior Action 8: The Recipient, through its Minister of Health, Wellness and the environment, has phased out the importing, distribution and use of single-use plastic bags and plastic food service containers to reduce waste generation and marine pollution.	Positive environmental effects are associated with these measures. This policy will contribute to address environmental damage caused by plastics pollution and the direct impact to SVG's marine environment through the effects of plastics on marine flora and fauna, as well as on coasts, beaches, reefs, and seabeds. It will also contribute to prevent solid waste pollution, which is associated with increased flooding and vector-borne diseases.	No significant negative effects.

Prior actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Prior Action 9: The Recipient, through its Parliament approves regulations for the operation of the contingencies fund.	No significant positive or negative effects.	No direct significant positive or negative effects. This prior action improves the conduct of fiscal management to promote fiscal sustainability and fiscal stabilization. No direct poverty or social effect is expected. However, improved fiscal management lays the foundation for sustainable economic growth and poverty reduction.
Prior Action 10: The Recipient, through its Minister, has adopted revised Building Regulations in the Town and Country Planning Act relating to the enforcement and application of OECS Building Codes to strengthen resilience to natural disasters.	Positive environmental effects are associated with this measure. 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, including the development of disaster risk management plans that encompass water storage and safety, waste management and contingency measures for emergencies.	No significant negative effects, potential positive effects. Building codes differentiate between sizes of residential housing units in order to minimize cost implications on poorer households. Improved building standards, despite some marginal increases in costs, will limit ongoing damage and need for rebuilding in the aftermath of adverse weather events, thus reducing losses to households.
Prior Action 11: The Recipient, through its Cabinet, has approved the School Safety Policy to enhance physical, environmental and social protection levels at education facilities.	Positive environmental effects are associated with this measure.	Positive poverty effects as increased preparedness will reduce the impact of natural disasters on poor households.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

PAX ET JUSTITIA

Ministry of Finance, Economic Planning, Sustainable Development & Information Technology

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P.O. Box 608, Kingstown
St. Vincent & the Grenadines

Our ref. MF/ 854

May 25, 2020

LETTER OF DEVELOPMENT POLICY

David R. Malpass
President of the World Bank Group
1818 H Street, NW
Washington, DC 20433

Re: IDA US$40.O million for a Second Fiscal Reform and Resilience Development Policy Credit with a Cat DDO

Dear Mr. Malpass,

On behalf of the Government of St. Vincent and the Grenadines, I am pleased to provide you with the Letter of Development Policy concerning the IDA credit agreement supporting our efforts to lay the foundations for medium- and long-term growth by building a more resilient economy through strengthening fiscal policy and public financial management, reinforcing climate resilience and adaptation, and strengthening disaster risk management.

This letter provides a description of the macroeconomic context and outlook and describes the goals pursued and the reforms undertaken as part of this programme.

I. GOVERNMENT'S POLICY DIRECTIONS AND RECENT MACROECONOMIC DEVELOPMENTS

The Government of St. Vincent and the Grenadines seeks to continue the transformation of the Vincentian economy from one historically based on subsidized mono crop export and low-skill labour to a more diverse, modern and competitive economy that is fully engaged in international commerce.

Amid the challenges and opportunities of an uncertain global environment, government policy seeks to strengthen, diversify and grow the Vincentian economy, while increasing the Government's commitment to fiscal, social and environmental responsibility.

We seek to build on recent accomplishments, which include completion of the Argyle International Airport and the resultant additional direct flights; commitment of resources to our Contingencies Fund; finding new investors for the Buccament Bay Resort; and launching a new medicinal cannabis industry. The completion of the international airport has led to heightened interest from the local, regional and international private sector principally in the fisheries, tourism and cannabis industries. It is anticipated that FDI in these areas will remain buoyant in the medium term.

Unfortunately, our economy and citizenry have been impacted by the novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization (WHO) on March 11, 2020. Across the globe, COVID-19 has caused loss of life, stress to public health systems and worsening economies. In St. Vincent and the Grenadines, and throughout the Caribbean, impacts of COVID-19 include: (i) the reduction in tourist arrivals as people limit travel and cruise ships suspend operations; (ii) increased health expenditures in response to COVID-19; and (iii) reduction in productivity as social distancing measures are implemented, closure of some businesses due to a lack of demand, and parents care for children as schools close. This has created challenges and resulted in a reprioritization of government priorities.

Planned investments in infrastructure reflecting the Government's focus on re-engineering economic growth are being re-evaluated. The US$185 million cargo and ferry port construction project in Kingstown; the US$50 million hotel construction at Mt. Wynne; the US$IO million hotel project at Diamond; the US$34 million in secondary and feeder road construction; and the US$5 million in village footpaths are among the most pressing. These investments will cumulatively exceed the value of the construction work involved in the Argyle International Airport, will help lay the foundation for economic transformation and growth.

These public investments represent sizeable financing commitments and pose increasingly difficult fiscal and debt management challenges in a pandemic affected environment. The Government is fully committed to ensuring that these important investments are undertaken in a manner that ensures continued fiscal and macroeconomic stability as well as debt sustainability.

As with the Argyle International Airport project, these investments will be prioritized, implemented and managed in a manner consistent with the maintenance of primary fiscal surpluses over the medium term, in line with our recently stated Fiscal Responsibility Resolution.

More specifically, in order to attain these objectives the Government will focus on: priority growth-enhancing public investments; implementation of revenue mobilization measures, including implementation of the new Tax Administration Act and increased coordination between IRD and the Customs Administration, including the full sharing of data and the undertaking of joint audits; continued amortization of over 6.0% of GDP in public debt annually; pension reform; and Customs reforms to increase compliance and timeliness of payments, among other initiatives.

The Government of St. Vincent and the Grenadines recognizes that global uncertainties, the ever-present threat of climate change-related disasters, and the inherent limitations and vulnerabilities of Small Island Developing States all pose challenges. As such, our vision anticipates, and strengthens the foundations for a stronger economy, more jobs, strengthened disaster risk management and response mechanisms, and increased fiscal, social and environmental responsibility. The journey of economic transformation and growth continues to progress, in the interest of the Vincentian people.

MACROECONOMIC OUTLOOK FOR FY 2020

Saint Vincent and the Grenadines' small, open economy is directly affected by global economic trends. As such, global forecasts are not simply of academic interest. Our own growth and development prospects are inextricably bound up with those of our neighbours and the wider international economy. Trade tensions, security concerns, political uncertainty in major partner economies, and now the COVID-19 pandemic pose considerable risk heading into 2020. Nonetheless, we remain confident that growth will benefit from recent investments and policy reforms, and we anticipate stable and moderate growth going forward, once the pandemic passes, of approximately 2.5 percent or higher over the medium term.

In October 2019, the International Monetary Fund's World Economic Outlook predicted that global growth in 2019 was estimated at 3.0%, its lowest level since 2008/09. Unfortunately, growth prospects have dimmed significantly since and a global recession is now forecast. Growth prospects for developed countries most directly connected to the Vincentian economy are now significantly less positive, driven by the impact of the COVID-19 pandemic and ongoing uncertainties related thereto, with important impact on our economy.

Preliminary growth projections for 2020 for Saint Vincent and the Grenadines are now in the range of -4.5 to -5.0% in the aftermath of the pandemic. We remain confident that growth will rebound over the medium term and will benefit from our targeted public investment programme and a rebound in tourism once the pandemic has passed.

II. DIRECTION AND DYNAMIC OF REFORMS TO SUPPORT GROWTH

We consider our policy framework to be progressive. COVID-19 pandemic aside, our economy was growing, and creating new jobs. We consider the developmental roadmap elaborated by this Government to be transformative, inclusive and achievable and we are encouraged that the World Bank is supporting our efforts through the provision of a Development Policy Credit series.

To be sure, it would be a stretch to suggest, even before the pandemic, that our economy and our public finances were fully recovered, or that we do not continue to face formidable headwinds. The capacity of the economy to absorb labour is still insufficient and requires higher levels of economic growth. However, our recovery, and our reforms — planned and completed — offer cause for cautious optimism. Our reform efforts are about continuing the radical reordering and restructuring of our economy to meet modern challenges and opportunities.

To continue the transformation of our economy, we must increase productivity and we must continue to work hard and smart. Strengthening fiscal policy and public financial management is integral to these efforts and we strive to reinforce climate resilience, adaptation and disaster risk management. As part of these reforms, we seek to strengthen efforts in these areas through the implementation of supported reforms under the World Bank's development policy credit and have implemented the agreed-to policy prior actions related thereto.

III. REFORMS ENVISAGED WITHIN THE FRAMEWORK OF THIS PROGRAMME AND STRATEGIES TO BE IMPLEMENTED

This program will leverage government efforts to bolster State actions in three (3) primary areas: (i) responding to the COVID-19 pandemic to protect the vulnerable; (ii) strengthening fiscal resilience; and (iii) enhancing climate and disaster resilience. The actions in each of these areas are explained below.

Pillar 1: Responding to the COVID-19 pandemic to protect the vulnerable

Our Government has adopted policy reforms for broader economic and social response to the COVID-19 crisis, including the protection of jobs, livelihoods and household consumption, as follows:

(i) **The Recipient, through its Cabinet, has approved income support programmes to assist: (i) workers of the hospitality sector for up to three months; and (ii) taxi, water taxi and tour buses registered with the Recipient's tourism authority, and mini-bus operators affected by the cancellation of cruise ships, airplane arrivals and physical distancing guidelines;**

(ii) **The Recipient, through its Cabinet, has approved a support programme, for small businesses, youth micro-enterprises and cultural artists; and**

(iii) **The Recipient, through its Cabinet, has approved: (i) a programme to provide, through the National Insurance Service, a pre-payment equivalent to one month pension to pensioners; and a temporary unemployment benefit to qualified persons who have been laid-off or asked to work reduced hours as a result of**

COVID-19; and (ii) a programme of Interim Assistance Benefits (IAB) for vulnerable citizens who are neither pensioners nor social welfare beneficiaries.

Support for vulnerable and affected persons is forecast to total approximately EC$75 million and our actions address the economic impact of the pandemic on those engaged directly in the tourism industry who now find their livelihoods threatened and provide direct, temporary income support to those who have lost employment in hotels and the tourism sector.

Support to those indirectly affected focus on affected households in the areas of farming, animal husbandry, fishing, and culture and the arts, such as: additional support for the Farmers' Support Company; free seeds; subsidized inputs; and the provision of fishing boats and farm animals on generous terms. Furthermore, the IAB is to be provided for persons not benefiting from public assistance, those not in receipt of a pension and those not otherwise captured by the social safety net.

Pillar 2: Strengthening fiscal resilience

The Recipient, through its Parliament, has approved a Parliamentary Fiscal Responsibility Resolution that outlines declaratory fiscal responsibility principles, sets targets for spending, fiscal balances and public debt levels.

The Fiscal Responsibility Resolution outlines fiscal policy principles and sets targets for spending growth (no greater than nominal GDP growth), wage bill growth, primary fiscal balances and public debt levels (consistent with a 60% of GDP public debt level by 2030). It is important, for medium- and long-term fiscal and debt sustainability to adhere to clearly articulated and publicly announced fiscal parameters that ensure adherence to responsible fiscal policy and budget management principles. The resolution also includes remedies and corrective measures should there be deviations from stated targets.

Furthermore, our administration is committed to increasingly narrowing the gap between approved Parliamentary budgets, actual budgetary outcomes and the targets stated in the FRR. We recognize the need to strengthen budget credibility and transparency by preparing, tabling and approving budgets that are in line with projected revenues and spending outcomes and that better reflect medium-term fiscal framework projections. To accomplish this, and in line with the FRR, we will annually prepare a Medium-Term Economic and Fiscal Outlook (MTEFO) Report, which will be approved by Cabinet, and be used as the document to guide the setting of fiscal policy objectives, budget ceilings, and strategic policies and priorities of the Government.

Ministries and departments shall ensure that their budget submissions accord with the instructions of the Budget Circular, are timely, and reflect the policy priorities and budget ceilings as noted in the MTEFO. We are also open to completing a Post Disaster - Public Financial Management assessment over the coming months to further identify post disaster PFM issues and weaknesses, including budget preparation processes, in order to strengthen post disaster PFM performance.

The Recipient, through its Cabinet, has adopted procurement regulations in support of and as required by the new Public Procurement Act. Our Government has recently implemented and continues to pursue important public investment activities. We recognise the need for a modern and effective public procurement process that helps ensure value for money, and one that also enables greater competition and increased transparency. Following the adoption of necessary regulations, we can now begin to avail ourselves of the anticipated improvements resulting from its effective implementation. We are confident the new Public Procurement Act and associated regulations will now result in demonstrable fiscal savings and improved performance of public investment projects.

The Recipient, through its Parliament, has approved a revised Tax Administration Act aimed at increasing transparency, consistency, and increasing domestic resource mobilization by facilitating compliance. The revised Tax Administration Act is aimed at increasing transparency and consistency in tax administration, which should further increase domestic resource mobilization by facilitating compliance and clarifying IRD and taxpayer responsibilities and rights. The revised Act incorporates international best practices and facilitates effective tax administration and compliance.

Pillar 3: Enhancing climate and disaster resilience

The Recipient, through its Cabinet of Ministers, has adopted a time-based phase out of coastal sand mining throughout the national territory. We have adopted a time-based plan for the total ban of coastal sand mining. We recognise the economic dislocation and increased costs that this will impose on the economy, as imported sand is considerably more expensive than domestic beach sand.

However, we are also fully cognisant of the environmental implications associated with coastal sand mining and are committed to eliminating the practice over time. Following the analysis of cost implications, including the identification of potential sources of imported sand, the Government's plan will completely phase out coastal sand mining by December 2020, after which all sand will be imported or sourced from inland sources such as the Rabacca site. To this end, government has already granted import licenses to five (5) private sector operators.

The Recipient, through its Minister of Health, Wellness and the Environment, has phased out the importation, distribution and use of single-use plastic bags and plastic food service containers to reduce waste generation and marine pollution.

In-line with this action, imports of plastic bags have been banned as of March 1st, 2020 and the sale and use of plastic bags banned as of August 1st, 2020. Similarly, the importation of plastic food service containers has been banned as of August 1st, 2020 and the use and sale of plastic food containers banned as of January 1st, 2021.

The Recipient, through its Cabinet, has approved regulations for the operation of the contingencies fund. The Government recognizes the need to make our economy more resilient to the frequent shocks faced by the island, while ensuring fiscal resilience and sustainability. The creation and effective operation of a contingencies fund is seen as an additional fiscal buffer that can respond to shocks, allowing for less recourse to debt instruments and resultant increases in the public debt load. As at December 31st 2019, the fund balance stood at 1.4% percent of GDP. Establishing parameters, guidelines and criteria for access, disbursement, use and public reporting on contingencies fund finances ensures effective use and accountability of such resources.

The Recipient, through its Minister, has adopted revised Building Regulations in the Town and Country Planning Act relating to the enforcement and application of OECS Building Codes to strengthen resilience to natural disasters. The approved regulations include detailed information, specifically tailored to the country's context, on the standards required for protecting buildings in the face of category 3 and 4 hurricanes. They also promote the use of energy efficient materials and technology and contribute to meeting SVG's NDC target of a 15 percent reduction in national electricity consumption by 2025. The intention is to strengthen the country's climate resilience, particularly its physical infrastructure and housing stock.

The Recipient, through its Cabinet, has approved the School Safety Policy to enhance physical, environmental and social protection levels at education facilities. The School Safety Policy provides a governing framework for integrating disaster risk reduction measures into the plans, operations and curricula of educational institutions. It mandates the development and testing of school disaster plans, annual risk assessments of schools, the creation of school safety committees responsible for disaster planning, preparedness and management, and the integration of disaster risk reduction content into curricula to educate and promote awareness.

The Government appreciates the World Bank's involvement in carrying out this operation and reiterates its commitment to pursue the implementation of this policy framework.

Sincerely yours,

MINISTRY OF FINANCE
ST. VINCENT AND THE GRENADINES

Honourable Camillo Gonsalves

Minister of Finance, Economic Planning, Sustainable Development and Information Technology

ANNEX 4: FUND RELATIONS – ASSESSMENT LETTER

IMF Executive Board Approves a Disbursement of US$16 Million for St. Vincent and the Grenadines to Address the COVID-19 Pandemic

May 20, 2020

- The IMF Executive Board approved the request of St. Vincent and the Grenadines for emergency financing assistance of about US$16 million to help address the challenges posed by the COVID-19 pandemic.
- The pandemic has hit St. Vincent and the Grenadines hard. Tourism receipts have dried up, as tourism arrivals have come to a complete halt.
- IMF support will help cover some of these needs and allow the government to ease the impact on the population including increased spending and health and social protection.

The Executive Board of the International Monetary Fund (IMF) approved a disbursement to St. Vincent and the Grenadines following its request under the Rapid Credit Facility (RCF) mechanism, for SDR 11.7 million (US$16 million), to help cover its balance of payment and fiscal needs stemming from the outbreak of the COVID-19 pandemic. The disbursement is set at the maximum available access under the RCF instrument of 100 percent of quota. St. Vincent and the Grenadines is a small state, vulnerable to external shocks, including large natural disasters.

The pandemic has hit St. Vincent and the Grenadines hard. Tourism receipts have dried up, as tourism arrivals have come to a complete halt. The economy is now projected to contract by 5.5 percent —7.8 percentage points below pre-COVID-19 projections. A drop in fiscal revenues, combined with additional direct health and social expenditures, will increase the fiscal deficit and financing needs. IMF support will help cover some of these needs and allow the government to ease the impact on the population.

Following the Executive Board discussion of the requests, Mr. Tao Zhang, Deputy Managing Director and acting Chair, made the following statement:

“The COVID-19 pandemic poses a major challenge to St. Vincent and the Grenadines. The tourism sector, a key driver of economic growth in the country, has come to a complete halt with ripple effects across the economy. Lower tourism receipts and remittance inflows, coupled with decreased foreign direct investment, have given rise to an urgent balance of payments need. The authorities also face large fiscal needs to immediately increase public health spending and support the most vulnerable.

“The authorities have responded to the pandemic by swiftly implementing containment measures and a fiscal package, which includes an increase in funding for the health sector, various public construction projects to generate jobs, financial support to agriculture and fishery sector, and programs to support displaced workers and the most vulnerable.

"The Eastern Caribbean Central Bank (ECCB) also took measures to facilitate the provision of credit and safeguard financial stability. The ECCB and national supervisors are also working closely and keep intensified monitoring of financial sector vulnerabilities.

"The authorities are committed to meeting the regional debt target of 60 percent of GDP by 2030. Once the crisis has abated, they plan to reprioritize capital spending, contain the growth of the wage bill, enhance taxpayer compliance, and rationalize exemptions from import duties and VAT on imports.

"IMF emergency support under the Rapid Credit Facility will help fill St. Vincent and the Grenadines' balance of payments needs. Fund financing will also help catalyze additional donor support. The authorities are committed to ensuring transparency and good governance in the use of COVID-19-related spending."

ANNEX 5: SVG DISASTER RISK MANAGEMENT PROGRAM and HEALTH SYSTEMS ASSESSMENT

SVG has a well-established legal and institutional framework for managing disaster and climate risks. DRM has been a high priority for SVG over the last two decades, as evidenced by the country's considerable efforts to improve the overall national DRM system.

1. **Disaster preparedness and emergency response.** SVG has a well advanced disaster preparedness and response program with strong institutional leadership.

   a. **Authorizing legislation.** Activities, including responses to health emergencies, are implemented under the authority of the National Emergency and Disaster Management (NEDM) Act No. 15 of 2006, the Emergency Powers Act No. 45 of 1970, and the Natural Disaster (Relief) Act of 1947.

   b. **Authority.** The NEDM Act (2006) establishes the disaster planning and response framework which is executed through the National Emergency Management Organization (NEMO). For COVID-19, NEMO has been working in close collaboration with the Chief Medical Officer (CMO) on SVG's emergency response. NEMO works across sectors and communities on preparedness through activities such as conducting annual drills before hurricane season, assessing emergency shelters, ensuring that satellite warehouses are fully stocked and liaising with the Meteorological Office to issue alerts.

   c. **Sectoral gaps.** There are still gaps in disaster management at the sectoral level. For the education sector, this is being addressed through the School Safety Plan included in this Operation.

3. **Mitigation.** SVG has taken steps to mainstream DRM and CCA, which are included as core areas of the NESDP2013 – 2025 which focuses on the need to develop a comprehensive DRM program and seeks to mainstream reduction of climate and disaster risks.

   a. **International.** SVG is signatory to the United National Framework Convention of Climate Change (UNFCCC, ratified in 1994), plus the accompanying Kyoto Protocol signed in 2002; the Sendai Framework of Disaster Risk Reduction 2015 – 2030; the Paris Agreement; and the Sustainable Development Goals (SDGs).

   b. **Regional.** SVG is also party to regional legislation that enhances its disaster management through its membership in the Caribbean Community (CARICOM) and the Caribbean Disaster and Emergency Management Agency (CDEMA), which is the regional, inter-governmental agency for disaster management in the Caribbean. NEMO is also currently working with CDEMA on developing a Disaster Assessment Plan to standardize and update their post-disaster assessment methodologies. These policies also recognize the importance of gender dimensions in DRM and support the calls for the inclusion of all members of society in implementing programs.

   c. **Climate change and adaptation.** The Government has approved the Climate Change Policy and National Adaptation Plan (2019).

d. **Education sector.** The Government is addressing critical issues around DRM in the Education sector, including (a) signing onto the Antiguan Declaration of Safe Schools (2017), a regional agreement aimed at addressing critical issues around DRM and its relevance to the education sector; (b) developing a school curriculum around DRM and CCA, through the RDVRP; (c) rehabilitating school infrastructure; and (d) developing the School Safety Policy, which is part of this Operation.

e. **Infrastructure works.** The Government is implementing large scale infrastructure projects, including the RDVRP, aimed at reducing its vulnerability to natural hazards. The Building Regulations for the Building Codes, incorporated in this operation, aim to ensure that the built environment are better able to with disasters.

4. **Financing.** The Government is building a comprehensive approach towards financial resilience, anchored in its broader management of fiscal risks, to strengthen timeliness and cost-effectiveness of post-disaster response**.**

a. **CCRIF.** Caribbean Catastrophe Risk Insurance Facility (CCRIF). SVG was one of the founding members of the CCRIF-SPC and has maintained coverage since 2007.

b. **CERC.** The Government has access to funds under the Contingency Emergency Response Components (CERC) in its Bank projects, which can be and have been mobilized for emergencies.

c. **Gaps.** These instruments have been insufficient to address the costs to the Government in the immediate aftermath of a disaster.

d. **Risk layering.** This Cat DDO, which aims to address the medium and high layers of risk, is a key part of the country's approach to diversifying its DRF instruments. The contingency fund, incorporated in the Operation, would support the low layers of risk for the more frequent less severe events.

SVG Health Sector

5. **Overview.** Below are summary facts on the health system:

a. **Core to development planning.** Health, a core area of the NESDP: 2013 – 2025, is addressed within two national goals in the National Economic and Social Development Plan 2013-2025: Goal 2 - Enabling Increased Human and Social Development and Goal 4 - Improving Physical Infrastructure, Preserving the Environment and Building Resilience to Climate Change.

b. **Authority.** The Ministry of Health, Wellness and the Environment (MoHWE) is directly responsible for implementing all official national health policies. The MoHWE operates under the guidance of a Minister as the political directorate, while the administrative leader is the Permanent Secretary and the Chief Medical Officer is the technical head. The MoHWE offers primary care services at a total of 39 public health clinics, one polyclinic and five rural district hospitals. Secondary care services can be accessed at one public facility.

c. **International.** As a World Health Organization (WHO) member state, SVG is a signatory to the International Health Regulations (2005) which is a legally binding instrument “to prevent, protect against, control and provide a public health response to the international spread of disease in ways that are commensurate with and restricted to public health risks, and which avoid unnecessary interference with international traffic and trade."

6. **Health Emergency Preparedness**. Assessment of the health emergency response system has identified gaps that highlight the need to scale up of outbreak preparedness and response at both the national and regional levels will be necessary going forward.

a. **System inadequate.** Rapid needs assessments following the Zika outbreak, carried out by the World Bank in collaboration with the Pan-American Health Organization (PAHO), revealed the country has been challenged by new and emerging diseases in the form of outbreaks such as chikungunya and zika.

b. **Lack of testing capacity.** Limited in-country capacity for services such as laboratory testing have challenged response efforts.

c. **Limited surge capacity.** In the short term there is limited surge capacity to handle a large amount of cases for a pandemic as there are insufficient supplies, hospital beds, isolation units and human resource capacity.

7. **Government program.** To address these gaps the Government is taking steps to improve the health sector, including: (a) building a new referral hospital, the design of which is being funded by the RDVRP; (b) updating the Highly Infectious Diseases Plan and the National Health Multihazard Plan; and (c) upgrading select health facilities under the Smart Health Facilities initiative which aims to ensure that health facilities are environmentally friendly and resilient to disasters (mainly extreme weather events).

8. **World Bank support.** The Bank is supporting the Government through the OECS Regional Health Project that focuses on improving preparedness capacities of health systems for public health emergencies and includes support for relevant policy reforms at the national and regional levels. The CERC under this project has been triggered to support the Government with their COVID-19 response.