INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A PROPOSED CREDIT

IN THE AMOUNT OF US$30 MILLION

TO

ST. VINCENT AND THE GRENADINES

FOR THE

FIRST FISCAL REFORM AND RESILIENCE DEVELOPMENT POLICY CREDIT

May 2, 2019

Macroeconomics, Trade and Investment Global Practice
Latin America and Caribbean Region

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ST. VINCENT AND THE GRENADINES — GOVERNMENT FISCAL YEAR
Calendar Year: January 1—December 31

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

ABBREVIATIONS AND ACRONYMS

BRAGSA  Building, Roads and General Services Authority
CARICOM  Caribbean Community
CARTAC  Caribbean Regional Technical Assistance Centre
DPC  Development Policy Credit
DSA  Debt Sustainability Analysis
ECCB  Eastern Caribbean Central Bank
ECCU  Eastern Caribbean Currency Union
FAP  Fisheries and Aquaculture Policy
FDI  Foreign Direct Investment
GDP  Gross Domestic Product
GoSVG  Government of Saint Vincent and the Grenadines
IBRD  International Bank for Reconstruction and Development
IDA  International Development Association
IMF  International Monetary Fund
MOF  Ministry of Finance
NDC  Nationally Determined Contributions
NOPSAP  National Ocean Policy and Strategic Action Plan
NOCC  National Ocean Coordinating Committee
OECS  Organisation of Eastern Caribbean States
PFM  Public Financial Management
PLR  Program Learning Review
PPP  Public-Private Partnership
PSIP  Public Sector Investment Plan
RPS  Regional Partnership Strategy
SEMCAR  Supporting Economic Management in the Caribbean
SVG  St. Vincent and the Grenadines
TAPA  Tax Administration and Procedures Act
TCPA  Town and Country Planning Act
VAT  Value-Added Tax

Vice President: Axel van Trotsenburg
Country Director: Tahseen Sayed Khan
Global Director: Marcello De Moura Estevao Filho
Practice Managers: Jorge Araujo / Valerie Hickey
Task Team Leaders: Cal MacWilliam / Ana Luisa Gomes Lima
ST. VINCENT AND THE GRENADINES
FIRST FISCAL REFORM AND RESILIENCE DEVELOPMENT POLICY CREDIT

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This First Fiscal Reform and Resilience Development Policy Credit was prepared by an IDA team led by Cal MacWilliam (Task Team Leader), Ana Luisa Gomes Lima (co-Task Team Leader) and Philip Schuler (previous co-Task Team Leader) that included Julian Lee, Anna Gueorguieva, Rachel Elizabeth Allen, Ruxandra Burdescu, Shaun Moss, Keren Charles, Tiguist Fisseha, Tanida Arayavechkit, Tatiana Cristina de Abreu, Bernard Drum, David I, Catarina Isabel Portelo, Alexandra Lelouch Loebl, and Jose Janeiro. Miriam Beatriz Villarroel provided production assistance. Peer reviewers were Errol Graham, Abigail Baca and Giovanni Ruta. The team is grateful for the guidance and supervision of Tahseen Sayed (Country Director); Jorge Araujo, Pablo Saavedra, Stefano Curto and Valerie Hickey (Practice Managers); and Abha Prasad and Vickram Cuttaree (Program Leaders). The team also expresses its gratitude to the Government of St. Vincent and the Grenadines for its collaboration in the preparation of this operation.
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<td>FIRST FISCAL REFORM AND RESILIENCE CREDIT</td>
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<td><strong>Borrower</strong></td>
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<td>St. Vincent and the Grenadines</td>
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<td>Ministry of Finance</td>
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<td><strong>Financing Data</strong></td>
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<td><strong>Operation Type</strong></td>
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<tr>
<td>This Development Policy Credit is the first in a programmatic series of two operations, with the second operation potentially being a DPC with Cat DDO.</td>
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<td><strong>Pillars of the Operation and Program Development Objectives</strong></td>
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<td>The program development objective is to support the Government of St. Vincent and the Grenadines in building a more resilient economy through: (i) strengthening fiscal policy and public financial management; and (ii) strengthening climate resilience and adaptation.</td>
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<td><strong>Result Indicators</strong></td>
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<tr>
<td><strong>Public debt convergence to the ECCU target of 60 percent of GDP by 2030:</strong></td>
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<td>Baseline (2017): 76.4 percent; Target (2020): 72.0 percent</td>
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<td><strong>Level of funds in the contingency fund:</strong></td>
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<td>Baseline (2017): 0; Target: (2020): EC$ 30 million</td>
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<td><strong>Analysis of government-wide procurement spending published by MOF:</strong></td>
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<td><strong>Revenue from taxes on income and profits:</strong></td>
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<td>Baseline (2017): EC$ 151 million; Target (2020): EC$ 165 million</td>
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<td><strong>Analysis of the performance of commercial SOEs published:</strong></td>
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<td>Baseline (2018): No analysis; Target (2020): Analysis completed</td>
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<td><strong>Share of permit applications for new buildings approved in compliance with the updated building codes guidelines:</strong></td>
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<td>Baseline (2018): 0 percent; Target (2020): 100 percent</td>
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<td><strong>Volume of domestically-mined coastal sand reduced by 50 percent:</strong></td>
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<td>Baseline (2018): 35,370 m³; Target (2020): 17,685 m³</td>
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<td><strong>Imported single-use plastic bags reduced by 2/3:</strong></td>
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<tr>
<td>Baseline (2017): 453.4 tons of plastic sacks and bags (including cones); Target (2020): 151 tons</td>
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<td><strong>Priority Pollution Watch Sites (PPWS) regularly monitored and monitoring results publicly disclosed.</strong></td>
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<td><strong>Number of St. Vincent and the Grenadines Conservation Fund’s sustainable revenue sources:</strong></td>
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<td>Baseline (2018): 0; Target (2020): 2</td>
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<td><strong>Number of private-public partnerships implementing sustainable aquaculture projects:</strong></td>
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<td>Baseline (2018): 0; Target (2020): 1</td>
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<td>Overall risk rating</td>
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<tr>
<td>Climate and disaster risks:</td>
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1. INTRODUCTION AND COUNTRY CONTEXT

1. The proposed First Fiscal Reform and Resilience Development Policy Credit (DPC), in the amount of $30 million, is the first development policy financing operation extended to the Government of St. Vincent and the Grenadines (GoSVG). This operation is the first in a series of two that aims to support Saint Vincent and the Grenadines’ (SVG) comprehensive approach to support blue growth and enhance resilience. SVG is a small, open economy that, like many small States, suffers from high debt, low growth and vulnerability to natural disasters. Together these present a situation of limited fiscal space and an inability to effectively respond to natural disasters and external shocks. Frequent and more intense natural disasters have resulted in fiscal pressures leading to rising debt levels, a loss of productive infrastructure, and increased physical, personal, asset and resource vulnerability. The IMF has estimated average annual losses at 1.5 percent of GDP over the period 1980-2017. The UN Office for Disaster Risk Reduction has identified a probable 20-year loss event for SVG at US$83 million, or approximately 10 percent of GDP. Given this high level of exposure and the significant risks to fiscal/macro outcomes arising from climate and environmental vulnerability, strengthening resilience on both the fiscal and climate/environmental fronts concurrently is key.

2. In response, this DPC series is designed to support the GoSVG in strengthening fiscal policy, public financial management and strengthening climate resilience and adaptation. The series supports measures to increase fiscal space, create fiscal buffers and generate growth through focusing on key sectors for promoting a blue economy and, consequently, by supporting and facilitating fiscal resilience, physical resilience and climate adaptation. A two-operation programmatic approach has also been adopted to support the sustained reform effort and to reinforce effective implementation of key reforms. A programmatic approach allows for the development of, and support for, a sequenced, coherent reform program, which is necessary given the nature of the supported reforms. It also facilitates the Bank’s technical support to the Government’s efforts to design and implement policy reforms.

3. Pursuing a blue growth agenda in a small, tourism-based economy highly dependent on its natural environment is a function of building on its natural assets, reinforcing climate resilience, strengthening fiscal buffers and ensuring macroeconomic stability. Each of these areas reinforce and complement each other and are necessary to ensure a comprehensive approach that is both technically sound from an environmental and climate resilience perspective, as well as being affordable and sustainable given available resources. Moreover, the integration of climate resilience and adaptation reforms with fiscal reform and fiscal resilience dialogue in SVG will further the Government’s effort to mainstream climate resilience into its broader development agenda, focusing on key sectors for developing a blue economy – such as nature-based tourism and fisheries. Hence the focus in this series on two pillars necessary for building resilience: fiscal reform and public financial management as well as climate resilience and adaptation.

4. The proposed series would provide a combination of upfront financing and disaster-contingent financing. The second DPC operation in the series will potentially combine with a Catastrophe Deferred

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Drawdown Option (Cat DDO). The potential inclusion of a Cat DDO as part of the second operation is being considered as a mechanism to specifically support the Government’s efforts to increase resilience to natural disasters by supporting policy reforms through a DPC as well as by providing quick-disbursing financing in the immediate aftermath of a natural disaster. This is particularly appropriate for small island developing States, given the importance of policy reforms to address vulnerability to natural disasters and climate change. An important need in such a context is availability of a fast-disbursing disaster risk financing option that can provide a response following a natural disaster. There is more efficiency involved in combining these financing mechanisms through one set of prior actions and one set of reporting requirements.

5. **In this context, and given the challenge presented by low growth and high debt, SVG is implementing a set of policies to improve macroeconomic dynamics.** Growth picked up in 2018 (2.0 percent, compared with 0.7% in 2017) as stayover arrivals increased marginally following completion of the airport and the scheduling of new direct international flights. In an environment of relatively low growth, unemployment has remained persistently high. However, economic growth is expected to accelerate moderately over the medium-term on the back of improving tourism infrastructure. SVG has registered large but moderating current account deficits, with a large portion of them being financed by foreign direct investment (FDI). SVG is a member of the Eastern Caribbean Currency Union (ECCU), supporting low and well anchored inflation, which is expected to remain around 2 percent. Although the fiscal deficit is anticipated to reduce going forward (a slight rise only for 2018), fiscal reforms remain critical for debt sustainability. Since 2017, debt has returned to a declining trajectory, having increased through 2016, driven mainly by the costs of airport construction and post-disaster reconstruction. The authorities have been implementing, and are committed to continue implementing, fiscal reforms to further fiscal consolidation and enhance their medium-term fiscal framework to make it more resilient.

6. **The first pillar of this development policy credit (DPC) series will support the Government’s efforts to strengthen fiscal policy and public financial management (PFM).** Strengthening fiscal policy and PFM is key to creating the fiscal space necessary to deliver better social services, provide resources for needed infrastructure, and reduce public debt. Increased fiscal space is also needed over the medium-term to deal with the recurrent shocks suffered by the economy and households, especially those stemming from natural disasters. Moreover, PFM weaknesses can become bottlenecks after natural disasters, and even in normal circumstances, these reduce the efficiency of spending. This includes weaknesses in basic budget processes, gaps in financial information systems and constraints and delays in public procurement. Implementation of an effective response to natural disasters depends on the availability of resources, efficacy of budget execution and coordination mechanisms, and overall robust governance practices. This places further urgency in building a fiscal framework that is able to generate savings that can be used when natural disasters materialize, and in creating new financing mechanisms for climate resilience and adaptation initiatives. This operation supports critical reforms in these areas.

7. **The second pillar supports policy and institutional reforms that enhance blue growth prospects and reinforce climate resilience.** SVG depends on its natural environment and the tourism and natural resources it provides. 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 frequency and severity of hurricanes, droughts, and other extreme weather events that have increased in recent years. These events disrupt livelihoods and economic production, destroy physical infrastructure, and impose high costs for reconstruction and rehabilitation.
The impact of these events has been magnified by unsustainable practices, including poorly planned coastal development and protection, uncontrolled sand mining, land-based and marine pollution, and overfishing. In this context, the Government 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.

8. **The two pillars supported by this DPC series are mutually reinforcing and are part of a comprehensive approach to strengthen fiscal, blue growth and climate resilience.** Fiscal consolidation, improved PFM, and the establishment of a fiscal framework to make the island more resilient to frequent shocks help support macroeconomic stability and further strengthen debt sustainability. Furthermore, a more resilient fiscal framework helps ensure protection of the natural environment and the island’s resource base by facilitating adequate investment in environmental protection, faster and more effective recovery and rehabilitation and in building-back-better following adverse events. Conversely, a more resilient natural and physical environment as supported under Pillar 2 reduces the fiscal burden in the wake of natural disaster events. This in turn should translate into higher investor interest, lower borrowing costs, and improved growth prospects over the medium-term. At the same time, measures to foster climate resilience and adaptation, coupled with improved environmental protection, should help the resilience agenda in maintaining the attractiveness of the island to nature-based tourism and protect the local population, safeguarding livelihoods and fiscal revenues.

2. **MACROECONOMIC POLICY FRAMEWORK**

2.1. **RECENT ECONOMIC DEVELOPMENTS**

9. **SVG is a small, middle-income island economy that depends primarily on services.** The country’s 110,000 inhabitants live on 9 of the 32 islands and cays. Forty-six (46) percent of the population now lives in urban areas, reflecting in part the steady decline in the rural population since 1980. Per capita gross national income is approximately US$7,500 (Atlas method). The travel and tourism sector alone accounted for 48 percent of total exports in 2017. Agriculture and fishing also remain important sources of jobs and incomes.

10. **As noted, like many small states SVG suffers from issues associated with high debt, low growth and vulnerability to natural disasters.** Growth picked up moderately in 2018, to 2.0 percent, with higher tourist arrivals following the opening of the new airport. Growth had been slow throughout 2017 as tourist arrivals remained flat and airport construction ended (see Table 1). Closure of the largest mainland hotel in late 2016 took a toll on the tourism sector well into 2017, with stay-over tourist arrivals falling in the first three quarters of the year by 3.9 percent. Tourism picked up late in the third quarter of 2017 with the opening of the new airport, new flight connections, and tourist diversion from other Caribbean islands following the September 2017 hurricanes, and this increase in arrivals continued into 2018. Agriculture continued its recovery, supported by ongoing donor-funded initiatives to enhance output in crops and livestock (though the agriculture, fisheries and forestry sector in total represents only 7.8 percent of GDP). Manufacturing output, which represents just over 5.0 percent of GDP, has been flat. The services sector, which accounts for nearly 75 percent of total GDP, grew by 0.7 percent in 2017 and approximately 2.0 percent in 2018.

11. **In an environment of low growth, unemployment has remained persistently high.** The unemployment rate is estimated at 20 percent, reflecting few employment opportunities provided by large companies but also labor skills mismatches. The authorities continue efforts to address the skills
problem by improving labor market policies, including vocational education and training, apprenticeships, and job counseling. Unemployment among females and youth exceed the estimated national unemployment rate. Wholesale and retail trade, agriculture, and construction—the three largest industries—accounted for 36 percent of total employment and employed most of the unskilled labor. The public sector absorbs most skilled labor. Public employees accounted for 27 percent of the labor force, of which 72 percent were skilled workers.

12. **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. Inequality dropped markedly over the same period, with the Gini coefficient falling from 0.56 to 0.40. The reduction in poverty and inequality can largely be 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. Building fiscal and climate resilience, as supported by this series, is anticipated to lessen the impact of such shocks on poor households, frequently those that are the hardest hit by natural disasters, and over time reduce poverty and increase equality.

13. **SVG has registered large but moderating current account deficits, with a large portion of them being financed by FDI.** The current account deficit in 2017 was 17.2 percent of GDP and projected at 15.9 percent for 2018—an improvement from levels exceeding 25 and 30 percent of GDP in the years preceding 2014. The current account deficit narrowed as exports of agricultural products to regional markets increased and imports of capital goods declined with the completion of the new international airport. Nonetheless, SVG remains highly import dependent. The vast majority of food, fuel, consumer and capital goods are imported and, as a small island state, it is difficult to meaningfully reduce these imports. On the export of goods, 73 percent 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 exports, are light-manufactured products. Tourism receipts exceed 25 percent of GDP in a typical year and make a substantial contribution to financing the current account deficit. Completion of the new airport has generated increased tourist arrivals from late 2017 onward, particularly from Canada via its now direct Toronto flight. Remittances, at about 4 percent of GDP, help finance the large trade imbalance. Net FDI totaled 12.5 percent of GDP in 2018, financing a large portion of the current account deficit, though given the small size of the economy it can fluctuate significantly.

14. **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

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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 poverty assessment is to be finalized in 2019.

3 Reopening of the largest hotel, expected by fall 2019 will further boost tourism.

4 The majority of FDI is in the tourism sector, with some in agriculture and fisheries, though tourism dominates. Investment in tourism should bode well for future blue growth prospects and, as noted, the new airport has ignited renewed investment interest in tourism. The Government is also aware of the need to build links between tourism, hotels, yachting, and the broader economy, including agriculture. While there is a desire for economic diversification, tourism will remain the primary driver of growth. Within the tourism sector however, there is scope for diversifying the tourist experience and enlarging the range of opportunities within the sector.
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 kept under 3.0 percent over the past decade. Average inflation in 2017 was 2.2 percent and 2.4 percent in 2018. The domestic banking system remains stable, with capital and liquidity ratios comfortably above regulatory requirements.

15. **The fiscal deficit has been reduced and importantly the primary budget surplus sustained over recent years, though fiscal reforms remain critical for sustainability.** The overall fiscal balance improved from a deficit of 6.2 percent of GDP in 2013 to a surplus of 1.1 percent in 2016 (see Table 3). Despite the introduction of several revenue mobilization measures, the Government incurred a fiscal deficit of 0.5 percent of GDP in 2017 (including grants) and 2.0 percent in 2018. The primary balance followed a similar path, though has been in surplus over the period, with a 1.9 percent of GDP surplus in 2017 and 0.6 percent in 2018. The fiscal position is somewhat volatile due to the economy’s size and the impact of one-off fiscal measures in a small economy. In 2018 the revenues declined because of a reduction in corporate and personal income tax rates, and the primary surplus was lower than in 2017. Despite occasional fluctuations, maintaining a primary surplus is a key government priority to continue to reduce public debt. The primary surplus is forecast to remain at approximately 1.0 percent of GDP annually over the medium-term.

16. **Continued fiscal reform is necessary to build fiscal buffers to face future shocks and to ensure public debt remains on a downward trajectory.** Although SVG had the highest tax revenue to GDP ratio in the ECCU, further domestic revenue mobilization measures were taken. These 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. Expenditures have remained relatively stable in recent years, but rose in 2017 due to one-off transactions, including expenses on the new airport, but decreased by 1.0 percent of GDP in 2018. Public-sector wages totaled 12.8 percent of GDP in 2018 and 46.0 percent of fiscal revenues, which together with transfers and subsidies total 67.8 percent of public expenditures.

17. **Debt has fallen to 73.0 percent of GDP in 2018 since its peak in 2016, prior to which it had been driven by airport construction and post-disaster reconstruction.** Public financing of the Argyle International Airport contributed to the growth of public sector debt to 82.9 percent of GDP in 2016 from 75.9 percent in 2013. Estimates in the 2018 budget noted that financing needs emanating from natural disasters, including the 2016 floods, contributed 15 percent of GDP to the national debt. In addition to fiscal consolidation and resultant continuing primary fiscal surpluses, Venezuela’s debt forgiveness of SVG’s PetroCaribe debt in 2017 and 2018 further reduced debt to 73.1 percent of GDP by end-2018. This still exceeds the ECCU 2030 target of 60 percent of GDP but puts SVG on a clear trajectory toward that objective. External public debt was 47.4 percent of GDP at end-2017 and 44.5 percent at end-2018, about 40 percent of which was contracted at variable rates, raising risks. Bonds and treasury bills account for around 58 percent of domestic public debt, and overdrafts, arrears and accounts payable constitute 20 percent. Current debt levels put pressure on the Government to maintain primary fiscal surpluses, while at the same time, implement growth-enhancing reforms, invest in productive and high-return infrastructure, and build buffers to natural disasters and other shocks. Efforts are being undertaken by
the Government, as noted previously, to consolidate the fiscal position and maintain primary budget surpluses, including through reforms supported through this series.

**Table 1. Key Economic Indicators, 2015–21**

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<td>Real GDP (at factor cost)</td>
<td>0.8</td>
<td>0.8</td>
<td>0.7</td>
<td>2.0</td>
<td>2.1</td>
<td>2.3</td>
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<td>Consumer price index (average)</td>
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<td>2.2</td>
<td>2.4</td>
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**Monetary**

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<td>Broad money (M2)</td>
<td>4.8</td>
<td>3.0</td>
<td>1.2</td>
<td>1.0</td>
<td>5.0</td>
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<td>Credit to private sector</td>
<td>2.4</td>
<td>1.3</td>
<td>0.7</td>
<td>1.6</td>
<td>1.9</td>
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**Fiscal**

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<td>Revenue</td>
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<td>29.8</td>
<td>30.3</td>
<td>27.8</td>
<td>28.2</td>
<td>28.4</td>
<td>28.4</td>
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<td>Expenditure</td>
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<td>30.8</td>
<td>29.8</td>
<td>29.9</td>
<td>29.9</td>
<td>29.8</td>
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<td>Overall balance</td>
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<td>1.1</td>
<td>-0.5</td>
<td>-2.0</td>
<td>-1.7</td>
<td>-1.5</td>
<td>-1.4</td>
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<td>Primary balance</td>
<td>0.1</td>
<td>3.2</td>
<td>1.9</td>
<td>0.6</td>
<td>0.8</td>
<td>1.0</td>
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<tr>
<td>Public debt</td>
<td>79.4</td>
<td>82.9</td>
<td>76.4</td>
<td>73.0</td>
<td>71.4</td>
<td>69.7</td>
<td>68.1</td>
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<tr>
<td>External debt</td>
<td>46.4</td>
<td>56.7</td>
<td>47.4</td>
<td>44.8</td>
<td>45.0</td>
<td>43.9</td>
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**External**

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<tr>
<td>Exports of goods and services</td>
<td>37.4</td>
<td>37.9</td>
<td>36.0</td>
<td>37.2</td>
<td>37.9</td>
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<tr>
<td>Imports of goods and services</td>
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<td>55.7</td>
<td>54.3</td>
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<td>Foreign direct investment</td>
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<td>21.1</td>
<td>13.1</td>
<td>12.5</td>
<td>12.5</td>
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<tr>
<td>Terms of trade (2002=100)</td>
<td>99.7</td>
<td>97.6</td>
<td>96.0</td>
<td>97.2</td>
<td>98.0</td>
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<tr>
<td>Exchange rate (EC$/US$)</td>
<td>2.7</td>
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**Memorandum items**

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<tr>
<td>Nominal GDP (EC$ million)</td>
<td>2,040</td>
<td>2,081</td>
<td>2,120</td>
<td>2,231</td>
<td>2,334</td>
<td>2,434</td>
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*Sources: ECCB, IMF, and World Bank staff estimates.*
Table 2. Balance of Payments, 2015–21

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<tr>
<td>Current account balance</td>
<td>-297</td>
<td>-316</td>
<td>-365</td>
<td>-356</td>
<td>-351</td>
<td>-344</td>
<td>-337</td>
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<tr>
<td>(as a percentage of GDP)</td>
<td>-14.5</td>
<td>-15.2</td>
<td>-17.2</td>
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<td>Trade balance</td>
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<td>-681</td>
<td>-684</td>
<td>-733</td>
<td>-744</td>
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<td>Exports of goods</td>
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<td>116</td>
<td>100</td>
<td>112</td>
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<td>Imports of goods</td>
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<td>784</td>
<td>845</td>
<td>862</td>
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<tr>
<td>o/w fuels</td>
<td>108</td>
<td>106</td>
<td>83</td>
<td>96</td>
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<tr>
<td>Services (net)</td>
<td>322</td>
<td>311</td>
<td>297</td>
<td>336</td>
<td>367</td>
<td>400</td>
<td>437</td>
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<tr>
<td>o/w tourism</td>
<td>496</td>
<td>523</td>
<td>510</td>
<td>558</td>
<td>599</td>
<td>643</td>
<td>690</td>
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<tr>
<td>Income payments (net)</td>
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<td>-58</td>
<td>-76</td>
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<td>Current transfers (net)</td>
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<td>112</td>
<td>98</td>
<td>96</td>
<td>94</td>
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<tr>
<td>o/w net private transfers</td>
<td>86</td>
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<td>30</td>
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<tr>
<td>Financial (net)</td>
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<td>340</td>
<td>256</td>
<td>305</td>
<td>324</td>
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<td>Commercial banks</td>
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<td>24</td>
<td>-6</td>
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<td>Foreign direct investment</td>
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<td>278</td>
<td>280</td>
<td>292</td>
<td>304</td>
<td>317</td>
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<td>Portfolio investment</td>
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<td>-11</td>
<td>7</td>
<td>3</td>
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<td>Official capital (and other)</td>
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<td>-32</td>
<td>34</td>
<td>24</td>
<td>43</td>
<td>19</td>
<td>5</td>
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<tr>
<td>Change in reserves (increase -)</td>
<td>-42</td>
<td>-54</td>
<td>28</td>
<td>20</td>
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<td>-19</td>
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<td>o/w IMF</td>
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<td>4</td>
<td>6</td>
<td>9</td>
<td>7</td>
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<td>113</td>
<td>53</td>
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Sources: ECCB, IMF, and World Bank staff estimates.

Table 3. Key Fiscal Indicators, 2015–21

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<tr>
<td>Revenue and grants</td>
<td>27.9</td>
<td>29.8</td>
<td>30.3</td>
<td>27.8</td>
<td>28.2</td>
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<td>Tax revenue</td>
<td>23.6</td>
<td>25.5</td>
<td>25.7</td>
<td>24.1</td>
<td>24.4</td>
<td>24.4</td>
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<tr>
<td>Tax on income and profits</td>
<td>6.4</td>
<td>7.5</td>
<td>7.1</td>
<td>6.5</td>
<td>6.6</td>
<td>6.6</td>
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<tr>
<td>Taxes on property</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
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<td>0.2</td>
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<tr>
<td>Taxes on domestic transactions</td>
<td>7.3</td>
<td>7.4</td>
<td>8.1</td>
<td>7.2</td>
<td>7.2</td>
<td>7.2</td>
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<tr>
<td>of which VAT</td>
<td>3.3</td>
<td>3.4</td>
<td>3.5</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
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<tr>
<td>Tax on international trade</td>
<td>9.8</td>
<td>10.4</td>
<td>10.3</td>
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<td>10.5</td>
<td>10.5</td>
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<td>of which VAT</td>
<td>3.8</td>
<td>3.9</td>
<td>4.1</td>
<td>3.9</td>
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<tr>
<td>Non-tax revenue</td>
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<td>1.3</td>
<td>0.7</td>
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<tr>
<td>Capital revenue</td>
<td>1.2</td>
<td>1.2</td>
<td>2.1</td>
<td>1.4</td>
<td>1.4</td>
<td>1.4</td>
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<tr>
<td>Expenditures and net lending</td>
<td>30.0</td>
<td>28.7</td>
<td>30.8</td>
<td>29.8</td>
<td>29.9</td>
<td>29.8</td>
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<tr>
<td>Current expenditures</td>
<td>25.1</td>
<td>24.9</td>
<td>26.7</td>
<td>26.2</td>
<td>26.0</td>
<td>25.8</td>
<td>25.9</td>
</tr>
<tr>
<td>Goods and compensation</td>
<td>12.6</td>
<td>13.2</td>
<td>13.3</td>
<td>12.8</td>
<td>12.7</td>
<td>12.5</td>
<td>12.5</td>
</tr>
<tr>
<td>Goods and services</td>
<td>3.6</td>
<td>3.3</td>
<td>3.7</td>
<td>3.4</td>
<td>3.6</td>
<td>3.6</td>
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<tr>
<td>Transfers and subsidies</td>
<td>6.8</td>
<td>6.4</td>
<td>7.4</td>
<td>7.4</td>
<td>7.3</td>
<td>7.3</td>
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<tr>
<td>Interest</td>
<td>2.2</td>
<td>2.1</td>
<td>2.3</td>
<td>2.6</td>
<td>2.4</td>
<td>2.4</td>
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<tr>
<td>Capital expenditure</td>
<td>4.9</td>
<td>3.8</td>
<td>4.1</td>
<td>3.6</td>
<td>3.9</td>
<td>3.9</td>
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<tr>
<td>Net lending</td>
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<td>0.4</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Overall Balance</td>
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<td>1.1</td>
<td>-0.5</td>
<td>-2.0</td>
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<tr>
<td>Primary Balance</td>
<td>0.1</td>
<td>3.2</td>
<td>1.9</td>
<td>0.6</td>
<td>0.8</td>
<td>1.0</td>
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Source: MOF, IMF, and World Bank staff estimates.
2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

18. **Economic growth is expected to accelerate over the medium-term.** Real GDP growth is projected to increase to 2.1 percent in 2019 and further accelerate to up to 2.5 percent over the medium-term, driven largely by increased tourist arrivals, helped by the new airport. Air Canada now operates a weekly flight to the new airport—the first scheduled direct international flight—with a reported 85 percent occupancy rate. This has increased arrivals from Canada by 15 to 30 percent and overall arrivals by 1.5 to 3.0 percent.5 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 planned reopening of St. Vincent’s largest hotel, Buccament Bay Resort, in November 2019 should also contribute to increased tourist arrivals and growth over the medium-term. As tourist arrivals increase, tourist-related private investment can be expected to further spur growth.

19. **The current account deficit is expected to decrease slightly and be covered, to a large extent, by FDI.** Increased tourist arrivals and declining imports following completion of the airport should lead to a further narrowing of the current account deficit. Agriculture may 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.

20. **Price pressures are expected to remain muted over the short- to medium-term.** Inflation is expected to remain under 3.0 percent, as prudent monetary policy management by the ECCB continues.

21. **Fiscal reforms and financial sector strengthening are expected to enhance investor confidence.** As fiscal consolidation proceeds and as overall debt levels stabilize, and debt service ratios fall, expenditures can be increasingly directed toward growth-enhancing investments rather than debt service. Measures taken on the tax policy side (including those supported by this operation), should generate higher revenues and support consolidation over the medium-term. The authorities are beginning to plan for pension reform, as public sector pensions are generous and under present conditions and trajectories are not sustainable in the long-term. While such reform remains politically sensitive, political will exists to address pension issues and to reduce the current burden on the budget and ensure sustainability. The Government settled with public sector labor unions in January 2019 with wage increases between 1.0 and 2.0 percent over the short- to medium-term. SVG is reforming state-owned enterprises (SOEs) governance (including through measures supported by this operation). This will enhance transparency and facilitate oversight of such institutions.

22. **Debt continues its downward trajectory, from 82.8 percent of GDP in 2016 to 73.1 percent in 2018, based on the attainment of continued primary budget surpluses.** Nonetheless, the January 2019 debt sustainability analysis (DSA) finds that SVG remains at high risk of debt distress. The debt-service-to-exports ratio and the debt-service-to-revenue ratio remain within acceptable levels, but the present value of external debt to GDP exceeds thresholds under the historical and most extreme shock scenarios. In the baseline projection, external debt is expected to fall to approximately 30 percent of GDP by 2030 from 47.4 percent of GDP in 2017 (Figure 1). The DSA also shows that public debt becomes unsustainable under the low-growth, natural disaster and historical scenarios. The historical scenario however, is considered unlikely as the authorities are implementing reforms, which would bring debt down to sustainable levels,

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5 Prior to the direct Toronto-St. Vincent flight all other international passengers arrived via flight connections from elsewhere in the Caribbean, such as Barbados and Trinidad.
in line with the baseline scenario. However, this will require sustained efforts on the fiscal front and continued fiscal consolidation efforts. The low-growth and natural disaster scenarios underscore the inherent risks to external shocks, which could significantly alter the debt trajectory and underline the importance of building fiscal buffers, efforts which are supported under this operation. The Government has clearly expressed its commitment to maintaining primary budget surpluses and efforts to date have been successful in reducing debt levels.

**Figure 1. Debt Sustainability Indicators**

![Graph showing debt sustainability indicators](image)

*Source: IMF.*

*Notes:* External public and publicly guaranteed debt. The most extreme shock refers to the stress test that yields the highest value on or before 2028.

23. **As noted, the debt burden remains vulnerable to natural disasters and other exogenous shocks.** Reforms in expenditure control and tax policy are expected to result in primary surpluses over 2.0 percent in GDP over the medium-term, which will provide some buffer to natural disasters. The creation of a contingency fund 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.

24. **SVG’s macroeconomic policy framework is adequate for this development policy financing operation, despite the presence of substantial risks.** As described above, SVG currently benefits from a stable and sound macroeconomic outlook supported by recently approved fiscal measures (including those supported by this operation) and a strong commitment to further economic and fiscal reforms. This assessment is reflected in: improving short- and medium-term growth; a consistently low and stable rate

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6 To maintain a conservative approach to projections, Table 3 on Key Fiscal Indicators does not fully reflect this expected improvement in the primary fiscal balance as pension reforms, tax expenditure rationalization, SOE reform, and tax compliance measures have yet to be fully implemented. Once implemented, the primary structural fiscal balance can be expected to approach 2.0 percent of GDP from current levels of just under 1.0 percent of GDP.
of inflation of 2 percent or less; and commitment to bring debt levels down to more sustainable levels to
achieve the 2030 ECCU target, as reflected through the attainment of primary budget surpluses.

2.3. IMF RELATIONS

25. The GoSVG maintains a dialogue with the International Monetary Fund (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), based in Barbados, provides technical assistance in several areas, including tax administration, public financial management, financial supervision, external sector statistics, and national accounts statistics. The Bank and IMF coordinate their engagements closely. SVG does not have an IMF-supported financing arrangement.

3. THE GOVERNMENT’S PROGRAM

26. 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 vision and development strategy are intended to lead to balanced, comprehensive, and sustainable development. 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.

27. The Government has also made several commitments to combating climate change and this operation involves significant climate co-benefits. The Sustainable Development Unit, located in the Ministry of Finance, Economic Planning, Sustainable Development Unit and Information Technology, is responsible for coordinating the implementation of the Environmental Sustainability portfolio of the Government, including mainstreaming climate resilience in all sectors. SVG has also adopted an Energy Action Plan to achieve a 2025 energy efficiency target with related policies for implementation. As part of the global effort to combat climate change, SVG submitted its Nationally Determined Contributions (NDCs) to 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. Beyond a sectoral target to reduce electricity consumption by 15 percent of the business-as-usual scenario by 2025, additional policies and actions in the energy sector are defined in the NDCs. In terms of adaptation, which is of far greater relevance in SVG, the NDCs detail the country’s vulnerabilities and adaptation plans. The NESDP 2013–25 includes a specific set of strategic goals, objectives and targets, including Goal #4 of “Improving Physical Infrastructure, Preserving the Environment and Building Resilience to Climate Change,” which seeks to preserve the country’s delicate environment and mitigate the effects of climate change. One specific target is to protect 20 percent of its near shore marine and coastal resources by 2020. Other sectors with defined actions are agriculture, transport, forestry and water. Those mitigation and adaptation strategies are expected to generate multiple economic, social and environmental co-benefits from improved ecosystem conservation.
4. THE PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

28. **This two-operation development policy series is in-line with and supports the Government’s goals and objectives.** Set within the Government’s five broad strategic objectives (see paragraph 24), are the following identified sub-objectives of the NESDP that relate directly to this series: (i) maintain strong macroeconomic fundamentals; (ii) enhance accountability, transparency, effectiveness and efficiency in the provision of public goods and services; (iii) enhance the capability of SVG to prepare effectively for, respond to, and mitigate disasters; (iv) conserve natural resources through effective utilization and management; (v) ensure a clean, safe and healthy environment; and (vi) reduce the adverse impacts of climate change. This proposed operation seeks to directly contribute to the attainment of all these objectives.

29. **This operation also complements other financing options that help to transfer risks from disasters and other shocks, rather than relying primarily on debt.** For example, SVG is a member of the Caribbean Catastrophe Risk Insurance Facility (CCRIF) with insurance coverage that provides rapid financing for disaster relief in case needed. SVG has already received multiple payouts under the CCRIF and continues to benefit from coverage. The Caribbean Ocean and Aquaculture Sustainability Facility (COAST) is another such facility that promotes the resilience of the small-scale fisheries sector against increasing climate-change related disaster risk. The objective is to create a platform for innovative insurance financing that also incentivizes small-island governments to support coastal management and reef restoration for climate resilience among other activities.

30. **As the proposed series is the first DPC operation extended to SVG, lessons can be drawn from broader programming in the country and sub-region.** The recent PLR notes: “The PLR deepens policy and institutional reform engagement through budget support operations and advisory services, with a much stronger focus on macro-fiscal and resiliency areas.” The proposed operation builds on this by focusing directly on macroeconomic and resiliency issues. The PLR also notes the effectiveness of meaningful policy dialogue in small states. It states: “…The policy engagement in Grenada through the DPC series and associated technical support enabled the country to develop more prudent fiscal policies that are now being deepened through a next phase of reform engagement. Building on the experience, policy engagement will be enhanced in the IDA-eligible countries through DPCs, while technical and advisory support will be stepped up, especially in IBRD countries.” Under the proposed operation in SVG, several reforms are being supported through the delivery of technical assistance (TA). The authorities have requested such assistance in support of their reforms and several global practices across the Bank, such as the Governance GP, global tax team, procurement, etc. are supporting these efforts by delivering knowledge, TA and best practice examples.

31. **Furthermore, given that this is the first such operation in SVG it requires factoring in deeper stakeholder consultations and greater Bank support during preparation.** Parallel technical support to the country during implementation of the DPC is also critical. These factors have been taken on board during the preparation of this operation. Extensive upstream policy engagement has been ongoing over the past several years in the areas of infrastructure resilience, PFM, and in fiscal and budget management. Substantive TA is being provided in support of procurement reforms, SOE oversight, contingency fund creation and management, and tax reform. The Bank has also provided TA for designing the national business plan for aquaculture development. Under the NDC Partnership Support Facility, the Bank will support the GoSVG with TA for designing instruments listed as triggers for the second operation. A
programmatic approach over two operations reinforces supported reforms by ensuring effective implementation and continued provision of TA and policy dialogue on these key issues.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

32. The program development objectives of the First Fiscal Reform and Resilience Credit are to support the GoSVG in: (i) strengthening fiscal policy and public financial management; and (ii) strengthening climate resilience and adaptation.

**Pillar 1: Strengthening Fiscal Policy and Public Financial Management (PFM)**

33. The first pillar will support the Government’s efforts to strengthen fiscal policy and PFM. This is key to creating the fiscal space necessary to pursue important economic goals, deliver social services, reduce public debt, and provide resources for necessary infrastructure. Increased fiscal space is also needed to strengthen fiscal resilience by building fiscal buffers over the medium-term to face recurrent natural disasters. Experience has demonstrated that after a hurricane, or other natural disaster, PFM weaknesses often become bottlenecks. This includes weaknesses in basic budget processes, gaps in financial information systems and constraints and delays in public procurement. Implementation of an effective response to natural disasters depends on the availability of resources, efficacy of budget execution and coordination mechanisms, and overall governance practices. This response is key to limiting physical and environmental damage, in strengthening resilience and in building-back-better. In sum, a robust PFM system is necessary to mobilize and allocate resources efficiently, to both effectively managing recurrent expenditures and to strengthen fiscal resiliency. The importance of contingency funds, a key supported reform, has been demonstrated in other national contexts in building a fiscal framework that is increasingly resilient and able to generate savings that can later be used when shocks materialize. The supported reforms are perceived as critical to achieving this agenda.

34. Taken together, the reforms supported under Pillar 1 present a coherent and coordinated package of reforms. This package focuses on creating needed fiscal space through both revenue and expenditure measures, in order to maintain primary budget surpluses, while building-in fiscal buffers to ensure improved fiscal resilience. The reforms address issues related to: budget planning, the creation of fiscal buffers and fiscal rules (prior action 1 and related triggers); spending effectiveness and efficiency (prior action 2 and related trigger); domestic resource mobilization (prior action 3 and related trigger); and addressing contingent liabilities and transfers through strengthening SOE oversight (prior action 4 and related trigger). These measures reinforce each other and form a coherent whole as revenue measures permit the resourcing of fiscal buffers (contingency fund), while others strengthen spending efficiency, which are expected to generate fiscal savings. At the same time, improved planning and the creation of fiscal buffers builds further resilience and helps safeguard critical expenditures.

**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.

**Trigger 1:** The Recipient will approve a Parliamentary resolution that outlines declaratory fiscal responsibility principles and sets targets for spending, fiscal balances and public debt levels.

**Trigger 2:** The Recipient, through its Parliament approves regulations for the operation of the contingency fund.
35. **Rationale:** The failure to link policy, planning and budgeting is one of most important causes of poor budgeting outcomes in developing countries.\(^7\) In order to seek value for money in public spending, and reinforce fiscal discipline and strategic prioritization, development of a medium-term approach to budget planning is necessary. Moreover, MTFFs are fundamental to building a fiscal framework for resilience that includes other elements such as fiscal rules and stabilization funds. SVG does not currently have a formal MTFF process, let alone a medium-term expenditure framework, around which budget planning reflects Government priorities, incorporates macroeconomic projections, changing demographics, and external economic conditions. The establishment of fiscal rules, or explicitly stated policy principles, as supported through trigger 1, should help ensure consistency and adherence to fiscal targets. Given the commitment to reach the ECCU debt target of 60 percent of GDP by 2030, the establishment of a debt anchor as the primary basis for a fiscal rule is being considered. Relief, reconstruction, rehabilitation following natural disasters, as well as exposure to other external shocks, impose significant explicit and implicit costs to the budget and lead to increasing public debt.

36. The administration also recognizes the need to strengthen its fiscal framework to make it more resilient to the frequent shocks faced by the island, while ensuring fiscal sustainability. The Government has created a contingency fund geared to accumulate funds that can be used to offset some of the costs when shocks materialize. The purpose of the fund is to provide liquidity to allow for immediate needs as part of a broader risk layering approach to building resilience to natural disasters.\(^8\) The Government has raised the VAT rate and is earmarking the additional revenue collected to capitalize the fund. Identification of a source of funds was deemed important by the authorities to create a credible commitment of cash reserves. Contingency funds elsewhere have suffered from a lack of dedicated funding and frequently end up being under-resourced. A trigger for the second operation involves the establishment of clear rules and criteria for access, disbursement, use and public reporting on contingency fund finances in order to ensure transparency and accountability in the use of funds. The Bank is working closely with the authorities to assist in developing a framework outlining the modalities for the accumulation of resources in the fund, the management of the fund and the investment of fund balances, the mechanisms for the release of funds, and the type of expenditures that can be covered.\(^9\) This further complements Trigger 1 involving fiscal rules and the broader fiscal framework. Given the structure of its economy, it is critical for SVG to have a strong system of indirect taxation. Given that a significant portion of the tax base comes from tourism, a large portion of these taxes are exported. In the context of fiscal consolidation, it was also critical to increase revenue mobilization.

37. **Substance of prior action:** An MTFF is the first and necessary step towards an effective medium-term approach to budgeting. It typically contains a statement of fiscal policy objectives and a set of integrated medium-term macroeconomic and fiscal targets and projections. The Government has committed to preparing an MTFF prior to commencing the annual budget call and preparation process and has done so for the 2019 budget process. The establishment of fiscal policy principles (fiscal rules) further reinforces and systemically incorporates fiscal discipline and clarity in budgeting. Line ministries

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\(^8\) Its purpose is not to cover large scale reconstruction and rehabilitation, for which there are other better-targeted instruments.

\(^9\) The government’s current thinking is that the maximum size of the contingency fund would be established at a level equal to 2.5 percent of GDP and once reached the proceeds from the VAT increase would be dedicated to public debt reduction, or in the event that public debt has been reduced to below 60 percent of GDP, the additional revenue would be used for disaster risk prevention investments. Given the 20-year event is estimated at 10 percent of GDP, a 2.5 percent of GDP contingency fund seems reasonable given the fund is not expected to cover all reconstruction and rehabilitation needs and not all of the 10 percent in damages would be government liabilities.
and central agencies will benefit from having clearly defined fiscal limits and parameters within which to situate budget requests. This should ensure that budget allocations are consistent with overall fiscal objectives, while giving some degree of budget predictability to spending agencies, leading to greater fiscal discipline. The Government requested, and the Bank provided, good-practice examples to help draft the fiscal responsibility framework and the preparation of the MTFF. Previous difficulties in implementing an MTFF process were largely the result of capacity constraints and delays in producing national accounts data. Improvements in producing national accounts data more quickly has allowed for creation of an MTFF prior to the budget call.

38. Establishment of a contingencies fund is important to ensure funds are available when needed and reduce liquidity risk. Contingency lines in budgets are often simply conceptual and in times of need funds may not actually be available. 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. The authorities, with Bank technical support, are preparing guidelines for triggering release of the funds and for the administration and disbursement of the proceeds (a trigger for the second operation). This may be undertaken through an amendment to the Financial Administration Act, thus enshrining this in legislation. Reporting on and accounting for the use of funds will follow established procedures as practiced in SVG for all public expenditures.

39. **Expected outcomes:** The reforms to budget planning, through the establishment of fiscal and expenditure targets through the MTFF and adherence to explicit fiscal policy principles are expected to reduce the debt to GDP ratio, which is on a downward trajectory, from 76.4 percent in 2017 to 72.0 percent in 2020. The contingencies fund is expected to accumulate EC$10 million dollars annually, or about 0.5 percent of GDP per annum, if all allocated VAT increases are deposited in the fund. Total deposits should reach SEC30 million by 2020, subject to necessary disbursements. Liquidity provided by the fund is expected to reduce fiscal and liquidity risks and thus also contribute to the achievement of debt targets.

**Prior Action 2:** The Recipient, through the House of Assembly, has approved a revised Public Procurement Act, which is aligned with international good practice.

**Trigger 3:** The Recipient will adopt procurement regulations in support of, and as required by, the new Public Procurement Act.

40. **Rationale:** SVG spends significant fiscal resources on goods 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. Public procurement in SVG is currently governed by outdated legislation. The Financial Administration Act (2004) assigns responsibilities for the conduct of procurement, but is silent on essential matters such as procurement methods, publication requirements, and the need for economy, efficiency and transparency in the procurement process. Public procurement is governed by the Purchase and Tender Procedures, which date from 1967. This is an outdated, deficient set of regulations that does not reflect the many advances in public procurement. Hence, the reform to the public procurement Act is necessary and must be in-line with SVG’s commitments to its OECS and CARICOM partners to modernize its public procurement system. The inclusion of triggers related to the application of regulations, as stipulated by the new procurement code, will ensure timely implementation of the provisions of the new Act alongside continued Bank engagement and TA.
41. **Substance of prior action.** The new draft Public Procurement Bill, which the Government has drafted with technical support from the Bank, will align SVG’s public procurement system with international best practices, and is the first such procurement code adopted in the OECS. It includes procurement methods appropriate to the needs of the Government, underpinned by requirements for transparency in the conduct of procurement proceedings. It will 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. The bill also has provisions for improving the transparency of procurement and provides the legal basis for the use of modern techniques, including framework agreements and e-procurement.

42. **Expected outcomes:** Enactment of a new Public Procurement Act 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; as well as 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 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.

**Trigger 4:** The Recipient, through its Minister of Finance, has submitted to the House of Assembly, a revised Tax Administration and Procedures Act (TAPA) aimed at increasing transparency, consistency, and increasing domestic resource mobilization by facilitating compliance.

43. **Rationale:** The tax system in SVG 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. One glaring example is transfer pricing. Given the large presence of foreign companies, particularly in the telecommunication and banking sectors, the lack of effective transfer pricing tax measures is leading to significant under-taxation of such enterprises. These companies, while noting the expectation that they minimize tax liabilities under existing law, recognize the issue and are open to amendments to the Income Tax Act to expand the tax net. It is expected that revenue collection will increase as a result of this measure. Exemptions and tax expenditures are another area of concern and improved rationalization and oversight could generate substantial additional revenue. The second operation in the series includes a trigger supporting the passage of a new Tax Administration and Procedures Act (TAPA). The TAPA will enhance the ability of the Inland Revenue Department to better administer all tax laws to ensure the efficient collection of taxes and other fees. The lack of a unique taxpayer identification number also makes it difficult to facilitate the routine identification of taxpayers. Together with limited access to third party information, this hampers the effective monitoring of taxpayer obligations and negatively impacts compliance. Furthermore, the Inland Revenue Department (IRD) does not have sufficient power to serve liens, seize assets, or collect taxes from third party debtors. Finally, taxpayers lack 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. Overall, the TAPA will incorporate international best practices and facilitate effective tax administration and is an adapted version of the regional model TAPA developed by CARTAC.
44. **Substance of prior action:** The Government is taking steps to amend the Income Tax Act to address these issues, including transfer pricing. The Bank was consulted on the revisions and transfer pricing experts from the global tax unit suggested appropriate wording, aligned with international best practices, which was adopted by the authorities in the legislation.

45. **Expected outcomes:** Successful completion of these policy actions will contribute to improved effectiveness in tax revenue management and compliance. Accordingly, revenues from taxes on income and profits should increase to approximately EC$ 165 million by 2020. These anticipated improvements in the tax system are prerequisites for mobilizing additional revenue to help reduce the debt to GDP ratio.

**Prior Action 4:** The Recipient, through its Cabinet of Ministers, has issued an order mandating quarterly and annual financial reporting standards and requirements for State Owned Enterprises (SOEs).

**Trigger 5:** 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.

46. **Rationale:** Commercial SOEs play an important role in SVG. However, currently there are significant shortcomings in the SOE governance framework that hinder the MOF’s ability to monitor their financial health, provide appropriate oversight, and reduce spending inefficiencies. The submission of financial reports by public enterprises is not timely, with about a two-year lag. Statistical coverage of the operations of public entities is weak owing to their lack of compliance with already weak reporting requirements, in some cases due to a lack of capacity or lack of effective coordination. This is particularly concerning given that commercial SOEs can pose significant risks to fiscal sustainability through large budget transfers, forgone tax revenue, and accumulation of arrears and debt. As a good practice example, the Bank provided a financial and performance reporting template for SOEs that is based on a home-grown solution developed in Grenada, a champion in this area in the sub-region. Decreasing fiscal risk and improving control over transfers to public entities starts with enforcing requirements for timely financial reporting. Going forward, the authorities are implementing a much more ambitious SOE oversight reform program than was originally envisaged in the policy dialogue discussions undertaken for this operation. This includes the creation of a new SOE Oversight and Monitoring Committee, more stringent financial and operational reporting guidelines, the preparation of annual reports, and a fiscal risk analysis function. Given that this significantly more ambitious program will understandably take time and require consultations with all relevant stakeholders, it has been included as a trigger for the second operation.

47. **Substance of prior action:** The order will require that all SOEs submit timely financial and operational performance information to the MOF. This should enable the Ministry to better oversee and report on SOE performance, which would enhance overall accountability, and support the implementation of policies needed to contain fiscal risks. The predictability and control of transfers to public entities should also benefit from the tightening of SOE oversight and strengthening of their reporting requirements and sanctions regime. The Bank has provided good-practice advice in this area and has provided the authorities with an SOE financial and performance reporting and monitoring system originally developed for Grenada. Two staff from SVG’s SOE unit have also participated in a South-South knowledge sharing opportunity in Malaysia, together with representatives from ten other countries in the Caribbean region, financed by Canada through the SEMCAR Program. On this occasion, staff from the Ministry of Finance gained first-hand knowledge about strong SOE oversight systems, with the aim to create a road map of future reforms.
48. **Expected outcomes:** These SOE measures will contribute to an enhanced monitoring and reporting system. This will be measured through the MOF’s analysis of commercial SOEs’ performance, including an assessment of arrears (to the Government and to other SOEs) with a reconciliation plan being developed by 2020. They will support the MOF in their efforts to report on the performance of commercial SOEs, including contingent liabilities and other risks posed by SOEs. The MOF will also complete a study/analysis of SOE compensation and implement selected recommendations emanating from the analysis with a view to improving the financial performance of SOEs.

**Pillar 2: Strengthening climate resilience and adaptation**

49. **The second pillar supports the Government’s efforts to strengthen climate resilience and adaptation.** While hurricanes and tropical storms represent the greatest risk, SVG is also susceptible to volcanic activity, earthquakes, tsunamis and occasional floods independent of storm events. These events disrupt livelihoods and economic production, destroy physical infrastructure, and impose high public and private costs for reconstruction and rehabilitation. SVG’s marine and coastal ecosystems provide a wide array of economic goods and services that help build resilience, contribute to sustainable livelihoods and reduce the country’s vulnerability to natural disasters. However, they are undermined by unsustainable practices including poorly planned coastal development and protection, uncontrolled sand mining, land-based and marine pollution, and overfishing. Moreover, most development and infrastructure in SVG are concentrated on the coast, and significant populations live in low-lying coastal areas. In this context, the Government has embarked on various reforms to ensure sustainable use of natural resources, while increasing adaptation and resilience to the impacts of climate change.

**Trigger 6:** The Recipient, through its Minister of Physical Planning and Cabinet of Ministers, has adopted the revised administrative guidelines relating to the enforcement and application of OECS Building Codes to strengthen resilience to natural disasters.

**Trigger 7:** The Recipient has complemented the Town and Country Planning Act with mandatory provisions on Environmental Impact Assessment, subdivisions of land, and display of advertisement, to strengthen land use and development planning with a view to increasing climate resilience and coastal protection.

50. **Rationale:** The frequency and severity of hurricanes and other extreme weather events pose a significant risk to the country’s physical infrastructure, to livelihoods and economic production, as they impose high costs for reconstruction and rehabilitation. The damage from those extreme events disproportionately affect the poorest and most vulnerable groups. More than 90 percent of SVG’s physical infrastructure lies on a narrow coastal belt less than eight meters above sea-level. This includes the island’s main communication and emergency response structures—roads, airports, telecommunication, financial, and technical support centers. Considering the effects of climate change in exacerbating extreme weather events, the GoSVG is seeking to enhance the resilience of its physical infrastructure and, consequently, to reduce risks from natural disasters, particularly hurricanes. A more resilient infrastructure will also contribute to a better response following disasters and reduce the costs of disaster management and recovery. With that purpose, the GoSVG plans to strengthen land-use planning and to improve the use and enforcement of building standards.

51. **Substance of the triggers:** The 2016 OECS Building Codes (hereinafter “the Codes”) set forth building standards to prevent or mitigate the damage caused by natural disasters, particularly hurricanes and earthquakes. The Codes present a framework for determining the effects of wind pressure on buildings and structures, in accordance to the wind load of each country member, depending on the type
of construction. With the support of OECS, the GoSVG is currently developing administrative guidelines to better enforce the Codes’ provisions. The updated guidelines will apply to private and public structures. The guidelines will differentiate between sizes and uses of constructions, reflecting specific requirements and associated cost implications in residential housing to ensure that poorer households are not priced out of the housing market because of over-stringent standards. The guidelines will include detailed information, specifically tailored to country’s context, on the standards required for protecting buildings from hurricanes of categories 3 and 4, depending on the type of construction. The guidelines will 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. In addition, the strengthened TCPA seeks to improve development planning to: (i) increasingly reflect climate resilience to natural disasters in decision-making; (ii) elaborate on requirements and standards in the approval of new developments, (iii) encourage coastal protection; and (iv) ensure greater coherence with related policies, such as the Forestry Resources Act and the Climate Change Policy. In parallel, the GoSVG will also update the requirements for environmental impact assessment (EIA) to ensure that the requirements from the strengthened TCPA and the Codes are reflected in the assessment and, if needed, in the environmental management plan. The GoSVG will strengthen the legal status of current guidelines on subdivisions of land, as well as the display of advertisement, by making such provisions mandatory.

52. **Expected outcomes**: It is expected that the updated Building Codes and TCPA will result in buildings that are more earthquake, hurricane and wind resistant, and in a physical development trajectory that is more climate resilient and environmentally sustainable. This will be measured by an increase from 0 (2017) to 100 percent (2020) of permit applications for new buildings that are approved in compliance with the updated Building Codes guidelines.

**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.

**Trigger 8**: The Recipient, through its Cabinet of Ministers, has adopted a time-based phase out of coastal sand mining throughout the national territory.

53. **Rationale**: Beaches and dunes provide natural defenses against storms and other services that are key for coastal protection and tourism. Given the limited land mass available for mining sand domestically, the Roads, Building and General Services Authority (BRAGSA) has used beach sand as aggregate in concrete for construction in most of the country’s public works and private buildings. For the latter, BRAGSA has mined sand directly or has authorized extraction of limited amounts of beach sand by private truck owners. Until May 2018, sand mining activities was actively being undertaken at three sites: Brighton, Diamond and Richmond beaches. Sand mining has devastated these beaches and sand dunes are no longer present. Uncontrolled sand mining has led to significant coastal erosion, damage to nearby housing and infrastructure and extended salt spray onto significant acreages of formerly productive land, and has contributed to habitat loss for nesting turtles and other flora and fauna. Considering those impacts, the GoSVG plans to ban coastal sand mining in the coming years, and to rely on the Rabacca aggregate and imported sand.

54. **Substance of prior action**: In May 2018, the GoSVG banned sand mining at Brighton and Diamond beaches, which have experienced significant devastation following extensive mining activities. However, given the high cost of imported sand compared to local beach sand, while the Government recognizes the need to completely ban coastal sand mining, the political economy and economic implications of such
measure require a thoughtful time-based approach to this reform. For that reason, the Government shifted sand mining to Dripp beach at the mouth of the Rabacca River where sand accumulates as sediment deposited from river run-off. Only BRAGSA can extract sand from the Dripp site. However, because of the long distance between Dripp and some urban centers, especially in the North Leeward district, BRAGSA has issued permits (tickets) for individuals from that district to extract limited amounts of sand from Richmond beach. To better control sand mining activities, BRAGSA has installed security posts in all four sites – Brighton, Diamond, Dripp and Richmond. In addition, the GoSVG has mandated the Physical Planning Unit to regularly monitor mining activities in both Richmond and Dripp, both quantitatively and by geographic information system imaging to ensure that environmental impacts remain limited. In addition, the Government is exploring options and potential investors for sand imports. After assessing the economic, social and environmental effects of alternative interventions, the Government’s final goal is to develop and implement a time-based plan to completely phase-out coastal sand mining, rebuilding coastal resilience.

55. **Expected outcomes:** It is expected that sand mining reform will lead to a reduced dependence on coastal sand mining, as imported sand increasingly replaces the use of domestic sand. The ban on sand mining at the noted beaches will eliminate further beach erosion at the Brighton and Diamond sites and over time these beaches should naturally restore themselves, thereby increasing the resilience of these areas to climate change impacts (hurricane winds, storm surges). The medium-term outcome is a complete ban on coastal sand mining, though this extends beyond this DPC series’ timeframe. Therefore, the outcome will be measured by a 50 percent decrease in the volume of domestically-mined coastal sand from 35,370 m³ (2018) to 17,685 (2020).11

**Prior Action 6:** *The Recipient, through its Cabinet of Ministers, has approved the National Oceans Policy and Strategic Action Plan, 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 spatial planning.*

**Trigger 9:** *The Recipient, through its Cabinet of Ministers, has phased out the use of single-use plastic bags to reduce waste generation and marine pollution.*

**Trigger 10:** *The Recipient has adopted national regulatory standards for effluent discharges, including minimum sewage effluent guidelines and a monitoring program for Priority Pollution Watch sites (PPWS).*

56. **Rationale:** The country’s marine biodiversity and related resources provide livelihoods for fisherfolk and key resources for nature-based tourism activities, which are significant contributors to the country’s economy. However, the ocean environment in SVG is threatened on several fronts, including: (i) habitat degradation and community modification; (ii) inadequate coastal development controls and

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10 Since mining activities resumed in Richmond in June 2018, the volume of extracted sand from that site has represented approximately 3.5 percent of total volume of sand domestically mined. Activities in Richmond area must comply with the following guidelines: (a) all trucks must be registered in the North Leeward district and the sand extracted can only be used for construction in that same district; (b) no truck can remove materials without a ticket, which must be used the same day of issuance; (c) mining is only permitted on the Walliabou side of the beach; (d) operational hours are from 6am to 6pm; and (e) truckers are not allowed to dig any holes on the beach. BRAGSA staff at the security post at Richmond oversee the extraction.

11 The baseline considers sand extracted from the following sites: (i) 15,808 m³ from Brighton and Diamond beaches from January and May 2018; (ii) 19,329 m³ from Dripp from May to December 2018; and (iii) 701.86 m³ from Richmond from June to December 2018.
destruction of marine ecosystems, such as coral reefs and mangroves; (iii) unsustainable, illegal and destructive fisheries practices; (iv) land- and ship-based sources of pollution; (v) unregulated extraction of sand and aggregates; (vi) anchor damage to coral reefs; and (vii) marine invasive species. Climate change effects are also taking their toll, including coral bleaching, ocean acidification and fish migration. Pollution emanating from ships and land-based sources pose immediate threats to the marine environment, coral reefs and fisheries, and human health. Evidence indicates that marine litter, globally, has contributed to the accumulation of plastic in the ocean, with negative impacts on fisheries, marine biodiversity and tourism. Additionally, the reduction of waste release into the marine and coastal environment is critical, given its impact on human health. During the rainy season, the discarded waste creates a breeding ground for mosquito vectors which cause the spread of the dengue, chikungunya and Zika viruses. Outbreaks of those illnesses have occurred on average every other year since 2010 in the Caribbean, directly impacting the tourism industry as visitors avoid affected countries. The marine environment is also affected by inadequate sewage treatment, indiscriminate discharge of effluents and wastewater discharge from ships. With the ocean environment 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.

57. **Substance of prior action:** The National Ocean Policy and Strategic Action Plan (NOPSAP) aims to ensure that marine waters and resources are used in a sustainable way. The Policy, which will be complemented by specific regulations, provides the country’s vision for integrated ocean governance, based on demands and synergies of multiple sectors, and sets forth a framework of strategic goals, objectives, actions and key results indicators for the 2019-2023 period. Among those actions, the NOPSAP envisages the increased monitoring and enforcement of the disposal of ship-generated waste, which supports the GoSVG in meeting obligations under international treaties for preventing marine pollution. The Government also aims to reduce land-generated waste. In 2017, the GoSVG banned imports of Styrofoam containers and started designing the phase out of single-use plastic bags, which will contribute to reducing marine litter and to improving health of the marine environment. In a third phase of reforms, to be completed after the DPC series, the GoSVG plans to phase out disposable plastic containers and utensils. In addition, the NOPSAP envisages the adoption and improvement of regulatory instruments, coupled with monitoring programs, to control effluent discharge in accordance to minimum sewage effluent guidelines and water quality criteria.

58. One of NOPSAP’s main goals is to establish and implement coordinated institutional arrangements for integrated marine management across relevant sectors and stakeholders. With that purpose, the Policy envisages the creation of the National Ocean Coordination Committee (NOCC), which was made effective through a separate Cabinet Decision. The NOCC is comprised of State and non-State agencies with responsibilities over maritime affairs and marine resources management, the private sector and civil society. The Committee’s main tasks include: (i) oversee coordination, monitoring and evaluation of the NOPSAP implementation with other cross-cutting strategies, planning instruments and programs; (ii) oversee implementation and monitoring of government-approved cross-cutting policies and actions that are relevant to NOPSAP; (iii) support investments in marine-related activities that sustainably utilize marine resources and assets, and (iv) facilitate participation of public and private institutions, non-governmental organizations and civil society in the implementation of the NOPSAP. The Committee is also

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12 These treaties include the International Convention for the Prevention of Pollution from Ships (MARPOL); the Convention for the Protection and Development of the Marine Environment of the Wider Caribbean Area (the Cartagena convention) and its protocol on Land Based Sources of Pollution.
responsible for liaising with OECS in the Caribbean Regional Oceanscape Project, an initiative that will finance SVG’s coastal and marine zoning plans.

59. **Expected outcomes:** It is expected that the NOPSAP will lead to increased protection of SVG’s marine environment by providing the legal and institutional framework for an integrated and sustainable management of marine resources. The Policy will allow for strengthened surveillance and oversight of SVG’s marine and coastal zones. Likewise, considering the extent of environmental and climate sensitivities of coastal zones and related marine resources, their sustainable use and management will also improve climate resilience. The outcomes of these policies will be measured by: (a) a decrease from 453.4 tons of plastic sacks and bags (including cones) to 151 tons in the volume of single-use plastic bags imported; and (b) an increase from 0 to 3 PPWS regularly monitored and monitoring results publicly disclosed.

**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.

60. **Rationale:** Limited institutional capacity and scarce financial resources for conservation and sustainable development initiatives in areas of environmental significance add further pressure to the marine and coastal environment. Sustainable financing for the Government’s environmental and resilience objectives is key for sustainable economic growth. Funding streams should be composed of a wide number of sources, such as revenues from fiscal instruments (including environmental), official development assistance, private investment, and other instruments such as green bonds, payments for environmental services, or carbon finance. Transparency in allocating and using funds also raises confidence that funding streams will be used to achieve agreed objectives and can help attract further sources of financing. In 2015, the GoSVG created SVGCF as an important institution in promoting and contributing to the conservation, protection, management and expansion of the National Protected Areas System. However, SVGCF lacked regulations on its revenue sources and there were no budgetary allocations from the GoSVG to the newly created institution. For those reasons, the SVGCF received its first resources only in 2018 from CBF’s pre-financing window. Those funds were mainly used for preparing SVGCF’s application to CBF, rather than financing and implementing conservation projects. To date, SVGCF has not been fully operational.

61. **Substance of prior action:** Given the need to adopt sustainable financing mechanisms to effectively manage marine resources and other areas of environmental significance in the long-term, the GoSVG has amended SVGCF’s bylaws to strengthen its financial sustainability. The revised by-laws set forth sustainable sources of revenues, which are crucial to ensuring SVGCF can deliver its mandate. The SVGCF will provide a sustainable flow of funds to support enforcement, infrastructure, monitoring needs and other activities that contribute substantially to the conservation, protection and maintenance of biodiversity within SVG’s protected areas or any other area of environmental significance. As one of its core functions, the SVGCF will finance grant proposals from a variety of recipients, including individuals, governmental and non-governmental organizations, local community associations. One of the funding windows will support grants to create sustainable livelihoods, including projects targeting women and

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girls. In addition, all grant proposals are required to have sex-disaggregated data and to include a gender analysis in their design. All these initiatives, in combination with other DPC-supported policies, will contribute to addressing leading human-generated threats to the ocean and coastal environment. As a key principle, the SVGCF-financed initiatives will focus on nature-based solutions for mitigating and adapting to the impacts of climate change on people and their environment, such as coastal habitat restoration.

62. **Expected outcomes:** It is expected that a strengthened SVGCF will facilitate the protection of SVG’s marine and coastal environment, while promoting sustainable development and livelihoods. The SVGCF is expected to build capacity within SVG’s institutions for strengthened surveillance, oversight and enforcement of marine protected areas and other areas of environmental significance. A stronger SVGCF will also improve the government’s ability to reach its target under the Caribbean Challenge Initiative to protect 20 percent of its near shore marine and coastal resources by 2020. Likewise, considering the extent of environmental and climate sensitivities of coastal zones and related marine resources, their sustainable use and management will also improve climate resilience. Considering that the timeframe for approving and implementing the first SVGCF grants will go beyond the timeframe of the DPC series, the outcomes of this prior action will be measured by an increase from 0 to 2 in the number of SVGCF’s sustainable revenue sources.

**Prior Action 8:** The Recipient, through its Cabinet of Ministers, has approved the National Fisheries and Aquaculture Policy for improving management, sustainable use and development of fisheries and aquaculture resources and related ecosystems.

**Trigger 11:** The Recipient has adopted a national aquaculture business plan, with special activities targeting youth and women, to promote a sustainable seafood industry and reduce overfishing.

63. **Rationale:** Fisheries are one of the main economic activities of SVG in terms of employment generation, contribution to the food supply and foreign exchange earnings, especially through intraregional trade. While approximately 3,000 people are engaged in marine coastal and deep-sea fisheries activities, only 12 people have been reported as employed in aquaculture (FAO 2014). Additional jobs – both formal and informal – are associated with pre- and post-harvesting, especially processing and selling activities in which women have participated significantly. However, in line with global trends, SVG is facing a sharp decline in fish stocks: the country’s annual captures decreased almost 70 percent between 2007 and 2016 (from 4,788 tons to 1,467 tons). Climate change poses an additional burden on fish stocks and on the critical marine and coastal ecosystem on which they depend, because of higher ocean temperatures, increasing acidification, changes in the ocean currents, among others, which can prevent overexploited stocks from fully recovering. The GoSVG aims to strengthen fisheries governance – with emphasis on control and oversight – and to develop partnerships with the private sector for aquaculture investments, aiming at both domestic and international markets.

64. **Substance of prior action:** The Fisheries and Aquaculture Policy (FAP) for St. Vincent and the Grenadines establishes the strategic goals, objectives, actions and key results indicators to implement the country’s vision of a “well-managed fisheries and aquaculture sector, fully integrated into the wider economic development, to secure optimum benefits from those resources for the people of SVG for present and future generations.” Among other actions, the FAP seeks to: (i) consolidate and complement disparate national legislation on fisheries; (ii) strengthen knowledge systems to inform and support fisheries and aquaculture activities, including timely, reliable and complete national fisheries statistics; (iii) strengthen the monitoring and evaluation system; and (iv) establish national communication and
public awareness, education and training programs. A strengthened fisheries and aquaculture policy could help bring SVG back into compliance with global best-practice in the sector. Furthermore, the policy recognizes that women play important roles in the fisheries industry. In Goal 7 “Gender Equality and Youth Involvement”, the policy sets forth specific actions for ensuring that the development of the fisheries sector recognizes the specific roles and needs of women and girls in the industry. To achieve the goals of reducing risks for the sector, building climate resilience and enabling an environment for sustainable aquaculture development, the GoSVG is preparing a national business plan for aquaculture development. The government is aiming to attract private investment with clear rules and incentive mechanisms for sustainable aquaculture. The business plan will identify potential production sites, technology, investors, as well as mechanisms for integrating aquaculture production with the tourism sector. As other actions envisaged in the FAP, the business plan will consider gender gaps in the sector and will include specific activities aimed to address those disparities, particularly for creating job opportunities for women.

65. **Expected outcomes:** It is expected that the FAP will promote sustainable use and protection of the natural environment and marine biodiversity, while contributing to food security, as well as to fish and seafood production for commercial purposes. The adoption of this policy will help ensure that demand for fish and other seafood products from tourists and locals is met through sustainable management and harvesting practices. By supporting sustainable fisheries practices and promoting aquaculture initiatives to adapt to the decline in stocks, the adoption of this policy will improve the adaptive capacity of fisheries-dependent populations to cope with observed and anticipated climate change impacts in the sector. The outcome will be measured by the number of private-public partnerships implementing sustainable aquaculture projects (*Baseline* (2017): 0; *Target* (2020): 1).

<table>
<thead>
<tr>
<th>Table 4. Prior Actions and Analytical Underpinnings</th>
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<tbody>
<tr>
<td><strong>Prior actions</strong></td>
</tr>
<tr>
<td><strong>Analytical Underpinnings</strong></td>
</tr>
<tr>
<td><strong>Pillar 1: Strengthening fiscal policy and public financial management</strong></td>
</tr>
<tr>
<td>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.</td>
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<tr>
<td>Prior Action 2: The Recipient, through its House of Assembly, has approved a revised Public Procurement Act, which is consistent with international good practice.</td>
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<td>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.</td>
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<tr>
<td></td>
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<tr>
<td>Prior Action 5</td>
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<tr>
<td>---------------</td>
</tr>
</tbody>
</table>
| 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. | Unbreakable: Building the Resilience of the Poor in the Face of Disasters (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 6 | Toward a Blue Economy: A Promise for Sustainable Growth in the Caribbean (World Bank, 2016).  
Financing the Blue Economy – a Caribbean Development Opportunity (Caribbean Development Bank 2018)  
Continuity and Change: Job Creation, Resilience, Sustainable Development and New Opportunities in a Rapidly Changing Global Environment (Ministry of Finance, 2018)  
| The Recipient, through its Cabinet of Ministers, has approved the National Ocean Policy and Strategic Action Plan, 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 spatial planning. |  
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.  
Toward a Blue Economy: A Promise for Sustainable Growth in the Caribbean (World Bank, 2016).  
Financing the Blue Economy – a Caribbean Development Opportunity (Caribbean Development Bank 2018)  
Continuity and Change: Job Creation, Resilience, Sustainable Development and New Opportunities in a Rapidly Changing Global Environment (Ministry of Finance, 2018)  
Prior Action 8: The Recipient, through its Cabinet of Ministers, has approved the National Fisheries Policy and Aquaculture for improving management, sustainable use and development of fisheries and aquaculture resources and related ecosystems.

Toward a Blue Economy: A Promise for Sustainable Growth in the Caribbean (World Bank, 2016).
Financing the Blue Economy – a Caribbean Development Opportunity (Caribbean Development Bank 2018)
Continuity and Change: Job Creation, Resilience, Sustainable Development and New Opportunities in a Rapidly Changing Global Environment (Ministry of Finance, 2018)

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

66. **Bank programming in SVG is guided by the OECS Regional Partnership Strategy (RPS) for FY15–19 and the Performance and Learning Review (PLR) of the RPS published May 2018.** The objective of the RPS is to contribute to laying the foundations for sustainable inclusive growth through three areas of engagement: (i) competitiveness, (ii) public sector modernization, and (iii) resilience. The PLR noted the continued relevance of these programming priorities but added, “The PLR strengthens the strategic focus on macro-fiscal issues due to these countries continued economic volatility and heavy debt burden, and deepens engagement to support resilience, . . .”. Furthermore, the PLR notes that, “Support . . . will be provided through a combination of financing instruments, including budget support . . .”. This proposed budget support operation thus directly addresses the priorities noted in the RPS and the increased focus on macro-fiscal issues and resilience stated in the PLR. In particular, this operation seeks to address issues of resiliency, in an effort to reinforce macroeconomic stability and enhance resilience to shocks. The operation is specifically designed to build on complementarities between strengthening resilience to climate change and natural disasters, and the fiscal aspects that arise from such recurrent climatic events, such as increased macroeconomic instability and rising debt levels. As such, the operation is closely aligned with the key objectives noted in the RPS and the PLR, as well as clearly articulated regional and national priorities.

67. **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 ($68.2 million), the Caribbean Regional Oceanscape Project ($6.3 million), OECS Regional Tourism Competitiveness Project ($5 million) and the OECS Regional Agricultural Competitiveness Project ($4.3 million).

68. **Support from the SEMCAR Program financed by Global Affairs Canada and other initiatives illustrates well the close links between this DPC operation and technical assistance and capacity building support provided in the region by the Bank.** The GoSVG formulated numerous requests for TA through the SEMCAR initiative and others to help implement measures supported under this operation. Several such TA examples were noted previously. 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\textsuperscript{14}. 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, COLLABORATION WITH DEVELOPMENT PARTNERS

Consultations

69. 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. Furthermore, as with most legislative and policy measures, including those supported through this operation, such reforms are subject to a consultative process involving the private sector, civil society, and groups likely to be impacted by such changes. Finally, the independent press in SVG actively covers such discussions, and is effective in generating public dialogue.

Collaboration with other Development Partners

70. The authorities have consulted a wide range of stakeholders on the measures supported by this operation. Measures in the public financial management space have been thoroughly discussed with development partners integrally 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. On measures under Pillar 2, many development partners are active in this area including the Caribbean Development Bank, the Inter-American Development Bank, Canada, UK and others. Donors frequently get together, typically in a regional context, to coordinate, harmonize and jointly support development efforts around climate change and environmental issues. In addition, reforms around the Physical Planning Act 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.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

71. The poverty and social impacts of the policy measures supported by this DPC series are expected to range from positive to mildly positive, with an overall impact that is positive on balance. 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. A more detailed analysis will be carried out when new poverty data become available.\textsuperscript{15}

\textsuperscript{14} 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.

\textsuperscript{15} The next Country Poverty Assessment is expected to be conducted in 2019 under the CDB’s Enhanced Country Poverty Assessment Project.
72. Prior actions under Pillar 1 (prior actions 1, 2, 3 and 4 and associated triggers) 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 Income Tax Act amendments is expected to have a minimally negative effect on low-income groups. The primary emphasis of the reform is on corporate transfer pricing and given that the tax-free personal allowance is EC$20,000, the effect on the poor is insignificant as their income remains below EC$3,450 per annum.\textsuperscript{16} 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 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 to tax rules. A positive distributional impact can thus be expected in the medium-term provided the additional revenue is used for development, poverty reduction, social spending, and public services. Furthermore, the new TAPA, by better delineating IRD and taxpayers’ responsibilities and rights will help ensure fairer and more consistent treatment of taxpayers.

73. Trigger 2 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 scaleup 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. The Bank is engaging with the authorities to ensure that such pro-poor aspects are effectively addressed in the fund’s arrangements.

74. Prior actions under Pillar 2 are expected to have positive effects on the poor and the vulnerable in the medium-term by promoting resilience to natural disasters. A World Bank report estimated that the impacts of disasters are more than twice as significant for poor people than anyone else.\textsuperscript{17} 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 affected by post-disaster disruptions in infrastructure services such as electricity, roads and running water. In this sense, strengthening of the Town and Country Planning Act (trigger 7) and the updating of building codes (trigger 6) 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

\textsuperscript{16} EC$3,450 corresponds to the regional poverty line for Latin America and the Caribbean at US$5.5 per day in 2011 PPP.

\textsuperscript{17} Hallegatte, Stephane; Vogt-Schilb, Adrien; Bangalore, Mook; Rozenberg, Julie (2017). Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters. Climate Change and Development. Washington, DC: World Bank.
of 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 very small when compared to the costs of complete rebuilding which may be necessary in the event of damage by a hurricane. The GoSVG will promote awareness campaigns on the benefits of adopting minimum standards of safety and structural integrity and will provide technical advice to such persons who may be applying for permission to construct a new home or to renovate an existing one. Prior action 5, 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. The other prior actions and triggers under Pillar 2 involving the National Ocean Policy and the National Fisheries and Aquaculture Policy are also pro-poor over the medium- to long-term as they strengthen natural and livelihood resilience that are so important to poor households that rely on natural resource base for their livelihoods, such as fisheries, but are also, as noted, vulnerable to the devastating effects of natural disasters. These measures are expected to have particularly positive effects on the coastal communities and particularly the vulnerable who live in low-lying coastal areas.

5.2. ENVIRONMENTAL ASPECTS

75. **Reforms supported under Pillar 1 (prior actions 1, 2, 3, 4 and related triggers) 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. Trigger 2 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.

76. **Policy reforms supported under Pillar 2 are directly linked to strengthened environmental management and climate resilience.** Prior actions 5 through 8 (and associated triggers) are specifically designed to increase environmental protection and resilience. Phasing out of coastal sand mining (Prior Action #5) 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. The National Oceans Policy and Strategic Action Plan (Prior Action 6) will foster improved, effective and sustainable use of marine resources and reduce both land- and ship-based pollution in SVG coastal areas and waters, with the increased monitoring and enforcement of marine solid waste disposal and effluent control positively affecting human health, ecosystems, economics activities (such as tourism) and related livelihoods. The Fisheries and Aquaculture Policy of St. Vincent and the Grenadines (Prior Action 8) will seek to ensure sustainable harvesting of the seafood industry, while creating economic opportunities, through numerous initiatives related to improved environmental stewardship. Strengthening the SVGCF (Prior Action 7) will create opportunities for: (i) improving protection and management of multiple areas of environmental interest; and (ii) enhancing and maintaining the quality of natural resources for sustainable livelihoods and for promoting the blue economy.
5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

77. **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.

78. **PFM reforms and initiatives since 2012 are ongoing and include:**

- **Credibility of the budget.** Through Pillar 1, Prior Action 1 of this operation, there will be further strengthening of budget credibility. 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 would diminish 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 Pillar 1, Prior Action 5 of this operation, the supervision of SOEs would be strengthened. Operating guidelines for SOEs have been drafted and are being reviewed by SVG’s Attorney General’s Chambers. 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 will improve through Pillar 1, Prior Action 1 and the continued strengthening of the process and preparation of SVG’s MTFF. Additionally, the preparation of the budgets will be guided using a 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 tax payer programs and performance measurements. Additionally, the Customs and Excise Departments are now 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 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 financial statements for 2015-2017 have been drafted in accordance with International Public Sector Accounting Standards (IPSAS) and are to be reviewed by Cabinet.

79. **SVG publishes an annual budget.** MOF publishes the annual budget address and Estimates of Revenue and Expenditure on its website and makes them available in print form. MOF 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.

80. **Further reforms are needed to mitigate residual PFM risks.** SVG has started to modernize its PFM legislative framework, a Draft Government Asset Regulations and a Tax Administration Procedures Act have been prepared. More recently, the Public Procurement Act was passed by the Parliament in December 2018. 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. The 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. The Accountant General’s office has provided the draft financial statement to the AOSVG for the period up to December 31, 2016, however, the most recent audited financial statements and related audit report submitted to Parliament was for year-end 2011. 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 are contemplating a PEFA assessment update to evaluate the effectiveness of the various PFM reforms and initiatives, reassess its current PFM environment, and ensure a more holistic PFM reform approach going forward.

81. **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.

82. **Disbursement and Auditing Arrangements.** The proposed credit will follow the World Bank’s standard disbursement procedures for development policy support. 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 USD, into SVG’s foreign-exchange account at the ECCB. The ECCB will then immediately ensure that, upon deposit in said account, an equivalent amount in Eastern Caribbean Dollars (EC$) will be credited to SVG’s account, which will become available to finance budgeted expenditures. Within 30 days of the funds transfer, the GoSVG, through its MOF, will provide the Bank with written confirmation of the amount deposited into SVG’s foreign-currency account at the ECCB and that the equivalent EC$ amount has been accounted for in the country’s budget management system in an 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 Agreement, 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. The closing date of the operation will be December 31, 2019.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

83. Monitoring, Evaluation, and Results Framework. The MOF will be responsible for coordinating actions by other relevant ministries and agencies. The Bank has discussed the importance of developing a monitoring and evaluation process with the relevant institutions to ensure adequate feedback to policymakers. Monitoring and evaluation is traditionally weak in small island economies, including SVG, and the Government recognizes the need to strengthen mechanisms. The results framework agreed to by the Government and the World Bank is presented in Annex 1. It includes indicators to be assessed at the end of 2020. The Bank will maintain an ongoing dialog with counterparts in the MOF and other involved ministries regarding the monitoring and evaluation of reforms supported by the operation.

84. 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

85. 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.
Table 5. Systematic Operations Risk-Rating Tool (SORT)

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Rating</th>
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<tbody>
<tr>
<td>1. Political and Governance</td>
<td>Moderate</td>
</tr>
<tr>
<td>2. Macroeconomic</td>
<td>High</td>
</tr>
<tr>
<td>3. Sector Strategies and Policies</td>
<td>Moderate</td>
</tr>
<tr>
<td>4. Technical Design of Project or Program</td>
<td>Moderate</td>
</tr>
<tr>
<td>5. Institutional Capacity for Implementation and Sustainability</td>
<td>Substantial</td>
</tr>
<tr>
<td>6. Fiduciary</td>
<td>Substantial</td>
</tr>
<tr>
<td>7. Environment and Social</td>
<td>Substantial</td>
</tr>
<tr>
<td>8. Stakeholders</td>
<td>Moderate</td>
</tr>
<tr>
<td><strong>OVERALL</strong></td>
<td><strong>Substantial</strong></td>
</tr>
</tbody>
</table>

86. **Macroeconomic risks are improving, though continue to be considered high.** As a largely tourism-based economy, SVG is highly vulnerable to global economic conditions. While the global economy is relatively buoyant at present, tourism is one of the first discretionary expenditures to be cut during times of slow growth or recession. A sluggish global economy, particularly in the US, could impede the expected resurgence of the tourism industry, thereby slowing GDP growth and reducing FDI. An adverse external environment could also exacerbate the external financing gap and make the process of fiscal adjustment more difficult. Rising oil prices, though now of lesser concern, could boost inflation, raise production costs and widen the current-account deficit. While planned geo-thermal electricity production will offset this risk in the medium-term, this capacity is not yet installed. Being at a high risk of debt distress, combined with the risk of significant natural disasters, further 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.

87. **Institutional capacity risk is also 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 with which to implement can be extremely limited. As noted earlier, this requires significant follow-up and TA support to maintain reform and implementation momentum.

88. **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, and reporting, and external scrutiny and audit. A PFM Reform Action Plan was developed after the 2012 PEFA assessment but was only partially implemented. 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. The authorities are contemplating a PEFA assessment update soon to reassess its current PFM environment and refocus on key reforms. Notwithstanding an update PEFA assessment, which will take some time, the Bank will engage in a policy dialogue with the GoSVG to support preparation of a comprehensive PFM Reform Action Plan (PFM Action
Plan). Key pillars of this PFM Action Plan could form the basis of prior actions or triggers for the subsequent operation in the DPC series.

89. **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 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

<table>
<thead>
<tr>
<th>Prior actions</th>
<th>Triggers</th>
<th>Results and indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pillar 1: Strengthening fiscal policy and public financial management</strong></td>
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</table>
| **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. | **Trigger 1:** The Recipient will approve a Parliamentary resolution that outlines declaratory fiscal policy principles and sets targets for spending, fiscal balances and public debt levels. **Trigger 2:** The Recipient, through its Parliament approves regulations for the operation of the contingencies fund. | **Result Indicator:** Public debt convergence to the ECCU target of 60 percent of GDP by 2030.  
*Baseline (2017):* 76.4 percent  
*Target (2020):* 72.0 percent  
**Result Indicator:** Level of funds in the contingency fund.  
*Baseline (2017):* no funds  
*Target (2020):* EC$ 30 million |
| **Prior Action 2:** The Recipient, through the House of Assembly, has approved a revised Public Procurement Act, which is aligned with international good practice. | **Trigger 3:** The Recipient will adopt 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.  
*Baseline (2017):* no analysis  
*Target (2020):* Analysis completed and published. |
| **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. | **Trigger 4:** The Recipient, through its Minister of Finance, has submitted to the House of Assembly, a revised Tax Administration and Procedures Act (TAPA) aimed at increasing transparency, consistency, and increasing domestic resource mobilization by facilitating compliance. | **Result Indicator:** Revenue from taxes on income and profits.  
*Baseline (2017):* EC$ 151 million  
*Target (2020):* EC$ 165 million |
| **Prior Action 4:** The Recipient, through its Trigger 5: The Recipient, through its Cabinet of |                                                                                              |                                                                                         |
| Trigger 5: The Recipient, through its Cabinet of | Trigger 5: The Recipient, through its Cabinet of | **Result Indicator:** Analysis of the |
Cabinet of Ministers, has issued an order mandating quarterly and annual financial reporting standards and requirements for SOEs.

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.

<table>
<thead>
<tr>
<th>Prior actions</th>
<th>Triggers</th>
<th>Results and indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cabinet of Ministers, has issued an order mandating quarterly and annual financial reporting standards and requirements for SOEs.</td>
<td>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.</td>
<td>performance of commercial SoEs published: Baseline (2017): 0 Target (2020): 1.</td>
</tr>
</tbody>
</table>

### Pillar 2: Strengthening climate resilience and adaptation

**Trigger 6:** The Recipient, through its Minister of Physical Planning and Cabinet of Ministers, has adopted the revised administrative guidelines relating to the enforcement and application of OECS Building Codes to strengthen resilience to natural disasters.

**Trigger 7:** The Recipient has complemented the Town and Country Planning Act with mandatory provisions on Environmental Impact Assessment, subdivisions of land, and display of advertisement, to strengthen land use and development planning with a view to increasing climate resilience and coastal protection.

**Result Indicator:** Share of permit applications for new buildings approved in compliance with the updated building codes guidelines.

Baseline (2018): 0 percent
Target (2020): 100 percent
<table>
<thead>
<tr>
<th>Prior actions</th>
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<th>Results and indicators</th>
</tr>
</thead>
</table>
| **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. | **Trigger 8:** 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 by 50 percent.  
Baseline (2018): 35,370 m³;  
Target (2020): 17,685 m³ (50 percent reduction) |
| **Prior Action 6:** The Recipient, through its Cabinet of Ministers, has approved the National Oceans Policy and Strategic Action Plan, 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. | **Trigger 9:** The Recipient, through its Council of Ministers, has phased out the use of single-use plastic bags to reduce waste generation and marine pollution.  
**Trigger 10:** The Recipient has adopted national regulatory standards for effluent discharges, including minimum sewage effluent guidelines and a monitoring program for Priority Pollution Watch Sites (PPWS). | **Result Indicator:** Imported single-use plastic bags reduced by 2/3:  
Baseline (2017): 453.4 tons of plastic sacks and bags (including cones);  
Target (2020): 151 tons  
**Result Indicator:** Priority Pollution Watch Sites (PPWS) regularly monitored and monitoring results publicly disclosed.  
Target (2020): 3 PPWS regularly monitored. |
<table>
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</table>
| **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. | **Trigger 11**: The Recipient has adopted a national aquaculture business plan, with special activities targeting youth and women, to promote a sustainable seafood industry and reduce overfishing. | **Result Indicator**: Increase in number of St. Vincent and the Grenadines Conservation Fund’s sustainable revenue sources.  
*Baseline (2018)*: 0  
*Target (2020)*: 2 |
| **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. | | **Result Indicator**: Number of private-public partnerships implementing sustainable aquaculture projects.  
*Baseline (2018)*: 0  
*Target (2020)*: 1 |
ANNEX 2. LETTER OF DEVELOPMENT POLICY

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

Telephone: (784) 456-1111
Facsimile: (784) 457-2943
E-Mail: office.finance@gov.vc

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

Our ref. MF/854

25th March, 2019

Kristalina Georgieva
Interim President of the World Bank Group
and Chief Executive Officer of the World Bank
1818 H Street, NW
Washington, DC 20433

RE: IDA US$30.0 MILLION FOR A FISCAL REFORM AND RESILIENCE DEVELOPMENT POLICY CREDIT

Dear Ms. Georgieva,

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, public financial management, and reinforcing climate resilience and adaptation.

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

I. GOVERNMENT’S POLICY DIRECTIONS AND RECENT MACROECONOMIC DEVELOPMENTS

The Government of St. Vincent and the Grenadines seeks to further transform the economy from one historically based on subsidized mono crop export and low-skill labour to one that is more diverse, modern, competitive and fully engaged and connected with the global economy. Amid the challenges and opportunities of an uncertain global environment, government policy seeks to strengthen, diversify and grow the economy, while increasing the Government’s commitment to fiscal, social and environmental responsibility.
We seek to build on recent accomplishments, which include the completion of the Argyle International Airport and the resultant additional direct flights; acquisition of a Coast Guard Vessel of high quality and range; resolution of the foreign exchange challenges faced by small traders in Trinidad and Tobago; opening of the Modern Medical Complex at Georgetown; committing resources to our Contingencies Fund; finding new investors for the Buccament Bay Resort; and undertaking targeted investment in growth enhancing public infrastructure. Planned investments reflect the Government’s focus on re-engineering economic growth and building resilience.

The US$100 million geothermal plant construction; the US$50 million hotel construction at Mt. Wynne; the US$10 million hotel project at Diamond; the US$145 million cargo and ferry port construction project in Kingstown; the US$34 million in secondary and feeder road construction; and the US$5 million in village footpaths are key are critical investments in climate-resilient infrastructure that will lift the growth trajectory of the economy during construction and operations phases.

Current reform efforts rest on 10 principles for jobs, growth and transformative sustainable development: mainstreaming the Sustainable Development Goals; diversifying the bases of economic growth; investing in climate resilient infrastructure; focusing on climate change adaptation, environmental conservation and renewable energy; maintaining fiscal prudence; supporting job creation; reducing social inequality; attacking crime and the causes of crime; nurturing a healthy, vibrant private sector; and improving the delivery of quality health care.

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, and increased fiscal, social and environmental responsibility. The journey of economic transformation continues to progress, in the interest of the Vincentian people.

II. MACROECONOMIC OUTLOOK FOR FY 2019

Forecasts for the prospects of the global economy are mixed but becoming increasingly pessimistic. The health and growth of Saint Vincent and the Grenadines’ small, open economy is directly affected by global economic trends. As such, these worsening 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.
In January 2018, the International Monetary Fund’s *World Economic Outlook Update* predicted that global growth in 2019 will be 3.5% – a 0.4 percentage point reduction from an estimate provided by the IMF eight months earlier. The prospects for the developed countries most directly connected to the Vincentian economy – the United States of America and the United Kingdom – are less positive, driven by uncertainties relating to trade wars, rising oil prices, increasing levels of debt, local political issues and Brexit.

Similarly, in Latin America, growth prospects remain tepid. Projected 2019 Growth in the United States (2.5%), the United Kingdom (1.5%) and Latin America and the Caribbean (2.2%) all fall well below the predicted global average.

The World Bank’s more recent *Global Economic Prospects* 10 Report, subtitled “Darkening Skies,” was released in January and presents a more sobering forecast. The Report’s Executive Summary begins with the sentence “[t]he outlook for the global economy has darkened.” It predicts global growth in 2019 of 2.9% – almost a full percentage point below the IMF estimate. While its 2019 predictions for United States’ growth (2.5%) are in line with the IMF forecast, its projections for the United Kingdom (1.4%) Latin America and the Caribbean (1.7%) are less optimistic.

**Preliminary estimates indicate that the economy of Saint Vincent and the Grenadines grew by at least 2.3% in 2018, exceeding projections of a year ago.** Growth was driven by improved performance in the tourism, fishing, construction and manufacturing sectors. For 2019, the International Monetary Fund projects growth of 2.3%, an improvement on its 2018 estimate, which proved to be slightly conservative. This growth is expected to be driven by increased tourism arrivals and tourism-related activities like hotel construction and expansion. As with last year, we consider the IMF’s projections to be conservative.

In keeping with their more guarded view of the global economy, and our subregion in particular, the World Bank forecasts that growth in the Vincentian economy will be a more modest 2.1% in 2019, while ECLAC’s preliminary prediction is 1.5%. Notwithstanding, the imprecise nature of the forecasting models and the underlying statistical data, we consider these predictions to be unduly pessimistic at this stage, barring some unforeseen event.

As always, the grave menace of climate change and natural disasters looms as a direct threat to growth and development prospects. Other exogenous threats could include weaker-than-expected performance among our developed economy trading partners, rising oil prices and tightening global financial conditions. Closer to home, the IMF’s predictions of flat growth in our main regional trading partners of Barbados (-0.1%) and Trinidad and Tobago (0.9%) – if accurate – may pose challenges to specific sector prospects in the Vincentian Economy.
Recent development in Venezuela have raised concerns about the potential for widespread social and economic fallout across the southern Caribbean.

III. DIRECTION AND DYNAMIC OF REFORMS TO SUPPORT GROWTH

We consider our policy framework to be progressive. Our economy is growing, and jobs are increasing. We consider the developmental roadmap elaborated by the 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.

To be sure, it would be a stretch to suggest that our economy and our public finances are now 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 us the clearest cause for cautious optimism in over a decade. 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 our productivity and we must work hard and smart. Strengthening fiscal policy and public financial management is integral to these efforts and we strive to reinforce climate resilience and adaptation. 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 agreed to the triggers for subsequent reforms related thereto.

IV. REFORMS ENVISAGED WITHIN THE FRAMEWORK OF THIS PROGRAM AND STRATEGIES TO BE IMPLEMENTED

This program will leverage government efforts to bolster State actions in two (2) primary areas: (i) strengthening fiscal policy and public financial management; and (ii) reinforcing climate resilience and adaptation. The actions in each of these two areas are explained below.
PILLAR 1: STRENGTHENING FISCAL POLICY AND PUBLIC FINANCIAL MANAGEMENT

1. Approved a resolution requiring annual preparation of a medium-term fiscal framework (MTFF) that sets fiscal policy targets and milestones for review and monitoring with a view to anchoring a sustainable path for the fiscal account. We clearly recognize the need for further strengthening budget preparation and planning through the adoption of an MTFF process that ensures timely preparation and adherence to a medium-term planning tool. As such, Cabinet has adopted an MTFF process.

   Going forward we will seek to further approve a well-crafted resolution that outlines declaratory fiscal policy principles and sets targets for spending, fiscal balances and public debt levels. 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.

2. The House of Assembly has approved a revised Public Procurement Act, which is aligned with international good practice. Our Government has recently implemented and continues to pursue important public investment activities. We recognize the need for a modern and effective public procurement system that helps ensure value for money, and one that also enables greater competition and increased transparency. Over the next year the intention is to adopt the necessary regulations, standard bidding documents and standard forms of contract in support of the new Procurement Act so that we can begin to avail ourselves of the anticipated improvements resulting from its effective implementation. We are confident that, once fully implemented, the new Procurement Act will result in demonstrable fiscal savings and improved performance of public investment projects.

3. Submitted to the House of Assembly, amendments to the Income Tax Act aimed at addressing transfer pricing issues. Given the presence of foreign companies, particularly in the telecommunications and banking and tourism sectors, the lack of effective transfer pricing tax measures is leading to significant under-taxation of such enterprises and less than optimal domestic revenue mobilization. Furthermore, we are planning to submit to the House of Assembly, a revised Tax Administration and Procedures Act (TAPA) aimed at increasing transparency and consistency in tax administration, which should further increase domestic resource mobilization by facilitating compliance. The TAPA will incorporate international best practices and facilitate effective tax administration.
4. Cabinet has issued an order mandating quarterly and annual financial and operational reporting standards and requirements for State-Owned Enterprises (SOEs). It is hoped that mandating standardized reporting requirements, in terms of both financial and performance related factors, will assist in strengthening the monitoring and oversight functions undertaken by the Ministry of Finance. To further strengthen this function, we intend to implement a broader SOE reporting framework, including the creation of a Monitoring and Oversight Committee, including a clear definition of its composition, mandate, roles and responsibilities. It is hoped that these SOE measures will contribute to the enhanced performance of commercial SOEs by way of compliance with the new strengthened monitoring and reporting system.

PILLAR 2: REINFORCING CLIMATE RESILIENCE AND ADAPTATION

5. Through our Physical Planning Unit, we have implemented a monitoring mechanism for the extraction of sand at remaining coastal sand mining sites, with a view to reducing amounts mined. We are also committed, over the coming months, to adopting a time-based plan for the total ban of coastal sand mining. We recognize 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 fully cognizant of the environmental implications associated with coastal sand mining and are committed to eliminating the practice over time.

6. Cabinet has approved the National Oceans Policy and Strategic Action Plan and has created the National Ocean Coordinating Committee. The country’s marine biodiversity faces numerous threats and challenges. These include issues such as: pollution emanating from ships and land-based sources; climate change effects; coral bleaching; acidification; fish migration; and drowning wetlands due to sea level rise. Marine-related resources provide livelihoods for fisherfolk and support tourism activities (sport fishing, yachting and dive tourism), which are significant contributors to GDP. Protecting and enhancing our marine environment is important to fiscal, economic and climate resilience.

7. The Government has strengthened the legal framework for the SVG Conservation Fund (SVGCF) by amending its By-laws to include mechanisms to increase continuous revenue generation. This measure was taken to further protect the valuable marine environment. Reinforcing the SVGCF through ensuring its continuous and adequate resourcing, is intended to build capacity within Saint Vincent and the Grenadines’ maritime institutions and allow for strengthened surveillance, oversight and enforcement of marine protected areas and SVG’s marine environment more broadly. In line with this support to the marine environment, the Government is actively considering and planning a ban on single-use plastic bags.
8. *Cabinet has approved the National Fisheries Policy.* The fisheries sector is one of Saint Vincent and the Grenadines important economic activities in terms of employment generation, contribution to the food supply and foreign exchange earnings. Establishing a policy framework for the sustainable advancement, promotion and growth of the sector is important to economic and social development in Saint Vincent and the Grenadines. We are also presently looking at specific initial activities to pursue under this policy and will articulate a vision and action plan for implementation of the new fisheries policy over the next few months.

The Government of Saint Vincent and the Grenadines wishes extend its appreciation to the World Bank for its involvement in carrying out this operation and reiterates its commitment to pursue the implementation of this policy framework contained herein.

Sincerely yours

[Signature]

Honorable Camillo Gonsalves
Minister of Finance
Ministry of Finance, Economic Planning,
Sustainable Development and Information Technology
IMF Executive Board Concludes 2018 Article IV Consultation with St. Vincent and the Grenadines

On February 15, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation\(^{18}\) with St. Vincent and the Grenadines. The 2018 Article IV consultation focused on policies to achieve stronger and sustainable growth, build fiscal buffers, bolster resilience to natural disasters, and ensure financial stability.

The economy of St. Vincent and the Grenadines has been recovering. The closure of Buccament Bay Resort (the largest hotel on the main island) and heavy rains with flooding and landslides slowed down growth in the second half of 2016 and early 2017. Following the opening of the new airport, however, tourist arrivals have recovered, boosting tourism-related services (such as hotels, restaurants, and retail). Increased demand for reconstruction materials from Dominica (struck by Hurricane Maria in September 2017) also helped the recovery. As a result, quarterly data show that output growth (year-on-year) has turned positive since the third quarter of 2017. Over the past year, inflation has remained around 2-3 percent.

The growth outlook is positive. Staff expects real GDP growth to rebound from 0.7 percent in 2017 to 2 percent in 2018, and further to 2.3 percent in 2019, driven by increases in tourist arrivals, tourism-related activities (including investment in hotels and resorts), and related local production. Beyond 2020, growth would be sustained at around 2.3 percent, assuming steady tourism and investment growth.

This outlook is subject to both external and domestic risks. External risks include weaker-than-expected global growth, tighter global financial conditions, and higher oil prices. Domestic risks include more severe and frequent natural disasters, the loss of correspondent banking relationships, and materialization of financial sector risks. There is also upside potential stemming from stronger-than-expected tourist arrivals, investor interest, concessional financing for capital projects, and the successful completion of the geothermal power plant.

Executive Board Assessment\(^{19}\)

\(^{18}\) Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

\(^{19}\) At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.
Executive Directors commended the authorities for successfully reinvigorating the St. Vincent and the Grenadines’ economy. Nonetheless, they noted the continuing challenges in terms of making economic growth more sustainable, reducing public debt, and increasing resilience to natural disasters.

Directors stressed the importance of advancing structural reforms to raise longer-term growth. They urged the authorities to capitalize on the growth opportunities created by the new airport. They recommended vigorously implementing policies to foster private sector activity, by improving the investment climate and strengthening human and physical capital, including investing in climate-resilient infrastructure.

Directors emphasized the importance of bolstering fiscal buffers. They welcomed the authorities’ commitment to meeting the 60 percent of GDP debt target by 2030 and underscored the need for fiscal consolidation that does not jeopardize economic growth. They recommended prioritizing capital projects taking into account capacity and budget constraints and seeking concessional financing. Directors also encouraged taking additional fiscal measures, including broadening the tax base and reforming the pension system.

Directors welcomed the establishment of the Contingency Fund as an important instrument to protect public finances from the impact of natural disasters and climate change. They underscored the need to legislate the Contingency Fund’s governance and operational framework to ensure its effectiveness and transparency. Directors also suggested expanding the coverage of disaster insurance, especially against floods. More generally, they recommended continuing to strengthen disaster preparedness, including reviewing the National Emergency and Disaster Act, updating river basin flood risk maps, and enhancing public education and awareness.

Directors encouraged the authorities to strengthen the institutional fiscal framework. Priorities include adopting a medium-term fiscal framework, strengthening revenue administration by moving toward a risk-based approach and completing the various reform initiatives, issuing regulations to strengthen the oversight of state-owned enterprises, and establishing a legal and institutional framework to assess potential risks from public-private partnerships.

Directors highlighted the need to further strengthen financial sector oversight. They urged the authorities to enact pending legislation to strengthen the Financial Services Authority’s enforcement power. Directors urged the authorities to move ahead with preparing a crisis management plan for the non-bank financial sector and setting up a Financial Crisis Management Committee, building on earlier technical assistance provided by CARTAC.

Directors commended progress in addressing remaining legal deficiencies in the AML/CFT framework. Going forward, they recommended focusing on ensuring the effectiveness of AML/CFT preventative measures and completing the National Risk Assessment.
# ANNEX 4.

## ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

<table>
<thead>
<tr>
<th>Prior actions</th>
<th>Significant positive or negative environment effects</th>
<th>Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)</th>
</tr>
</thead>
</table>

### Pillar 1: Strengthening fiscal policy and public financial management

**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.

- 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 2:** The Recipient, through the House of Assembly has approved a revised Public Procurement Act, which is aligned with international good practice.

- 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 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.

- 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.

**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.

- No significant positive or negative effects.
- No direct significant positive or negative effects on poverty.

To the extent that improved SOE monitoring, oversight and performance improves fiscal outcomes, there could be a positive impact on poverty reduction as improved SOE performance leads to increased fiscal space and an
<table>
<thead>
<tr>
<th><strong>Pillar 2: Strengthening climate resilience and adaptation</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prior Action 5:</strong> 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.</td>
</tr>
<tr>
<td>Positive environmental effects are associated with this measure.</td>
</tr>
<tr>
<td>Coastal sand mining poses significant environmental risks, which will be lessened through implementation of the supported action.</td>
</tr>
<tr>
<td>No significant negative effects, potential positive effects.</td>
</tr>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>

| **Prior Action 6:** The Recipient, through its Cabinet of Ministers, has approved the National Ocean Policy and Strategic Action Plan, 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. |
| Positive environmental effects are associated with these measures. |
| Supported policies will have a positive impact on the environmental management and sustainability of SVG’s ocean and fisheries resources. |
| No significant negative effects, potential positive effects. |
| Improved management and protection of ocean and fisheries resources should have a positive impact on the livelihoods of those engaged in the tourism industry and fisher-people, who tend to be among the poorest in Vincentian society. |

| **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. |
| Positive environmental effects are associated with these measures. |
| No significant negative effects, potential positive effects. |

| **Prior Action 8:** The Recipient, through its Cabinet of Ministers, has approved the National Fisheries and Aquaculture Policy for improving management, sustainable use and... |

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development of fisheries and aquaculture resources and related ecosystems.

\[\text{\textsuperscript{1} Acevedo, S., “Gone with the Wind: Estimating Hurricane and Climate Change Costs in the Caribbean”, IMF Working Paper 16/199.}\]