



**Ministry of Finance,
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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 wide spread 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



Honorable Camillo Gonsalves

Minister of Finance

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Sustainable Development and Information Technology