Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: April 17, 2018 | Report No: 125836

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Democratic Republic of São Tomé and Príncipe	P161707	Second Strengthening Growth and Fiscal Policy Development Policy Financing	First Strengthening Growth and Fiscal Policy Development Policy Financing
Region	**Estimated Board Date**	**Practice Area (Lead)(s)**	**Financing Instrument**
Africa	April 30, 2018	Macroeconomics, Trade and Investment (MTI) Global Practice	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Democratic Republic of São Tomé and Príncipe	Ministry of Finance, Trade and Blue Economy		

Proposed Development Objective(s)

The objective of this operation is to help the government introduce growth-enabling reforms in the financial sector, business environment, and infrastructure; generate fiscal resources and savings; and improve the quality of expenditures.
Pillar A: Introduce growth-enabling reforms in the financial sector, business environment, and infrastructure.
Pillar B: Generate fiscal resources and savings and improve the quality of expenditures.

Financing (in US$, Millions)

SDR 4.2 million (US$6 million equivalent)

SUMMARY

Total Financing	US$6 million equivalent

DETAILS

Source:
IDA Grant.
Terms: Standard International Development Association Terms.

Decision

Following the corporate review, the decision was taken to proceed with the preparation of the operation.

B. Introduction and Context

Country Context

STP is a low middle-income and small-island country that faces challenges typical of small states. The country is a multiparty democracy and a unitary state with a population of nearly 200,000 people. It is divided into six districts and the Autonomous Region of Príncipe (Região Autónoma do Príncipe). STP's per-capita gross national income is estimated at US$3,250 in purchasing power parity (PPP), and its per-capita gross domestic product (GDP) is US$1,714 in 2016. The country faces challenges that are typical of small states and affect its ability to deal with shocks and achieve a balanced budget. The limited number of people and workers in the country often prevent the efficient production of goods and services at the scale needed to meet the demand of both local and export markets. Its remoteness and insularity increase export costs, and the limited availability of land and small workforce prevent the country from diversifying its economy, making it more vulnerable to terms-of-trade shocks. The indivisibility in the production of public goods, and the difficulty of providing services to a scattered population imply a high cost of public goods and a high level of public expenditures. Coupled with a limited tax base, the high cost of public goods makes it more challenging for small states to balance their budgets.

In order to achieve higher levels of development, STP must promote more inclusive and private sector-led growth, and address the macroeconomic risks resulting from banking sector weaknesses, external imbalances, and fiscal fragility. The country's economic growth has not been pro-poor because most of its vulnerable population lacks the necessary skills to access economic opportunities. Social protection policies have not been able to alleviate poverty and provide a path for vulnerable households to graduate out of poverty. Moreover, growth has been over-reliant on government spending, as STP lacks buoyant private economic activities to drive economic growth. The government spends around 38 percent of GDP, owns four state-owned enterprises (SOEs), invests in eight other companies, and employs around 11,000 people. Even maintaining the country's current growth levels is at jeopardy because of (i) the government's fragile fiscal position, consisting of a high fiscal deficit and a low level of domestic resource mobilization; (ii) a banking sector with a high level of non-performing loans (NPLs) and capital adequacy on the low side; and (iii) external imbalances.

The Government of São Tomé and Príncipe (GoSTP) wants to adopt a more inclusive, private-sector driven growth model and has been addressing the risks to growth. Public authorities are aware that long-run economic growth cannot rely on government spending. Also, government resources are insufficient to maintain a large payroll, carry out and maintain public investments, and provide quality public services. The GoSTP has been implementing several reforms to improve the business environment. It is currently carrying out investment promotion activities that are expected to attract new private ventures, foster new sources of growth and foreign exchange, and contribute to balancing its external accounts. It is cognizant that it has to resolve infrastructure bottlenecks in the energy and transportation sectors and facilitate access to credit to achieve a more vibrant private sector. Public authorities are also addressing fiscal and banking sector risks to reduce risks to sustainable growth. Finally, the GoSTP has revamped its social protection policy and is expanding education opportunities to allow the benefits of economic growth to reach a wider share of the population.

STP's macroeconomic policy framework is adequate for the proposed DPO operation. The framework is consistent with price stability due to the credible exchange rate peg that has been in place for the past eight years. The Central Bank of São Tomé and Príncipe (Banco Central de São Tomé e Príncipe, BCSTP) has been undertaking efforts to improve its monetary policy tools and support solid credit growth. The GoSTP is addressing fiscal imbalances through improving domestic revenue mobilization, controlling expenditure and achieving a better management and control of SOEs. Moreover, public authorities are taking measures to secure external financing in the short term through grants and concessional loans and support economic activities, which can increase export earnings. Key downside fiscal risks include spending pressures from the upcoming elections in 2018, a sudden reversal in external finance, and a lack of capacity to implement crucial reforms such as the roll-out of the value-added tax (VAT).

Relationship to CPF

The proposed operation supports both themes of the Country Partnership Strategy (CPS) FY14-FY18 (report number 83144), discussed by the Board in July 2014. An extension of the CPS until fiscal year 2019 is being sought, which would fully align its timeframe with that of the operation's timeframe. The operation's first pillar contributes to the first CPS theme: Supporting Macroeconomic Stability and National Competitiveness. DPF support to financial sector supervision activities will help reduce the risks of a serious banking crisis and the corresponding implications on economic output and fiscal stability. Also, its support to domestic revenue mobilization, which is aligned with IDA18's fifth special theme, will help the country achieve a more sustained budget balance position. The proposed operation's second pillar contributes to the advancement of the second theme of the CPS by streamlining social protection programs, expanding coverage, and improving the target of the social protection policy framework.

The DPO will contribute both directly and indirectly to the twin goals. The revision of the social protection policy framework and the expansion of fiscal space will allow a better targeting and an increased coverage of social protection programs. This will be done through measures to increase domestic revenue mobilization. As a result, extreme poverty is expected to be reduced. The policies supported by the operation will also boost shared prosperity. The revised social protection policy will focus not only on the extreme poor but also on the poor and other vulnerable groups. Policy changes to improve the credit market are expected to increase access to credit and market opportunities for households in the bottom part of the income distribution. Finally, affordable and increased access to energy are also associated with reduced poverty and greater shared prosperity.

This DPF series was designed to complement and leverage current and upcoming World Bank projects in STP. The goal is to increase the effectiveness of World Bank support by using different instruments to address different aspects of the development challenges facing the country. In the energy sector, the World Bank is supporting an investment financing project that will increase the reliability of the power supply, help reduce the price of energy, and improve the management of the utility company. Moreover, the DPF operation will work with policymakers to improve sector regulation and the management and oversight of SOEs. The DPF series will also leverage previous ASA reports in the social protection and banking sectors by supporting the policy recommendations outlined in these reports. Finally, the operation takes into account the conclusions of the recently concluded PER that focused on the tax policy, the tax administration, SOEs, and PIM.

C. Proposed Development Objective(s)

The objective of this operation is to help the government introduce growth-enabling reforms in the financial sector, business environment, and infrastructure; generate fiscal resources and savings; and improve the quality of expenditures.
Pillar A: Introduce growth-enabling reforms in the financial sector, business environment, and infrastructure
Pillar B: Generate fiscal resources and savings and improve the quality of public expenditures

Key Results

These are the results expected under each pillar

Pillar A: Introduce growth-enabling reforms in the financial sector, business environment, and infrastructure

- Number of banks below the central bank's minimum Capital Adequacy Ratio (12%). Baseline (2015): 3; Target (2020): 0.
- Score on Doing Business indicator "Getting Credit". Baseline (2015): 0 out of 20; Target (2020): 10 out of 20.
- Share of the population with access to formal financial services (e.g. bank accounts). Baseline (2015): 53 percent; Target (2020): 65 percent.
- Share of real estate properties and mortgages registered and digitized in the Public Notary Registry. Baseline (2015): 0; Target (2020): 90 percent.
- EMAE's non-technical losses. Baseline (2015): 26.4 percent; Target (2020): 23.8 percent.
- Amount of public sector arrears to EMAE. Baseline (2015): 36.4 billion LCU; Target (2020): 12 Billion LCU.
- Energy cost of production. Baseline (2015): 8,545.22 LCU/Kwh; Target (2020): 8,300.00 LCU/ Kwh.
- Number of complaints received by EMAE. Baseline (2015): 6,542; Target (2020): 3,000.

Pillar B: Generate fiscal resources and savings and improve the quality of expenditures

- Tax revenues (as a share of GDP). Baseline (2015): 14.3 percent; Target (2020): 15.8 percent.
- Percentage of performance targets achieved – average for SOEs. Baseline (2015): N.A.; Target (2020): 50 percent.
- Share of ongoing and finalized projects with basic information included in the National Investment Portfolio Database. Baseline (2015): 0; Target (2020): 100%.
- Number of beneficiaries enrolled in the three core Social Protection programs and receiving regular payments as set in law. Baseline (2015): 0; Target (2020): 4,000 (out of which, 50 percent has received payments through the formal financial system)

D. Program Description

This proposed operation, in the amount of SDR 4.2 million (equivalent to US$6 million), is the second in a programmatic series of three development policy operation (DPO) operations. The first operation (P159010), in an amount of US$5 million, was approved by the Board on November 30, 2016. The objective of this operation is to help the government support the country's growth drivers – the agriculture and tourism sectors – by introducing reforms focused on key enabling factors in the financial sector, the business environment, and the infrastructure sector; by generating fiscal resources and savings; and by improving the quality of public expenditures. The reforms in the proposed operation are aligned with the ongoing International Monetary Fund's (IMF) Extended Credit Facility (ECF), which recently underwent its fourth review. Reforms build on the current state of Bank knowledge of this small- island economy, which focuses on the cross-cutting areas that enable growth. As the country is benefiting from a more than fourfold increase in its International Development Association (IDA) allocation, the Bank is undertaking a county economic memorandum that will focus more on the growth drivers: agriculture and tourism, while this DPO supports foundational reforms needed for these growth drivers to thrive.

The objective of this proposed operation is to help the government introduce growth-enabling reforms in the financial sector, business environment, and infrastructure; generate fiscal resources and savings; and improve the quality of public expenditures. These reforms will address the causes of STP's development challenges and risks to growth. The operation is structured around two pillars. The first one supports policies aimed at reducing risks from the financial sector through improving bank supervision and fostering private sector-led growth by improving access to credit and energy, which are foundational steps for developing STP's tourism and agriculture sectors – the country's main comparative advantages. The second pillar deals with the risk of fiscal fragility and the challenges of low inclusiveness of growth.

Despite being organized in pillars around specific sectors and themes, the operation is multi-sectoral, and there are synergies between policy actions and triggers across the two pillars. For example, reforms of the property and mortgage registry will also benefit tax collection and will facilitate loan collateralization by the banking system. Another example is the complementarity between financial inclusion and social protection. Agent banking and mobile finance will allow more people to access the financial system, which in turn will make room for social protection payments to be made through the banking system, allowing for better control and auditing of payments and beneficiaries.

The lack of private-sector growth drivers, the low inclusiveness of growth, and the risks to growth (i.e., from fiscal fragility, the banking sector, and the external sector) have several causes. For example, the low inclusiveness of growth can be traced to low levels of education, poor access to finance, and inadequate social protection. The lack of private-led growth drivers can be ascribed to poor infrastructure, lack of credit, an inefficient judicial sector, and a cumbersome business environment. Moreover, risks to growth come from: (i) poor bank supervision and inadequate resolution of NPLs in the banking sector; (ii) low domestic resource mobilization, a high risk of debt distress, and the low quality of public expenditures; and (iii) a high current-account deficit, over-reliance on grants, and concentrated exports. Since the DPF series cannot address all causes of growth risk, some filters – such as complementarity with other operations and Advisory Services and Analytics (ASA), client demand, and World Bank expertise - were applied to select the government policies to be supported by this series. As a result, the DPF series is supporting measures to address nine causes of the country's development challenges and risks to growth.

Prior Actions under DPF 2

Pillar A: Introduce growth-enabling reforms in the financial sector, business environment, and infrastructure

- Prior action 1: In order to strengthen the bank resolution framework, the Recipient, through its BCSTP, has adopted regulations implementing the Recipient's financial institutions resolution law, which set out (i) the measures to be applied by the BCSTP in the resolution of distressed financial institutions; and (ii) the requirements for the elaboration and adoption of recovery and resolution plans.
- Prior action 2: In order to develop the microfinance sector and promote the offer of microfinance services, the Recipient, through its Council of Ministers, has approved and submitted to the Parliament a draft law on microfinance.
- Prior action 3: - In order to expand the outreach of the banking system and support financial inclusion through the usage of mobile financial services, the Recipient, through its Council of Ministers, has submitted to Parliament the proposed National Payment Systems Law, which sets forth the statutory level principles for regulation on modern payment methods, such as agent banking, mobile money, and electronic payments.
- Prior Action 4 In order to reduce costs and simplify procedures to register property, therefore improving its ability to serve as loan collateral and foster access to finance, the Recipient, through the Council of Ministers, has submitted to the Parliament (i) proposed Property Registration Code, and (ii) and the proposed Public Notary Code.
- Prior Action 5: In order to promote transparency and incentivize timely payments, the Recipient, through EMAE, has published its policy to improve billing collection and launched a public awareness campaign through public TV and radio.
- Prior action 6: In order to structurally reduce the cost of energy, increase the share of renewable sources, and promote long-term private investment, the Recipient, through its Council of Ministers, has ruled that any capacity expansion in the power sector will have to follow the prescriptions of the integrated Least-Cost Power Development Plan, and that any exceptions would need to obtain the approval of the Recipient's Minister of Infrastructure, who shall have to provide the rationale for such exemption and publish said decision.

- Prior action 7: In order to improve the reliability of energy supply, the Recipient, through AGER, had published the minimum quality criteria for the provision of energy service.

Pillar B: Generate fiscal resources and savings and improve the quality of public expenditures

- Prior action 8: In order to generate the tax and accounting information needed to implement the VAT, the Recipient, through its Council of Ministers, has adopted the legal framework for fiscal invoices and similar documentation, whereby it legally mandated companies to issue fiscal invoices, set out said invoice's minimum content and time requirements for storing them.
- Prior action 9: In order to improve SOE's financial and non-financial performance, the Recipient, through its Council of Ministers, has approved an SOE reform plan that established a performance monitoring system with financial and non-financial targets for all SOEs and incentives to ensure compliance.
- Prior action 10: In order to improve the efficiency and value for money of public investment, the Recipient's Parliament has enacted a National Planning System Law that harmonizes planning and budget tools and lays the foundation for the appraisal and selection of public investment projects.
- Prior action 11: In order to coordinate and harmonize social protection and poverty reduction policies, the Recipient has registered in the Recipient's social registry all beneficiaries of the three core social protection programs defined in the Recipient's Social Protection Policy and Strategy.

Indicative Triggers for DPF 3

Pillar A: Introduce growth-enabling reforms in the financial sector, business environment, and infrastructure

- Trigger 1: In order to obtain more reliable information on banks' financial soundness, the Recipient, through its Central Bank, has carried out a review of the quality of banking sector assets (Asset Quality Review- AQR) and mandated banks to adjust Non-Performing Loans classification and provision accordingly.
- Trigger 2: In order to expand the range of assets that can be pledged by borrowers and strengthen the quality of collaterals, thereby improving access to credit, the Recipient has submitted to the parliament a new law on guarantees that: (i) introduces the concept of a functional approach to secured transactions; (ii) widens the range of assets that can be used as collateral; and (ii) allows for the establishment of a movable collateral registry.
- Trigger 3: In order to increase the information available to lenders for assessing borrower's creditworthiness, which would improve access to credit, the Recipient, through its Central Bank, has improved the Public Credit Registry by: (i) instituting back-up procedures; (ii) instituting real-time update procedures; and (iii) expanding the scope of information.
- Trigger 4: In order to implement the key provisions of the microfinance law, the Recipient, through its Central Bank, has passed the regulations, which establish the supervisory and reporting procedures for microfinance institutions.
- Trigger 5: In order to allow for a more efficient and accurate billing and reduce potential for underreporting of consumption, the Recipient, through EMAE, has introduced a new remote metering system connected to the management system that will allow for automated metering and billing.
- Trigger 6: In order to reduce arrears from the government to EMAE, the Recipient has taken the following actions: (i) condition the budget transfer to autonomous institutes on the timely payment of energy bills; (ii) agree on payment plans for overdue energy bills for each autonomous agency; and (iii) give priority to energy bill payments just after payroll and debt service.
- Trigger 7: In order to structurally reduce the cost of energy and promote long-term private investment, the Recipient, through its Council of Ministers, has approved the Least-Cost Power Development Plan.
- Trigger 8: In order to improve the quality of service, the Recipient, through AGER, has signed a concession contract with EMAE including all the company's obligations including rules on tariffs and sanctions.

Pillar B: Generate fiscal resources and savings and improve the quality of public expenditures

- Trigger 9: In order to broaden the tax base and generate more own-source revenues, the Recipient has submitted to parliament a draft law to implement a VAT.
- Trigger 10: In order to improve accountability of the SOE management, the Recipient, through its Council of Ministers, has established a performance monitoring system with financial and non-financial targets for all SOEs, with clear incentives for compliance.
- Trigger 11: In order to increase transparency and ensure accuracy of SOE's financial position, the Recipient has published accounts audited by an external and independent auditing company for its main public owned SOEs (EMAE, ENASA and ENAPORT).
- Trigger 12: In order to improve selection of public investment projects, the Recipient, through its Council of Ministers, has established a National Investment Portfolio Database - NIPD (Carteira Nacional de Projectos) to serve as the single source for public investment projects, from which all public investment projects will have to be sourced to be executed through the Public Investment Program (Programa de Investimentos Públicos).
- Trigger 13: In order to allow for tracking and reconciliation of funds allocated to Social Protection payments, the Recipient has instituted a predominantly financial system-based formal payment mechanism for Social Protection programs.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance will be responsible for the overall implementation of the proposed operation. It will coordinate actions under the DPF program and report progress to relevant ministries and public agencies. The ministry has experience in coordinating and implementing DPF programs as demonstrated by the successful implementation of past operations.

The results framework is based on standard and widely available indicators. It was created in an effort to avoid higher outcome indicators that are influenced by factors outside the control of the operation. Preference was given to indicators that are already produced and reported by the authorities using their own proprietary systems. To the extent possible, the operation will also be monitored by indicators that are calculated by external sources and allow for international benchmarking such as the Doing Business indicators.

F. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The proposed DPO will have an overall positive impact on the country' social development and poverty reduction. It is expected to have some indirect effects on poverty reduction, mainly through reforms aimed at improving the financial sector, the business environment, and infrastructure (Pillar A).

STP lacks the data required for a more in-depth impact analysis, but three new surveys to be released in 2018 will bridge this gap. The latest available household-level surveys do not include information on access to finance, titling of residential units, or income received from Social Protection programs, although there are data on access to energy. According to the 2012 census, 57.9 percent of residential dwellings had access to energy, but this rate was lower in poorer districts such as Caué (35.5 percent). The main reason given for not having access to energy was the inability of the company to provide such a service (76 percent). 16.3 percent of the population reported the inability to pay the energy bill as the main reason for lack of energy access, and this rate was higher in urban (24.2 percent) than in rural (6.9 percent) areas, where poverty rates were also higher. Authorities will soon have access to more in-depth data with the release of three new household surveys in 2018: the National Household Survey, the Access to Finance Survey, and the Global Energy Access Household Survey.

Most prior actions in the financial sector are expected to have positive social and poverty-reducing effects. The new legislation to strengthen the bank resolution framework will improve the functioning of the banking system, but it will have no clear effects on poverty alleviation. STP's microfinance sector is underdeveloped, but the draft law on microfinance is expected to improve the regulatory framework and foster the development of the sector, benefiting poor households who are the main users of microfinance services. Moreover, the new National Payment System Law, which establishes the statutory level principles for regulating modern payment methods, may have indirect poverty and social impacts through increased security of mobile money transactions. This law will also increase the use of mobile payments, including remittances, which may be beneficial for poor households. Parliamentary approval of the revised property registration law will allow the use of movable property as collateral for a loan, resulting in a larger range of assets that can be used as guarantees for loans, which will be particularly useful for the poor.

Prior actions in the energy sector are also expected to have overall positive social and poverty-reducing effects. Prior action 5, which supports a policy to improve billing collection at EMAE, could affect the poor negatively, as it includes a formal decision to cut energy supply after 100 days of non-payment. However, most poor households are likely not currently connected to the energy grid and will therefore not be affected. Instead, the policy is more likely to affect middle-income households. The current average tariff of US$0.21 per kWh is one of the highest in the region and is a burden on the poor. Nevertheless, energy tariffs are unlikely to increase in the future, as prior action 7 aims to improve the financial soundness of EMAE and reduce the cost of energy, which will have a positive impact on the country's population, including the poor. Prior action 8 is expected to improve the quality of energy supply for those connected to the grid. This will also benefit people across the country, including the poor, as a reliable supply of energy can lead to improved earnings, particularly for households with home-based enterprises or small and medium enterprises that require regular access to electricity to function.

Finally, some prior actions under Pillar B, which focuses on generating fiscal resources and savings and improving the quality of public expenditures, are expected to have positive overall social and poverty-reducing effects. Measures aimed to support the implementation of the VAT will increase the fiscal space for social services to the poor. However, this does not necessarily mean that more funds will be redistributed to the poor, and the introduction of the VAT can raise the price of goods and services, including food, which might be detrimental to the poor. Authorities could implement mitigating measure such as exempt or apply lower VAT rates to food items that are included in the food basket that the poor consume. Moreover, improving the efficiency and value for money of public investments – prior action 10 – has the potential to have an indirect positive impact on the poor if savings are invested in projects that benefit the poor. An overall coordination and harmonization of Social Protection and poverty reduction policies will also be beneficial to poor households. For example, the registration of the beneficiaries of the three core Social Protection programs in a single register will improve the targeting of these programs, allowing a larger proportion of the poor to be recruited into the Social Protection system.

Environmental Aspects

STP has a legal and institutional framework to manage and respond to environmental challenges, although the implementation and enforcement of policies need to be improved. The National Environmental Law, approved on

December 31, 1999, provides the legal tools to manage the country's environmental and natural resources. Decree-Law No 37/99 defines the rules and principles applicable to an environmental impact assessment (EIA), which requires that all activities that may have a significant impact on the environment (which will depend on the nature, size, or location of the activity) must complete an EIA prior to implementation. The General Directorate of Environment under the Ministry of Infrastructure, Natural Resources and Environment, is the central public institution responsible for environmental issues, and it coordinates and implements environment-related public activities and policies. Despite the country's credible institutional and legal framework, its institutional design and operational efficiency need to be improved. Specifically, environmental monitoring, compliance, and enforcement are of particular concern. Since some prior actions to be implemented under this DPF operation are likely to have an impact on the environment, they need to be closely scrutinized and supervised. Nonetheless, some supported policies under this operation will also have environmental benefits, such as a reduction in the use of certain sources of energy, including wood, diesel, or gasoline, which may contribute to a decrease in greenhouse gas emissions and lower emissions of air pollutants.

Prior action 6 will lead to significant environmental benefits, as the GoSTP's commitment to have at least half of the country's power generated by renewable sources before 2030 is imbedded in the LCPDP. This plan will guide stakeholders in how the energy sector can cost-effectively meet the needs of the nation without damaging or depleting environmental resources. This will build on Decree-Law nº26/2014, which ensures that there is an adequate, quality, cost-effective, and affordable supply of energy to meet the country's development needs while protecting and conserving the environment through the use of natural energy resources. The decree also stipulates that the environmental safety and protection of people, property, electrical installations, appliances, and equipment shall be governed by the provisions of the law on hazardous, unhealthy, and inconvenient establishments or, where applicable, by the urban planning and construction regulations in force. Moreover, all energy projects need to undergo an EIA, and a compliance monitoring mechanism will be put in place to make sure that investors comply with regulations and properly manage environmental risks and any impact that may occur.

Prior action 10 is likely to have a positive impact on environmental governance and make environmental issues mainstream at the policy, planning, and management levels in the GoSTP. It could also help reduce the delay in processing EIA reports, manage environmental and social issues associated with public investment projects, and incorporate environmental data in the decision-making process for investment projects. An EIA is required for any investment planning process, but sufficient resources need to be made available for an EIA or a licensing system to make a difference on the ground. This harmonization will enable to secure adequate funding for EIA related tasks in the planning process. All other prior actions do not have significant environmental effects.

G. Risks and Mitigation

The overall risk of the proposed operation is substantial. The overall rating is derived from the substantial ratings of the main risk categories of the operation, which are: (i) political and governance; (ii) macroeconomic; (iii) fiduciary; and (iv) institutional capacity for implementation and sustainability. While the reform program is supported by the country's highest authorities, lack of coordination between ministries and broken funding promises have led to non-implementation in the past. Macroeconomic risks are substantial due to the recurrent fiscal deficits, high risk of debt distress, structurally unbalanced external accounts, and banking sector risks. Moreover, institutional capacity in the STP is very low due to a myriad of factors that are at the core of its substantial risk rating, including lack of standard procedures in the public sector, difficulty in inter-agency cooperation and flow of information, and a small pool of qualified personnel due to low levels of education and immigration, which are common characteristics of small island countries.

Measures are in place to address the main risks facing the country. A constant dialogue between the WB and country authorities since the workshop held in 2016 for the Performance and Learning Review and the revision of the CPS has increased government ownership of the program. The large resource envelope of IDA18 also increased the role of the WB in the country. Moreover, macroeconomic risks are mitigated by the IMF's ECF program, and capacity and implementation risks are addressed by technical support provided by the WB with funding from trust funds and the Institutional Capacity Project (P162129), which is in preparation.

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