Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 03-Mar-2023| Report No: PIDC35577

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
St. Lucia	P179539	Saint Lucia Sustainable Recovery Development Policy Credit (P179539)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
LATIN AMERICA AND CARIBBEAN	Aug 16, 2023	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Saint Lucia	Ministry of Finance		

Proposed Development Objective(s)

The DPC supports government's reforms to strengthen fiscal sustainability and accountability, and promote more environmentally and resilient economic growth.

Financing (in US$, Millions)

SUMMARY

Total Financing	30.00

DETAILS

Total World Bank Group Financing	30.00
World Bank Lending	30.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Saint Lucia, a small island developing state (SIDS) with a population of 180,000, is highly vulnerable to external shocks, especially extreme weather events. Economic growth has been muted, averaging only 1.5 percent annually in 2015-19, despite the absence of major hurricanes (Figure 1.c & d). Financing needs are substantial, while high public debt constrains public investment in support of growth, resilience and climate change mitigation. The operation is closely aligned with the Green, Resilient and Inclusive Development (GRID) approach of the World Bank Group (WBG). It builds on continued WBG engagements through technical assistance (TA) and advisory services and analytics (ASA)[1] in Saint Lucia and addresses the main constraints identified in the Systematic Regional Diagnostic (FY19) and the WBG Regional Partnership Strategy for the Organisation of Eastern Caribbean States (OECS). Follow-up TA has been identified to continue assisting the Government of Saint Lucia (GoSL) in implementing the reforms. The operation has been closely coordinated with other development partners, including the International Monetary Fund (IMF), the Eastern Caribbean Central Bank (ECCB), and the Caribbean Development Bank (CDB), which also provides financing.

SLU faces unique development challenges as a SIDS. Domestic resources, including labor and land, are limited, severely constraining economic diversification. The country is highly dependent on tourism especially from the US and UK, exposing it to external shocks, including those related to climate change. Climate change not only threatens tourism, but also the agricultural sector, including fisheries, as an important source of food and income, especially for the poorer population. Structural obstacles also hamper growth and economic diversification. Low credit availability, the lack of a regulatory framework to resolve insolvency and register property, inadequate public infrastructure and very high electricity costs constrain private sector investment.

Structural vulnerabilities have been aggravated by the dual crises of the COVID-19 pandemic and the Russian invasion of Ukraine, but there has been a strong rebound of tourism in 2021 and 2022. Due to its high dependence on tourism, GDP contracted 24.4 percent in 2020, significantly deeper than the global average of 5.2 percent and the Caribbean average of 11.7 percent (excluding SLU).[2] Since the second half of 2021, tourism has started recovering and economic growth accelerated to 12.2 percent and 15.4 percent, respectively in 2021 and 2022. However, domestic inflation reached a historic high at an estimated 6.7 percent in 2022, increasing living costs, notably for vulnerable households.

Relationship to CPF

The DPC (P179539) is aligned with FY22-25 Eastern Caribbean Regional Partnership Framework (Report No. 160349-LAC, approved by the Board of Executive Directors on May 17, 2022), supporting an improvement of the fiscal, debt and public financial management. It aims to improve private access to finance and financial market climate resilience; builds fiscal climate resilience and accountability by strengthening the PFM system and public procurement. The operation specifically links to “Sustainable and Inclusive Growth” and “Resilience and Sustainability” under the Tier-1 of the IDA19 Results Measurement System. This operation also supports the remaining IDA19 Policy Commitments, including “Jobs and Economic Transformation (JET)”, “Climate Change”, “Gender and Development”, and “Governance and Institutions” (except for FCV commitment).

C. Proposed Development Objective(s)

The DPC aims to support the recovery of Saint Lucia toward a sustainable and resilient economy, through (i) Strengthening fiscal sustainability and responsibility; (ii) Promoting economic growth that is more environmentally sustainable and resilient.

Key Results

[1] Unleashing the Blue Economy of the Caribbean (UBEC) - (P171833) (PA5); Saint Lucia Collateral Registry - (604004) (PA7); Caribbean Renewable Energy Infrastructure Investment Facility - (P180831) (PA6); Insolvency and Corporate Debt Recovery Global PA (P175664) (PA8); Climate-Resilient Gender-Responsive Public Financial Management (P172267) (PA4). Additional TA is also provided under this operation for the Procurement Regulations (PA3) and the Public Debt Management Bill (PA2).

[2] The Caribbean comprises Antigua & Barbuda, The Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, and Trinidad & Tobago. Estimates are from IMF WEO, April 2022.

This operation is expected to assist the Government of Saint Lucia in supporting government's reforms to strengthen fiscal sustainability and accountability (Pillar 1) and promote more environmentally and resilient economic growth (Pillar 2). The operation supports the revenue enhancement measure (PA1) to narrow fiscal deficit. PA2 assists the government improving debt management transparency through the public debt management bill; PA3 and PA4 of the operation will promote accountability, transparency and efficiency of the public resource utilization by advancing the Public Finance Management Regulations and the Public Procurement Regulations. PA 5 of the National Energy Policy helps the adoption of renewable energy and improve energy efficiency for the country, reducing energy costs and mitigating Green-house Gas emission. PA 6 assists the GoSL to build a sustainable and resilient strategy for the fisheries sector through the National Fisheries Policy. PA7 and PA8 support private sector development, through enhancing private access to financing facilitated by the Security Interest and the Collateral Registry Bill; and addressing the financial sector stress through the Insolvency Bill.

D. Concept Description

Pillar 1: Strengthening fiscal sustainability and accountability

Reforms proposed under Pillar 1 aim to strengthen fiscal sustainability and responsibility to allow public resources to build climate resilience especially against climate change and climate-related disasters. PA1 supports the urgently need revenue enhancement measure, and PA 2-4 assist the government in resource mobilization while aiming to improve public resources management through the Public Debt Management Bill; approval of the PFM regulation and Public Procurement regulation.

Pillar 2: Enabling a sustainable and resilient recovery of the private sector

Reforms proposed under Pillar 2 aim to enable a sustainable and resilient recovery of the private sector, through supporting low-cost and reliable energy, access to finance, and the sustainable development of the fisheries sector. The private sector is essential to sustain growth and create jobs, but it is vulnerable to external shocks, including climate change and extreme weather events. The private sector in SLU, especially the small businesses, has been constrained by limited access to energy and financing, both of which are critical to start, operate and expand businesses. High energy costs and limited financing also exacerbate their exposure to climate change and natural disasters. Climate change will continue to require policy changes to reduce reliance on traditional energy such as diesel, and vulnerability to this policy transition will be heightened without reforms to improve energy efficiency and facilitate renewable energy. Similarly for the lack of financing access, it leads to insufficient disaster preparedness pre-crisis and delayed recovery, or inability to recover post-crisis. This is particularly important for small business, which plays a critical role in the economy but has less liquidity to survive severe shocks. PA 5 aims to support the National Energy Policy to enhance climate resilience through energy sector transition; PA 7 & 8 help enhance financing access for the small businesses. PA 6 assists the GoSL to build a sustainable and resilient strategy for the fisheries sector. This PA is key, given the vulnerability of fisheries to climate-related events and its importance to national food security.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The prior actions supported by the operation are expected to have mostly neutral distributional effects and potential positive indirect effects on poverty reduction in the medium to long run. The distributional effects of the revenue enhancement measure, depend on the consumption patterns of households at different positions of the welfare distribution (*full PSIA is under preparation, pending data request from the government*). In addition, the final impact analysis should take into account the potential offsetting public expenditure effect resulting from increased revenues. Moreover, a wide literature has established a negative association between high levels of debt and economic growth,[3] which is important for poverty reduction in the long run.[4] As such, the revenue enhancement measure geared at achieving fiscal sustainability has the potential to impact poverty reduction in the long run. Prior actions 2 and 4 contribute to preventing fiscal imbalances that could threaten pro-poor spending, by enhancing public financial management and fiscal sustainability. In the immediate term, prior action 2 is expected to have neutral distributional effects. Prior action 4 has the potential to benefit the poor and vulnerable population to a larger extent by enabling more rapid reallocation of financial resources in the event of a natural disaster, which can mitigate their socio-economic impacts on the population. This can benefit the poor and vulnerable disproportionately, since they are usually more affected by natural disasters.[5] Improving efficiency in public procurement under prior action 3 is not expected to have any immediate impact on poverty or inequality and is likely to affect households across the welfare distribution to similar extents. Approval of the National Energy Policy (prior action 5) and the National Policy for the Fisheries Sector (prior action 6) per se, similarly are expected to have neutral distributional impacts. Prior actions 7 and 8 have the potential to increase employment by contributing to increasing access to credit and reducing the cost of credit. In the short term, the actions themselves are expected to have neutral distributional impacts.

Environmental, Forests, and Other Natural Resource Aspects

The proposed DPC is not expected to have any significant negative impacts and a number will likely have positive impacts on SLU's environment and natural resources. Overall, the DPC is likely to provide benefits to vulnerable stakeholders and embed best international practice related to environmental governance through relevant PAs. This includes sectors that rely on natural resources such as fisheries, and greening the growth scenario of sectors that cause environmental harm such as fossil fuel dependent energy production. The PAs are not expected to result in significant land use changes or construction that would result in pollution, degradation, or other negative environmental impacts. Instead, the focus of the DPC is on strengthening sustainability and accountability while enabling climate resilient growth. Positive impacts are likely to result from the revised Public Procurement Regulation (PA3) which will align SLU's framework with best international practice, including the prioritization of green and sustainable procurement practices. PA5 is expected to contribute positively to SLU's environment by decarbonizing the energy and transport sectors, with benefits in terms of GHG reduction and improved local air quality. The rollout of renewable energy infrastructure may imply downstream risks to the environment and natural resources depending on siting, location and design decisions. Nonetheless, SLU has the appropriate legal and institutional framework in place to manage these risks, as presented below. Similarly, the National Policy for the Fisheries Sector (PA6) is expected to have positive environmental effects by embedding ecosystem health and integrity and climate and disaster resilience in SLU's marine governance regime to support sustainable fisheries exploitation.

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[3] Reinhart, C.M., Rogoff, K.S. (2010): Growth in a time of debt. American Economic Review, 100 (2), 573-578
Pattillo, C., and Ricci, L. A. (2011): External Debt and Growth. Review of Economics and Institutions, 2(3), 30.
Kumar, M.S and Woo, J., 2010. Public Debt and Growth. IMF Working Paper 10/174, International Monetary Fund.
Furceri, D., & Zdzienicka, A. (2012). How costly are debt crises? Journal of International Money and Finance, 31(4), 726-742.
[4] Dollar, D. and A. Kraay (2002): Growth is Good for the Poor, Journal of Economic Growth, 7, 195-225.
Kraay, A. (2006). When is growth pro-poor? Evidence from a panel of countries. Journal of Development Economics, 80(1), 198-227.
Bourguignon, F. (2003): The Growth Elasticity of Poverty Reduction; Explaining Heterogeneity across Countries and Time Periods, in T. Eicher and S. Turnovsky, eds. Inequality and growth: Theory and Policy Implications. Cambridge: The MIT Press.
[5] For a review of the evidence of disaster impacts on poor, see: Rentschler, J. (2013): Why resilience matters – The poverty impacts of disasters. World Bank Policy Research Working Paper, No 6699, The World Bank

SLU has a comprehensive regulatory framework to manage relevant environmental issues, including those related to land- and marine-use change and management, fisheries, and climate change. Relevant environmental policies and regulations for this operation and its potential indirect impacts include the National Environment Policy and National Environmental Strategy (2005), the National Land Policy (2007), the Fisheries Act (1984) and earlier National Energy Policy (2010), and the National Climate Change Adaptation Policy (2013). Like many SIDS, SLU faces capacity constraints in enforcing environmental standards around infrastructure planning and development. However, SLU is taking active steps to address capacity constraints and gaps in enforcement through implementing the key findings of the SLU National Infrastructure Assessment (2020), and through targeted technical assistance and capacity building integrated in ongoing World Bank Investment Project Financing in SLU through engagements in the energy and transport sectors as well as at a regional level in the OECS in engagements on the marine space and the blue economy.

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APPROVAL

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