



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 26-Aug-2020 | Report No: PIDC30246



BASIC INFORMATION

A. Basic Project Data

Country St. Lucia	Project ID P174346	Project Name St Lucia COVID 19 Response, Recovery and Resilience Development Policy Credit (P174346)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Dec 09, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Saint Lucia	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The proposed operation aims to mitigate the negative economic effects and risks from COVID-19 on the most vulnerable and to strengthen medium-term resilience and sustainability by: (i) protecting lives and livelihoods in response to COVID-19, (ii) ensuring business continuity and financial resilience, and (iii) enhancing public sector and public debt management for the post-crisis recovery

Financing (in US\$, Millions)

SUMMARY

Total Financing	30.00
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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

The proposed Development Policy Credit (DPC) for \$30 million will support the Government of Saint Lucia to mitigate the adverse effects from COVID-19 on the most vulnerable and strengthen medium-term resilience and sustainability.



The COVID-19 pandemic hit Saint Lucia when the economy was growing steadily, and public debt had stabilized from prudent fiscal policies, and revenues from the citizenship-by-investment program. Saint Lucia, however, remains highly dependent on tourism (contributes to half of GDP and 45 % to jobs) and vulnerable to external shocks and natural disasters as a small open economy. The current standstill in tourism is anticipated to result in a GDP contraction of 9-15 percent and a surge in debt by 12 percent in 2020 due to additional expenditures; almost 45 percent of labor force lost jobs (Central Statistical Office, 2020) and the poverty headcount index is estimated to have increased by about 3 percentage points. These challenges and ability to recover from the COVID-19 crisis could get further exacerbated by natural disaster shocks. The Government has responded quickly to contain the virus and mitigate the negative impacts on the most vulnerable groups. IMF approved emergency financing under the Rapid Credit Facility (RCF, ~ \$29 million); Saint Lucia is also participating in the Debt Service Suspension Initiative (DSSI), which is expected release additional fiscal space. Regional organizations including ECCB and CDB had also approved additional financing. These efforts, along with the World Bank's fast track facility and this proposed operation, are expected to largely meet SLU's gross financing needs. Meanwhile, the Government recognized the importance of structural reforms to bring the country back to a sustainable and resilient path. The operation leverages support from sectors across the World Bank Group including IFC, and is aligned with the objectives of the Sustainable Development Financing Policy (SDFP) that aims to enhance debt transparency and reduce debt vulnerabilities.

The macroeconomic framework is deemed adequate for the proposed operation, with substantial downside risks. This assessment is based on the sustained economic growth before the pandemic, supported by strong tourism and major tourism-related construction projects. As enunciated in the IMF's RCF (April 2020), the Government has strongly committed to enacting a Fiscal Responsibility Framework (FRF) once the crisis abates. Fiscal management was challenging in the past, but is expected to be more balanced through the rule-based FRF. In February 2019, the Cabinet approved the implementation of fiscal rules from the current fiscal year (2020-21) onwards; however, the onset of the crisis led to a deferment. To stress the commitment to macro stability and achievement of the regional debt/GDP target in 2030, the authorities plan to issue a Resolution in Parliament committing to the FRF with medium-term expenditure containment and revenue enhancement measures, once the economy recovers from the crisis.

Relationship to CPF

Bank programming in Saint Lucia is guided by the Regional Partnership Strategy (RPS) for the Organization of the Eastern Caribbean States (OECS) 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 particularly in the areas of (i) Fostering Conditions for Growth and Competitiveness; and (ii) Enhancing Resilience, which incorporates a broader resilience agenda that includes the blue economy, deeper engagement on climate change resilience, and social protection areas. This proposed budget support operation directly addresses the priorities noted in the RPS and the increased focus on macro-fiscal issues and resilience stated in the PLR, as well as support for the COVID-19 mitigation measures. In particular, this operation seeks to address issues of growth and competitiveness, through measures to mitigate short-term impacts on the firms, while aiming to improve access to finance and market liquidity over the medium-term. It 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.

C. Proposed Development Objective(s)

The proposed operation aims at mitigating the short-term impact of the COVID-19 outbreak and supporting post-crisis recovery and economic resilience over the medium-term by: (i) protecting the poorest and most vulnerable through short-term support measures and strengthening of the social system, (ii) supporting fiscal sustainability and public



financial management over the medium-term, and (iii) enhancing resilience to disaster and environmental risks.

Key Results

Key results to support lives, livelihoods and jobs include: increasing supply of medical articles through waiver of import duties; number of beneficiaries having received income support; number of accurately targeted beneficiaries through the Educational Assistance Program (using the revised Saint Lucia National Eligibility Test tool, SL-NET3.0); number of fisherfolk enrolled under Caribbean Oceans and Aquaculture Sustainability Facility (COAST); number of beneficiary entities receiving liquidity support. Result indicators to enhance private sector competitiveness include establishment of the Collateral Registry for movable property and the guidelines and staff appointment for the Insolvency Committee to review the insolvency applications. To enhance governance and transparency, and improve debt sustainability, result indicators focus on the number of ministries that have adopted e-Procurement system, and also the publication of timely debt and guarantee data in the debt review/reports.

D. Concept Description

This DPC aims to support the Government in protecting lives, livelihoods, facilitating business continuity and structural transformation both in the short-term in response to COVID-19 pandemic and over the long-term to build economic sustainability and resilience. The proposed operation is aligned with the WB's COVID-19 Crisis Response Approach and Government's strategies to respond to the crisis, as well as main World Bank's technical engagement with Saint Lucia on fiscal reforms, which will be critical to support macro-sustainability, post-crisis.

The primary objective of the Prior Actions (PA) under pillar A is to help Government respond to the health threat posed by COVID-19, and protect poor and vulnerable households from the economic and social shocks of the crisis and prepare the disadvantaged groups for climate change and natural disasters. The actions focus on both short-term relief and longer-term strengthening of the social protection system. Given the large informal sector and the limited coverage of the social protection system, the operation emphasizes support to the informal sector. Furthermore, it focuses in particular on the more vulnerable – the workers in the fisheries sector that are highly susceptible to natural disasters and includes a large proportion of female workers, as well as children from poor and vulnerable households that are likely to dropout from schools due to inability to pay fees. The Government aims to reduce a potential spike in school dropouts by reducing the cost of schooling. The strategy includes extending and improving accuracy of the targeting mechanism, to reduce burden on poor families and increase school attendance over the long-term. Moreover, the poor communities, who are less able to recover from the current crisis and more vulnerable to climate change, will benefit from the strengthened social protection and insurance mechanism.

Pillar B of the operation aims to support Government in its counter-cyclical measures aimed to ensure business continuity by supporting firms to stave the pandemic and to promote financial resilience. The temporary relief measures are expected to help firms address short-term liquidity needs and avoid exiting the market due to the crisis. This would otherwise result in large job losses and lack of essential services. Further, this operation, in collaboration with IFC, supports Government efforts to improve the business environment for firms and access to finance, especially micro, small and medium enterprises (MSMEs). These steps would help firms survive and facilitate a more resilient recovery. Moreover, Prior actions under Pillar B, in combination with those under Pillar A, will enable flow of resources to vulnerable communities and MSMEs, which increases their ability to rebound from climate-related risks, including those further compounded by the COVID-19 pandemic.

Pillar C is to support Saint Lucia with structural reform measures to achieve a resilient, inclusive and sustainable recovery by strengthening policies and institutions aligned with sound practices on public financial management, governance and debt transparency. Despite the uncertainties and negative impacts from COVID-19, it is critical to plan the post-crisis recovery and maintain focus on long-term development objectives. In this context, strong governance and institutions would ensure appropriate (re)prioritization of government interventions, including enhanced efficiency of spending through better design and implementation of projects.



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

Poverty and Social Impacts

The prior actions supported by the proposed operation are expected to have positive impacts on the most vulnerable groups of the population, especially women. The prior actions under pillar A are expected to predominantly have direct positive impacts on the poor and vulnerable. Providing unemployment insurance to National Insurance Corporation (NIC) contributors and non-contributors is an important step to protect the poor and prevent the vulnerable from falling into poverty in the immediate term, given the substantial limitations – including a lack of unemployment insurance – of Saint Lucia’s social protection system. Moreover, with sectors with an overproportionate share of female workers being affected heaviest, the income support will be especially relevant for women. The COAST mechanism will also benefit women, who predominantly perform informal jobs in the fisheries sector for which they do not have insurance. Support to businesses, especially to MSMEs, under pillar B is expected to have positive direct and indirect impacts by helping to maintain business continuity and reduce the loss of jobs in the short-term. In the longer term, the Secured Transaction and Registry Act and the Insolvency Act are expected to improve business environment and competitiveness over the long-term. This will benefit the poor indirectly over the long-term through creating more jobs and supporting sustainable growth. The measures under pillar C are expected to benefit poor and vulnerable households mostly indirectly and contribute to poverty reduction and increasing shared prosperity in the longer term by strengthening fiscal and financial resilience. They are expected to indirectly benefit poor households by bolstering macroeconomic stability, preventing fiscal imbalances that could threaten pro-poor spending, and reinforcing necessary conditions for accelerated growth.

Environmental, Forests, and Other Natural Resource Aspects

The proposed DPC is not expected to have any significant negative impacts, and may have positive impacts, on Saint Lucia’s environment, forests, and natural resources; furthermore, the DPC is likely to provide benefits to vulnerable stakeholders, including in the fisheries sector. SL-NET3.0 and NIC focus on providing social protection to the most vulnerable beneficiaries of these programs and the COAST mechanism benefits people who rely on natural resources for their livelihoods by providing relief for damages from extreme weather events, like cyclones or hurricanes. The enhancement of social protection, as well as the resources expected to flow to vulnerable communities and MSMEs under Pillar B, will increase these populations’ resilience to climate-related risks which are compounded by the COVID-19 pandemic. Specifically related to uptake of the COAST mechanism, this operation will improve the resilience of Saint Lucia’s fisheries sector, including the livelihoods of fisherfolk, to climate change and extreme weather events. In addition to actions under Pillars A and B, the operation includes the adoption of the e-procurement system under Pillar C, which is expected to allow the Government to operate paperless and store data/materials online, which enhance business continuity and protects government information in the event of a natural disaster. This digital system can be accessed remotely if physical office locations are inaccessible and provide business continuity in the event of natural disasters.

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Borrower/Client/Recipient

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Implementing Agencies

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APPROVAL

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Approved By

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