

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

August 13, 2015 **98882**

Report No.:

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Operation Name	Sustaining Reforms for Inclusive Growth
Region	AFRICA
Country	Seychelles
Sector	Public administration- Health (20%);Public administration- Education (20%);Public administration- Other social services (20%);Public administration- Financial Sector (20%);General public administration sector (20%)
Operation ID	P153269
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF SEYCHELLES
Implementing Agency	Ministry of Finance, Trade, and the Blue Economy
Date PID Prepared	August 13, 2015
Estimated Date of Appraisal	August 17, 2015
Estimated Date of Board Approval	December 10, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.
Other Decision <i>{Optional}</i>	<i>Teams can add more if they wish or delete this row if no other decisions are added</i>

I. Country and Sector Background

Seychelles, a small island-state economy, has graduated to high income status this year. With a gross national income per capita of US\$13,990 in 2014, the country has been recently graduated to high income status. It has an estimated population of 91,530 (2014), comprises 115 tropical islands spread over 45,166 hectares in the Indian Ocean, and has an exclusive economic zone (EEZ) of almost 1.4 million square kilometers in one of the world's major tuna fishing grounds. Tourism and fishing/fish processing are the major pillars of the economy, contributing 25 percent and 8 percent of gross domestic product (GDP) respectively.

II. Operation Objectives

The development objective of this DPL is to raise efficiency of public expenditure and improve the business environment. To achieve these objectives, this operation supports actions that will: (i) raise efficiency of public expenditure; (ii) facilitate access to credit; and (iii) improve public investment.

III. Rationale for Bank Involvement

Seychelles, a small island-state economy, has graduated to high income status this year. With a gross national income per capita of US\$13,990 in 2014, the country has been recently graduated to high income status. It has an estimated population of 91,530 (2014), comprises 115 tropical islands spread over 45,166 hectares in the Indian Ocean, and has an exclusive economic zone (EEZ) of almost 1.4 million square kilometers in one of the world's major tuna fishing grounds. Tourism and fishing/fish processing are the major pillars of the economy, contributing 25 percent and 8 percent of gross domestic product (GDP) respectively.

Seychelles has had a good performance in reducing poverty. Seychelles has better social indicators than comparable small island countries. It has already achieved most of the Millennium Development Goals, especially for education, health, poverty eradication, and the environment.¹ The country has virtually eliminated extreme poverty and only less than 2 percent of households consumed less than US\$2.00 per day in 2006. The main challenges relate however to a high income disparity (the Gini coefficient increased from 0.42 to 0.65 between 2000 and 2007) and the challenges that the bottom 40 percent may have to reap the benefits of a country with a high income status.² Key in this process is the need to improve the quality of public services such as education and ensure that vital services such as primary health care remain sustainable.

Seychelles enjoys a stable political system and has made significant progress in improving public sector governance. In the last election in May 2011, the incumbent, Mr. James Michel, was elected for another five-year term.³ Since 2008, the government has implemented a series of reforms to address public sector governance issues, which improved a number of governance indicators.⁴ Legislative and presidential elections are foreseen in 2016.

Significant reforms have helped Seychelles to overcome the 2008 debt crisis. After high external indebtedness and loss of competitiveness depleted foreign exchange reserves and forced a payment default in 2008, the government of Seychelles (GoS) energetically pursued reforms, with support of the International Monetary Fund (IMF) and World Bank, among others. Its economic restructuring program focused on liberalizing the exchange regime, significantly tightening fiscal policy, and reducing the state's role in the economy to boost private sector development. The public debt portfolio was restructured with the Paris Club and other private creditors. Seychelles managed to secure generous debt relief, which together with fiscal

¹ Gross enrollment in primary and secondary education is close to 100 percent. The country's life expectancy at birth is 73 years, compared to 68.3 for Fiji and 70.7 for Cabo Verde.

² Poverty data is relatively outdated and the large Gini coefficient may stem from methodological issues at the time of calculation. The Bank is working with the National Bureau of Statistics of Seychelles to analyze the recently finalized household survey to update poverty and inequality figures.

³ Following the September 2011 Parliamentary elections, the ruling party holds all but one seat in the National Assembly. The main opposition group boycotted this election, leading to the establishment of the Forum for Electoral Reform led by the Electoral Commission. The commission submitted a reform proposal, which is currently being studied by the authorities.

⁴ Seychelles is ranked 4th in the 2013 Ibrahim Governance indicators of African countries, in line with previous years, but there are a number of governance issues that need addressing. Seychelles is ranked at the 55th percentile on Rule of Law in the 2012 World Bank's Worldwide Governance Indicators. Also, institutional reforms have mainly focused on the supply-side, and strengthening demand side issues, such as social accountability and the role of the media, may significantly improve overall governance. On public sector reform, the government "Public Sector Administration and Reform Strategy" will be an opportunity to implement second-generation reforms, including performance management in the public sector and ensuring effective internal and external public sector accountability.

consolidation has put it on a path to fiscal and external sustainability. These positive reforms have facilitated in 2015 the approval by the Paris Club of the partial exchange of Seychelles debt in return for financing a fund for the protection and development of its marine space.

The government aims to maintain solid macroeconomic policies while accelerating reforms to raise investment and promote inclusive economic growth. A solid macroeconomic framework anchored in the IMF Extended Fund Facility (EFF) program will serve Seychelles to confront the challenges inherent to a small and remote island state that is highly vulnerable to the global economy, especially the predominance of European tourism. The authorities aim now to reorient the reforms to further accelerate economic growth by improving the investment climate to harness private sector growth,⁵ remove infrastructure bottlenecks and raise human capital.

This operation supports government’s reforms to accelerate inclusive economic growth. Since poverty is so low in Seychelles, the operation focus mainly on improving inclusiveness to reduce inequality and the welfare of the bottom 40 percent of the population. First, the operation supports shared prosperity by the adoption of tools to raise the efficiency of public expenditure in human development so that quality and equity of education, health and social protection are improved. Second, reforms supported by this operation aim to facilitate access to credit, which is expected to affect positively Small and Medium Enterprises (SMEs), where presumably many of the poorer Seychellois are employed, as well as to improve the business environment with a positive impact on credit to the population at large. Third, the operation will strengthen institutions to better assess and monitor public investment, both from the public budget and SOEs, in order to provide better infrastructure to businesses and create jobs. Finally, the operation is anchored on strong fiscal discipline, necessary to attain the goal of reducing the public debt ratio to 50 percent of GDP by 2018, while building resilience to cope with external shocks.

IV. Tentative financing

Source:	(\$m.)
Borrower	0.0
International Bank for Reconstruction and Development	4.0
Borrower/Recipient	0.0
IBRD	0.0
Others (specify)	
Total	4.0

V. Tranches (if applicable)

	(\$m.)
Single Tranche	4.0
Total	4.0

⁵ Seychelles is ranked 85 in the World Bank’s Ease of Doing Business Index for 2015, an improvement from 87 in 2014.

VI. Institutional and Implementation Arrangements

The results framework presented in Annex 1 of the Program Document will be used as a monitoring tool by the Government of Seychelles and the World Bank. The government and the World Bank will review the progress of the DPL program twice a year, and Aide Memoires will be prepared to monitor progress. The MoFTBE will be responsible for the overall coordination and monitoring of the reform program supported by the DPL and will furnish information to the World Bank, as required, to monitor outcomes in the results framework. The MoFTBE will liaise with focal points in the other ministries, departments, and agencies involved as needed. Periodic monitoring and dialogue with the relevant line ministries and other stakeholders involved in implementing the reforms will take place through World Bank field missions.

VII. Risks and Risk Mitigation

The overall implementation risk is low. The government has a strong track record in pursuing its reform agenda and tangible results have been achieved in terms of macroeconomic policies and structural reforms. The previous engagement through a DPL series shows the positive impact that technical and financial Bank contributions had to this process. The government has requested preparation of a Systematic Country Diagnostic to inform the adoption of a new partnership with the Bank in FY16. They expect that new operations will be informed by the new partnership and requested to maintain a stand-alone DPL in the meantime to support the on-going reforms. Acknowledging that elections may slowdown the reform process, the operation focus on areas where consensus exist and helps to set up key tools that will be required for subsequent reforms to build upon. Other risks, such as the limited institutional capacity within sector ministries, are being overcome with substantial technical assistance, partially financed by the authorities through reimbursable advisory services. The risk that uncertain global developments may threaten Seychelles' macroeconomic stability is mitigated by the means and tools available to the government to cope with external shocks (such as the country's growing external reserves and flexible exchange rate). Furthermore, the reforms supported by this operation are also aimed at increasing Seychelles' economic resilience to cope with external shocks, by raising public sector efficiency and improving public investment.

VIII. Poverty and Social Impacts and Environment Aspects

The proposed operation is expected to have a favorable impact on poverty and social indicators. The policy focus of the operation addresses poverty and inequality in the following three ways: (i) raising the efficiency of public expenditure in human development will serve to better protect the poor and increase the quality in education and health to further reduce inequalities; (ii) a more conducive access to credit will help to increase investment and create jobs; and (iii) enhanced efficiency in public investment is likely to remove supply side constraints and facilitate investment and employment creation. The actions supported by the operation are not expected to have any direct distributional impact on the poor. With regard to the reform in social protection, it seeks at this point to clarify the mandate and the tools to better monitor its implementation. The health reform will serve to ensure that adequate primary health care is institutionalized in the system, ensuring that those more vulnerable enjoy sustainable health

services.

Policy actions supported by this DPL are unlikely to have any negative effects on the country's environment and natural resources. Reforms supported by the proposed operation are not directly or indirectly linked to environmental aspects.

IX. Contact point

World Bank

Contact: Rafael Munoz Moreno

Title: Senior Economist

Tel: 5259+2521 / 230- -203-2521

Fax:

Email: rmunozmoreno@worldbank.org

Location: Port Louis, Mauritius (IBRD)

Borrower

Contact: The Honorable Jean- Paul Adam

Title: Minister of Finance, Trade and the Blue Economy

Tel: + 248 438 2120

Email: minister@finance.gov.sc

For more information contact:

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>