

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

March 4, 2015

Report No.: AB7712

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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
	Ministry of Finance, Trade and the Blue Economy
	Government of Seychelles
Implementing Agency	Ministry of Finance, Trade, and the Blue Economy
Date PID Prepared	March 4, 2015
Estimated Date of Appraisal	July 15, 2015
Estimated Date of Board Approval	September 29, 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. Key development issues and rationale for Bank involvement

1. **Seychelles is a middle-income, small island-state economy.** With a gross national income per capita of US\$12,180 in 2012, it is classified as an upper-middle-income country. It has an estimated population of 88,300 (2012), 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 better social indicators than comparable small countries. It has already achieved most of the Millennium Development Goals, especially for education, health, poverty eradication, and the environment.¹ Poverty in Seychelles is relatively low, with less than 2 percent of the population living on less than US\$2 per day. However, inequality increased between 2000 and 2007 and the Gini coefficient went from 0.42 to 0.65.

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. **Seychelles enjoys a stable political system and has made significant progress in improving public sector governance.** In the last election (May 2011), the incumbent (Mr. James Michel) was elected for another five-year term.² Since 2008, the government has implemented a series of reforms to address public sector governance issues, which improved a number of governance indicators.³ Legislative and presidential elections are foreseen in 2016.

3. **Significant reforms have helped Seychelles to overcome the 2008 debt crisis.** After high external indebtedness and a loss of competitiveness depleted foreign exchange reserves and forced a payment default in 2008, the Seychelles government 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 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.

4. **The government aims to maintain strong 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,⁴ remove infrastructure bottlenecks and raise human capital.

5. **This operation supports government's reforms to accelerate inclusive economic growth.** First, the operation supports 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 is improved. Second, reforms supported by this operation aim to facilitate access to credit, which is expected to affect positively Small and Medium Enterprises (SMEs), 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. 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.

II. Proposed Objective(s)

6. **This program document proposes a Development Policy Loan (DPL) to the Republic of Seychelles that sustains reforms for inclusive growth.** The proposed operation is

² 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.

³ Seychelles ranked at the 55th percentile on Rule of Law in the 2012 World Bank's Worldwide Governance Indicators, and it ranked 4th in the 2013 Ibrahim Governance indicators of African countries, in line with previous years.

⁴ Seychelles is ranked 80 in the World Bank's Ease of Doing Business Index for 2014, a fall from 74 in 2013.

a stand-alone Development Policy Loan. 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 human development public expenditure; (ii) facilitate access to credit; and (iii) improve public investment.

III. Preliminary Description

7. Within the government program, the proposed operation supports a subset of actions that will enable the authorities to: (i) improve public expenditure on human development; (ii) facilitate access to credit; and (iii) improve public investment.

- **Setting up tools to raise the efficiency of human development public expenditure.** These reforms will (i) Improve Monitoring and Administration of Social Assistance System; (ii) create the tools to sustain health services for the population at large; and (iii) improve teacher management and student assessment.
- **Facilitate access to credit through better credit information system and a collateral registry.** This program supports: (i) expanding the information included in the credit information system to lenders currently not regulated by the Central Bank of Seychelles and improve the frequency of reporting; and (ii) setting up a centralized electronic Collateral Registry for secured interest in all types of movables.
- **Improve public investment through better public investment management systems and improved government supervision of commercial SOEs.** This program supports: (i) improving public investment management to better prepare, select and implement public investment; and (ii) strengthen SSIs monitoring framework to ensure adequate supervision of public investment carried out by commercial SOEs.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

8. **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 p[ublic 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.

Environment Aspects

9. **Policy actions supported by this DPL series 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.

V. Tentative financing

Source:	(\$m.)
Borrower/Recipient	0
International Bank for Reconstruction and Development (IBRD)	4.0
Others (specify)	0
Total	4.0

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