

PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

June 24, 2014
Report No.: 89152

Operation Name	Disaster Risk Management Policy Loan with Catastrophe Deferred Drawdown Option (DPL with DDO)
Region	Africa
Country	Seychelles
Sector	Public administration- Financial Sector (30%); Flood management (70%)
Operation ID	P148861
Lending Instrument	Development Policy Lending
Borrower(s)	Government of the Seychelles
Implementing Agency	Ministry of Finance, Trade and Investment Liberty House Victoria, Mahé Seychelles
Date PID Prepared	June 23, 2014
Estimated Date of Appraisal	June 27, 2014
Estimated Date of Board Approval	September 25, 2014
Corporate Review Decision	Authorization to Appraise and Negotiate

I. Key development issues and rationale for Bank involvement

1. **This operation proposes a US\$7 million Disaster Risk Management DPL with Cat DDO as budget financing for the Government Republic of Seychelles (GoS) for an initial period of three years¹.** The Program Development Objective is to strengthen the Government of Seychelles' DRM policy and reform agenda and enhance its capacity to efficiently respond to disasters. To achieve this objective, the operation supports reforms in two policy areas: (i) strengthening the institutional/legal framework for disaster risk management, and (ii) integrating disaster risk reduction into development planning and decision-making.

2. **Seychelles has come a long way since its 2008 crisis.** After high external indebtedness and a loss of competitiveness built up over prior years had depleted foreign exchange reserves and 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

¹ The standard drawdown period for the Cat DDO is three years, renewable four times (for a total of 15 years).

secure generous debt relief, which together with fiscal consolidation has put it on a path to fiscal and external sustainability.

3. These achievements aside, a number of challenges remain to be addressed.

Seychelles confronts the challenges inherent in a small and remote island state that is highly dependent on tourism and vulnerable to a range of potential shocks. Its vulnerability is high given its exposure to the global economy, especially the predominance of European tourism in the Seychelles economy. Limited land, capital, and human resources inhibit its ability to benefit from economies of scale in production. Public debt is high and the need for external gross financing will remain high due to growing debt service and a high (albeit declining) current account deficit, as well as an underdeveloped domestic financial market. The investment climate needs to be strengthened to harness private sector growth² while bottlenecks in infrastructure remain a critical constraint. In the social sectors, teen pregnancy is a major issue³ as well as non-communicable diseases and the relatively poor quality of education outcomes, particularly in science.⁴ Continued reforms and strong macroeconomic reforms are needed to address these challenges.

4. As a small island state, the Seychelles is exposed to a disproportionately high economic, social and environmental impact of natural and environmental disasters.

The Seychelles' location, topography and landscape make the country vulnerable to tropical cyclones, tsunamis, storm surge, extreme rainfall, flooding, landslides, rockslides and forest fires⁵. These adverse effects further exacerbated by the medium to long term effects of climate change, present significant risks to its sustainable development. Vulnerability characteristics such as the concentration of population and development in narrow coastal zones make the country extremely sensitive to the natural hazards and associated impacts. Adaptation to the adverse impacts of climate change and a robust disaster prevention and mitigation program are major priorities for the Seychelles.

5. The GoS places a high priority on increasing disaster resilience, by analyzing and applying risk information in the development planning process and enforcing new and existing norms and regulations to reduce vulnerability.

6. The authorities are strengthening the technical capacity for DRM and are working on putting a Disaster Risk Financing strategy in place. These efforts will strengthen government capacity to respond to an adverse natural event, evaluate the impact of a disaster, and at the same time protect fiscal stability through risk-financing tools (risk sharing, risk pooling, contingent financing, and catastrophe-related bonds and insurance, for example). This operation will complement an ongoing programmatic approach to support disaster risk management with an emphasis on disaster prevention and preparedness, as opposed to only disaster response.

² Seychelles is ranked 80 in the World Bank's Ease of Doing Business Index for 2014, a fall from 74 in 2013.

³ Thirty-two percent of all first pregnancies occur among 15 to 19 year olds.

⁴ The Bank and other partners are involved in trying to address the challenges in health and education. The Bank has just undertaken a public expenditure review in those sectors.

⁵ UNDP: Disaster risk profile of the Republic of Seychelles (July 2008), Gos/WB Damage, Loss and Needs Assessment (2013).

II. Proposed Objective(s)

The Project Development Objective of the proposed operation is to strengthen the Government of Seychelles' DRM policy and reform agenda and enhance its capacity to efficiently respond to disasters. To achieve this objective the operation supports reforms in two policy areas: (i) strengthening the institutional/legal framework for disaster risk management, and (ii) integrating disaster risk reduction into development planning and decision-making.

III. Preliminary Description

The DPL with Cat DDO can help meet Seychelles' need for immediate, liquid assets in the aftermath of a catastrophic disaster. This flexible and prompt financial tool is designed to address risks to which the country is prone. It will enable the GoS to focus on emergency response measures in the aftermath of a disaster rather than spend valuable time and resources trying to raise funds. The Board has approved a number of DPLs with Cat-DDO, including in The Philippines, Costa Rica, Colombia, El Salvador, Guatemala, Panama and Peru.

There are three proposed prior actions for this program that will improve the Government of Seychelles' ability to manage disaster risks, and they are cast preliminarily as noted below. The first is that the National Assembly has adopted the Disaster Management Act, which provides a legal framework for disaster risk management including both a National Disaster Risk Management Plan, and an integrated emergency management system. The second prior action is that The Cabinet of Ministers has approved an updated policy for disaster risk management submitted by Ministry of Environment and Energy, which establishes a fully functioning early warning system, increases preparedness through updated sector contingency plans, and provides for the carrying out of information dissemination activities. A third prior action is that the Ministry of Environment and Energy has established a historic loss and damage database in collaboration with United Nations International Strategy for Disaster Reduction and the Indian Ocean Commission, which is updated annually and fully accessible for development planning. The proposed operation seeks to address the following policy areas:

- Policy Area 1 Strengthening the Institutional/legal framework for disaster risk management.
- Policy Area 2 Integrating disaster risk reduction into development planning and decision-making.

Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Exogenous shocks such as natural disasters have a direct impact on poverty. Disasters, be it recurrent or of a more catastrophic nature cause damage to public and private infrastructure and immediate economic losses to productive sectors, as was evidenced in the 2013 floods and landslides provoked by tropical cyclone Felleng. Disasters cause people to lose livelihoods and property.

Natural disasters also increase poverty indirectly through the effects of lower economic growth, higher inflation, and lower government spending for social services. Although poverty in Seychelles is relatively low, the disruption of public utilities such as potable water or sewage systems, communications, and transport infrastructure in the period following a disaster event, combined with the geographic isolation of Seychelles, can have a prolonged negative effect on health, education, assets, and livelihoods across the population.

The implementation of the DPL with Cat DDO is expected to have a positive poverty and social impact by focusing attention on the obstacles to the Government's ability to strengthen resilience against the risk of natural disasters. Risk management requires shared action and responsibility at different levels of society, from households to communities to enterprises, and Governments have a critical role to play in creating an enabling environment for shared action and responsibility, and channeling support to vulnerable people.

Specifically, the prior actions will have positive social affects for vulnerable groups as follows:

- The implementation of the Disaster Management Act and adoption of the disaster risk management policy will provide a stronger legislative framework for the country's disaster risk management operations. It will also create a platform for greater accountability, transparency, and public participation.
- The establishment of a historic loss and damage database will allow for better analysis of vulnerabilities across geographic areas and populations to inform development planning.

Disasters have historically been a powerful source of poverty. The proposed operation supports policies that seek to alleviate poverty by strengthening disaster risk management in Seychelles. In case of a declaration of emergency, the activation of the Cat DDO will avoid the need of deviating funds originally designated to development projects. This will guarantee the continuity of development plans, mainly targeted at alleviating the needs of the population most at risk.

Environmental Aspects

The project is expected to have indirect benefits for the environment through integrating risk reduction and resilience measures into development planning and decision making. An illustrative example would be the improvement of solid waste services to reduce the risks of urban flooding caused by clogged drainage systems. In particular, this operation will help the GoS support and strengthen the following areas: (a) disaster risk management institutional, legal, and policy frameworks, by focusing on key program milestones and outcomes; (b) risk identification, assessment, and monitoring capacities by enhancing its institutional framework; (c) knowledge management and education, by implementing relevant programs (such building or renovating old schools with infrastructure more resilient to disasters), and; (d) reducing underlying risk factors such as developing new projects in safe areas; and (e) preparedness for effective response and recovery, by supporting national DRM agency.

The *raison d'être* of the operation itself is to support the government's effort in mainstreaming disaster risk management into a number of key areas, such as environment. Measures included in the 2010-2020 Seychelles Sustainable Development Strategy are aimed at reducing environmental risks and vulnerability to natural disasters, including the support of land zoning and urban development regulations, and sustainable management of water resources.

The Cat DDO operation also places particular emphasis on assuring improved transparency and accountability of social and environmental issues with respect to governmental oversight and decision-making processes.

IV. Tentative financing

Source:	(\$m.)
Borrower	0
International Bank for Reconstruction and Development	7
Others (specify)	0
Total	7

V. Contact point

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