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INTERNATIONAL FINANCE CORPORATION

AND MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF SEYCHELLES

FOR THE PERIOD FY18-FY23

June 18, 2018

**Southern Africa Country Management Unit 2
Africa Region
The International Finance Corporation
Multilateral Investment Guarantee Agency**

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ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Assistance	LDS	<i>Linyon Demokratik Seselwa</i>
AML	Anti Money Laundering	M&E	Monitoring and Evaluation
APEI	Accelerated Program of Economic Integration	MDA	Ministries, Departments and Agencies
ASA	Advisory Services and Analytics	MFD	Maximizing Finance for Development
ASP	Agency for Social Protection	MIGA	Multilateral Investment Guarantee Agency
ASYCUDA	Automated SYstem for CUstoms DATA	MIS	Management Information System
CAT-DDO	Catastrophe-Deferred Drawdown	MSME	Micro, Small and Medium Enterprises
CCPA	Climate Change Policy Assessment	NBS	National Bureau of Statistics
CCPE	Cluster Country Program Evaluation	NDC	Nationally Determined Contribution
CFT	Combating the Financing of Terrorism	NDS	National Development Strategy
CLR	Completion and Learning Review	PLR	Performance and Learning Review
CPF	Country Partnership Framework	PEMC	Public Enterprise Monitoring Commission
CPS	Country Partnership Strategy	PER	Public Expenditure Review
DSA	Debt Sustainability Analysis	PFM	Public Finance Management
DDO	Deferred Drawdown Option	PforR	Program for Results
DPL	Development Policy Lending	PIM	Public Investment Management
DRM	Disaster Risk Management	PM&E	Performance Monitoring and Evaluation
EEZ	Exclusive Economic Zone	PMS	Performance Management System
EFF	Extended Fund Facility	PPBB	Program and Performance Based Budgeting
EITI	Extractive Industries Transparency Initiative	PPP	Public Private Partnership
ESF	Environmental, Social and Governance	PUC	Public Utilities Company
FDI	Foreign Direct Investment	PV	Present Value
FIRST	Financial Sector Reform and Strengthening Initiative	RAS	Reimbursable Advisory Services
G&S	Goods and Services	RBM	Results-based Management
GDI	Graduation Discussion Income	S.A.M.O. A	SIDS Accelerated Modalities of Action
GDP	Gross Domestic Product	SCD	Systematic Country Diagnostic
GEF	Global Environment Facility	SEYPEC	Seychelles Petroleum Company
GFDRR	Global Facility for Disaster Reduction and Recovery	SIDS	Small Island Developing States
GoS	Government of Seychelles	SME	Small and Medium Enterprise
HBS	Household Budget Survey	SPPF	Seychelles Peoples Progressive Front
HDI	Human Development Index	SOE	State-owned Enterprise
HFC	Housing Finance Corporation	SORT	Standard Operations Risk-rating Tool
ICT	Information and Communication Technology	SWA	Social Welfare Assistance
IBRD	International Bank for Reconstruction and Development	SWIOFish	South West Indian Ocean Fisheries
IFC	International Finance Corporation	TA	Technical Assistance
IEG	Independent Evaluation Group	UN	United Nations
IMF	International Monetary Fund	UNDP	United Nations Development Program
		WBG	World Bank Group
		WTO	World Trade Organization

	IBRD	IFC	MIGA
Vice President:	Makhtar Diop	Sérgio Pimenta	Keiko Honda
Director:	Mark Lundell	Oumar Seydi	Merli Baroudi
Task Team Leader:	Thomas Buckley	Kailash Sharma Ramnauth	Paul Barbour/Gero Verheyen

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THE REPUBLIC OF SEYCHELLES
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I. INTRODUCTION

1. This Country Partnership Framework (CPF) for Seychelles covers the period FY18-FY23. Seychelles has achieved impressive gains in prosperity and stability in the past decade since confronting a major economic crisis in 2008. The Government responded to the crisis with a wide-ranging reform program supported by generous debt relief that focused on liberalization of the trade and exchange regimes, significant and sustained fiscal consolidation underpinned by reductions in public employment and subsidies, and a reduction in the state's role in the economy to boost private sector development. Along with the International Monetary Fund (IMF), the World Bank Group (WBG) supported Seychelles in managing the crisis and regaining stability. Results included rebounding growth, declining debt and the achievement of high income status in 2015. The challenge now is consolidating these gains and building the resilience of Seychelles' small island economy. This CPF proposes to build on the close relationship that has developed with the authorities over the past decade whilst continuing to assist Seychelles as it seeks to consolidate its gains. In doing so, the CPF also aims to leverage Seychelles' strong record of reform and leadership among small island nations to build the global knowledge base on addressing the challenges confronting such nations, including sustainably developing the ocean economy and addressing the impact of climate change.

2. The CPF is grounded in the findings of a WBG Systematic Country Diagnostic¹ (SCD) that was finalized in July 2017. The SCD assesses the remaining institutional constraints and priorities to bolster inclusion in a sustainable manner. The SCD shows that progress during the last decade has mostly benefitted the more skilled population, and that enhancing inclusion requires greater attention to the quality of education and social assistance. The public institutions needed for economic management and resilience have been strengthened, but gaps remain, including with respect to transparency and accountability. The SCD notes the need to create more opportunities for local entrepreneurs to sustain productivity growth and inclusion. The sustainability of Seychelles pristine environment and abundant natural resources is coming under pressure from climate change and economic activity. These concerns are shared by Government and reflected in discussions for the development of the Seychelles Vision 2032 and the National Development Plan for 2018-2022.

3. The CPF is consistent with the principles for International Bank for Reconstruction and Development (IBRD) engagement in countries above the Graduation Discussion Income (GDI) and the Forward Look on small states. IBRD financing support will be selective and focus on addressing Seychelles' limited access to international markets and continuing need for institutional strengthening to achieve greater inclusion and sustainability. The CPF will also cater to the special development challenges and vulnerability that Seychelles faces as a small state. With less than 100,000 inhabitants located on several small islands, Seychelles remains highly vulnerable to economic shocks and natural disasters. Climate change represents an immediate threat with shifting rain patterns affecting highly exposed infrastructure. Seychelles' isolation increases costs and limits opportunities, thus weakening the capacity to absorb shocks.

4. The CPF puts forward a flexible approach for the WBG's program that is appropriate for addressing key institutional gaps and buttressing the resilience of the economy. The CPF focuses on strengthening institutions to foster inclusive and sustainable prosperity through a highly selective framework centered on two focus areas. The first focus area, 'Sustainable Growth for Shared Prosperity', seeks the retooling of tourism and fisheries, the core sectors of the economy, to open opportunities for local business to

¹ Seychelles Systematic Country Diagnostic, June 2017, Report No. 114289-SC

generate higher value-added and better paying employment opportunities, especially, among the bottom 40 percent of the income distribution. Such initiatives will be accompanied by attention to strengthening management and resilience of natural resources, complementing the Blue Economy Agenda of the Government. The second focus area, 'Fostering Inclusion and Public Sector Performance', supports the government's efforts to reorient its significant investment in social assistance towards investment in human capital, especially the bottom 40 percent. The attention to improving public sector performance and accountability is critical to buttressing the resilience of the public sector, improving the capacity of the country to manage the multiple risks that it faces. The efforts that the country is making to innovate in managing its natural endowment merit support and the lessons drawn can help not only other small island economies but inform the future management of its ocean resources. The six-year CPF period is appropriate for a CPF program that features a strong Reimbursable Advisory Services (RAS) engagement, where results and knowledge spillovers can take time to materialize. Two Performance and Learning Reviews (PLR) will be prepared to update the Results Matrix and allow for fine-tuning of WBG results.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1 Country context

5. **Seychelles is a small island state in the western Indian Ocean, which has developed a high-income economy and eliminated extreme poverty.** It has an estimated population of about 95,000, almost of all of whom live on three central islands out of a total of 115 tropical islands with a total land area of under 500 km². The country has a large maritime territory, including an exclusive economic zone of almost 1.4 million km² in one of the world's major tuna fishing grounds. Gross national income per capita in 2016 was US\$15,410, classifying it as a high-income economy (currently the only one in sub-Saharan Africa). Tourism, and the fisheries and seafood industries, are the pillars of the economy, with tourism generating over half of aggregate demand by some estimates, and canned tuna constituting the bulk of goods exports. Seychelles has achieved a high level of human development, as measured by the United Nations (UN) Human Development Index (HDI) (rank 63rd/188 [2016]). Poverty in Seychelles as defined for international comparison purposes is very low: 2.5 percent at the lower middle income line (US\$3.20 per day, at 2011 public private partnership [PPP]). Inequality, however, is significant as reflected in a Gini coefficient for gross income of 0.47.

6. **Seychelles is a relatively young democracy.** Seychelles achieved independence from the United Kingdom in 1976 and became a republic within the Commonwealth. Following a period of single-party rule by the Seychelles Peoples Progressive Front (SPPF) under President France Albert René, the first multiparty presidential and legislative elections were held in 1993 under a new constitution. President René won this election, and subsequent elections in 1998 and 2003, before transferring the presidency to James Alix Michel in 2004.

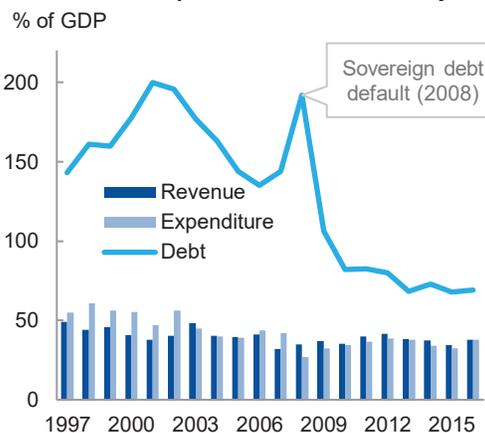
7. **Political competition has increased.** Presidential elections in December 2015 were highly contested, with incumbent President James Michel being narrowly re-elected for a third and last term, by just 193 votes. Subsequently, in September 2016, opposition parties won the country's parliamentary elections for the first time (as the *Linyon Demokratik Seselwa* (LDS), a coalition of four main parties including the Seychelles National Party which had boycotted the 2011 parliamentary polls). LDS now holds 19 seats in the National Assembly while *Parti Lepep* holds 14 seats; before the elections *Parti Lepep* held all 25 directly elected seats in the assembly and an additional seven proportionate seats. In October 2016, shortly after the parliamentary elections, President Michel resigned and the presidency was transferred to the then vice-president, Danny Faure, who was sworn in on October 16, 2016. The Government's response (a major

expansion in social spending, a large increase in the minimum wage and introduction of a progressive income tax) highlights the challenge of sustaining its macroeconomic reform program in this context. At the same time, the revitalized role of the National Assembly has been accompanied by greater citizens' interest in public affairs and has brought increased accountability to democratic governance.

2.2 Recent Economic Developments and Outlook

8. Since enduring an economic crisis and sovereign debt default in 2008, Seychelles has managed a remarkable turnaround in restoring fiscal sustainability and growth. Prior to the crisis, the country was facing daunting problems: an overvalued fixed exchange rate and exhaustion of foreign exchange reserves, a bloated and all-pervasive public sector, and an unsustainable debt burden and accumulation of arrears, exacerbated by external pressures from the global energy and food price spike of 2007/2008 and 2008/2009 financial crisis. In 2008, Seychelles fell into sovereign debt default which led the country to embark on a path of major macroeconomic and institutional reforms. These reforms, supported by international financial institutions and other development partners, and generous debt relief, focused on a fundamental liberalization of the exchange rate regime, tightening fiscal policy, and a reduction in the public sector's size and role in the economy to allow greater space for private sector development. Subsequently, macroeconomic management has been sound. The exchange rate regime has stayed flexible and substantial reserves have been accumulated. On the fiscal side, public debt sustainability has been restored through debt restructuring, primary budget surpluses, and robust economic growth (helped by a buoyant tourist sector).

Figure 1: Debt crisis and recovery
(Govt. revenue, expenditure and debt, % of GDP)



Source: IMF, 2017

9. Seychelles' recent economic performance has been strong, benefiting from the continued growth of the tourism sector. Visitor numbers in 2017 were up 15.4 percent over 2016, hitting a record high of 349,861 (over 3.5 times the resident population). European markets remain key to the tourism industry, but the sector is also benefiting from increases in tourists from other regions, facilitated in turn by more airline connections. Overall, GDP in 2017 is estimated to have increased by 5.3 percent.

10. The formal unemployment rate is 3.9 percent, indicating a tight labor market consistent with robust recent economic conditions. Rising labor demand has been met by a surge in expatriate workers in recent years, whose numbers as measured by new and renewed Gainful Occupation Permits rose to 16,792 in 2016, accounting for about a quarter of the total workforce, mostly in construction and tourism.

11. The external position has been sound, though structural vulnerabilities remain due to Seychelles' heavy reliance on imported goods and on foreign funding for investment. Seychelles runs large, structural current account deficits, financed substantially by Foreign Direct Investment (FDI) (including for new hotel developments, which have driven FDI inflows above 10 percent of gross domestic product (GDP) annually in recent years). The current account deficit is estimated to have been 20.5 percent of GDP in 2017, increasing slightly from 20.1 percent of GDP in 2016. The external debt stock is sizable (98.2

percent of GDP at the end of 2017), but external financing risks are mitigated by the concentration of this debt in the hotel sector, with its mainly euro-denominated earnings, whilst public sector external debt is moderate at 30.4 percent of GDP, mostly on concessional terms. The latest external debt sustainability framework shows the external debt burden declining under baseline assumptions (to 88.3 percent of GDP in 2022). The Seychellois rupee depreciated by 2.5 percent against the US Dollar in 2017, maintaining the gradual nominal depreciation trend which has been in place since 2015. Official reserves have been broadly stable and stood at US\$546 million on average in 2017 (equivalent to 3.7 months of imports)

12. Social spending has surged. In January 2016, the then-president announced a major expansion in social spending (through a 40 percent increase in universal retirement benefits, and increases in other benefits linked to the minimum wage, which was increased by approximately 25 percent). A new progressive income tax (replacing a flat-rate income tax) was announced to be put in place in 2017. The total direct fiscal cost of these measures was approximately 3.2 percent of GDP. Overall current expenditures rose sharply to 33.1 percent of GDP in 2016, from 28.0 percent in 2015. A new Ministry of Family Affairs was also created. The potentially destabilizing effects of this rise in spending, however, were avoided, helped by being partly offset by buoyant revenues (which rose by 3.2 percentage points, to 36.6 percent of GDP), and by the central bank's tight monetary policy stance.

13. Fiscal policy remains fundamentally anchored by the government's commitment to maintaining substantial primary surpluses, as targeted under successive IMF programs. The 2016 primary surplus closed at 3.4 percent of GDP, surpassing, albeit with some delay, the 3.0 percent target under an Extended Fund Facility (EFF), which ended in mid-2017. In the 2017 Budget, approved by the National Assembly in February 2017, the Government maintained a budgeted primary surplus of 3.0 percent of GDP. This was budgeted to be achieved in part by delaying full implementation of the new progressive income tax (replacing the current flat rate tax) to July 2018. In December 2017, the IMF Board approved a new non-disbursing program for Seychelles, under which primary surpluses of 2.5 percent of GDP are targeted through 2020.²

14. Public debt dynamics are favorable. The Seychelles' total public debt stood at 67.2 percent of GDP in 2017, having declined steadily from 82.2 percent of GDP in 2010, a little under half of which (equivalent to 30.4 percent of GDP) is external. This debt level is still close to the "high risk" level as gauged by the latest IMF/World Bank debt sustainable analysis (DSA) framework (published in December 2017), but under baseline forecast assumptions is set to decline rapidly to well below the high-risk thresholds. The DSA finds that "the debt path remains below the high-risk benchmark under most shock scenarios, but remains vulnerable to a real exchange rate shock". It should also be noted that the central bank has accumulated significant debt for monetary policy purposes, effectively as a by-product of the steady build-up of official reserves and tight monetary policy of recent years. Excluding this (as is typically done by ratings agencies), the debt/GDP ratio is 55.8 percent.

Outlook

15. The baseline growth outlook remains favorable in view of the ongoing robustness of tourism, although the current pace of real GDP growth is expected to moderate to 3.6 percent and 3.3 percent in 2018 and 2019, respectively, as construction activity linked to new tourism capacity development slows (a moratorium on new large hotel permits was extended recently to 2020). Given the limitations on land, labor and the fragile environment, economic growth will have to increasingly rely on increases in

² Seychelles is the first IMF member country to have requested IMF support through its new Policy Coordination Instrument (PCI); see <http://www.imf.org/en/News/Articles/2017/12/13/pr17492-imf-executive-board-approves-three-year-policy-coordination-instrument-for-seychelles>.

productivity. Seychelles has considerable opportunities to continue climbing the income ladder, especially given its natural wealth, which is of global significance.

16. The baseline scenario assumes continued fiscal discipline. In October 2017, the Government presented its 2018 Budget, entitled “Working towards shared prosperity for the people”. This shaves the budgeted primary surplus from 3.0 percent of GDP in recent years, to 2.5 percent, aiming to expand fiscal space for investment spending whilst continuing to shrink the public debt burden. Some permanent revenue-increasing measures were also announced, such as a new tax of 0.25 percent on the value of foreign-owned property. On the expenditures side, some subsidies will be cut (such as to the public transport company), and the Government announced that it will seek to use PPPs to help fund investment needs and improve service delivery in the SOEs.

17. The baseline economic outlook, while positive, is subject to significant external and domestic risks. Seychelles’ small, tourism- and import-dependent economy is structurally exposed to external shocks, notably through any disruption in international travel and tourism demand, and food and fuel prices. As a small island nation Seychelles is also exposed to disproportionately high economic, social and environmental impacts of natural and environmental disasters.

18. The key source of domestic risk is that the fiscal discipline which Seychelles has maintained since 2008 will be eroded. The government’s wage bill has grown (to an estimated 10.9 percent of GDP in 2017) while as discussed, social spending has already risen sharply. Demands on public investment will continue, with major projects under consideration as well as the need to address aging existing infrastructure – particularly in the health and education sectors. Transfers to some public enterprises will be needed, given constraints on borrowing and the limited use of PPPs to carry out infrastructure projects. Fiscal risks emanating from SOEs are also a potential concern. Consequently, the government will need to maintain its strong commitment to implementing permanent measures to achieve the government’s target of a 50-percent debt/GDP ratio by 2021 (notably restraining the wage bill, on the expenditure side, and fully implementing the new property tax, on the revenue side).

19. Addressing the reputational challenges associated with Seychelles’ international financial services sector is a domestic macroprudential priority, and an issue of international importance. Comprehensive offshore sector statistics do not exist, but the sector emerged in Seychelles in the 1990s and grew rapidly, with over 180,000 offshore companies (known as International Business Companies, [IBCs]) now registered in Seychelles. The industry and its regulators face a challenge to ensure compliance with tighter global regulations. Further steps are needed to develop a robust domestic regulatory framework and enforcement system for the offshore sector and of Anti Money Laundering (AML) systems and procedures across the financial sector and counteract the global trend of banks “de-risking” their correspondent relationships, hampering the financial transactions needed for international trade and further financial sector development.

20. Finally, the sustainability of the resource base of the economy raises some concerns. Seychelles has grown its economy despite local labor and land supply constraints, and a fragile environment. No comprehensive evaluation of the impact of current or projected economic activity on the marine environment has yet been made, but in Seychelles, as globally, there are growing worries about sustainability. In tourism, the Government has frozen new approvals for large establishments (with 20 rooms and above) through 2020, reflecting concerns about the impact of the recent, rapid pace of development. In the industrial fisheries sector, a regional authority sets ceilings to protect the tuna stock, but some species are deemed overfished. Catch rates of many of the other main species of fish are

declining, reflecting pressures from overfishing in the artisanal, recreational and sport fishing sub-sectors, and from an increasing environmental footprint of the tourism industry. The artisanal, recreational and sport fisheries are open-access, which impedes measures to limit the volume of fishing and thereby ensure sustainability.

Table 1: Key macroeconomic indicators and projections*

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Real economy									
Real GDP (% growth)	4.5	4.9	4.5	5.3	3.6	3.3	3.3	4.1	4.0
Gross national savings (% of GDP)	14.6	15.2	10.2	8.2	10.0	12.9	15.2	15.3	16.2
Gross investment (% of GDP)	37.7	33.8	30.2	28.6	28.1	30.5	32.2	32.9	33.4
o/w public investment	6.7	4.8	5.0	4.1	7.2	6.7	7.5	7.5	7.9
o/w private investment	31.0	29.0	25.2	24.5	20.9	23.8	24.7	25.4	25.5
Private consumption (% of GDP)	50.8	47.6	47.1	50.9	47.6	47.6	47.9	48.0	47.9
Fiscal sector (% of GDP)									
Revenue (excluding grants)	34.3	33.4	36.6	35.6	38.0	35.6	35.4	35.4	35.2
Expenditure	34.6	32.8	38.1	36.9	40.2	37.3	36.4	36.0	35.7
Primary balance	4.9	4.3	3.4	3.0	3.0	2.5	2.5	2.5	2.5
Overall balance, including grants	2.1	0.9	-1.4	0.0	-0.3	-0.4	-0.1	0.1	0.3
Total government debt**	74.6	69.9	72.7	67.2	62.6	58.0	53.0	48.6	44.4
o/w Domestic	33.5	34.8	40.4	36.8	33.4	30.8	27.4	24.6	21.7
o/w Monetary debt	11.0	13.4	16.2	11.4	9.5	8.0	6.8	5.6	4.5
o/w External	41.1	35.1	32.2	30.4	29.2	27.1	25.6	24.0	22.7
Money and prices (% change)									
Broad money (M2)	26.6	2.9	12.1	16.4	7.4	n/a	n/a	n/a	n/a
Credit to the private sector	26.2	7.8	10.3	17.8	11.5	n/a	n/a	n/a	n/a
GDP deflator (average)	2.3	2.1	-0.8	2.1	3.5	3.5	2.8	2.6	2.7
CPI (average)	1.4	4.0	-1.0	2.9	4.4	3.6	3.1	3.1	3.1
External sector									
Current account balance (% of GDP)	-23.1	-18.6	-20.1	-20.5	-18.2	-17.6	-17.0	-17.6	-17.2
Gross reserves (US\$ million)	462.9	536.8	522.6	546.4	523.9	547.6	578.3	633.1	672.0
Months' import cover (goods)	3.9	4.3	3.7	3.7	3.4	3.3	3.2	3.4	3.5
Exchange rate (average, SCR/US\$)	12.7	13.3	13.3	13.6	n/a	n/a	n/a	n/a	n/a
Memo									
Nominal GDP (MRU million)	17,119	18,340	19,014	20,444	21,914	23,428	24,890	26,603	28,414
Per capita GDP (US\$, Atlas method)	13,500	14,100	14,680	15,410	n/a	n/a	n/a	n/a	n/a

Notes: *2012-2017: actual/estimates; 2018-2022: projections.

**Government and government-guaranteed debt. Sources: IMF, World Bank.

2.3 Poverty Profile

21. Extreme poverty has effectively been eliminated in Seychelles, in statistical terms. The poverty rate in Seychelles is estimated to be 2.5 percent at the US\$3.20 per day international comparison line.³ In contrast, the national poverty rate is 39.3 percent (based on the latest Household Budget Survey, from 2013). This national rate results from the use of a rather high poverty line by the National Statistics Bureau for the purposes of determining the national poverty line, equivalent to about US\$13 per person per day (in 2011 PPP dollars). Given this relatively high poverty line, the estimated official poverty rate of 39.3 percent is about as expected, based on a comparison of international household income distributions and

³ This is the higher of the World Bank's international poverty lines (US\$1.90 and US\$3.20 per day in 2011 PPP).

average per capita income levels across countries. Related indicators substantiate that extreme poverty levels in Seychelles are low, and this was also corroborated by SCD consultations.⁴

22. Improving shared prosperity, however, remains a key challenge. Economic inequality is significant, as measured by an income Gini coefficient of 0.47 (2012). Cross-country comparisons of inequality are difficult, but this measure does indicate, broadly, that income inequality in Seychelles is considerably higher, for example, than in the neighboring, upper middle income, small island state of Mauritius (Gini coefficient: 0.36), and very much higher, for example, than in Iceland, another high-income island state with a very small population (Gini coefficient: 0.27). In Seychelles, as elsewhere, it is likely that the above, survey-based measure significantly understates the level of inequality, given data gaps for the highest income households.

23. Recent poverty, income and overall shared prosperity trends are ambiguous. Nationally-representative household budget data are available from surveys in 2006/2007 and 2012/2013, but data problems with the 2013 survey make it impossible to estimate consumption in that year, and incomes as recorded in the two surveys are not comparable because of differences in how income is captured. Analysis for the SCD attempted to overcome these data obstacles using survey imputation methods. This analysis found that there is no robust evidence that the incomes of households in the bottom quintile were significantly higher in real terms in 2013 (the latest available data), compared with 2006/2007. Since real output per capita rose by about 30 percent between 2006 and 2013, this is at least suggestive that the benefits of growth have accrued disproportionately to better-off households. In contrast to the income-based analysis, however, analysis of assets shows that the number of assets held (in 10 categories) has become more equal, in part due to increased ownership of dwellings and household appliances for the bottom quintile, which is broadly consistent with the expansion of social housing seen since 2006/2007. On the other hand, evidence that inequality is increasing is found in labor market analysis conducted for the SCD that showed large and rising skills premia with higher skilled or educated individuals earning a premium of 48 to 70 percent relative to uneducated workers. Overall, the level of income inequality in Seychelles is significant, but the recent trends regarding shared prosperity are uncertain.⁵

24. While gender equality indicators are generally excellent, the gender dimension is relevant to understanding and responding to Seychelles' inclusion challenges.⁶ Seychelles is a matrilineal society; 58 percent of households are female-headed. Despite progress in health and education, at 58 per 1000 adolescent women, the adolescent fertility rate is considerably higher than the average for high or upper middle-income countries (13 and 31 per 1000 adolescent women, respectively) and this could lead to lower human capital formation among female youth as well as poorer opportunities in the labor markets. While the female to male labor force participation is high at 90 percent (close that of Sweden), there appears to be: (1) significant occupational sex segregation and; (2) a large wage gap, even after accounting for occupation sex segregation (men earn a wage premium of 16 percent relative to women after controlling for sector and education level). This may in part reflect the fact that time-based work and more flexible work arrangements are rare, impeding employment access and earnings for women given childcare responsibilities.

⁴ For example, Seychelles' human development attainment is high and is as predicted by its national income, with a UN HDI score of 0.782 (ranking 63rd/188; 2016).

⁵ A new, national household budget survey is due in 2018.

⁶ Data in this paragraph are drawn from the 2013 Household Budget Survey Report and Ministry of Social Development and Culture. *Implementation of the Convention on the Elimination of All Forms of Discrimination against Women*, Gender Secretariat, Republic of Seychelles, October 2011.

25. The need to orient policy and implementation to bolster inclusion is pressing. The unequal distribution of income, despite Seychelles' long-standing policy focus and high spending on public services, social protection and housing, points to constraints in accessing economic opportunities. These constraints could well intensify as the economy develops further, and demands higher and more specialized skills. If not addressed, the constraints could cause increasing pressure on state spending, and become a source of social tension. That this concern is already important and high on the political agenda is evidenced by the costly actions taken by the then-president immediately after the 2015 presidential elections to redress the perception of poverty and inequality, as described above. The policy challenge for inclusion is to equip the local workforce with the skills to participate in supplying higher value-added services in the core sectors of the economy, and to ensure that other enabling factors for market employment and micro, small and medium enterprises (MSME) development are in place.

2.4 Key Development Challenges

26. Seychelles is a successful, high-income, small island state, but - as the SCD analysis shows - the structural transformation of its economy to entrench and extend the gains of the post-2008 reforms is still incomplete. Positive economic growth and stability have lent credence to the new approach to policy launched in 2009. Yet there has been limited structural economic change and innovation, and as key institutional gaps remain, Seychelles is still a society and an economy in transition. Tourism has played an important role in the recovery as Seychelles has successfully tapped new markets. The number of annual tourist arrivals has now approximately doubled since 2008. The fisheries industry also remains a bulwark of the economy.⁷ However, innovation has been low in these two key sectors. Tourism has centered largely on large hotels that offer comprehensive packages, with a high degree of vertical integration that limits the participation of local operators in offering complementary services (beyond small-scale accommodation and taxi services). In fisheries, while volumes have grown, the model remains roughly unchanged, with limited local value added.

27. The SCD highlights the importance for Seychelles to focus on the “3 Ps” (productivity, participation and performance) for increasing shared prosperity. It identifies main institutional challenges in this regard, notably barriers to open and operate businesses, inefficiencies in public sector management, such as limited statistical capacity, scope for a more strategic and sustainable approach to social protection, as well as the need to broaden access to quality education and skills development.

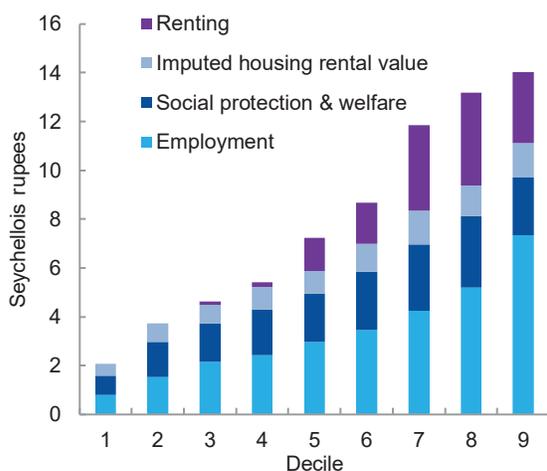
28. Regarding growth, achieving more productivity-based growth is Seychelles' key challenge. Economic growth performance has been strong, both over the long term and recently, and employment rates are high. Structural change in Seychelles' economy has been limited, however, and the SCD shows that growth has been driven by factor accumulation, pointing to raising productivity growth as Seychelles' key growth challenge. This finding resonates with Seychelles having recently joined the ranks of high-income economies, a stage where both economic theory and the international empirical evidence show that sustained economic growth is fueled by rising productivity.

29. Regarding inclusion, increasing Seychellois' direct participation in an increasingly skills-intensive, sophisticated economy is the paramount challenge for the social sectors. Absolute poverty levels in Seychelles are low, but inequality is significant. Assessing rigorously the recent incidence of growth is not possible due to data constraints, but the available evidence suggests that gains for households at the bottom of the income distribution may have lagged the considerable increase over the past decade in average income. The current social protection system, although it supports the incomes of relatively poor

⁷ In this document, “fisheries” or the “fishing industry” describes both primary sector fishing activity and secondary sector fish and seafood processing.

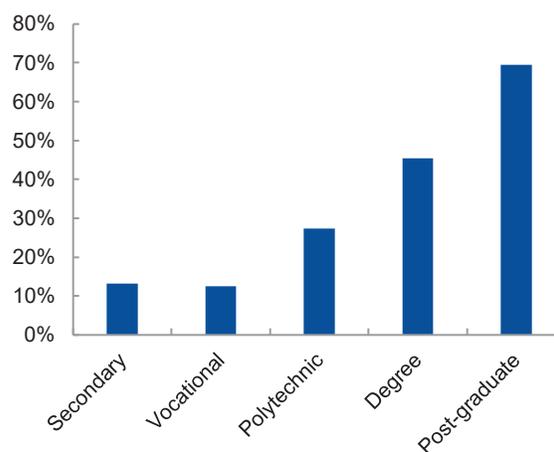
households (Figure 2) and reduces poverty, could do more to help the poor; spending on social transfers is already at comparatively high levels, and is heavily concentrated on the elderly. In the labor market, skills premia are already high, and increasing, at the top end (Figure 3), consistent with rising relative demand for more skilled workers. At the same time, there is evidence of inequity of outcomes and challenges in quality in the education system. A share of the population is therefore at risk of falling behind.

Figure 2: Households across the income spectrum rely on employment, as well as social protection...
(Mean reported gross income per adult equivalent, by source and household income decile)



Notes: Top decile is excluded for visual clarity.
 Sources: World Bank staff calculations based on HBS (2013).

Figure 3: ...and returns to education are increasingly concentrated at the top-end
(Average incremental return to education over primary level)



Sources: World Bank staff calculations based on HBS (2013).

30. Regarding sustainability, increasing public sector performance is the third key challenge for Seychelles to accelerate progress towards shared prosperity. Seychelles' path to high-income status has been marred by volatility and painful setbacks, which can be traced to domestic policy and an excessive accumulation of national resources in the state. In conjunction with the need for Seychelles to shift to a more productivity-centered growth model and to equip its citizens to participate directly in emerging economic opportunities, lifting public sector performance is a key challenge. Important challenges include improved prioritization and efficiency in public spending, stronger monitoring and evaluation backed by timely and accurate statistics, and a more efficient SOE sector.

31. The SCD identifies as a constraint to reaching the twin goals the capacity of the country to manage the risks arising from climate change. Seychelles is highly vulnerable to climate change. Its primary concerns are from the economic costs of temperature rise (coral bleaching and losses to fisheries and tourism); extreme rainfall (crop and fish losses, flooding); and sea-level rise (coastal erosion and salinization, and consequent losses to tourism and food and water security). The Nationally Determined Contribution (NDC) submitted by Seychelles for the Paris Agreement presents a clearly-articulated national strategy for responding to climate change.⁸ The strategy is comprehensive in coverage compared with many other NDCs, particularly those of other small states and is considered a model for other small

⁸ Republic of Seychelles Intended Nationally Determined Contribution under the United Nations Framework Convention on Climate Change (UNFCCC.)

states to follow. Mitigation plans envisage a shift to solar energy, switching 30 percent of private vehicles to electricity, and capturing landfill methane. Adaptation plans identify key areas of vulnerability and priority investments, but do not specify a timeline for implementing them.

III. WORLD BANK GROUP PARTNERSHIP STRATEGY

3.1 Government Program and Medium-term Strategy

32. The Government is currently preparing a long-term vision (“Vision 2032”) for the country, and drafting the first five-year National Development Strategy (NDS) for 2018-2022 to implement this vision. Goals under Vision 2032 are being informed by the UN Sustainable Development Goals, the Africa agenda 2063 and the SIDS Accelerated Modalities of Action (SAMOA) Pathway. These efforts are part of the overarching public sector reforms agenda on results-based management approved in 2013 and are expected to lead to greater linkages between planning, budgeting, performance management and monitoring and evaluation. In developing the vision, emphasis is being placed on ensuring a collaborative and inclusive process. Both the Vision and the NDS development are led by the newly founded Economic Planning Department in the Ministry of Finance, Trade and Economic Planning (MFTEP) in 2016 and build on a bottom-up approach with sector and institutional sector plans prepared in 2017/2018. This emphasis acknowledges that the political arena has become more contested in recent years, and is in line with more transparency and consultation in the formulation of public policy goals and their implementation; the overarching theme of the NDS is “promoting transparency, accountability and good governance”, building on the President’s main theme for his administration, as laid out in 2016, shortly after assuming office. The Vision 2032 is expected to be finalized in 2018, followed by the launch of the NDS. Both are expected to be monitored closely by Cabinet.

33. The 2018 Government Budget, tabled in October 2017, emphasizes inclusiveness, and is entitled “Working towards shared prosperity for the people”. The budgeted primary surplus in 2018-2020 is reduced as compared with that targeted in 2017, from 3.0 to 2.5 percent of GDP, largely to allow for income tax relief under the new, progressive personal income tax due to be introduced mid-year. Whilst still being consistent with prudent macroeconomic management, this planned shift indicates that fiscal policy is tilting towards meeting rising public expectations and perceptions, following a decade of rapid public debt consolidation and against the backdrop of strong economic conditions. The government’s medium-term program recognizes that, ultimately, meeting these aspirations sustainably will require maintaining the focus on macroeconomic stability, enhancing the efficiency of public services, and entrenching and expanding the role of the private sector. The budget has been prepared following an approach of programme-performance based budgeting (PPBB), which is being rolled out across government, and will be monitored through enhanced performance monitoring and evaluation systems.

3.2 Proposed WBG Country Partnership Framework

3.2.1 Lessons from CPF Completion Report, Independent Evaluation Group (IEG) Evaluation, and Stakeholder Consultations

34. The proposed CPF reflects lessons learned during implement of the FY12-FY16 Country Partnership Strategy (CPS). The Completion and Learning Review (CLR) concluded that the overall performance of the CPS program (FY12-FY16) was satisfactory (See Annex 2). During the period, the program achieved 73 percent of targeted objectives, with notable development impact in several areas. Strong client demand resulted in actual commitments of US\$38 million versus planned CPS lending of US\$21 million. An important lesson from the CPF was the need to adjust the focus of World Bank engagement to respond

to political developments and shifting priorities. Reflecting this, the CPF shifts from an overarching objective of improving fiscal sustainability to include a greater focus on inclusion, reflecting rising concerns in the country about disparities in income and opportunities. Another lesson concerns the need for flexibility, particularly on RAS engagements, which require strict quality assurance and alignment with client needs.

35. The CPF reflects the findings of the IEG Cluster Country Program Evaluation (CCPE) on Small States⁹. Key lessons include the need to remain selective in the choice of areas to focus upon, given limited resources. Key priorities include improving the quality of public spending, enhancing connectivity with the rest of the world, improving the quality of education and skills, and promoting trade, investment and exchange of ideas at the regional level. The CCPE also highlighted the need to remain flexible in the design of the World Bank program and be prepared to modify it in size and substance if the external environment changes or priorities of the Government change. Wherever possible, the World Bank could press for increased transparency and accountability in Government and help promote reforms that break the “cycle of fraternity” which often plague institutions in small states.

36. The WBG’s experience in Seychelles has generated important lessons and added to the WBG’s global knowledge of challenges affecting small island states. Seychelles successful post-crisis recovery and reform program brought about a dramatic economic turnaround while significantly reducing an unsustainable debt burden, and this can serve as a model for other countries. Seychelles has been a leading advocate for small states in international climate change and was one of the first to sign on to the UN Framework Convention on Climate Change. In 2017 the country was host to a pilot Climate Change Policy Assessment (CCPA) for small states, conducted jointly by the IMF and the World Bank.¹⁰ To finance investments needed to implement its NDC submission to the Paris Agreement, it has pioneered innovative financing mechanisms such as a debt restructuring model that supports climate adaptation through improved management of coasts, coral reefs and mangroves. Seychelles is also leading the way in marine spatial planning to provide a zoning design for biodiversity protection, climate change adaptation, and the Blue Economy to balance the country’s conservation and climate change adaptation goals with its development needs. The planned Blue Bond supported by an IBRD project will finance sustainable investments in the Blue Economy by mobilizing private finance and could serve as a model for other small island states. The World Bank has supported Seychelles’ efforts to share its experiences through the Small States Forum and knowledge sharing events such as the February 2018 Conference on Financing Sustainable and Climate-Resilient Ocean Economies in Africa.¹¹

37. The CPF reflects consultations with a broad range of stakeholders. During SCD and CPF preparation, consultation meetings were held with business leaders, civil society organizations, and members of Parliament. Participants, particularly in the business community, agreed on the Government’s overall policy directions since the 2008 debt crisis, especially the emphasis on expanding and enhancing the role of the private sector in the economy and a reduction in the role of SOEs, which are sometimes perceived as crowding out the private sector. They recommended that the WBG continue to play a role in helping Government to continue to improve the business environment. Across the spectrum, participants identified employment creation, particularly for youth, as an important challenge, and noted that addressing social problems such as illegal drug use and crime represents a development priority. Human capital was also seen as critical among all stakeholders with both business and civil society groups highlighting the importance of skills development. Finally, stakeholders recommended greater attention

⁹ World Bank Group Engagement in Small States. The Cases of the OECS, Pacific Island Countries, Cabo Verde, Djibouti, Mauritius, and the Seychelles — Clustered Country Program Evaluation.

¹⁰ *Seychelles: Climate Change Policy Assessment*, IMF Country Report No. 17/162.

¹¹ <http://climatesmartoceans.org/>.

on governance, with civil society participants urging support for increased transparency and accountability while the private sector highlighted the need for leaner and more efficient government administration.

3.2.2 Overview of World Bank Group Strategy

38. The overarching objective of the CPF is to contribute to Seychelles consolidating a path of inclusive and sustainable prosperity. The selection of the CPF focus areas with their corresponding objectives has been the result of a productive dialogue with Government and consultations with civil society and the private sector. The process has been guided by selectivity criteria to assure relevance, ownership and capacity of the WBG to contribute.

Selectivity Filters

39. To design the WBG engagement in Seychelles, three selectivity filters were applied, as follows: (i) alignment with the Government's own program and requests for WBG support to date; (ii) focus on priority areas identified by the SCD; and (iii) context-specific WBG comparative advantage, including track record in Seychelles, lessons learned, global experience on specific issues, and the role of other development partners.

40. Selectivity Filter 1: Alignment with Government Program. The Government program is set forth in the draft NDS (Vision 2032), the 2018 budget speech and the March 6, 2018 State of the Nation Presidential Address to Parliament. Inclusion and sustainability, a strong macro-economy, and a more vibrant private sector are the driving motifs. This vision and program foresees the consolidation of the process that began in 2009 while building robust institutions to prevent a repeat of the gradual buildup of distortions that led to the 2009 crisis. Gains in inclusion not only would contribute towards social sustainability, but would also underpin sustained growth. Strong fiscal and macroeconomic foundations should ease access to international capital markets. The CPF program and objectives are also well aligned to help deliver on the Blue Economy agenda, a flagship program of the Government that reflects the country's unique challenges and opportunities as a small island developing state (See Box 1). The recent March 2018 Presidential Address to Parliament launched several initiatives to start realizing the Government's vision, including engaging the private sector in an ambitious infrastructure agenda, initial reforms in education and social protection, and the commitment to the Blue Economy flagship programs.

41. Selectivity Filter 2: Focus on SCD Priority Areas. The SCD identified a total of 13 constraints, of which five are judged top priorities: 1) shortfalls in the private sector enabling environment; 2) education and skills development; 3) reforming social assistance; 4) macroeconomic and fiscal policy stability; and 5) public spending efficiency. The CPF program addresses each of these high priority challenges as well as one of the additional priorities identified in the CPF, namely the ability to manage global environmental

and economic shocks. Figure 4 illustrates the relationship between the SCD priorities and the CPF program.

Box 1: Economic Opportunities and Challenges -- The Blue Economy

The **Blue economy** is a flagship program of Government that seeks to advance productivity and growth using Seychelles' natural endowments while proactively preserving them. *Seychelles is a world champion for the Blue Economy*. The country has built a powerful brand name linked to the abundance and beauty of its natural environment and resources, including its tropical islands, beaches, and the ocean. The country supports some of the world's most pristine, diverse and productive marine ecosystems, though their full extent and condition are yet to be fully explored; its exclusive economic zone ranks 7th/221 on the Ocean Health Index. Seychelles is one of the world's most environmentally conscious nations, having officially protected more than half of its total land area and pledged to protect 30 percent of its EEZ.

In fisheries, the Indian Ocean Tuna stock is threatened leading to a reduction in the quota available to Seychelles, while the bulk of the by-catch is thrown back to the ocean—a waste of resources. There is room to expand the Seychelles' capacity to process the catch on the way to world markets. In addition, fishing techniques both in the open sea and near shore still lag best environmentally friendly practices. Seeking to balance the interests of the local fishing community, with the need to preserve its abundant natural capital for the future generations, the GoS adopted an ambitious marine conservation strategy. Nevertheless, the management of the Seychelles' marine ecosystems and fisheries remains hampered by insufficient financing, capacity, and incomplete legal and institutional frameworks.

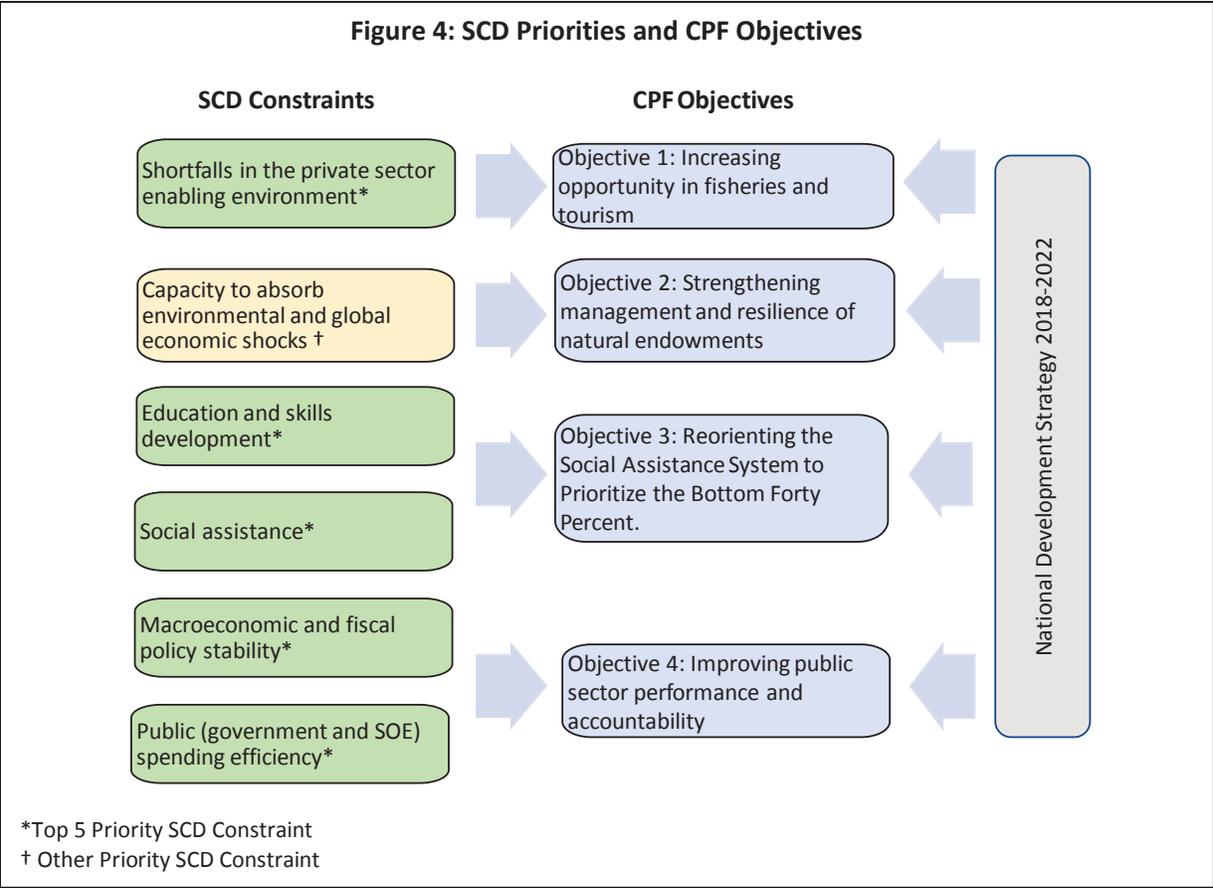
In tourism, the rapid growth in visits since 2010 has motivated the government to declare a moratorium on new licenses, with 3,000 rooms from existing licenses still to be constructed. At the same time, the government is keen that the new and the existing licensees meet criteria for environmental excellence, although only a few do so now. Even with the existing stock, the potential for tourism to generate larger resources for the economy is high, if needed changes are made. The need for these changes is indicated by: a decreasing yield per tourist, a very low rate of return visits, and the persistence of a vertically integrated industry that impairs domestic entrepreneurs' opportunities to provide complementary services to visitors. Likewise, a priority is to upgrade the quality and the services provided by emerging small hospitality operations in the country.

Seychelles' strategic location in the western Indian Ocean also offers considerable opportunity that is well-aligned with the emerging global focus on sustainable ocean resource use and management. The country already has a successful oil bunkering industry, including five oil tankers (operated by the state-owned SEYPEC), which benefits from the country's location in a major fishing ground and near shipping routes, and Seychelles could play more of a role in providing services for international transport. In the port, a quay extension is planned, and a PPP investment project for additional fish processing is underway. The airport is also being expanded.

The natural resource endowment faces additional threats from rising sea levels, variable weather patterns, and erosion. Climate change will add further pressure, such as from ocean acidification. As the livelihood of the country comes under threat, Seychelles is rising to the challenge of changing the way resources are utilized, while seeking further to develop them so that they contribute sustainably to further increasing the welfare of the country. The Government seeks to develop the skills and knowledge and undertake the institutional changes to achieve this objective. The focus is first on the two extant core sectors of the economy, fishing/fish processing and tourism, and then gradually broaden the scope to cover marine science, etc. Spillovers from these efforts would benefit other aspects of the economy and society through the development of local entrepreneurship, knowledge and skills. Seychelles is committed to contribute to the better use of maritime resources and to share the knowledge it develops with other countries.

The World Bank has been a partner of Seychelles; this partnership is generating technical expertise that it can apply in other countries and contexts.

42. Selectivity Filter 3: WBG Comparative Advantage. The WBG's comparative advantage vis a vis other partners derives from experience gained through successful engagements to date as well as the WBG's global knowledge in areas such as social protection, disaster risk management (DRM) and governance. Since the Seychelles relaunched its collaboration with the World Bank in 2008, a strong partnership has emerged from knowledge and operational work. The WBG accompanied Seychelles, jointly with the IMF, in the successful macroeconomic stabilization efforts through DPOs and analytical work, which included detailed sector studies on education, health, social assistance, public investment, energy, finance, and state-owned enterprises. A RAS engagement starting in 2013 has supported implementation of the



Results-Based-Management policy through work on strategic planning, program and performance based budgeting, performance management and monitoring and evaluation (M&E). This is the center-piece of the Government public sector reform agenda to strengthen public sector performance and is being rolled out across the public sector. In fisheries, engagement started early-on in 2008, when Bank’s advisory services informed the Government on the adequacy of continuing subsidies to the tuna cannery and developing an economic model for its fisheries.¹² The World Bank has also contributed to the knowledge base concerning the tourism sector, through a study on tourism value chains. Lastly, Seychelles has engaged the World Bank in supporting its DRM agenda to build the country’s resilience both making available contingent financing and helping to develop contingency plans and the institutions needed for resilience. The partnership has also deepened on finance, with the WBG supporting the country’s efforts to strengthen inclusion and meet international best practices on regulation of financial services.

43. Using the selectivity filters, the CPF identifies two focus areas. The first focus area, “Growth for Shared Prosperity” centers on the idea that continued increases in productivity can be driven by a

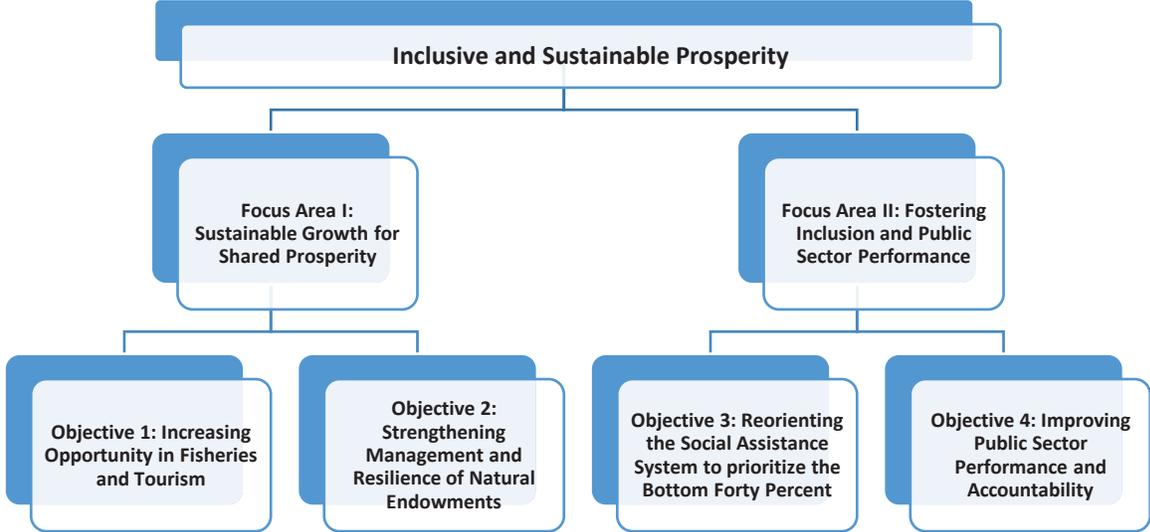
¹² The collaboration resulted in: (i) the removal of subsidies without triggering the delocalization of the tuna cannery and generating cost savings for the Government; (ii) the identification of a financial scheme that was causing important losses of revenue for the Government and related corrective measures; and (iii) the disclosure of the existence of fishing licenses and arrangements that were previously unknown to the Minister of Finance, which allowed for the re-evaluation of the fisheries sector and its importance to the economy, subsequently attracting the proper attention of the Minister to the sector.

dynamic domestic private sector. The two objectives under this focus area seek, first, to retool the core economy (fisheries and tourism) for sustainability and inclusion, along the lines of the flagship program of the Government on the “Blue Economy”; and, second to strengthen management and resilience of natural endowments which is critical to ensuring that the growth path is sustainable both from the viewpoint of the preservation of resources as well as resilience to natural shocks.

44. The second focus area addresses “Fostering Inclusion and Public Sector Performance” as a key complement of the productivity agenda under the first focus area. One objective under the second focus area centers directly on the inclusion agenda, mainly a shift in focus toward building the human capital of the bottom 40 to enable them to contribute and participate in expanding opportunities. Under the second objective, the CPF supports consolidating the gains in resilience of public finances, increasing their efficiency, improving the regulatory capacity of the state to foster space for the private sector, and setting the foundations for transparency and accountability. See Figure 5.

45. The two focus areas are mutually reinforcing. The program’s activities under the Growth for Shared Prosperity focus area are designed to promote greater inclusion, particularly in fisheries and tourism. This will include activities that open greater opportunities for MSMEs in the tourism sector and increase value-added in artisanal fisheries. Activities under the Fostering Inclusion and Public Sector Performance focus area will contribute to growth and jobs by building human capital. Likewise, greater efficiency and effectiveness in the public sector will support growth by opening opportunities for the private sector and providing infrastructure.

Figure 5: CPF Focus Areas and Objectives



46. The CPF engagement will also help the WBG to build its own knowledge in ways that can benefit other clients. The WBG engagement in Seychelles will deliver lessons relevant to small island economies, and, more broadly, inform global agendas on the sustainable use of ocean resources. Seychelles already plays a leadership role among small states and has in many respects set the standard for sustainable use of natural resources. It is expected that this role will be strengthened during this CPF period.

47. The approach outlined in the CPF represents a transformation in the Bank’s engagement that reflects Seychelles changing needs and the WBG’s evolving corporate strategy. In the context of

Seychelles' success in macroeconomic stabilization and first-generation reforms following the 2008 crisis, the proposed program adopts a more selective approach to IBRD financing while shifting from a reliance on budget support towards investment lending instruments that emphasize implementation and capacity building. This shift also positions the World Bank to learn from planned pioneering work in fisheries and marine conservation and will enable the World Bank to benefit from and share knowledge generated through implementation. In line with Government's shifting priorities, the CPF focuses greater attention toward inclusion. The program will feature a continued increase in the use of RAS arrangements to ensure timely knowledge support. Consistent with Maximizing Finance for Development (MFD), the CPF also emphasizes mobilizing innovative private long-term financing including private impact investors (as in the Blue Bond) and increased use of PPPs for public investment.

48. The CPF also reflects the principles for IBRD engagement in countries above the GDI level. Specifically, selective IBRD support will focus on addressing Seychelles' limited capital market access and continuing need for institutional strengthening to achieve greater inclusion and sustainability, as per the main institutional gaps identified by the SCD. With respect to market access, the Blue Bond issuance in 2018 represents Seychelles first return to the market since the 2008 default, facilitated by credit enhancement using IBRD and GEF resources. While the successful placement of this innovative bond marks an important first step, more efforts will be required to achieve sustained and large scale access to external markets on reasonable terms. The CPF program will support the evolution toward greater market access through strengthening macroeconomic and debt management and by helping to mobilize private investment using credit enhancement as necessary. Seychelles also warrants continued World Bank support to address remaining institutional constraints related to inclusion and sustainability as evidenced by significant inequality and vulnerability to climate change. Finally, IBRD engagement in Seychelles is consistent with the Forward Look strategy that highlights the need to address the special development challenges and vulnerability of small states. In discussions on IBRD graduation, the Seychelles authorities reaffirmed a desire for continued engagement across the entire range of IBRD instruments, emphasizing the need for flexibility in accessing IBRD financing in light of Seychelles' unique challenges as a small island state, including high vulnerability to economic shocks and natural disasters, the pressing need to build resilience to climate change, and handicaps in attracting private financing due to limited creditworthiness.

3.2.3 Objectives supported by the WBG Program

Focus Area I: Sustainable Growth for Shared Prosperity

49. With scarce labor and land resources and rich but fragile natural endowments, Seychelles must rely on sustainable increases in productivity to achieve greater levels of welfare for all. The natural resource endowment is coming under threat from economic activity and changing weather patterns, which may become even more volatile in the future. Seychelles' coastal areas, where tourism and critical infrastructure are concentrated, are increasingly subject to erosion and flooding. Even as flooding risk rises, the greater variability in weather patterns contributes to dry-spell periods, which further threatens sustainability. The challenge is to use natural resources more efficiently, making sure that they are not depleted or spoiled, while ensuring continued advances on inclusion. The SCD points to the ample opportunities to generate further productivity increases including in the core sectors of the economy, fisheries and tourism. To realize these opportunities, the SCD highlights the urgency of removing constraints to doing business, engaging and fostering the development of private businesses, transforming the role of the state from that of doer to that of a fair enabler, while maintaining, and further deepening, the nation's commitment to environmental sustainability. The Government announced plans to open space for the private sector through deregulation of economic activity and tighter oversight over SOEs, both in the scope of their engagement and the effectiveness of their operations. At the same time,

the Government remains committed to mainstreaming concerns about the use and preservation of its natural resources and endeavors to be a global leader in that effort.

50. The CPF selective engagement in this focus area has two objectives. The first objective supports the government's efforts to increase productivity in fisheries and tourism (core sectors of the economy) by expanding the scope for the domestic private sector to engage, while being pro-active in dealing with the environmental challenges these sectors pose and face. Moreover, Objective 1 foresees a broader impact beyond the core sectors, as the Government moves to improve the overall investment climate. The second objective complements the focus on economic growth with attention to the sustainability of natural resources. The two objectives together comprise the spirit of the Blue Economy agenda: preservation of the main source of wealth and economic activity. Over time, as the private sector and the stock of human capital strengthens, the options for diversification from the traditional sectors will increase, further reducing the pressure on the fragile natural environment. The challenges that Seychelles faces are common to other small island economies with vulnerable environments, limited opportunities for diversification, and inclusion challenges. Thus, Seychelles can help to build the regional and global knowledge base showing how preserving a pristine environment can generate new economic opportunities and underpin sustainable, inclusive prosperity.

Objective 1: Increasing Opportunities in Fisheries and Tourism

51. The urgency of increasing productivity in Seychelles is evident in the core sectors of fisheries and tourism, which together account for 55 percent of GDP and the bulk of non-state activity. There are serious constraints to expanding further the current approaches given the limitations imposed by the environment and fish stocks as well as a small domestic private sector. The Seychelles' economic model combining a large state (in size and scope) and high FDI, has resulted in lackluster development of the domestic private sector. As noted in the SCD, removing the barriers that impede businesses from opening and operating in Seychelles is at the root of empowering the domestic entrepreneurial sector, to drive productivity growth and share the gains widely. First, addressing constraints or limitations that emerge from the current market structures (notably in tourism, fisheries, information and communication technology (ICT), banking and finance, and retail) that block entry of new firms and increase competition in the main sectors of the economy. Second, regulatory obstacles to firm entry, operation and exit need to be addressed. Third, reforms in financial sector regulation (including in due diligence associated with off-shore financial services) and modernization of core payments infrastructure are needed to improve the ability of the financial system to intermediate more efficiently financing for private sector growth.

52. Objective 1 of the CPF accompanies ongoing government efforts to retool the core sectors of the economy (fisheries and tourism), while opening space for the private sector to increase its contribution, aimed squarely at addressing the first constraint identified by the SCD. The CPF seeks to identify and strengthen critical value-chains in the core sectors, especially with a view to increase the participation of and contribution of local businesses. Strengthening the fisheries value chain requires removing constraints to both the participation of local entrepreneurs (training, finance, marketing, regulation, etc.) as well as making sure that the techniques used in fishing and processing embody best practice for conservation. The expansion of the seafood value chains is expected to deliver long-term, resilient growth, jobs, and food security. In tourism, the CPF proposes to accompany the government's efforts to reduce vertical integration in the tourism sector to increase the domestic content of tourism, foster the development of local entrepreneurship, and expand compliance with environmental practices throughout the islands. At the same time TA will aim to help the Seychelles to maintain the global competitiveness of the sector by enhancing the quality of the visitor experience while increasing the number and diversity of small and medium enterprises (SMEs) servicing the tourism sector. These engagements can also inform further efforts to streamline business regulations and institutional designs across the economy.

53. The World Bank’s South West Indian Ocean Fisheries (SWIOFish) 3 project will support the Government of Seychelles (GoS) in achieving Objective 1 by addressing gaps in financing, capacity, and institutional frameworks to ensure a sustainable management of the identified sustainable-use marine protected areas and of the Mahé Plateau fisheries. The CPF aims at making Seychelles fisheries sector ‘investment ready’ by (i) promoting public investments in fisheries management and increased investment in value chains; (ii) designing a turnkey financial mechanism in the country to receive and disburse the private investments (the Blue Grants Fund and the Blue Investments Fund); and (iii) attracting private investors through the issuance of the first Blue Bond. As such, it implements the MFD approach promoted by the WBG and is pioneering a path towards bringing sustainable financing in an underserved area, bridging the gap between fisheries management and private investors. A US\$12 million Blue Investment Fund will be created under the project as a revolving fund to extend commercial loans to projects aimed at sustainably expanding seafood value chains. The project will apply high standards of transparency to the allocation of grants under the Blue Grants Fund and the Blue Investments Fund. Piloting several innovations, SWIOFish3 opens the way to a new generation of fisheries and natural resources management projects at the World Bank. The project is also devoting specific attention to the role of women and youth in the fisheries sector, seafood value chains and the broader Blue Economy. Given limited data on issues relating to gender, the project will support an assessment within the sector to improve the understanding of gender imbalances and propose implementation measures to close any gender gaps.

54. The WBG, will engage through technical assistance (TA) and International Finance Corporation (IFC) Advisory Services to promote reforms to increase private sector participation. A proposed competitiveness RAS would help identify the opportunities for deepening of tourist related activities in Seychelles in line with the policy of the Government to reduce vertical integration in the sector. The same RAS would support the Government’s policy to further deregulate the economy and aim at improving the Doing Business ranking of Seychelles, including access to credit, the single dimension with the greatest distance from frontier as per the 2018 Doing business Index. The financial sector RAS under implementation is supporting the introduction of a credit information system that would also help increase access to finance. Complementary IFC advisory support will focus on financial products diversification that would increase SME avenues to access credit and financial institutions’ capacity building, thus expanding reach, depth and sophistication of financial products while promoting their governance and stability. IFC will also explore undertaking sectoral reviews to understand the regulatory and institutional environment around environmental, social and governance (ESG) issues hindering private sector investment. Based on these types of analysis, IFC could develop ESG advisory services products (e.g. ESG capacity building products, ESG risk assessments) tailored to the tourism or fisheries sector.

Objective 2: Strengthening Management and Resilience of Natural Endowments.

55. Seychelles’ abundant but fragile natural endowments are increasingly under threat from economic activity, rising sea levels, and erratic rain patterns. Climate change could magnify these threats, imperiling prospects for further increases in the quality of life. Seychelles physical characteristics (small islands, large ocean based economic zone) and its economic development model (high-end tourism and fishing / fish processing) depend on its ability to manage efficiently and preserve its significant natural capital, both in-land and off-shore. The SCD identifies as a constraint to reaching the twin goals the capacity of the country to manage the risks arising from climate change.

56. The Government has been actively preparing to face up to these challenges by securing contingent financing, informing and involving the community, and undertaking critical investments. Gaps remain and relate to the limited capacity to accurately identify and quantify risks, and the limited incorporation

of disaster risk and climate resilience in spatial planning and investment. The Government Strategic vision of the NDS sets as priorities: (i) the development of a strong economy through inclusive and sustainable growth, to be built on the Seychelles Blue Economy; (ii) sustainable, responsible and ethical tourism at all levels of the supply chain with the balanced objective of economic empowerment and cultural and environmental conservation/protection; and (iii) the development of fisheries to its full potential, making it the leading economic activity, whilst safeguarding the resource base for sustainability.

57. Objective 2 centers on improving the capacity to mitigate the increased risk that the country is facing and will increasingly be facing from (a) climate change in relation to flooding of coastal areas and (b) the vulnerability of marine resources. Increased resilience of coastal areas will be anchored in a carefully planned approach that combines working on resilience and preserving tourism-related revenues. An immediate priority would be on closing knowledge gaps. A comprehensive masterplan for coastal erosion management would include a smart combination of engineering works with nature based solutions (some pilots are already underway) and help implement the already developed national storm drainage masterplan. On the vulnerability of marine resources to the still uncertain impacts of climate change, the emphasis will be on protecting the resilience of the related ecosystems.

58. The CPF Program under Objective 2 includes lending and ASA in DRM, fisheries and solid waste management. Seychelles' climate adaptation strategy is relatively well developed and provides an outline of priorities for investment. However, there is a need to develop more detailed risk assessments, coastal management plans, and specific investments, especially in the areas of flooding and coastal resilience which are of critical importance to the tourism industry. The existing Catastrophe Deferred Drawdown Option (Cat DDO) development policy lending (DPL) is strengthening the Government's DRM policy and reform agenda and enhancing its capacity to efficiently respond to disasters. World Bank TA would further support this activity by scoping needs and gaps with regards to coastal flood threats. The World Bank will also support Seychelles' efforts to take advantage of the emerging climate finance architecture, including various environment and climate-related trust funds such as the Global Environment Facility (GEF), the Green Climate Fund (GCF) to finance its adaptation investments. The SWIOFish3 project will support expanding the network of marine protected areas and promoting careful management of fisheries, using an ecosystem-based adaptation approach. TA in solid waste management would support the Government in improving technical knowledge of climate and disaster risks related to coastal waste infrastructure and upgrading integrated waste management, including improved collection systems, enhanced private collaboration, boosting recycling, and possible energy generation along with cleaner technology. The objective is to come up with recommendations for improved climate resilient waste infrastructure and green technology, and measures for strengthening enforcement of regulations. Capacity building and stakeholder consultations with a focus on women will be the underlying theme across the activities. In line with MFD principles, the program will explore innovative financing schemes involving private-public partnerships with local private resorts that could lead to a range of energy and waste management solutions.

Focus Area II: Fostering Inclusion and Public Sector Performance

59. The SCD highlights both social inclusion and public sector performance as priorities. Successful economic stabilization and growth since 2009 has led to rising incomes, but those lacking skills have not benefited as much. Those left behind need support in the context of a fiscal consolidation process that is ongoing, while financing needs for infrastructure grow. The SCD highlights, therefore, the urgency that public sector performance improves. Addressing both the inclusiveness and the public sector performance challenges is a high priority of the current administration.

60. The CPF under this focus area contains two objectives that target selected aspects of inclusion and public sector performance. Objective 3 builds on diagnostic work undertaken with the support of the World Bank and on-going efforts to sharpen the effectiveness and efficiency of the social assistance system, including efforts to emphasize building human capital to better access economic opportunities and high quality jobs. Objective 4 is likewise driven by an efficiency and effectiveness motif and fundamentally seeks to move towards an effective and resilient state without compromising fundamental functions of the social contract such as caring for those in need, providing infrastructure, enabling economic activity and containing reputational risks. These objectives are highly complementary to the objectives under the first pillar. The development of the Blue Economy expands opportunities, while public sector performance needs to improve to enable the Blue economy vision to be realized.

Objective 3: Reorienting the Social Assistance System to Prioritize the Bottom Forty Percent.

61. Rapid demand for labor since 2009 has led to rising wages, however, dispersion in the salary scales has increased, with those with the highest skills benefitting the most. There are indications that, at the lower end of the skill distribution, incomes did not increase as fast, while certain costs, such as rents, rose steeply. The result has been that the percentage of the population living below the national poverty line stands at around 40 percent of the population (although, as noted above, this figure should be viewed in context of Seychelles' relatively high national poverty line, equivalent to approximately 13 dollars per person per day in 2011 PPP terms). Many of the people in the bottom 40, besides lack of skills, also face problems of access due to shortcomings and rigidities in transportation, working schedules and child care. The risk is that the impact on children leads to the emergence of intergenerational poverty cohorts. Seychelles' population is aging gradually, and there are also a growing number of elderly living alone that need support and care. The Government is focused on covering those in need and making sure that none are left out. Tax changes have reduced the burden on lower incomes. Efforts have gone into revising the rosters of eligible social protection beneficiaries, as well as the criteria for eligibility. The Government intends as well to link the social assistance system with parallel employment, training and education programs, as well as reducing barriers to accessing work. At the same time, the Government has been revisiting the performance of the education sector, plagued by issues of quality and high drop-out rates.

62. Objective 3 seeks to reorient the social assistance system from a focus on social welfare to a focus on investing in human capital, prioritizing the bottom forty percent. The CPF program combines work on increasing the efficiency and equity of the social protection system, and addressing critical shortcomings of the education system, to complement a social policy that fosters productive inclusion. The efforts on the social assistance front would move along four directions. First would be the removal of obstacles that prevent reaching those that need support most, with better targeting. In the case of social welfare assistance, 13 percent of beneficiaries come from households in the two wealthiest quintiles. Second would be the rebalancing of the social assistance resources dedicated toward the bottom two quintiles of beneficiaries, possibly through cost-sharing measures for the upper quintiles. Third would be introducing a robust and fully automated management information system that includes the full range of benefits, while a dedicated monitoring and evaluation unit would support a more results focused orientation that facilitates managing interfaces between programs to increase efficiencies in their implementation. Finally, connecting social assistance programs (the safety net in particular) with services offered in education, employment, and health, and elsewhere within the Ministry of Family Affairs would offer poor families not just cash benefits, but a way out of poverty. Examples of this would include linking safety nets to activation policies with the department of employment, or bridging the education and employment management information systems to ensure that early school leavers are integrated into the labor market in a seamless fashion.

63. The complementary work on education would aim to increase the number of graduates from the education system, and help ensure that they are better equipped with the skills to succeed in the labor market. Planned advisory work will emphasize strengthening the learning assessment and providing teachers with timely and accurate data and performance M&E with which to identify which students are struggling with what parts of the curriculum. Aside from improving learning, this will allow for an early warning system such that corrective actions can be deployed in a timely fashion to prevent further dropouts. The proposed program would help the Government redesign their interventions so that they better fit the needs of the whole population, not just the elderly to whom the bulk of social spending is currently oriented.

64. The CPF proposes to advance the social assistance reform agenda through a Program for Results (PforR) lending instrument, which allows for a sharper focus on where the system wants to be in four years. Considerable work has been undertaken to identify the bottlenecks that need to be resolved. A participatory design phase whereby the specific results indicators are co-created with key sectoral partners under Government leadership helps to align and make accountable the actors involved. It is proposed that the most appropriate instrument to provide more intense support to the Ministry of Education would be through a RAS. This would allow a more precise action plan to be developed under each area, with world class technical support being mobilized to accompany the ministry in each step of the process.

Objective 4: Improving Public Sector Performance and Accountability

65. The dominant role of the state through the Government finances and its state enterprises shapes the prospects for further development in Seychelles. Much has been done since 2009 to stabilize and increase the resilience of public finances, and clarify the role of the state, including its enterprises. But, as the SCD finds, these gains should be consolidated through increased efficiency of the public sector, greater transparency in reporting outcomes, and overall greater resilience to manage the high level of vulnerability that comes with being a small economy. Moreover, with the economic revival new challenges have emerged, such as growing infrastructure needs (electricity, water, ports), pressure on highly scarce land resources, and rising congestion. Critical shortfalls identified in the SCD include: (a) lax wage bill management; (b) weak public financial management, financial reporting, and asset management of the large SOE; (c) limited ability to finance out of its own resources a growing demand for public investment; and (d) poor capacity to track progress on program implementation, including a weak statistical system. A “smart state” agenda could increase effectiveness in service delivery, and release critical human resources from the public sector, to advance the economy-wide productivity drive. One area where strengthening of state regulatory and enforcement capacity is needed is international financial services sector, which has posed growing macroprudential risks, affecting the banking system where further progress on AML regulation and enforcement is needed.

66. The Government’s Vision 2032 prioritizes greater transparency and accountability and a clearer separation of private and public functions. Seychelles is now embarking on second-generation reforms to strengthen public sector performance. First, the Government is honing its strategic priorities through Vision 2032 and the subsequent National Development Strategies to better guide the allocation of public resources and through the institutionalization of PPBB anchored on solid sector strategies. Second, the Government foresees a closer tracking of performance to adjust programs and foster accountability. Grounded on a clear vision, attention will be given to improving PPBB, management (public service and performance management) and monitoring (performance monitoring and evaluation). Third, given the rising demand for public investment, the Government is introducing legislation allowing the private sector engagement through PPP as needed. Fourth, consistent with a vision of “Smart Government”, the

authorities are exploring the potential contribution of digital governance. Fifth, of concern to the authorities is the reputational risk associated with the international financial services sector, and the need to find a firmer footing for further development of this sector in Seychelles.

67. The program under Objective 4 will build on and scale up ongoing RAS engagements. The ongoing RAS engagements in Public Sector Management will be scaled up, with a greater focus on national and sector planning, public service and Performance Monitoring and Evaluation (PM&E), as well as a crosscutting pillar on ICT for improved evidence-based policymaking to help deliver services cheaper, faster and based on better information. The focus on institutional accountability in PPBB and PM&E will be complemented by a greater focus on individual accountability through support to public service and performance management. E-government reforms for results-based management (RBM) and participation in the Open Government Partnership should further enhance transparency in government. Progress in these areas is expected to result in improved wage bill management and the institutionalization of overall RBM. Given rising infrastructure financing demand, fueled by Seychelles' sustained economic expansion, the program will provide TA to support the government's efforts to build its capacity to evaluate alternatives. In addition, the program would assist the Government to create the capacity to undertake public investment using PPPs when appropriate, and manage effectively the engagement of the private sector in support of specific transactions as needed using IFC PPP transactions advisory services (C3P). Building on successful similar efforts in the sub-region (Madagascar), one sector in which the private sector might be successfully engaged through PPPs is air transportation infrastructure; other opportunities could include power generation and health services, in which IFC has a strong track record as well. In the financial sector, the ongoing RAS engagement will strengthen governance (for example with respect to AML/CFT) in line with good practices as evaluated by relevant international bodies, allowing Seychelles to signal its commitment to financial supervision and adherence to international AML standards. Otherwise, Seychelles is likely to be further negatively affected by the global trend of banks "de-risking" their correspondent relationships, hampering the financial transactions needed for international trade, and further financial sector development. The CPF program will also provide TA on revenue mobilization to contribute a comprehensive stocktaking of the sources of revenue, their risks, and the policy options to align the tax policy and administration with the country priorities.

3.3 Implementing the FY18-FY22 Country Partnership Framework

68. The CPF will be implemented jointly by the WB, IFC and Multilateral Investment Guarantee Agency (MIGA), maximizing synergies whenever possible to promote a stronger private sector participation in the National Development Plan 2018-2022. The CPF proposes an indicative IBRD lending pipeline of US\$25 million during the first half of the CPF period. Planned lending during the first three years is shown in Table 2. The CPF entails a shift in use of instruments from exclusively DPLs toward investment lending and PforRs. While the DPL engagement under the CPS was deemed appropriate and effective, the use of investment lending will allow for more sustained implementation support. Instrument choice will be revisited in the PLR and may be adjusted based on experience. The CPF lending program will also make greater use of innovative financing as demonstrated by the SWIOfish 3 project (approved in early FY18) that will, inter alia, use IBRD and GEF resources to crowd in private financing through the issuance of a Blue Bond. The Government is also considering availing itself of World Bank Treasury services to better align its debt obligations with foreign exchange earnings through a currency swap. Other lending will depend on country demand and overall performance during the CPF period as well as global economic developments that affect IBRD's financial capacity and demand from other IBRD borrowers. Additional lending would also consider lessons learned during the first half of the CPF period and presented in the PLR.

Table 2: Indicative IBRD Lending Program

	FY18-20
Southwest Indian Ocean Fisheries 3*	15
Social Protection PforR	10
Total	25

**Includes GEF Financing and IBRD Guarantee*

69. IFC and MIGA will continue to seek business opportunities in line with their comparative advantage. IFC’s activities will focus on: (i) regulatory reforms to improve private sector engagement, particularly in the tourism and financial sectors; (ii) PPP policy platform to bridge the infrastructure gap, particularly in physical assets (transport), power, and the social sectors (healthcare). Activities in Seychelles remain selective and will focus on areas where IFC has a strong additionality in terms of its investment services and where its advisory services will address market failures and/or improve service delivery to clients for which IFC is uniquely positioned. IFC will remain open to business opportunities in Seychelles as long as it can demonstrate strong additionality. MIGA stands ready to consider and support investment opportunities with its traditional political risk insurance products – transfer restriction, expropriation, war and civil disturbance, and breach of contract. MIGA would also work with IFC in support of eligible PPP projects. At this time, MIGA has no active engagements in Seychelles.

70. Many CPF outcomes will be achieved through advisory service and analytics (ASA), a significant share of which will be provided through reimbursable arrangements. WBG-financed ASA will continue to play an important role in building knowledge and supporting the development of policy options by deepening the understanding of development challenges and delivering global expertise. ASA will aim to fill the knowledge gaps identified in the SCD. In addition, support will aim to strengthen capacity of the National Bureau of Statistics to provide timely and quality data for policy makers. Where Government policy directions are clear, RASs will be developed to support detailed policy design and assist with implementation. WBG financed ASAs will also continue to play an important role in advocacy related to WBG institutional priorities such as supporting development data quality, and gender, poverty and inclusiveness analysis. Consistent with the principals for engagement with countries above the GDI the program will emphasize knowledge creation, with a focus on areas where Seychelles is on the cutting edge of global issues relevant to small island states such as fisheries management, marine spatial planning, and innovative financing for the Blue Economy. The WBG will scale-up efforts to export the knowledge gained in these areas to other clients, the potential for which has been demonstrated by, for example, multiple requests to explore the scope for Blue Bonds. Planned ASA for FY 18-FY19 is summarized in Table 3.

Table 3: FY18-FY19 Knowledge Products

CPF Focus Area	Knowledge Product
Sustainable Growth for Shared Prosperity	<ul style="list-style-type: none"> • Boosting Tourism Competitiveness RAS • Doing Business TA • Integrated Waste Management TA • Coastal Resilience Master Plan TA
Fostering Inclusion and Public Sector Performance	<ul style="list-style-type: none"> • Poverty and Gender Assessment • Support to National Bureau of Statistics TA • Education RAS • Financial Sector Development RAS • PPBB and Performance M&E RAS • Revenue Mobilization TA • Public Utility Investment and PPP Project Pipeline Screening TA

IV. Managing Risks to the CPF Program

71. Risks to the CPF have been assessed using the Standardized Operations Risk-rating Tool (SORT) as summarized in Table 4. All risk categories are rated at a low to moderate risk and the overall risk to achieving the CPF objectives is rated as moderate. Given WBG interventions are highly selective and focused in specialized areas, the approach to risk mitigation will be tailored to the respective activities and coordinated among the relevant WBG institutions.

72. **The main risks to strategy and program implementation are political, macroeconomic and stakeholder.** With respect to political risks, with the opposition winning parliamentary elections in 2016 for the first time in its history, further changes in Government priorities, senior staff, and the configuration of government institutions are possible and could result in significant changes in the WBG program or affect implementation. This risk will be managed by maintaining a frequent dialogue and close relationships with stakeholders, in and beyond the public sector, capitalizing on the World Bank presence in the region, and a greater focus on institutionalization and sustainability, e.g. through the World Bank's RAS products. Macroeconomic risks, including external demand shocks (particularly a weakening of tourism demand), and global food and fuel price shocks, pose a continued risk to Seychelles' external position, as do natural disasters. Loss of correspondent banking relationships (de-risking) could also threaten financial flows important for trade and tourism. The CPF program's support for further structural reform should help build further resilience while the risk of fiscal slippages in the context of Seychelles' still high debt burden are mitigated by an active IMF program. In the event of a shock the World Bank would consider increasing IBRD financing through development policy lending or other instruments. Some of the reforms and programs supported by the CPF could face opposition from important stakeholders. For example, implementation of enhanced fisheries conservation practices and coastal zone management could restrict access to marine resources affecting fishers and operators in the seafood value chains, as well as tourism operators whose activity could be restricted. The mitigation strategy will be to include communication and change management support within the scope of WBG assistance to help address concerns as they arise. The use of consultative and transparent processes to increase the protection of marine areas and improve the control of fisheries, the careful design of reform processes, and the identification and compensation of potential losers will help mitigate these risks in the fisheries sector.

Table 4 Systematic Operations Risk-Ratings

Risk Categories	Rating (H, S, M, L)
1. Political and governance	M
2. Macroeconomic	M
3. Sector strategies and policies	L
4. Technical design of project or program	L
5. Institutional capacity for implementation and sustainability	M
6. Fiduciary	M
7. Environment and social	L
8. Stakeholders	M
Overall	M

Annex 1. Results Monitoring Matrix

"Focus Area A"		
Sustainable Growth for Shared Prosperity		
Objective 1: Increasing Opportunity in Fisheries and Tourism		
Intervention Logic		
<p>There is considerable scope for increasing the contribution of the core sectors of the economy, fisheries and tourism. Further gains will require greater engagement of the private sector. However, private sector activity in the Seychelles, especially domestic, is weak and often limited to low productivity activities. This is partly the result of pronounced competition in both factor and product markets from the public sector, but also a business regulatory environment that is cumbersome and discourages entrepreneurship. With a Doing Business ranking of 95 out of 190 countries Seychelles fares worse than would be expected at its income level. Objective 1 supports the government's efforts to increase competitiveness and local value-added in fisheries and tourism while encouraging the development of a strong domestic private sector. The planned interventions are TA and investment lending. In fisheries, the SWIOFish3 project aims to support implementation of a fisheries management plan that will increase the share of by-catch landed and processed in Seychelles (reducing waste and increasing incomes) and increase local value added as measured by the share of the consumer price for fish accruing to local fishermen. The increase in value added will be brought about through the SWIOFish3-supported Blue Investment Fund that will support Seychellois entrepreneurs in this value-chain, financing the setting up of transformation facilities, creating jobs and increasing revenues for the Seychellois. The aim in tourism is to create a more competitive and inclusive industry through regulatory reforms that increase opportunities for local business while improving visitor experience. A planned Tourism RAS will assist with mapping, assessing and improving the quality and diversity of SMEs servicing the tourism sector to increase their ability to participate in the industry while improving visitor experience.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> ● Ratio between consumer price per kilogram and landed catch price per kilogram in artisanal fisheries (%)¹³ <ul style="list-style-type: none"> Baseline (2016) 110 Target (2023) 130 ● Share of bycatch landed and sold in the Seychelles (%) <ul style="list-style-type: none"> ○ Baseline (2016) 10 	<ul style="list-style-type: none"> ● Regulatory impact assessment conducted to assess priorities for streamlining business regulations (2019) ● Updated Credit Reporting Act in place (2019.) ● System of Tourist Accounting developed and implemented (2020). 	<p>Lending ongoing</p> <ul style="list-style-type: none"> ● Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3) (P155642) ASA Ongoing

¹³ This indicator measures the difference in price between the landed catch (price before value is added) and the consumer price (price after value is added), reflecting the evolution of value addition in the value chain.

<ul style="list-style-type: none"> ○ Target (2023) 50 ● Strengthened regulatory framework for the tourism industry ● Doing Business—Distance from Frontier <ul style="list-style-type: none"> ○ 61.5 (2017) ○ 66 (2023) 	<ul style="list-style-type: none"> ● Blue Investment Funds Disbursed to Support Mahé Plateau Fisheries Plan implementation <ul style="list-style-type: none"> ○ Baseline (2017) 0 ○ Target (2023) US\$12 million 	<ul style="list-style-type: none"> ● Financial Sector Development RAS (P156528) <ul style="list-style-type: none"> ASA Planned ● Boosting Tourism Competitiveness RAS ● Doing Business TA ● IFC Advisory Services
Objective 2: Strengthening Management and Resilience of Natural Endowments		
<p>Intervention Logic</p> <p>Seychelles’ abundant but fragile natural endowments are increasingly under threat from economic activity, rising sea levels, and more erratic rain patterns. Climate change could magnify these threats, which imperil the livelihood of the country, and the prospects for further increases in the quality of life. Priorities for addressing these challenges relate to the limited capacity to fully understand the risks and causes, the limited incorporation of disaster risk and climate resilience in spatial planning, and the investment agenda. Objective 2 centers on improving the capacity to mitigate the increased risk that the country is facing from (a) climate change in relation to flooding of coastal areas and (b) the vulnerability of marine resources. Under the implementation of the Cat DDO, the Government will continue strengthening the capacity for DRM through: 1) Contingency Planning at District and Sectoral level and 2) including risk information in Ministries, agencies and private sector development projects. With respect to coastal resilience, planned TA would help identify and mitigate climate risks in the coastal zone that is critical for the tourism industry while also increasing the use of sustainable practices in the tourism industry. An immediate priority would be on closing knowledge gaps, beginning with a Risk Assessment, which would be the foundation for a Flood and coastal risk management plan for critical areas. TA in solid waste management would aim to improve resilience as well. The SWIOFish3 project focuses on sustainability of marine resources in the face of overfishing and the as yet uncertain impacts of climate change. Progress in improving the health of artisanal fisheries will be measured by recovery of key fish stocks. The planned Tourism TA would bolster Government’s efforts to increase the sustainability of the tourism industry as measured by increased compliance of hotels with environmental standards, reflecting improved sustainability of the industry as well as its competitiveness as an ecologically rich destination.</p>		
<ul style="list-style-type: none"> ● Share of key demersal indicator species¹⁴ stable or rebuilding in the Mahé Plateau fisheries (%) <ul style="list-style-type: none"> ○ Baseline: 1.1% (2018) ○ Target: 55% (2023) 	<ul style="list-style-type: none"> ● Share of citizens of the Seychelles who rate management of sustainable-use marine protected areas and selected fisheries as ‘Satisfactory’ or above (disaggregated by sex) (%) 	<p>Lending ongoing</p> <ul style="list-style-type: none"> ● Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3) (P155642)

¹⁴ The key demersal indicator species constitute more than 80% of artisanal fisheries catch. The indicator measures the improved management of fisheries.

<ul style="list-style-type: none"> ● Strengthened policy framework and capacity to efficiently respond to disasters ● Percentage of hotels compliant with Seychelles Sustainable Tourism Label <ul style="list-style-type: none"> ○ 3 percent (2016) ○ 30 percent (2023) 	<ul style="list-style-type: none"> ○ Baseline: 0% (2018) ○ Target: 50% (2023) ● Districts have protocols for disaster preparedness and responses. <ul style="list-style-type: none"> ○ 2 (2017) ○ 5 (2020) ● Flood and coastal risk management plan developed and in place (2021) 	<ul style="list-style-type: none"> ● DRM DPL with Catastrophe Deferred Drawdown (P148861) ASA Planned <ul style="list-style-type: none"> ● Coastal Resilience Master Plan TA ● Integrated Waste Management TA (P155642) ● Boosting Tourism Competitiveness RAS
<p>“Focus Area B”</p>		
<p>Fostering Inclusion and Public Sector Performance</p>		
<p>Objective 3: Reorienting the Social Assistance System to Prioritize the Bottom Forty Percent.</p>		
<p>Intervention Logic</p>		
<p>Social protection financing currently disproportionately benefits the elderly and the non-poor. This objective seeks to reorient the system from a focus on social welfare to an investment in human capital, prioritizing the bottom forty percent. The WBG program features four elements. First, a series of actions can be taken to ensure that the system reaches those that need it most with better coverage. Second, the programs within the system can be rebalanced such that more resources are dedicated toward the bottom two quintiles of beneficiaries, possibly through cost-sharing measures for the upper quintiles. Third, the interfaces between programs could be strengthened to ensure a more coherent approach, and to increase efficiencies in their implementation (e.g. strengthening assessment of incapacity). Finally, these programs (the safety net) can be more inter-connected with services offered in education, employment, and health, and elsewhere within the Ministry of Family Affairs. Examples of this would include linking safety nets to activation policies with the department of employment, or bridging the education and employment management information systems to ensure that early school leavers are integrated into the labor market in a seamless fashion. The planned social protection PforR will aim to introduce policy and administrative reforms to improve targeting and administration, the latter with a strong focus on harmonizing and coordinating multiple programs. In education, an estimated 25 percent of students that start secondary education do not graduate. Even those that do are often not equipped with the skills needed to be productive in their jobs. This objective will address this issue by improving the quality of teaching through strengthened learning assessment and development of an early warning system to identify which students are struggling with what parts of the curriculum. Aside from improving learning, this will allow for such that corrective actions can be deployed in a timely fashion to reduce dropouts.</p>		
<p>CPF Objective Indicators</p> <ul style="list-style-type: none"> ● Share of Benefits (all non-contributory programs) going to Children (0-17 years) <ul style="list-style-type: none"> ○ Baseline: 12 percent (2014) ○ Target: 20 (2023) 	<p>Supplementary Progress Indicators</p> <ul style="list-style-type: none"> ● Strategy to modernize the Management Information System (MIS) for Social Assistance system, with interfaces to education, employment and training. 	<p>WBG Program</p> <p>Lending Planned</p> <ul style="list-style-type: none"> ● Social Protection PforR Planned ASA ● Poverty and Gender Assessment

<ul style="list-style-type: none"> ● Percentage of the poor household covered by Social Welfare Assistance (SWA) <ul style="list-style-type: none"> ○ Baseline: 8 percent (2014) ○ Target: 14 (2023) 	<ul style="list-style-type: none"> ● Employment Activation Strategy for beneficiaries of the Social Welfare Assistance in place. ● Legislation in place to contain costs of Retirement Pension, Home Care Program, and Seychelles Pension Fund, <ul style="list-style-type: none"> ○ Baseline: No such legislation (2014) ○ Target: Legislation prepared and enacted (2020) ● Design a social intermediation strategy focused on Early Childhood Development and education outcomes <ul style="list-style-type: none"> ○ Baseline: No such strategy exists ○ Target: Strategy exists and has been piloted 	
<ul style="list-style-type: none"> ● Early warning system for struggling students in lower grades put in place to support preventative measures to reduce dropouts 	<ul style="list-style-type: none"> ● Improved assessment framework to ensure the technical soundness of the ongoing assessments and guarantee their comparability over time. 	<ul style="list-style-type: none"> ● Education RAS
<p>Objective 4: Improving Public Sector Performance and Accountability</p> <p>Intervention Logic</p> <p>Strengthening growth for shared prosperity requires further improving public sector governance to strengthen public sector performance and accountability, ultimately contributing to better fiscal management and access and quality of service delivery for all citizens. Despite considerable progress, the Seychelles still faces important challenges in public sector performance that affect the overall performance of the economy. Public financial management and wage bill management need to be improved to increase the efficiency of public spending. Strengthened financial sector regulation (including financial due diligence associated with off-shore activities) is needed to improve the ability of the financial system to intermediate financing for private sector growth more efficiently. There is a need to implement performance monitoring and evaluation to track the implementation of government policies, programs and projects, and ensure greater alignment between policy formulation and implementation. Strengthening statistical capacity is part of this agenda. The CPF aims at strengthening fiscal management through the institutionalization of RBM. The CPF program will use an ongoing RAS to support implementation of strategic planning, PPBB, and PM&E to achieve greater allocative efficiency and introduce a stronger performance orientation in the budget. The work on institutional accountability will be complemented by a greater focus on individual accountability by support to public service and performance management. To further enhance transparency in government, the WBG RAS engagement will support Government plans to</p>		

<p>introduce e—government reforms for RBM and to take part in the Open Government Partnership. This work on RBM is being rolled out throughout government, and will include some SOEs on a pilots basis. Implementation of these reforms will contribute to fiscal savings, a more efficient and accountable state, and better service-delivery. TA in identifying opportunities for the use of PPP will be supported through TA. The ongoing Financial Sector RAS that has been expanded and extended will assist, <i>inter alia</i>, in implementation of measure to reduce the risk of money laundering/terrorism financing (ML/TF).</p>		
<p>CPF Objective Indicators</p>	<p>Supplementary Progress Indicators</p>	<p>WBG Program</p>
<ul style="list-style-type: none"> ● Strengthened budget management practices. Increased % of Ministries, Departments and Agencies (MDAs) implementing PPBB <ul style="list-style-type: none"> ○ Baseline: 40% (2017) ○ Target: 100% (2022) ● Increased % of Ministries, Departments and Agencies (MDAs) using strategic planning and performance Monitoring and Evaluation instruments <ul style="list-style-type: none"> ○ Baseline: 0% (2017) ○ Target: 80% (2022) ● Increased % of Ministries, Departments and Agencies (MDAs) using integrated public service management and performance management system <ul style="list-style-type: none"> ○ Baseline: 0 % (2017) ○ Target: 50% (2020) ● Strengthened capacity of national authorities to assess and address AML/CFT risks. 	<p>% of MDAs where Auditor General conducts and issues a report on audit of performance against established indicators</p> <ul style="list-style-type: none"> ○ Baseline 2017: 0% ○ Target 2022: 30% <p>Strengthened framework for public investment management including use of PPPs</p> <ul style="list-style-type: none"> ○ Number of PPP transaction prepared Baseline: 0 (2016) Target: 2 (2020) <p>Money Laundering/Terrorism Financing (ML/TF) national risk assessment reports and action plans adopted by 2020</p>	<p>ASA Ongoing</p> <ul style="list-style-type: none"> ● PPBB and Performance M&E RAS (P160603) ● Financial Sector Development RAS (P156528) <p>ASA Planned</p> <ul style="list-style-type: none"> ● Revenue Mobilization TA ● Public Utility Investment and PPP Project Pipeline Screening TA ● Support to National Bureau of Statistics TA

Annex 2
SEYCHELLES COUNTRY PARTNERSHIP STRATEGY COMPLETION AND LEARNING REVIEW
FY 2012-2016

Date of Country Partnership Strategy: February 22, 2012 (Report No. 66919-SC)

Date of Progress Report: November 14, 2014 (Report No. 88259-SC)

Period Covered by the CPS Completion and Learning Review: FY12-16

I. Overview

1. **This Country Partnership Strategy Completion and Learning Review (CPS CLR) presents the World Bank Group (WBG) country team’s own assessment of the Seychelles Country Partnership Strategy for FY12-FY16.** The report assesses and rates the overall effectiveness of the WBG’s program in achieving its stated objectives and the WBG’s performance in designing and implementing the CPS program. It also discusses the alignment of the CPS with WBG corporate strategy, and extracts lessons for the preparation of the next Country Partnership Framework (CPF) and the design of Bank strategies worldwide. The CLR draws on discussions with Bank Group staff members involved in the delivery of lending, AAA and advisory work, a range of World Bank documents and other reports, and consultations with government counterparts and development partners.

2. **The Country Partnership Strategy was prepared at a time when, following a sharp turnaround initiated in 2008, the macroeconomic situation was dramatically improved, growth strong, and the economic outlook largely positive.** Having emerged from crisis, Government’s focus turned to consolidating its progress on debt and financial sustainability and strengthening the investment climate as it sought to maintain momentum for reforms and streamline binding constraints to growth. With the Government of Seychelles (GoS) strongly committed to implementing the reforms necessary to promote sustained economic growth and modernize its economy, the CPS provided strategic support to the Government’s two key objectives: reducing vulnerability and building long-term sustainability. The program was organized around two pillars, (i) competitiveness and employment and (ii) vulnerability and resilience; and one cross-cutting foundation, governance and public sector capacity. Originally designed to cover a four-year period, the CPS was extended in 2014 by one year to coincide with elections, and its scope and financing expanded to address emerging priorities in the Government’s program.

3. **The overall performance of the CPS program (FY12-FY16) is rated as satisfactory¹⁵** (See Table 1 for an overview of CPS achievements). The program achieved eight of 11 (73 percent) of its outcomes and 16 of 22 (73 percent) of its milestones during the CPS period, with notable development impact in several areas. The CPS comprised a planned IBRD lending program of US\$21 million which by the end of the period had resulted in actual commitments of US\$38 million. Development Policy Loans were underpinned and complemented by robust and timely analytical work and capacity building.

¹⁵ Satisfactory: The program achieved the majority of the objectives; or the program either achieved or mostly achieved the majority of objectives and had exceptional development outcome/impact in one or more areas. No major shortcomings were identified.

Table 1: Overview of achievements of CPS outcomes and milestones

Strategic outcomes and milestone indicators	Performance Ratings
PILLAR 1: COMPETITIVENESS AND EMPLOYMENT	Moderately Satisfactory
1. Revised electricity tariffs and regulatory framework <ul style="list-style-type: none"> Market-based utility rates applied. Grid Codes and Feed in Tariffs in place 	Achieved Achieved Achieved
2. Reduced time and cost to start a business <ul style="list-style-type: none"> Number of days to register business. Online system for registration of companies set up. 	Partially achieved Not achieved Achieved
3. Increased competition and reduced role for public sector in housing finance market <ul style="list-style-type: none"> Housing subsidy policy with better targeting approved. Housing Finance Company reformed to eliminate conflicting mandates. 	Partially achieved Achieved Achieved
4. Reduced non-tariff barriers to trade in goods and improved transparency of trade produces and processes <ul style="list-style-type: none"> Existing export permits requirements abolished. Online system to apply for import/export permits implemented. 	Achieved Achieved Achieved
PILLAR 2: VULNERABILITY AND RESILIENCE	Satisfactory
5. Strengthened institutional/legal framework for DRM <ul style="list-style-type: none"> National DRM Act adopted; updated policy approved by Cabinet. DRM Master Plan developed. 	Achieved Achieved Achieved
6. Improved targeting, admin and financial sustainability of social protection system <ul style="list-style-type: none"> Welfare assistance agencies merged. Single, robust social protection MIS in place. Pension contribution rate increased to 5 percent. 	Achieved Achieved Achieved Partially achieved
FOUNDATION: GOVERNANCE AND PUBLIC SECTOR CAPACITY	Satisfactory
7. Strengthened budget management practices adopted <ul style="list-style-type: none"> Full inclusion of recurrent costs of capital investments into recurrent budget. Reduction in difference between budgeted and executed budget. Adoption of Program and Performance based budgeting. 	Achieved Not Achieved Achieved Achieved
8. Decrease in government expenditure on health as share of total health expenditure <ul style="list-style-type: none"> Sustainable health financing strategy developed. 	Not achieved Partially achieved
9. Increased transparency and strengthened regulation in petroleum sector <ul style="list-style-type: none"> Petroleum Regulatory Authority established and petroleum regulation revised. EITI report submitted to EITI Secretariat for evaluation. 	Achieved Achieved Mostly Achieved
10. Strengthened capacity of National Bureau of Statistics <ul style="list-style-type: none"> Quarterly National Accounts report released to public. 	Achieved Achieved
11. Adoption of modern legislative framework for insolvency and alternative dispute resolution <ul style="list-style-type: none"> Commercial Division at Supreme Court established and operational. Backlog of commercial cases processed. 	Achieved Achieved Partially achieved

4. **WBG performance in designing and implementing the Seychelles strategy was good.**¹⁶ The design and implementation of the CPS contributed to the achievement of key program objectives. The CPS pillars were relevant, closely aligned with Government priorities, and informed by the Bank Group’s comparative advantage and the programs of development partners. The Bank engaged selectively, strategically, and effectively through a series of Development Policy Loans complemented by analytical

¹⁶ Good: the design and implementation of the program successfully contributed to the pursuit of the key CPF objectives and timely adaptation to changing circumstances and priorities. A sound program of ongoing activities is in place for the next strategy period.

work matched to the challenges and capacity of the country. Judicious flexibility exercised during implementation facilitated rapid responses to changing needs. A sound program of ongoing activities, built on past initiatives and accomplishments, is in place for the next strategy period. These activities are well aligned with the findings of the SCD and include the SWIOFish3 project that addresses the challenges of sustainability through introduction of sustainable fisheries and marine areas management and the PPBB and Performance Management RAS to strengthen government performance.

II. Assessment of CPS Program Performance

5. **Country Context.** Seychelles is a small island state comprising 115 tropical islands in the Indian Ocean with a total land area of under 500 km² and an estimated population of 95,000. Tourism and fishing/fish processing are the major contributors to its economy, with tourism generating by some estimates over half of aggregate demand, and canned tuna comprising the bulk of goods exports. With a gross national income per capita of US\$14,760 (2015), Seychelles is classified as a high-income country. Absolute poverty is low (2.5 percent at the US\$3.10 per day (2011 PPP) line), most economic and social indicators compare favorably to those of other small island economies, and its UN human development index rank is high (63rd/188). There are signs and growing concerns, however, over disparities in income and opportunity. The country is a multi-party democracy and political competition has been increasing and public-sector governance improving.

6. **Following a balance of payments and debt crisis in 2008, Government enacted an extensive set of reforms that restored fiscal and monetary credibility.** External support and Paris Club debt restructuring also contributed to debt reduction and fiscal consolidation. As a result, Seychelles has enjoyed seven years of strong economic performance. Serious development challenges, however, remain: limited land and human resources constrain institutional capacity; the domestic consumer market is small; high input and transport costs limit Seychelles' ability to benefit from economies of scale in production; heavy reliance on imports, exposure to European tourism markets, and location and topography enhance vulnerability; concerns about high pregnancy rates, growing substance abuse, poor education outcomes, and rising non-communicable diseases are increasing.

7. **The Seychelles Country Partnership Strategy (FY2012-2016) achieved eight of 11 strategic outcomes and 16 of 22 milestone indicators, and thus performance was satisfactory.** (See Results Framework Program Assessment attached as Attachment 1 for detailed results). During the CPS period, the Bank engaged through a series of Development Policy Loans, underpinned and supported by robust and analytical work and capacity building funded through a combination of Bank budget, trust funds and Reimbursable Advisory Services (RAS) arrangements.

Pillar 1: Competitiveness and Employment –*Moderately Satisfactory.*

8. **Overall, the results achieved under the Competitiveness and Employment pillar were moderately satisfactory.** Of the four outcomes targeted under this pillar, two were achieved: revisions to electricity tariffs and the regulatory framework improved viability and promoted renewable energy, and barriers to trade were reduced and the transparency of trade processes enhanced. In the housing finance sector, reform of subsidies benefiting low-income households helped reduce price distortions in the market, and the restructuring of the Housing Finance Corporation resulted in a more efficient and effective institution. As a result, housing loans using the new subsidy policy increased from zero in 2011 to 555 in 2016, significantly exceeding the target of 195. Steps were taken to streamline and decrease the cost of business registration processes although efforts to reduce the time required to register a business resulted in no appreciable improvement. Financial sector (including business environment) reforms added during the CPS period, though not captured in the results framework, are increasing access to credit,

strengthening the insurance regulatory framework, and implementing a financial sector development plan.

Strategic Outcome 1: Revised electricity tariffs and regulatory framework. Achieved.

9. With the country's overall power generation provided only by diesel fuel, Government in its Medium-Term NDS sought to encourage energy efficiency and increase the contribution of renewable energy sources to diversify its energy mix. To support this objective, the Bank Group's strategy focused on revising electricity tariffs and the regulatory framework to encourage efficiency, reduce losses, and promote renewable energy.

10. **Market-based utility rates replaced ad hoc subsidized rates resulting in decreased utility losses and returning the Public Utilities Commission (PUC) to profitability.** Through the Sustainability and Competitiveness Development Policy Loan (DPL) series and related analytical and advisory assistance, Bank Group interventions supported the rationalization of tariffs to enhance the financial viability of the PUC and its ability to supply reliable electricity. Based on the recommendations of a RAS-funded study, Government adopted an automatic mechanism to adjust price movements in line with key variables including the exchange rate and fuel prices on a quarterly basis, and approved a tariff-rebalancing program to align electricity and water tariffs to cost-recovery levels over the medium term. As of 2015, the PUC had erased all of its accumulated losses.

11. **Promotion efforts are increasing Government's renewable energy capacity.** Grid codes, feed in tariffs, and model energy supply purchase agreements, developed with support through a Small Island Developing State DOCK grant, are facilitating private sector participation in renewable energy. To promote efficient use of energy in households, the International Finance Cooperation through the Seychelles Energy and Efficiency and Renewable Energy Project, helped develop an incentive program for commercial banks to extend low interest loans to households to purchase solar heaters and other energy efficient equipment [need to ask about results on this]. Wind farms currently meet two to three percent of the country's energy requirements.

Strategic Outcome 2: Reduced time and cost to start a business. Partially achieved.

12. The second strategic outcome under the Competitiveness and Employment Pillar addressed the onerous and cumbersome regulations and lengthy procedures required to register a business which discourage the emergence of a vibrant and diversified private sector. Building on earlier efforts to set up a virtual one-stop shop for starting a business and modernize the Companies Act (1972), the CPS interventions aimed to reduce the number of days required to register a business, and establish an online registration system.

13. **The registration process for new businesses was simplified and partially automated resulting in an improved business environment.** The time it takes to register a business in the Seychelles, however, only declined from 39 days in 2011 to 32 days in 2016, falling well short of the goal of 1 day. The most significant bottleneck remains the time required to obtain a business license. Automated processes resulted in faster and more effective processing of documents and data exchange, online interactions between investors and regulators, and electronic payment of taxes. The percentage of businesses filing their taxes online increased significantly from one percent in 2011 to 3.7 percent in 2015. Combined with other reforms, the introduction of a flat fee structure decreased the costs involved in registering a business.

14. **Several additional reforms supported by the Bank Group succeeded in improving the business environment.** Seychelles improved access to credit information by adopting new regulations that provide for the establishment and operation of a credit registry database and a collateral registry. As discussed

below, electronic submission of customs documents makes trading across borders faster. The establishment of a commercial court facilitates contracts enforcement, and the adoption of a modern legislative framework made resolving insolvency quicker and easier.

Strategic Outcome 3: Increased competition and reduced role for private sector in housing finance.

Partially achieved.

15. With access to finance a critical constraint to private sector development in the Seychelles, Government sought to increase competition in the banking system, in part through developing new capital products. Bank Group efforts in this area focused on introducing a new housing subsidy policy and restructuring the Housing Finance Company.

16. **A system of ‘smart’ subsidies targeted to low-income households introduced by Government in 2013 and designed with Bank-financed technical assistance helped to reduce price distortions in the housing finance market.** Targeted subsidies were important for their fiscal impact. By end-2016, 555 housing loans were approved using the new subsidy policy, significantly exceeding the target of 195 loans. Reorganization of the Housing Finance Corporation (HFC) aligned its functions more effectively. Government also removed bottlenecks and began exploring measures to increase the stock of affordable housing.

17. **Although the CPS Results Framework did not include outcomes or indicators related to broader financial sector reforms, the program contributed to development of the financial sector.** In addition to financial sector reforms to improve the business environment noted above, grants from the FIRST TA Fund also financed strengthening of the insurance regulatory framework, and preparation of a Financial Sector Development Plan focused on improving private sector access to credit and its implementation. Government adopted a new Financial Strategy in 2015 to further develop the sector. With support from the International Finance Corporation, a Financial Leasing Law was passed in 2013 to ease access to finance, especially for SMEs, followed by the issuance of supplementary regulations to help entrepreneurs to strengthen and expand their businesses. The leasing program is under implementation and fully funded by the Central Bank.

Strategic Outcome 4: Reduced non-tariff barriers to trade in goods and improved transparency of trade procedures and processes. Achieved.

18. In response to Government’s priority to foster diversification through greater regional integration which emerged after the design of the CPS, the Bank program was expanded in the CPS Progress Report to support the reduction in barriers to trade in goods and increase the transparency of trade processes and procedures through the Accelerated Program of Economic Integration (APEI) Regional DPL.

19. **The reduction of non-tariff barriers to trade decreased the cost of exporting and importing and increased the overall share of exports of goods and services in GDP.** Government in 2013 abolished the system which required export permits for all products and replaced it with product-specific regulations. It also introduced an online import and export permit application system in 2014 and a trade portal in 2015.

Pillar 2: Vulnerability and Resilience – Satisfactory

20. **Overall, the results achieved under the Vulnerability and Resilience pillar were satisfactory.** Both outcomes and four of five milestones or objective indicators were achieved. To bolster the country’s ability to absorb the impact of exogenous shocks, the World Bank Group program focused on: (i) strengthening the capacity for disaster risk management (DRM), and (ii) enhancing the social safety net system. Through DPLs and complementary ASA, both objectives were achieved. These efforts were further supported by reforms that contributed to improved fiscal sustainability, including greater

efficiency in public expenditures such as targeted tariffs and subsidies noted above, and improved governance of State-Owned Enterprises to ensure cost-recovery discussed below.

Strategic Outcome 5: Strengthened institutional and legal framework for disaster risk management (DRM). Achieved.

21. High exposure to changes in climatic conditions and a lack of geological risk assessment heightens Seychelles' vulnerability to climate and disaster risks. Widespread flooding in early 2013 highlighted these risks and prompted the Government to seek Bank Group support for strengthening the technical capacity for DRM and implementing a disaster risk financial strategy.

22. **Through a targeted Disaster Risk Management DPL with Catastrophe Deferred Drawdown Option (CAT DDO) and complementary technical assistance (funded through GFDRR), Bank assistance helped enhance the Government's capacity to effectively respond to natural disasters.** The National Assembly adopted the Disaster Risk Management (DRM) Act which provides a legal framework for DRM, including a National Disaster Risk Management Plan, an integrated emergency management system, and catastrophe risk financing mechanisms. Combined with the availability of contingent financing, these efforts helped to mitigate Seychelles exposure to disaster risks. Availability of contingent financing through the CAT DDO loan (which has been extended and will remain in effect until FY21) provides a contingent fiscal buffer to help manage the impact of disasters.

Strategic Outcome 6: Improved targeting, administration and financial sustainability of social protection system. Achieved.

23. Ineffective targeting of welfare assistance and an unsustainable pension system threatened the viability of the social protection system and broader efforts at fiscal reform. Bank efforts focused on improving the system's effectiveness and efficiency.

24. **With Bank support, the Seychelles' generous social protection system was substantially strengthened which helped to sustain other reforms.** Changes to align the legal framework with operational practice by creating the Agency for Social Protection improved the administration of and reinforced accountability for the system. Improved targeting and monitoring of Social Welfare Assistance and increases in the pension rate contribution enhanced equity and fiscal sustainability of the social protection program. Continuing efforts seek to address on-going threats to the financial sustainability of the social protection program from existing program parameters and population projections, increase further its impact on poverty, including rebalancing spending across age groups, promote social inclusion, and understand labor market rigidities. Measurable savings have been achieved. Government spending on sickness benefit decreased from 0.07 percent of GDP in 2014 to 0.05 percent in 2016. Revenue from the Seychelles Pension Fund accounted for 1.8 percent of GDP in 2015, exceeding the target of 0.8 percent.

Foundation: Governance and Public Sector Capacity –Satisfactory

25. **Overall, the results achieved under the Governance and Public Sector Capacity pillar were satisfactory.** Of the five outcomes targeted under this pillar, four were achieved. Budget management practices were substantially strengthened furthering public financial management, modernization of the petroleum sector increased transparency, data from the National Bureau of Statistics was used to model financial and poverty impacts of social assistance initiatives, and changes to the legislative framework for insolvency and dispute resolution made resolving insolvency easier and accelerated the settling of commercial disputes. Efforts to improve the sustainability of health expenditures have not yet succeeded

in addressing fiscal pressures. Bank engagement to strengthen the governance of SOE was deepened during the CPS period.

Strategic Outcome 7: Strengthened budget management practices. Achieved.

26. **The adoption of a results-based management policy in 2013 and a reinvigorated focus on performance improved the allocation and execution of public expenditures through strengthened budget management practices in line with government's commitment to reduce the burden of the public sector on the economy.** To strengthen budget management, Bank support financed under two RAS agreements contributed to the following outcomes: adoption of new a Public Financial Management Act (2012) and related regulations (2014); improved public investment program implementation, including parliamentary appropriation of both the recurrent and capital budgets, and the design, development and phased rollout of Program and Performance-Based Budgeting (PPBB) starting in 2015 which links budgets to sector strategies. However, the Public Sector Investment Program does not include estimates of the recurrent costs of capital projects. Continued reforms, to be financed by a third RAS arrangement, seek to further enhance government's capacity to plan, finance, manage and monitor public sector investments.

27. **Added during the CPS period, Bank-supported measures also enhanced the capacity of the Government to monitor public enterprises aimed at improving their governance.** A Public Enterprise Monitoring Commission (PEMC) was created to monitor financial, governance and transparency issues related to public enterprises. To improve government oversight of investments by public enterprises, a high-level committee reviews all potential public projects over SCR 25 million and assesses their macroeconomic and financial risks. These reforms to strengthen oversight of public enterprises should improve their performance and reduce public sector costs over time. Under a RAS arrangement, governance audits of three selected public enterprises were completed during the CPS period with three more completed in FY17.

Strategic Outcome 8: Decreased government expenditures on health as a share of total health expenditures. Not achieved.

28. At the time of the CPS, weak management of health sector delivery and current health financing arrangements presented significant fiscal challenges. With an aging population and disease burden shifting to non-communicable diseases, the sustainability of gains in health, nutrition and population outcomes was threatened. The strategy thus aimed to support government efforts to achieve greater efficiency in public health expenditure by exploring health financing policy options and improving the management of service delivery. With Bank support limited to analytical work and technical advice, this indicator was unrealistic.

29. **A National Health Policy adopted in 2012 reallocated resources to the most effective interventions thereby helping to address fiscal challenges confronting the health sector.** As a result, spending on health prevention and promotion services increased from 6 percent of the health budget in 2014 to 12.5 percent in 2016. A new, costed, comprehensive health sector strategy will provide a framework to assess the costs of service provision in turn helping to enhance accountability, assessing efficiency of resource use, and establish standards. Nevertheless, instead of decreasing as targeted, Government expenditures on health as a share of total of health expenditure increased from 87 percent in 2009 to 97 percent in 2015. However, it should be noted that in comparison with the OECD countries, Seychelles health spending as a share of GDP is by far the lowest while Seychelles' health outcome indicators are broadly comparable to OECD countries suggesting a high return on its investment in health as well as an efficient system. While the CPS program helped to strengthen management of the system

and improve efficiency, the goal of reducing the Government's share of total spending was unrealistic in light of Seychelles constitutional commitment to providing free health coverage to its citizens.

Strategic Outcome 9: Increased transparency and strengthened regulation in the petroleum sector. Achieved.

30. With initial oil exploration yielding encouraging (albeit largely unrealized to date) results, the CPS planned technical assistance to support Government's efforts to put in place an appropriate governance structure for the petroleum sector given the underdeveloped legal and regulatory framework.

31. **With technical assistance under the CPS, the legal and regulatory framework and fiscal regime governing the oil sector were modernized resulting in renewed petroleum exploration interest.** PetroSeychelles was created in 2012 with responsibility for regulating the upstream petroleum sector and overseeing exploration activities. Enacted in 2013, Seychelles Petroleum Taxation Act, a new Model Petroleum Agreement and fiscal regime, and new procedures for the award of petroleum exploration and production rights requiring open and competitive process underscore government's efforts to encourage sustainable exploration in its vast Exclusive Economic Zone. Assistance also contributed to the identification of areas of interest for oil and gas exploration. Increased knowledge allowed government to tailor licensing terms to a range of economic and project conditions that should result in more favorable and resilient contracts. Seychelles applied for membership to the EITI in 2014 after complying with required candidacy steps. Seychelles published its first EITI Report 2013 and 2014 in February 2016 covering oil and gas. The country's validation against the 2016 EITI standard commenced in January 2018 and is underway.

Strategic Outcome 10: Strengthened capacity of National Bureau of Statistics. Achieved.

32. **Recognizing and addressing limited statistical capacity, collaboration with the National Bureau of Statistics resulted in improvements to the household budget instrument, release of estimates of poverty and inequality using the 2013 Household Budget Survey, and regular publication of National Accounts.** Long-term demographic projections now included in that available information have been critical for modeling the financial impacts of various social assistance programs.

Strategic Outcome 11: Adoption of modern legislative framework for insolvency and alternative dispute resolution. Achieved.

33. Without a bankruptcy regime and a manual system for commercial case registration, access to justice for the business and private sectors was limited. The CPS sought to address these constraints by modernizing the legislative framework for insolvency and introducing alternative mechanisms to resolve disputes.

34. **Reforms to the framework for insolvency and introduction of alternative dispute resolution improved the regulatory framework for competitiveness of the Seychelles business environment by making resolving insolvency disputes easier.** A new Insolvency Act encouraged the timely exit of non-viable enterprises and the saving of viable businesses in part through provisions to avoid undervalued transactions and the availability of financing during reorganization. The establishment of a specialized commercial division at the Supreme Court and a new alternative dispute resolution framework speeded up the settling of commercial disputes, relieving pressure on the courts.

III. World Bank Group Performance

35. **Overall, Bank performance during the FY2012-FY2016 Seychelles CPS was good.** The design and implementation of the program contributed to the achievement of key CPS objectives which were closely

aligned with government's current and emerging development priorities. The quality of the operations was sound. The instruments through which the Bank engaged were appropriate to the Seychelles context. Close monitoring of activities and indicators and strong relationships with counterparts informed prudent adaptations to changing circumstances during implementation reflected in the CPS Progress Report. A sound program of ongoing activities, built on past initiatives and accomplishments, is in place for the next strategy period.

Design

36. **Designed in consultation with Government and other development partners, the CPS focus areas were closely aligned with Government's priorities and relevant the country's challenges.** The Bank's strategy, which addressed the dual challenges of lack of competitiveness and vulnerability in a constrained fiscal space, was driven by Government's reform agenda as outlined in the draft Medium Term NDS 2013-2017 which was formally approved after the start of the CPS period in November 2014. The core aim of the MTNDS was to reduce Seychelles' vulnerability and to provide the basis for long term sustainable development by putting public finances on a sustainable path, while creating the fiscal space to raise public investment and support targeted social safety nets. The CPS' pillars and foundation were complementary and mutually supportive. The CPS program was highly relevant to the needs of Seychelles that was then seeking to consolidate the gains achieved since 2008/2009 in macro-economic stabilization, spurring growth and generating employment and supporting those falling behind and in need. The CPS' pillars (Competitiveness and Employment; Vulnerability and Resilience) and foundation (Governance and Public Sector Capacity) were complementary and mutually supportive.

37. **The CPS agenda was selective and had the support of a strong program of lending and ASA.** The number of outcomes, 11, supported by 22 milestone indicators covering the two pillars and one foundation was reasonable, focusing on ambitious but achievable goals in line with the capacity of government and the supporting program. Financial support was to be provided through DPL operations, backed by ASA. The program's pragmatic approach focused on sequenced actions with realistic results that could be completed in the short-term and deliver immediate results while building the foundations for broader medium to long-term reform. Areas of engagement were selected based on the Bank Group's comparative advantage, and complemented the programs of other development partners, particularly those of the International Monetary Fund and African Development Bank. The results framework was comprehensive in reflecting the WBG engagement. However, work related to governance of state-owned enterprises and financial sector developments, areas of significant Bank engagement that were added during the course of CPS implementation were not captured in the results framework. The Results Framework proved an effective tool for monitoring progress and measuring results by the Bank and Government. Most of the milestones tracked concrete actions with measurable outputs. In many cases, although not all, the logic between milestones, expected outcomes, and the Bank's program was clear.

Implementation

38. **Planned lending under the CPS comprised a series of three development policy loans totaling US\$21 million which was expanded during the extended implementation period in response to emerging priorities and opportunities to include three additional DPLs bringing the total to US\$38 million.** These loans broadened CPS objectives, were aligned with Government's NDS, and made use of growing bodies of knowledge. A stand-alone DPL focused on consolidating and sustaining reforms was approved in 2015. In response to client demand following severe flooding, a Disaster Risk Management CAT-DDO operation was added to the program. A regional DPO in support of the multilateral Accelerated Program of Economic Integration was also added to the program. The results framework was updated to reflect this additional lending at the time of the CPS Progress Report. Concentrating the delivery of

financing through limited vehicles, as well as donor coordination and harmonized policy dialogue, helped to contain the Bank's transaction costs. The mobilization of grant funding and use of Bank budget was deeply appreciated and contributed to the positive relationship. During the CPS period, advisory support was increasingly financed through RAS arrangements as is appropriate for a high-income country; nine RAS agreements totaling over US\$5 million were signed during the CPS period. IFC Advisory Services were provided in the energy and financial sectors.

39. **Development policy lending, supported by analytical work and technical assistance to aid implementation and capacity building, was generally well-matched to the opportunities and constraints of a small island, high income economy.** The use of development policy lending served to focus the Bank's support, and offered incentives for sustaining reforms and flexibility to adapt. The series of DPLs provided consistent, dependable support for a graduated program of reforms, provided there was adequate technical assistance for design and implementation of reforms. Indeed, the results were strongest in areas where implementation support through technical assistance was adequate and well-coordinated (for example in social protection and public expenditure management) but suffered when implementation support was weaker (for example business environment reforms). Given the reliance on DPLs, no safeguards or fiduciary issues were encountered.

40. **Strong analytical underpinnings, incorporation of lessons learned from previous operations, identification and mitigation of risks, and sustained support for focus areas ensured the quality of the development policy loans.** All lending was informed by relevant and technically sound analytical work. The implementation experience of previous operations and their results informed the design of all successive operations. The risks to each operation and measures to mitigate them were explicitly identified and incorporated, although more attention should have been paid to political economy considerations that affected the pace of implementation of some reforms. For example, the CPS target to reduce the Government share in total health spending reflected solid analysis pointing to rising fiscal pressures resulting from an aging population and shifting burden of disease but failed to take into account the difficulty of increasing out-of-pocket costs given the national consensus on provision of free health care. Long-term programmatic focus built on experience, strong client relationships, and areas where consensus existed also contributed to the successful achievement of results.

41. **The WBG maintained a flexible stance and adjusted the program to unexpected events.** Severe floods in 2013 demonstrated the need for prompt access to resources for emergency response, and the approved a DPL operation with a Catastrophe Deferred Drawdown Option (DDO), the first in Africa, provided ready contingent funding in the event of similar disasters. With the Accelerated Program for Regional Integration DPL, Seychelles assumed a leading role in advancing this five-country initiative to jointly accelerate reforms to increase trade and investment, diversify exports of goods and services, raise incomes, generate new jobs, and increase food security. Adjustments were reflected in the CPS Progress Report prepared in 2014, including revisions to the results matrix to update relevant outcomes and incorporate new and revised indicators.

42. **The identification and implementation of complementary technical assistance to inform policy reforms, financed by grant resources available to small states and through RAS arrangements, evolved during the course of the CPS.** In almost all cases, the technical assistance produced high quality products with tangible outputs with limited funding in response to client demand. The identification and use of relevant specialists, peer reviewers, review meetings, government comments, and Cabinet approval helped ensure the quality of outputs. Technical assistance and policy notes clearly articulated the rationale for reforms and, combined with communication efforts, helped to build domestic consensus around the need for such reforms.

43. **Consistent and documented supervision of CPS initiatives by relevant Bank experts focused on development impact, deepened policy dialogues with implementing institutions, and fostered coordination across sectors.** Aide Memoires and review meetings alerted government counterparts to issues and facilitated prompt correction action. IMF participation in relevant Bank meetings ensured consistent messaging and initiatives. The joint monitoring of indicators helped to further shape and improve public sector governance.

44. **Sustained, consistent and timely engagement since the 2008 crisis earned the Bank a strong reputation in the country and positioned it to engage in emerging priority areas.** Overall quality of dialogue was exceptionally strong, and relationships built through consistency of staffing expanded space to engage. Through sustained engagement, this CPS leaves behind a strong program with results expected to be achieved during next CPF period. A Systemic Country Diagnostic (SCD) was completed in 2017 in advance of preparation of the next Country Partnership Framework (CPF).

IFC Activities

45. **During the CPS period, IFC focused its interventions largely in the energy and financial sectors.** IFC supported the Government through two advisory services mandates: (i) in 2013 with a Seychelles Renewable Energy Efficiency Program (SREEP) for households, where IFC advised the GoS on how to motivate commercial banks to lend to households to acquire solar panels for water heaters; and, (ii) In 2016-17, working with the CBS introducing a Leasing Law to encourage the set up of leasing companies in Seychelles to diversify the credit offering. It also included holding a Leasing Forum with local and regional stakeholders in Victoria Seychelles in April 2017.¹⁷ The SREEP initiative resulted in 53 loans to households totaling US\$ 160,000.

IV. Alignment with Corporate Goals

46. **The Seychelles Country Program Strategy as implemented was aligned closely with the WBG's goals of reducing poverty and increasing shared prosperity sustainably.** With approximately 2.5 percent of the population living on a per capita gross income of less than US\$3.10 per day (2013 estimates), poverty in the Seychelles is low. Both CPS pillars – competitiveness and employment and vulnerability and resilience – as well as the cross-cutting foundation of improved governance and public-sector capacity included outcomes that directly or less directly contributed the Twin Goals. The CPS program was also aligned with sustainability through its supported for raising readiness to address natural disaster. The focus on sound public finance was also critical to protecting the lower income households from macroeconomic fluctuations and the loss of purchasing power.

47. **Explicit attention to the impacts on poverty and inequality of many Bank Group-supported activities was evident.** Bank-supported reforms to the social protection program, which benefits almost half of the population, including better targeting of subsidies, were designed to improve the system's ability to respond to these shocks and cushion the poor more effectively helping to improve income distribution. This was particularly important considering the Government's ambitious fiscal consolidation agenda. Strengthening the capacity of the National Bureau of Statistic to provide economic and demographic data resulted in the publication of estimates of poverty and inequality and demographic projections critical for understanding and modeling the financial impacts of social assistance and other

¹⁷ MIGA has no active projects in the Seychelles.

initiatives. Program and performance-based budgeting (PPPB) was expected to favorably impact poverty and inequality through raising the efficiency of public expenditure in health and education and improving quality, better targeting to the poor, and enhancing access of the poor to services to further reduce inequalities. Overall, improving the efficiency and sustainability of the health system was intended to benefit all, and it will improve outcomes for those most marginalized. Efforts to strengthen the country's resilience to natural disasters which have direct and indirect effects on poverty prevent such shocks from increasing poverty. Alignment of efforts with the twin goals was further strengthened during the CPS period with the addition of analytical work on poverty analysis, education and skills, and financial inclusion.

48. **The CPS objectives targeted the twin goals indirectly as well.** Although the underlying goal for much of the CPS was enhancing fiscal sustainability, potential impacts on poverty and inequality were also prioritized. Analytical work underpinning the design of electricity tariffs modeled the impact of options for processed rate increases on the poor and vulnerable. Housing subsidies were specifically designed to benefit low-income households. Other objectives designed to enhance competitiveness, private sector development and employment generation, such as those that improved trade and increased access to credit, were also expected to increase employment and incomes and thus reduce poverty.

Key Lessons

49. The design and implementation of the Seychelles CPS yielded lessons to inform the next Country Partnership Strategy, and may be applicable more broadly.

- *Development policy operations can be mobilized quickly and achieve strong results when complemented by sound analysis and technical assistance in the context of committed reform.* Sustained government commitment to a defined reform agenda formed the foundation for the Bank to help to maintain momentum and direction in the face of challenges.
- *In the post-crisis period with a diminished sense of urgency, the Bank should exercise focus, selectivity and discipline to help Government maintain reform momentum while adapting the program to address shifting priorities.* Areas where the Bank's support gained the greatest traction and successes were those where engagement was graduated and sustained and reflected the Bank's comparative areas of experience and expertise tailored to the specific country context. As an economic crisis fades and the urgency of reforms to restore growth and fiscal sustainability diminish, there is a need to reassess the degree of ownership and commitment to the reform agenda and adjust it as needed.
- *Deeper understanding and explicit assessment of political economy considerations would help explain the successes and failures of specific reform efforts and identify factors that might otherwise be missed.* Political economic analysis would require the Bank to engage with a broad range of stakeholder (e.g., trade unions, opposition parties), call for greater transparency and strengthening of independent institutions (e.g., the press and judiciary), and a willingness to recognize and raise potentially uncomfortable issues that might challenge the relationship.
- *Capturing the experience gained in the Seychelles with the increasing use of reimbursable advisory services arrangements would benefit continued engagement in the Seychelles as well as Bank programs in other middle to high income countries.* A review of RAS should include the process by which these arrangements were agreed to, measures which helped to ensure the quality of outputs produced, potential changes to the alignment of Government/Bank responsibilities and relationship

in utilizing RAS, and costing. Given the relatively modest Bank Administrative budgets available in small higher income countries, the feasibility of achieving CPF objectives depends on the ability to mobilize resources for complementary TA, including through RAS arrangements.

- *A well-designed and updated results framework proved useful for Bank and Government monitoring of program implementation and results.* Data collected on indicators was used by both parties to assess progress, define prior actions for subsequent DPLs, and focus efforts. The process was also used to further shape and improve public sector governance.

Attachment 1: Summary of Seychelles CPS Results Framework Program Assessment FY12-16

CPS Outcomes and Milestones	Status and Assessment Summary	CPS Instruments
<i>Pillar 1: Competitiveness and Employment – Moderately Satisfactory</i>		
<p>Outcome 1: Revised electricity tariffs and regulatory framework to encourage efficiency, reduce losses, and promote renewable energy.</p>	<p>Outcome 1: Achieved As a result of the introduction of market-based tariffs, utility losses decreased 90 percent between 2011 and 2012 contributing to the viability of the Public Utilities Commission and its return to profitability in 2015, and thus helping to ensure its ability to provide reliable electricity. The Bank-supported Energy Act of 2012, in addition to rebalancing tariffs as described below, also established the Seychelles Energy Commission to regulate the electricity sector, license electricity activities, tender and award contracts to independent power procedures, and determine tariffs and changes. With promotion efforts, including the introduction of grid codes and feed-in-tariffs and model agreements, renewable energy capacity has been gaining momentum since 2013. Government has invested in wind farms which currently meet 2-3 percent of the country’s energy requirements.</p>	<p>LEN:</p> <ul style="list-style-type: none"> Sustainability and Competitiveness DPL Series (P125202; 2013 -\$7 m; P132425; 2014-\$7 m; and P146567; 2016-\$7 m) <p>AAA:</p> <ul style="list-style-type: none"> Preparation of Grid Code and Feed in Tariffs for Renewable Energy (SIDS-DOCK grant) Seychelles Electricity, Water & Sewage Tariff Study Seychelles Energy Efficiency and Renewable Energy Project (IFC)
<p>Milestone 1.1: Market based utility rates applied by 2014 compared to ad hoc subsidized rates in 2011.</p>	<p>Milestone 1.1: Achieved Based on recommendations made under a RAS-financed technical assistance, Government in 2013 adopted a quarterly tariff adjustment mechanism that passed on to consumers at least 70 percent of future increases in fuel prices, which helped reduce the wasteful use of electricity. To help ensure the long-term sustainability of electricity supply, the government also adopted a road map to rebalance electricity tariffs, removing cross-subsidization and gradually increasing electricity tariffs to cost recovery levels over eight years for households using less than 200 kWh and commercial consumers using 200 to 400 kWh.</p>	
<p>Milestone 1.2: Grid codes and feed-in-tariffs for renewable energy are in place by 2016.</p>	<p>Milestone 1.2: Achieved To facilitate private sector participation in renewable energy, grid codes and feed-in tariffs for renewable energy were developed financed by a grant from the Small Island Developing State DOCK Support Program (SIDS-DOCK).</p>	
<p>Outcome 2: Reduced time and cost to start a business.</p>	<p>Outcome 2: Partially achieved Although the time to register a business in the Seychelles did not decrease appreciably during the CPS period, steps taken improved the private sector business environment, including simplifying the process for registering a business, obtaining a business license and work permit in part by eliminating unnecessary procedures; efforts to accelerate the settlement of commercial disputes; electronic payment of taxes; and computerization of the registration of property taxes. The percentage of businesses filing their taxes online increased from less than 1% in 2011 to 3.7% in 2015. The one-stop shop and the introduction of a flat fee structure decreased the costs involved in registering a business.</p>	<p>LEN:</p> <ul style="list-style-type: none"> Sustainability and Competitiveness DPL Series; <p>AAA:</p> <ul style="list-style-type: none"> Business Regulatory Reform TA Private Sector Development Reform TA IFC Advisory Services

CPS Outcomes and Milestones	Status and Assessment Summary	CPS Instruments
<p>Milestone 2.1: Number of days to register business falls from 39 in 2011 to 1 in 2016.</p> <p>Milestone 2.2: An online system for registration of companies is set up by 2016.</p>	<p>Milestone 2.1: Not achieved Despite steps to simplify registration procedures, including the setting up of a one-stop shop for starting a business and amendment of the Companies Act to remove the requirement for a third party intermediary to participate, the number of steps to register a business in the Seychelles only decreased from 39 days in 2011 to 32 days in 2016 (according to the World Bank Doing Business indicators).</p> <p>Milestone 2.2: Achieved The first DPL set up a virtual 'one-stop shop' for registering a business. Automated processes resulted in faster and more effective processing of documents and of electronic data exchange between businesses and the Office of the Registrar General. Revisions to the Companies Act, supported by the second DPL, allowed investors to interact with regulators on-line. With the process now fully automated, electronic payment facilities for all taxes have been introduced.</p>	
<p>Outcome 3: Increased competition and a reduced role for the public sector in the housing finance market.</p> <p>Milestone 3.1: Government has approved a housing subsidy policy that better targets low-income households in need of assistance.</p> <p>Milestone 3.2: Housing Finance Company (HFC) has been reformed to</p>	<p>Outcome 3: Partially Achieved Private sector participation in the housing market was not directly affected by Bank supported reforms which focused primarily on introducing a new housing subsidy policy. Bank efforts also removed bottlenecks and explored measures to increase the stock of affordable housing, including private public partnerships between property developers, financial institutions and government, and making public land available. Although important for their fiscal impact, it is not clear if reform of housing subsidies is sufficient to attract private commercial banks to mortgage finance.</p> <p>Milestone 3.1: Achieved. The Bank provided technical assistance to design a system of 'smart' subsidies targeted to low-income households that were introduced by Government in 2013 and helped to reduce price distortions in the housing finance market. First time buyers earning less than 20,000 per month were made eligible for a cash grant paid as a down payment on a mortgage loan to either buy or build a house. To benefit, participants must have contributed to a home saving scheme. The new subsidy policy differentiated between those households requiring public housing and those requiring assistance to access affordable housing. By end-2016, 555 housing loans were approved using the new subsidy policy, greatly exceeding the target of 195 loans.</p> <p>Milestone 3.2: Achieved. To reduced price distortions and increase competition in the housing finance market, the government split the functions of the Housing Finance Corporation into two areas: housing finance (offered by HFC) and social (rental) housing</p>	<p>LEN: Sustainability and Competitiveness DPL Series</p> <p>AAA:</p> <ul style="list-style-type: none"> • Housing Finance TA, (FIRST TF) • Financial Sector Development Implementation Plan (FIRST TF) • IFC Advisory Services • Strengthening the Insurance Regulatory Framework (FIRST TF)

CPS Outcomes and Milestones	Status and Assessment Summary	CPS Instruments
<p>address challenges related to its conflicting mandates.</p>	<p>(management of which was transferred to the Property Management Company). The HFC continues to focus on core functions such as housing loans, construction and renovation of housing finance. The management of social (rental) housing has been transferred to the Property Management Company. This new structure facilitated the Central Bank's supervision of HFC as a credit granting institution.</p>	
<p>Outcome 4: Reduced non-tariff barriers to trade in goods, and improved transparency of trade procedures and processes.</p>	<p>Outcome 4: Achieved. Government reduced non-tariff barriers to trade and enhanced transparency by modernizing customs clearance procedures through migrating to ASYCUDA in 2013 to shorten clearance time and improve risk management at the border, introducing an online application system, and launching a trade portal in 2015 which offers information on taxation, import and export permits and business regulation.</p>	<p>LEN: Accelerated Program of Economic Integration Regional DPL</p>
<p>Milestone 4.1: Abolition of existing export permit requirements in line with WTO commitments.</p>	<p>Milestone 4.1: Achieved. Government promulgated the Customs Management (Export Permit) Regulations, 2014, which removed, in line with WTO accession requirements, the existing requirement that all products destined for export be accompanied by an export permit and replaced it with a system of product-specific regulations and permits, thus reducing the overall burden on traders.</p>	
<p>Milestone 4.2: Implementation of an online system to apply for import/export permits.</p>	<p>Milestone 4.2: Achieved. To improve transparency and accelerate processing of applications, the Government introduced an online system to apply for import and export permits in February 2014.</p>	
<p>Pillar 2: Vulnerability and Resilience – Satisfactory</p>		
<p>Outcome 5: Strengthened institutional/legal framework for disaster risk management.</p>	<p>Outcome 5: Achieved. Bank-supported Disaster Risk Management (DRM) DPL with Cat DDO, the first in Africa, advanced the DRM agenda by incentivizing government to enact measures prepared in 2011, but which had not yet been adopted. As a result, Seychelles' capacity to efficiently respond to disasters was enhanced through the adoption of the Disaster Management Act and National DRM Plan, updating of preparedness and response plans of select islands, conducting of annual drills, and public awareness campaigns (e.g., disaster risk, pest control, Ebola and Zika). The DPL also provided additional contingent financing should fiscal space be constrained in the event of a disaster.</p>	<p>LEN: Disaster Risk Management DPL w/ Cat DDO</p> <p>AAA:</p> <ul style="list-style-type: none"> • Flood Damage Loss and Needs Assessment (GFDRR) • Strengthening DRM for Sustainable Poverty Reduction (GFDRR) (P147236) • South West Indian Ocean Risk Assessment & Financing Initiative (P149096)
<p>Milestone 5.1: National DRM Act adopted by the National Assembly and</p>	<p>Milestone 5.1: Achieved.</p>	

CPS Outcomes and Milestones	Status and Assessment Summary	CPS Instruments
<p>updated DRM Policy approved by the Cabinet of Ministers.</p> <p>Milestone 5.2: A Master Plan for Disaster Risk Management is developed.</p> <p>Outcome 6: Improved targeting, administration and financial sustainability of the social protection system.</p>	<p>The National Assembly 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.</p> <p>Milestone 5.2: Achieved. An updated policy for disaster risk management establishes an early warning system, increases preparedness through updated sector contingency plans and provides for the carrying out of information dissemination activities.</p> <p>Outcome 6: Achieved. Reforms to the social protection system were extensive, and included: establishing the Agency for Social Protection, upgrading the MIS for Social Welfare Assistance (SWA) and establishing automated cross-checks with relevant government agencies, modifying the means test for SWA and establishing a review panel to improve targeting, consolidating the home-care and family allowance programs and introducing means-testing, revising regulations to introduce assessment of disability based on a return to work approach and shifting part of the burden of sickness benefits to employers, and increasing to the pension contribution rate. Together, these reforms succeeded in improving efficiency, containing costs, and thus enhancing financial sustainability. The share of ineligible beneficiaries of welfare assistance declined from 33% in 2012 to 12.6% in Dec. 2015 exceeding the DPL target of 20%. Total spending on disability (invalidity), sickness benefit, home carers and social welfare assistance programs accounted for 1.2% of GDP in 2015 and largely stabilized.</p> <p>Milestone 6.1: Achieved. The Agency for Social Protection (ASP) was created in 2012 and administers all social assistance programs. ASP systems and processes were strengthened by improved targeting and administration of social protection programs, including adjusting the methodology for determining eligibility for benefits. Clarification of ASP's multiple reporting lines reinforced accountability over social security and social assistance programs. A strategic plan for ASP brought coherence to what had become a scattered and piecemeal set of solutions to unfolding problems.</p> <p>Milestone 6.2: Achieved. A Management Information System was developed to automate key Social Welfare Assistance processes. The ASP database was linked to those of five other government agencies to perform automated cross-checks on beneficiaries' declarations. The automated application process has reduced the likelihood of error and fraud.</p>	<p>LEN:</p> <ul style="list-style-type: none"> • Sustainability and Competitiveness DPL Series • Sustaining Reforms for Inclusive Growth DPL <p>AAA:</p> <ul style="list-style-type: none"> • Safety Nets/Social Protection TA • Pensions Disability and Safety Nets TA • Social sectors and SOEs TA (RAS)

CPS Outcomes and Milestones	Status and Assessment Summary	CPS Instruments
<p>Milestone 6.3: The pension contribution rate is increased to 5 percent by 2014 from 3 percent in 2011.</p>	<p>Milestone 6.3: Partially Achieved. In 2014, the pension rate contribution, applicable to all Seychelles citizens, was increased to 4% from 3%. Benefit indexation was linked to inflation, and management of pension reforms was improved. In 2015, Government instituted a benefit formula to the Seychelles Pension Fund to strengthen the link between contributions and benefits and thus improve fairness, transparency and incentives to participate. Revenue from the Seychelles Pension Fund increased to 1.8% of GDP in 2015 exceeding the target of 1.1%.</p>	
Foundation: Governance and Public Sector Capacity – Satisfactory		
<p>Outcome 7: Adoption of strengthened budget management practices.</p>	<p>Outcome 7: Achieved Government has improved the accountability and predictability in the use of public funds. Financial and budget management practices were strengthened by Government adoption of a new Public Financial Management Act in 2012 and related regulations in 2014, improved public investment program implementation, asset management reform and introduced Program Performance Based Budgeting. A new chart of accounts with functional classification facilitates fiscal reporting. With Bank support, detailed guidelines on project appraisal methods and standards to facilitate the assessment of the financial viability of projects have been developed. 2016 PEFA ratings attest to the substantial improvement in public finances by measures that enhanced fiscal discipline and strengthen budget execution.</p>	<p>LEN:</p> <ul style="list-style-type: none"> • Sustainability and Competitiveness DPL Series (P125202; 2013 -\$7 m; P132425; 2014-\$7 m; and P146567; 2016-\$7 m) • Sustaining Reforms for Inclusive Growth DPL (P153269; 2016-\$5 m). <p>AAA:</p> <ul style="list-style-type: none"> • Public Financial Management TA • PAR and fiscal impact reform (P1123558); 2014; \$0.43 m)? • SC-Programmatic Public Expenditure Review (P132465; FY15) • <i>Seychelles Programme Performance Based Budgeting RAS</i>
<p>Milestone 7.1: Full inclusion of recurrent costs of capital projects into the recurrent budget by 2015 compared to no linkages in 2011.</p>	<p>Milestone 7.1: Not Achieved Implementation of the public investment program was approved, with both recurrent and capital budgets appropriated by Parliament since 2013. The Development Committee established in 2014 reviews and selects all public investment projects. However, the PSIP does not include the full recurrent costs of capital projects</p>	
<p>Milestone 7.2: Reduction in the difference between budgeted and executed budget from 4.2% in December 2011 to 2.5% by December 2015</p>	<p>Milestone 7.2: Achieved After reforms were implemented, the difference between voted and executed expenditures as a whole dropped from 4.2% in 2011 to 0.5% in 2015, exceeding the 2.5% target set for DPL series. This expenditure deviation earned a PEFA score of “A”.</p>	
<p>Milestone 7.3: Full adoption of Program and Performance-based Budgeting (PPBB) by 2017.</p>	<p>Milestone 7.3: Achieved. Program and Performance-based Budgeting (PPBB) was piloted in the Ministry of Education and Ministry of Natural Resources in 2015, and in three additional ministries in 2016. Full roll out to entire government is planned from 2017 budget.</p>	

CPS Outcomes and Milestones	Status and Assessment Summary	CPS Instruments
<p>Outcome 8: Government expenditure on health as a share of total health expenditure falls from 87 percent (2009 baseline) to 80 percent by 2016.</p> <p>Milestone 8.1: Development of sustainable health financing strategy.</p>	<p>Outcome 8: Not achieved. Government expenditure on health as a share of total health expenditure increased to 97 percent in 2015. A Bank-supported public expenditure review noted rising public health expenditures and sustained pressure from an aging population, burden of non-communicable diseases, and high unit costs. Government's emphasis has been preparing a National Health Policy underpinned by a National Health Strategic Plan.</p> <p>Milestone 8.1. Partially Achieved Expenditure analysis conducted as part of the Bank-supported public expenditure review and policy note in 2014 showed high returns on healthcare investments and the potential for increased fiscal pressure from the sector in the coming years in part due to growing demand for expensive tertiary care from an aging population and compounded by high unit cost of service provision given low economies of scale. The analysis highlighted the need for: improving the efficiency of public health expenditures and managing the expected growth in health sector spending. Recommendations included prioritizing cost-effective services and strengthening of monitoring and projection systems to help manage the inevitable growth in public and private spending on health and reduce losses from inefficiencies, inadequate quality, and attrition in human resources in the health sector. The National Health Policy defines a clear package of health services and interventions to clarify entitlements and ensure provision of most effective services aligned with evolving burden of disease and new technologies. As result of reallocating resources to most effective interventions, spending on health prevention and promotion services increased from 6 percent of total budget in 2014 to 12.5 percent in 2016. A new costed, comprehensive health sector strategy will provide a framework to assess the costs of service provision in turn helping to enhance accountability, assess efficiency of resource use, and establish standards.</p>	<p>LEN:</p> <ul style="list-style-type: none"> Sustaining Reforms for Inclusive Growth DPL (P153269; 2016-\$5 m). <p>AAA:</p> <ul style="list-style-type: none"> Programmatic PER – Policy Notes on Health, Education and Public Investment Management (P132465) RAS for Social Sectors and SOEs
<p>Outcome 9: Increased transparency and strengthened regulation in the petroleum sector.</p>	<p>Outcome 9: Achieved. The legal and regulatory framework and fiscal regime of the Seychelles' petroleum sector were modernized in line with best international standards, resulting in renewed interest in petroleum exploration. Ministry of Finance, Trade and the Blue Economy oversees PetroSeychelles which is responsible for regulating the upstream petroleum sector and overseeing exploration activities. Based on preliminary exploration data, PetroSeychelles revised its model petroleum agreement. Oil and gas exploration licenses are awarded on the basis of competitive tender. The new petroleum fiscal regime ensures progressive taxation, and reduces project risk. As a result of modernization, contracts signed for over \$80 million in data acquisition and processing, six blocks under contract, and two blocks under negotiation. Training obligations under these contracts contributed to funding PetroSeychelles operating expenses allowing it to remain operational in face of Government budget cuts.</p>	<p>LEN: Sustainability and Competitiveness DPL Series</p> <p>AAA: Petroleum Sector TA (Extractive Industries TA Facility) (P132697)</p>

CPS Outcomes and Milestones	Status and Assessment Summary	CPS Instruments
<p>Milestone 9.1: Petroleum Regulatory Authority is established and petroleum legislation revised by 2014.</p> <p>Milestone 9.2: EITI report submitted to EITI Secretariat for evaluation by end 2015.</p>	<p>Milestone 9.1: Achieved. Petroleum Regulatory Authority was created in March 2012 with responsibility for regulating the upstream petroleum sector and overseeing exploration activities. Government enacted a new Model Petroleum Agreement in June 2013 and the Seychelles Petroleum Taxation Act in August 2013. New procedures for the award of petroleum exploration and production rights (August 2013) require an open and competitive process.</p> <p>Milestone 9.2: Mostly Achieved. Government has adopted the EITI principles to strengthen transparency in financial reporting in the petroleum sector. Seychelles applied for EITI membership in 2014/15 after complying with all required candidacy steps. The proposal of the EITI law is being reviewed by the Ministry of Home Affairs. After Cabinet approval, the report is expected to be submitted to the EITI secretariat.</p>	
<p>Outcome 10: Strengthened capacity of National Bureau of Statistics to provide economic and demographic data.</p> <p>Milestone 10.1: Quarterly National Accounts report is released to the public by 2014.</p> <p>Outcome 11: Adoption of a modern legislative framework for insolvency and alternative dispute resolution.</p>	<p>Outcome 10: Achieved As a result of World Bank collaboration with the NBS, the Bureau released estimates of poverty and inequality using the 2013 Household. Capacity at the NBS was strengthened, the HBS instrument was improved and included, for the first time, long term- demographic projections which have been critical for modeling the financial impacts of various social assistance initiatives.</p> <p>Milestone 10.1: Achieved. The Quarterly National Accounts report is available on the NBS website.</p> <p>Outcome 11: Achieved. Government adopted a new Insolvency Act in 2013 which established a modern framework to save viable businesses and enable non-viable enterprises to exit the market quickly. Additional reforms supported by the Bank included the establishment of a specialized commercial division and rules to accelerate the settling of commercial disputes, and a new mediation framework with new rules for mediation, a procedure for referral to third-party mediators, and a mediator code of conduct. Investors now have more flexible, effective tools for resolving commercial disputes, easing pressure on the courts. The number of commercial cases resolved at the commercial court within 12 months as the share of cases lodged increased rose to 65%, below the target of 85%. Together these reforms made resolving insolvency easier and thus improved the regulatory framework for business competitiveness in the Seychelles.</p>	<p>LEN: Sustainability and Competitiveness DPL Series</p> <p>AAA: Poverty Statistics and Inequality TA (PI56329)</p> <p>LEN: Sustainability and Competitiveness DPL Series</p> <p>AAA:</p> <ul style="list-style-type: none"> • Business Regulatory Reform TA • IFC Advisory Services

CPS Outcomes and Milestones	Status and Assessment Summary	CPS Instruments
<p>Milestone 11.1 Commercial Division at the Supreme court established and operational by 2013.</p> <p>Milestone 11.2 The backlog of commercial cases registered by December 2011 is processed by December 2016.</p>	<p>Milestone 11.1 Achieved. The Commercial Division was established and began hearing cases in April 2012. It is an important step in facilitating business rescue and bankruptcy.</p> <p>Milestone 11.2 Partially achieved Since the commercial list was first introduced, 188 commercial cases were filed between April 2012 and December 2015. As of end-2015, 97 cases had been completed and 91 cases were pending. This is significant progress given that previously no case had been solved in less than 12 months and in light of limited court resources.</p>	

Attachment 2: Seychelles IBRD CPS Financial Program (FY12-FY16)

Project ID	Project Name	Fiscal Year	Planned Amount (USD mil)	Actual Amount (USD mil)
P125202	First Sustainability and Competitiveness DPL	2013	7	7
P132425	Second Sustainability and Competitiveness DPL	2014	7	7
P146567	Third Sustainability and Competitiveness DPL	2015	7	7
P148861	Disaster Risk Management DPL (DDO)	2015	7	7
P146512	Accelerated Program for Economic Integration	2015	5	5
P153269	Sustaining Reforms for Inclusive Growth DPL	2015	5	5
TOTAL			38	38

Attachment 3: Seychelles CPS Non-Lending Services (FY12-FY16)

Project Name	Completion FY	Cost	Financing
Safety Net TA	2012	232	BB
The Economics of Piracy	2012	253	BB
Social Safety Nets/Social Protection TA	2013	118	BB
Utility Tariff Study	2013		RAS
Social Protection TA	2013	320	RAS
Sustainability and Competitiveness TA	2013	744	RAS
Flood Damage, Loss and Need Assessment	2014	73	GFDRR
Programmatic PER (Health, Education and Public Investment Mgmt)	2014	178	BB
Strengthening the Insurance Regulatory Framework	2014	100	FIRST
Seychelles Renewable Energy Grid Code and Feed-in Tariff	2014	250	SIDS-DOCK TF
Business Regulatory Reform	2014	190	BB
Secured Lending and Collateral Registry	2015	300	FIRST
Financial Sector Development Implementation Plan	2015	336	FIRST
Strengthening Government M&E Systems	2015	25	BB
Private Sector Development Reform TA	2015	75	BB
PFM TA	2015	200	RAS
Petroleum Sector TA	2015	580	EITAF TF
Housing Finance TA	2015	100	FIRST
South West Indian Ocean Risk Assessment & Financing Initiative	2015	1,300	GFDRR
Strengthening Disaster Risk Management	2015	222	GFDRR
PPP Regulatory Review TA	2015	110	PPIAF
Strengthening Governance of SOEs TA	2015	192	RAS
Pension, Disability & Safety Nets TA	2015	70	RAS
Improving Teacher Management	2016	100	RAS
Health Sector Strategic Framework TA	2015	150	RAS
Poverty Statistics and Inequality TA	2015	65	Bank Budget
Improving Electricity Planning	2016	117	BB/TF
Financial Sector Development	2016	537	RAS
PPBB and Performance Monitoring and Evaluation TA	2016	3,260	RAS

Annex 3. Summary of SCD Constraints and Priorities

Overall prioritization: Top 5, Additional Priority, or Likely Priority (needs more analysis)	Constraint (numbers are labels only, not a ranking)	Shared prosperity impact (numbers in parentheses indicate likely direct impact on other, numbered constraint)					Prioritization criteria			Evidence base	Attainability
		Growth impact	Inclusion impact	Sustainability impact	Complementarity across growth, inclusion, sustainability; links to other constraints)	Medium prosperity impact	High prosperity impact	Low prosperity impact			
TOP 5 PRIORITY	1. Shortfalls in the private sector enabling environment: aspects of opening & operating a business are difficult (e.g. in the vertically integrated tourism sector): limited state capacity to regulate, monitor and evaluate strategically where productive resources are allocated, and the historical dominance of SOEs, have reinforced the high concentration of resources.	High (6)	High (2)	High (4) (12)	Strong	Strong	Evidence of importance	Medium			
TOP 5 PRIORITY	2. Education and skills development: the system produces a large share of the youth lacking in necessary academic or vocational skills and there are insufficient opportunities for continuing education.	High (1)	High	High (4) (5)	Strong	Strong	Medium				
TOP 5 PRIORITY	3. Social assistance: focused on the elderly and not on the youth, and it is not tied systematically to accessing economic opportunities for those who could work, affecting the structure of incentives.	Low	High (2) (8)	High (4) (5)	Strong	Strong	High				
TOP 5 PRIORITY	4. Macroeconomic and fiscal policy stability: challenge to prioritize public expenditure within a consistent and sustainable macro framework, and avoid the buildup of fiscal pressures and risks, including from SOEs.	High (1)	Medium	High (5) (10) (12)	Strong	Strong	High				
TOP 5 PRIORITY	5. Public (government and SOE) spending efficiency: capacity to track and monitor the efficiency of government programs and sustain continuous improvements.	High (1) (7) (11)	Medium (2) (3) (9)	High	Strong	Strong	High				
ADDITIONAL PRIORITY	6. Credit: high cost and limited availability.	High (1)	High	Medium	Medium	Medium	Medium				
ADDITIONAL PRIORITY	7. Energy: high electricity prices, particularly for businesses.	High (1)	Low	High (4) (5)	Medium	Medium	Medium				
ADDITIONAL PRIORITY	8. Labor market functioning: job flexibility is limited and the structure of the labor market constrains opportunities.	High	High (2)	Medium	Medium	Strong	Medium				
ADDITIONAL PRIORITY	9. Health: rising non-communicable disease prevalence is weighing on life expectancy (especially for men); spending risks becoming unsustainable.	Low	High	High (4) (5)	Medium	Medium	High				
ADDITIONAL PRIORITY	10. Capacity to absorb environmental and global economic shocks: financial and technical capacity to manage global economic and environmental risks, and the growing impact of climate change.	High (1)	Medium	High (4)	Medium	Strong	Medium				
LIKELY PRIORITY	11. Transport and other input costs: high logistics, and domestic and international connectivity, costs, impede tapping international markets, while options to produce for the domestic market limited by small size.	High (1)	High (8)	Medium (4)	Medium	Weak	Low				
LIKELY PRIORITY	12. Governance: transparency and accountability of public action.	Medium (1)	High	High (5)	Medium	Weak	Medium				
LIKELY PRIORITY	13. Water & sanitation: seasonal water scarcity is intensifying and sanitation coverage is predominantly on-site.	Low	Low	High (4) (5)	Weak	Weak	Medium				

Key



Annex 4: Selected Indicators* of World Bank Portfolio Performance and Management

As of Date 05/04/2018

Indicator	FY15	FY16	FY17	FY18
Portfolio Assessment				
Number of Projects Under Implementation ^a	2.0	2.0	1.0	1.0
Average Implementation Period (years) ^b	0.8	1.2	2.8	3.5
Percent of Problem Projects by Number ^{a, c}	0.0	0.0	0.0	0.0
Percent of Problem Projects by Amount ^{a, c}	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Number ^{a, d}	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Amount ^{a, d}	0.0	0.0	0.0	0.0
Disbursement Ratio (%) ^e				
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				
Memorandum Item				
Proj Eval by OED by Number		5		3
Proj Eval by OED by Amt (US\$ millions)		28.2		19.0
% of OED Projects Rated U or HU by Number		20.0		0.0
% of OED Projects Rated U or HU by Amt		15.3		0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

**Annex 5: Operations Portfolio (IBRD/IDA and Grants)
As of 02/28/2018**

Closed Projects 8

IBRD/IDA*	
Total Disbursed (Active)	0.04
of which has been repaid(1)	0.00
Total Disbursed (Closed)	49.04
of which has been repaid	2.69
Total Disbursed (Active + Closed)	49.07
of which has been repaid	2.69
Total Undisbursed (Active)	11.31
Total Undisbursed (Closed)	
Total Undisbursed (Active + Closed)	11.31

Project ID	Project Name	Development Objectives	Supervision Rating	Fiscal Year	Original Amount in US\$ Millions			Disbursements^{a/}		
					IBRD	IDA	Grants			
P148861	SC-DPL with a Cat DDO	S	MS	2015	7.0	0.0	0.0	7.0	0.0	0.0
P155642	SWIOFish 3	S	S	2018	5.0	0.0	0.0	4.3	0.0	0.0
Overall Result					12.0	0.0	0.0	11.3	0.0	0.0

* Disbursement data is updated at the end of the first week of the month.
a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

