

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
DISASTER RISK MANAGEMENT DEVELOPMENT POLICY LOAN WITH A CATASTROPHE DEFERRED DRAWDOWN
OPTION

APPROVED ON SEPTEMBER 26, 2014

TO

REPUBLIC OF SEYCHELLES

URBAN, RESILIENCE AND LAND GLOBAL PRACTICE

AFRICA REGION

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ABBREVIATIONS AND ACRONYMS

BoP	Balance of Payment
Cat DDO	Catastrophe Deferred Drawdown Option
CMP	Coastal Management Plan
COVID 19	Coronavirus Disease 2019
DA	Districts Administrators
DDO-DPLs	Deferred Drawdown Option for Development Policy Loans
DPL	Development Policy Loan
DRM	Disaster Risk Management
DRR	Disaster Risk Reduction
EP&R	Emergency Preparedness and Response
GDP	Gross Domestic Product
GoS	Government of Seychelles
IBRD\World Bank	International Bank for Reconstruction and Development
IHR	International Health Regulations
IMF	International Monetary Fund
JEE	Joint External Evaluation
LGD	Local Government Department
MoFTI	Ministry of Finance, Trade, and Investment and Economic Planning
NEOC	National Emergency Operations Center
NIEMP	National Integrated Emergency Management Plan
PDO	Project Development Objective
SEYPEC	Seychelles Petroleum Company
TTX	Tabletop Exercise
WHO	World Health Organization



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BASIC DATA

Product Information

Project ID P148861	Financing Instrument Development Policy Loan
Regular Deferred Drawdown Option Yes	Catastrophe Deferred Drawdown Option Yes
Programmatic No	
Original EA Category Not Required (C)	Current EA Category Not Required (C)
Approval Date 26-Sep-2014	Current Closing Date 30-Sep-2020 Proposed New Closing Date 30-Sep-2023

Organizations

Borrower Republic of Seychelles	Responsible Agency Ministry of Finance, Trade, Investment and Economic Planning
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Processing

Form Type: DPL Restructuring Paper

Decision Authority RVP Decision

Project Development Objective (PDO)

Original PDO

To strengthen the Government of Seychelles’ Disaster Risk Management policy and reform agenda and enhance its capacity to efficiently respond to disasters.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Commitment Disbursed	Undisbursed
IBRD-8439-SC	26-Sep-2014	09-Oct-2014	31-Dec-2014	30-Sep-2020	\$7.00M	\$0.04M	\$6.97M

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. SUMMARY OF PROGRAM STATUS AND RATIONALE FOR PROPOSED CHANGES

1. This restructuring paper seeks approval for (i) the second renewal of the Loan agreement for another three-year period; and (ii) the revision of the drawdown trigger to include major health-related emergencies as a triggering condition of the Disaster Risk Management (DRM) Policy Loan with a Catastrophe Deferred Drawdown Option for the Republic of Seychelles (Seychelles Cat DDO). The change in the trigger is necessary to enable drawdowns based on the anticipated health emergency caused by the Coronavirus Disease 2019 (COVID-19) pandemic in the Republic of Seychelles. This restructuring requires Regional Vice President's (RVP) approval, as it is processed on exceptional basis for an already approved development policy loan (DPL) with a Cat DDO.

2. The Seychelles Cat DDO in the amount of US\$7 million equivalent was approved by the Board of Executive Directors of the World Bank Group in September 2014 and became effective on December 31, 2014. On July 28, 2017 a first three-year extension was processed to modify the closing date to September 30, 2020. If the proposed second renewal is approved, it would extend the closing date to September 30, 2023.

3. The World Bank received a request from the Borrower on March 16, 2020 for the closing date extension and modification of the trigger to include major health related events for the above referenced Cat DDO. The Borrower has met its contractual obligations, including the satisfactory implementation of a program of actions, objectives and policies designed to enhance its capacity to implement a DRM program (the Program). The Borrower has complied with the conditions of renewal laid out in paragraph 16 of BP 8.60, which requires that: (i) the Borrower's macroeconomic policies are adequate; and (ii) the Program continues to be implemented in a manner satisfactory to the World Bank.

Adequacy of Seychelles' Macroeconomic Policy Framework

4. **Seychelles has maintained a robust macroeconomic policy framework, demonstrated by solid growth over the past years.** Growth in 2019 was robust at an estimated 3.8 percent, continuing a high growth trend and recovery since the macro fiscal crisis in 2008/2009. The expanding tourism sector with continuously increasing arrivals has been the main source of economic growth. The sector now directly employs about 26 percent of the labor force and directly and indirectly accounts for more than 55 percent of gross domestic product (GDP), making the country highly vulnerable to the current COVID-19 pandemic and other disruptions to tourism. Other economic activity includes the fisheries sector, non-tradable services, and very limited agriculture and manufacturing geared mostly to the domestic market.

5. **A tight monetary policy has kept price levels stable, and the Balance of Payment (BoP) is strongly dependent on tourism earnings and investment.** While inflation has been low (2.0 percent period average in 2018), consumption is heavily dependent on imports. In recent years, financial inflows, including foreign investment in tourism, have been sufficient to finance large current account deficits, estimated at -18.6 percent of GDP in 2019. The current account deficit is driven by sizeable merchandise trade and income deficits that are only partially offset by large services trade surpluses. While making the country vulnerable to external shocks, the BoP has been largely stable over recent years. Reserves stood at 3.8 months of imports in January 2020.

6. **Since the macro-fiscal crisis in 2008/2009, prudent fiscal policies under International Monetary Fund (IMF) guidance have maintained fiscal surpluses and reduced public debt.** At 2.6 percent, the primary surplus in



2019 met the target under the non-disbursing three-year IMF Policy Coordination Instrument, reducing public debt to 56.4 percent of GDP at the end of 2019. Prior to the COVID-19 crisis, Seychelles was on track to meet its debt target of <50 percent of GDP in 2021 or 2022. The debt structure is favorable, with over half of the debt stock domestic and most remaining external debt at long and concessional terms.

7. **The macroeconomic outlook for 2020 was strong but will be overshadowed by very severe effects of the COVID-19 pandemic.** Prior to the COVID-19 pandemic, GDP was expected to grow 4 percent in 2020 and slow down slightly to 3.9 percent in 2021. Given its dependence on the tourism sector for both economic growth and the BoP, the effect of COVID-19 will lead to a strong reduction in economic growth in the near term and significant additional demand for external financing. Whilst a strong fiscal response is inevitable under the circumstances, Seychelles efforts over the last years have provided the Government with headroom for a fiscal response to the economic effects of COVID-19, and medium-term projections remain favorable once global tourism demand is restored.

Adequacy of Seychelles' Disaster Risk Management Program

8. **The Government's is maintaining a satisfactory DRM Program and is receiving World Bank support on key areas.** As part of the implementation the DPL with Cat DDO the World Bank is providing technical assistance across the two policy areas: (1) Strengthening the institutional/legal framework for DRM; and (2) Integrating risk information in development planning. The Government of Seychelles (GoS) has improved the implementation of its DRM Program and made progress towards achieving the PDO and results under both Policy Areas.

Policy Area 1: Strengthening the institutional/legal framework for disaster risk management

9. **The GoS has made significant advances through the development of the National Integrated Emergency Response Plan (NIEMP).** The NIEMP defines a general framework and protocols for Emergency Preparedness and Response (EP&R) to all types of emergencies including natural disasters and health related events. It establishes cross-sectoral coordination mechanisms and Functional Command systems, as well as the procedures related to the management of the National Emergency Operations Center (NEOC). As part of the process of formulating the NIEMP, Tabletop Exercises have been implemented, as well as drills, to train the different stakeholders and evaluate procedures.

10. **The national EP&R framework has been complemented with sectoral and district-level contingency planning.** Aligned with the NIEMP, the GoS updated and approved four additional sectoral plans (Food and Nutrition, Education, Health and Tourism), ensuring consistency around emergency support functions and functional levels of incident command. The Health Contingency Plan updated as part of this effort will be a basis for the country's response to the COVID-19 pandemic. Furthermore, the GoS worked with five prioritized Districts Administrators (DAs) and the Local Government Department (LGD) to update and finalize Districts plans which provide the overarching framework for emergency preparedness and response at the District level.

Policy Area 2: Integrating disaster risk reduction (DRR) into development planning and decision making

11. **Seychelles Coastal Management Plan 2019 – 2024 (CMP)** is the first Government-endorsed strategy and investment plan for coastal resilience in Seychelles. By building upon existing studies on climate risk and coastal



resilience and additional analyses, the CMP provides a comprehensive overview of coastal processes, risks and required implementation measures. The implementation investments across 18 priority areas with approximate costing. The investments include flood protection infrastructure, beach rehabilitation and coral reef restoration solutions. In addition, the plan contains national-level recommendations on policy development, spatial planning, capacity building and monitoring. The final CMP was endorsed by Cabinet on May 29, 2019.

12. **An Action Plan is being developed to implement the National Spatial Data Infrastructure and advances have been made in the collection and use of geospatial data.** The recommended actions in the Action Plan include measures to strengthen setting up of a high-level steering group, developing a spatial data policy, building human capacity, creating a simple citizen-focused web access to spatial data sharing policy. It also includes recommended priority projects that would support updating core spatial datasets using technology advances such as satellite imagery and support efforts to create a national address database. The GoS, through the Center for Geographical Information Systems at the Ministry of Habitat, Infrastructure and Land Transport and with support from the World Bank, has furthermore organized drone training to line ministries and conducted geospatial mapping exercises in high disaster risk areas on the three main islands.

Rationale for Restructuring

13. **COVID-19 is posing a significant challenge for Seychelles' public health system, with wide-ranging social and economic implications.** As of March 21, 2020, the outbreak has resulted in seven confirmed cases, and zero COVID-19 related fatalities. Given Seychelles strong dependence on international tourism, the global pandemic is expected to have a significant impact on the economy. The GoS has announced drastic containment measures and economic interventions aimed at curbing the spread of the virus and softening the effects on the real economy. Measures include the guarantee of salaries of all employees in the private sector for April, May and June, 2020; an increase in the budgetary allocation for the Agency of Social Protection and the Unemployment Relief Scheme; a postponing of all tax payments due in March to September 2020; and reduced loan repayments. The pandemic is also likely to have negative impacts on food and nutrition security, particularly since Seychelles has a large dependency on external food imports. The GoS has identified 14 plots of land that will be made available to the Farmers' Association for further production and interest rates for investment loans in agriculture and fisheries are reduced to 1 percent. The crisis will adversely affect the fiscal deficit and in turn central government debt and government gross financing needs as tax revenues and customs duties decline, and as the authorities ramp up spending on economic stimulus, healthcare and social safety nets.

14. **COVID-19 poses particular challenges in the confined small-island state of Seychelles due to its lack of predictable, uniquely identifiable symptoms and its rapid spread.** The characteristics of COVID-19 pose unparalleled challenges with respect to detection and containment, particularly given that the actual prevalence of COVID-19 infection remains unknown. Over the coming months, the COVID-19 outbreak has the potential for greater loss of life and increased economic losses worldwide. In this context, the GoS has requested support from the World Bank to deal with this crisis. The Ministry of Finance, Trade, Investment and Economic Planning (MoFTI) sent a letter to the World Bank on March 16, 2020, requesting to amend the drawdown trigger of the Cat DDO due to their concerns about the potential direct and indirect economic impact that may be caused in the short to medium term by the global COVID-19 pandemic. The amendments will allow the country to disburse funds from this contingent credit line to address the national emergency caused by health-related emergencies.



Government Systems for Managing Health-related Hazards

15. **Since the outbreak of COVID-19, the GoS has taken significant steps to contain the outbreak within the country.** The Cabinet approved an extended COVID-19 Action Plan on March 12, 2020 which will be periodically updated. As of March 19, 2020, Seychelles is no longer accepting any international travelers who have been in Europe in the last 14 days and any Seychellois returning from Europe are placed in a 14-days quarantine. All public schools on the main islands have been closed for at least 14 days. The Seychelles National Public Health Authority is receiving support from the World Health Organization (WHO) and sends out public information and guidance on a daily basis through television, radio and social media channels.

16. **In the case of health-related emergencies, Seychelles follows the protocols of the WHO.** The GoS has worked with the WHO on a Joint External Evaluation (JEE) of International Health Regulations (IHR) Core Capacities before the COVID-19 pandemic¹. The Evaluation concluded that Seychelles has particularly strong political commitment to detect, assess, notify and respond to major public health events, and demonstrates best practice in a number of preventive areas. However, the JEE also highlighted that Seychelles small, geographically restricted population is highly vulnerable to outbreaks and that strengthening the capacity for frequent and deep testing is needed. The assessment also highlights that there is a need to recruit and train additional staff across various health areas and that appropriate isolation facilities need to be established. The first isolation facilities in existing public-school buildings have been established in Seychelles in response to COVID-19 but dedicated facilities are yet to be constructed at this stage.

II. DESCRIPTION OF PROPOSED CHANGES

17. Two proposed amendments would be made to the Loan Agreement in line with the Borrower's request, namely (i) the revision of the drawdown trigger to include major health-related emergencies as a triggering condition; and (ii) the second renewal of the Cat DDO for another three-year period from September 30, 2020 to September 30, 2023.

18. The original drawdown trigger limits the use of funds to the declaration of a state of emergency under the Constitution of 1993. According to Seychelles legislation, a state of emergency can be invoked in the event of an eminent natural or man-made disaster. The drawdown trigger is specifically limited to declaration of a state of emergency resulting from a natural disaster.

19. To broaden the definition of the declaration of an emergency, the proposed revised drawdown trigger will allow drawdown based on (a) the declaration of a state of emergency due to a natural disaster as established by the Constitution of 1993; or (b) the declaration of a public health emergency by the Public Health Commissioner under Section 25(5) of the 2005 Public Health Act. The Public Health Act was published as Supplement to the Official Gazette on October 19, 2015 and is publicly available on the website of the Department of Health.

¹ WHO, 2018. Seychelles Joint External Evaluation (JEE) of IHR Core Capacities, Mission Report.



20. The amended drawdown trigger set out in the proposed amendment letter would allow the GoS to request the trigger of the Cat DDO upon Effectiveness of the restructuring and upon the declaration of the public health emergency, in line with the 2005 Public Health Act, due to the COVID-19 pandemic.

21. The second proposed change under this restructuring would renew the Loan for another period of three-years as per the request of the GoS. The DPL with CAT DDO can be renewed up to four times, each for a period of three years. The Loan was approved by the Board of Executive Directors of the World Bank Group on September 26, 2014 and signed on October 9, 2014. The original closing date for this operation was September 30, 2017. One renewal was approved in 2017 to extend the closing date to September 30, 2020. This second renewal would extend the closing date to September 30, 2023.

22. The financing amount of the Loan will remain unchanged under the proposed restructuring. The World Bank will discuss with the Government the adequacy of the financing limit under current circumstances and seek a supplement if warranted and requested by the Borrower.