



The World Bank

SEYCHELLES THIRD FISCAL SUSTAINABILITY AND CLIMATE RESILIENCE DEVELOPMENT POLICY FINANCING
(P178210)

Program Information Document (PID)

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BASIC INFORMATION

A. Basic Project Data

Country Seychelles	Project ID P178210	Project Name SEYCHELLES THIRD FISCAL SUSTAINABILITY AND CLIMATE RESILIENCE DEVELOPMENT POLICY FINANCING (P178210)	Parent Project ID (if any) P178209
Region EASTERN AND SOUTHERN AFRICA	Estimated Board Date Dec 07, 2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) The Republic of Seychelles	Implementing Agency MINISTRY OF FINANCE, NATIONAL PLANNING, AND TRADE		

Proposed Development Objective(s)

The Program Development Objectives are to support the government's effort to: (i) strengthen medium-term fiscal sustainability; (ii) build resilience and (iii) strengthening policies for inclusive and sustainable growth

Financing (in US\$, Millions)

SUMMARY

Total Financing	25.00
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DETAILS

Total World Bank Group Financing	25.00
World Bank Lending	25.00

Decision

The review did authorize the preparation to continue

**B. Introduction and Context****Country Context**

Seychelles' economy has continued to recover on the back of a rebound in tourism and prudent fiscal management. Seychelles' early and widespread vaccination campaign allowed a resurgence of tourism starting in March 2021, even as the world was hit by successive coronavirus variants. Tourist arrivals fueled a faster-than-expected economic rebound, with growth at 5.4 percent in 2021 and 9 percent in 2022. The tourism recovery and inflows of foreign exchange contributed to strengthening Seychelles' currency, offsetting imported food and fuel inflation, to keep the average annual inflation contained at 2.6 percent in 2022. Government rollback of COVID measures, including a reduced wage bill and scaled-back social programs led to lower than projected spending which helped to further keep inflation contained. A robust economic recovery has been accompanied by a strong labor market. Employment overall increased by 8.4 percent (year-on-year) between Q4-2021 and Q4-2022, with a 19.1 percent increase in tourism-related industries. Consequently, the poverty rate declined from 6.8 percent in 2021 to 6.2 percent in 2022.

Seychelles used financing from multilateral partners to invest and address the fallout from the pandemic and fill the financing gap. Widespread vaccination campaigns contributed to the economic rebound in 2021, as the number of COVID-19 cases dropped to single digits. By 2022, the number of COVID-19 cases had dropped to single digits. With the successful vaccination campaign, tourism grew by 59.2 percent in 2021 and 81.6 percent in 2022. In addition, the telecommunications sector grew by around 30 percent over 2021 as the use of digital platforms increased across various entities, such as schools, workplaces, and retailers. Economic growth was also buoyed by strong performance in the agriculture and fisheries sectors.

This is the last in a series of three operations that supports reforms to achieve fiscal sustainability and lay the foundation for resilient and inclusive growth. This operation supports reforms in three main areas of Seychelles' National Development Strategy (NDS) 2019-23: (i) Productivity from efficient use of resources; (ii) Participation by equipping graduates to take full advantage of increasing opportunities in the economy, with improved targeting of social spending to the most vulnerable; and (iii) Performance through a public service focused on efficiency and quality in service delivery. The proposed operation, in the amount of US\$25 million, is consistent with the World Bank Group's Country Partnership Framework covering FY2018 – FY2023 (Report No. 122493-SC).

The macroeconomic framework is deemed adequate despite risks to the outlook. Risks to the medium-term growth outlook include a possible resurgence of COVID-19, should new variants of the virus materialize, or global developments that could lead to both lower arrivals and reduced spending by tourists as well as climate change. A slowdown of foreign direct investments in large hotels coupled with a large drop in tourists from Europe would significantly slowdown the economic recovery. In turn, the overall fiscal balance could increase by as much as 2 percent, over the next two years. Rising global interest rates would add to the cost of debt, and appreciation of the US dollar could lead to double digit inflation, undermining Seychelles' competitiveness. Poverty rates could revert back to between 7 and 8 percent (similar to 2020 levels). This would compromise government's ability to implement permanent fiscal saving measures. Risks to the macroeconomic framework are mitigated by the government's strong commitment to fiscal consolidation and debt sustainability which is being supported by this DPL series as well as the IMF EFF program. The government is targeting spending in social protection through the PforR for Social Protection and a selected freeze on public sector recruitment. The GOS is also adopting measures to diversify the economy and facilitate a recovery in economic growth. But, materialization of extreme shocks (due largely to a re-emergence of the pandemic) would require more concessional financing from international financial institutions and development partners. Raising reserves through increasing special



drawing rights (SDR) allocation may provide a buffer against financing risks.

Relationship to CPF

The government's medium-term economic program is defined in the National Development Strategy 2019-2023, under the theme 'Towards a sustainable and inclusive future'. This NDS is the first in a series of three five-year plans, comprising six pillars: i) good governance; (ii) people at the center of development; (iii) social cohesion; (iv) having an innovative economy, underpinned by advances in science, technology and innovation for development; (v) economic transformation; and (vi) environmental sustainability and resilience. The NDS 2019-2023 identifies Seychelles' most critical development priorities, "the 3 Ps": Productivity focuses on how Seychelles could benefit from placing more emphasis on boosting the efficiency with which it uses its existing resources. Participation refers to how the Seychelles' education system needs to equip graduates with tools they need to reap the benefits of the growing opportunities offered by the country's increasingly sophisticated economy. It also addresses the fact that social spending needs to be better targeted to shore up its sustainability, boost protection for the vulnerable, and empower Seychellois to get high quality jobs. Performance requires a public sector that delivers high quality public services with efficiency, is agile to anticipate emerging priorities, and small enough not to divert scarce financial and human resources away from the private sector, which generates the bulk of employment and income.

C. Proposed Development Objective(s)

The Program Development Objectives of this programmatic series are to (i) strengthen medium-term fiscal sustainability; (ii) build resilience ; and (iii) strengthen policies for inclusive and sustainable growth. The financing of US\$25 million provided by this proposed operation will address Seychelles' immediate funding needs. Results indicators under this proposed operaiton builds on reforms initiated under the first and second operations.

Key Results

The key result for this operation is achieving fiscal sustainability and supporting critical structural reforms that will lay the foundation for resilient economic growth. Prior actions under Pillar 1 are expected to have an important impact on business tax revenue collected by the Seychelles Revenue Commission through (i) prevention of the erosion of the corporate tax base through reforms of international profit shifting and the broadening of the tax base as well as (ii) the strengthening of the operations of the tax commission. Prior Actions under Pillar 2 are expected to improve physical resilience concerning hazard and climate risk by addressing land use and zoning decisions as well as development permits. Reforms will support reforms to protect consumer credit information and the national payment system. Government is also taking steps to strengthen the framework for AML/CFT and increase confidence in the financial sector. Pillar 3 supports policy reform that is expected to expand financial inclusion and boost the uptake of digital financial services by enabling the expansion of the financial sector. Also, reforms to improve fish catch management, to bring about greater additions to the supply volume; and facilitate transition to sustainable energy sources to reduce energy costs will support increased economic diversification and inclusive growth.

D. Concept Description

The proposed programmatic DPL series supports the government to advance implementation of its National Development Strategy along three core pillars: DPL Pillar 1 is aligned with the NDS key pillar on good governance, particularly the goal linked to a performance-based, accountable and transparent public sector with attention to quality



service delivery. DPL Pillars 2 and 3 are closely aligned to the NDS pillars on economic transformation and environmental sustainability. These reforms will help Seychelles build back better, especially in the tourism, digital, energy transition, and blue economies that are central to inclusive growth in Seychelles:

Pillar 1 aims to strengthen medium-term fiscal sustainability by reducing fiscal risks and expanding the tax base, including measures to reduce erosion of the tax base, to restore public debt on a downward trajectory. The effect of COVID-19 on the economy and the resulting increase in borrowing has raised the urgency of measures to reduce fiscal risks and strengthen fiscal management. Consequently, enhancing revenue performance, and reducing fiscal risks are a priority for maintaining medium-term fiscal and debt sustainability, while cementing the public debt ratio on a declining path. Actions under Pillar 1 supports fiscal measures to broaden the tax base and improve waste management.

Pillar 2 aims to strengthen physical and financial resilience by making spatial development and building plans more resilient to natural hazards, while reinforcing adaptation to impacts from climate change. Seychelles remains vulnerable to the adverse effects of natural hazards and climate change. In addition, the impact of the pandemic on the economy (growth and employment) poses significant risks to the financial sector. The GoS has shown strong leadership to better understand the sources of vulnerabilities and to build greater resilience against natural hazards, climate change impacts and financial sector risk. This pillar also supports completion of a national risk assessment that identifies actions for addressing AML/CFT.

Pillar 3 aims to strengthen policies to promote an enabling environment for inclusive and sustainable growth through strengthening the legal and regulatory framework for the digital and blue economies for improved productivity, while proactively preserving Seychelles' natural endowments. The digital economy offers a unique opportunity for Seychelles to accelerate economic growth, promote competition and enhance public service delivery. To realize the potential for transformative economic growth, there is a need to strategically and proactively invest in the elements of the digital economy to ensure that businesses and people can keep pace and thrive in an increasingly digital world. With the outbreak of COVID-19, there is an added urgency to transition to digital financial services and benefit from its gains in efficiency, tailored products, and new services. Similarly, reforms to the blue economy seeks to advance productivity and growth using Seychelles' natural endowments while proactively preserving them. Legislative reforms in the energy sector aim to support the energy transition and reduce costs.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

Overall, the proposed measures in the DPL are expected to have a beneficial impact on the poor, particularly in the medium-term. The impacts on poverty reduction will likely be indirect as the prior actions are aimed at adoption of laws and regulations to promote better fiscal management, risk-sensitive land use planning and strengthening policies to create an enabling environment for inclusive and sustainable growth. Once these regulations come into force and are implemented, however, the effects on the poor are expected to be positive. First, improved fiscal space and a stable macroeconomic framework that crowds in private investment should help incentivize economic recovery. In addition, given the fundamental importance of the environment in the development of Seychelles, addressing constraints to the sustainability of these natural resources is expected to contribute to poverty reduction by improving future growth prospects. Similarly, creating the enabling environment for digital development including digital payment systems will lead to more inclusive economic growth and reduced poverty in the medium-term.

**Environmental, Forests, and Other Natural Resource Aspects**

The policies supported by this DPL3 are not expected to have negative effects on Seychelles' environment, forests, water resources, habitats, or other natural resources. Some of the reforms and policy actions supported by the proposed operation will have positive impacts on the country's environment, forests, and other natural resources in the medium-term. All the actions supported by the operation are policy-oriented and do not directly finance environmentally impactful investments. Prior actions designed to strengthen fiscal management and to develop digital economy are environmentally neutral. Any eventual adverse environmental and social impacts associated with activities supported by the current DPL3 will rely on the existing national legal and regulatory framework. It will subsequently be monitored and addressed through the national procedures in place in Seychelles.

The GoS environmental laws, regulations and policies are in place and generally acceptable. Biodiversity conservation and ecosystem protection are regulated under different legislation, notably the National Parks and Nature Conservancy Act (1969, as amended), the Fisheries Act (1987), the Wild Animals and Birds Protection Act (1961). To mitigate the identified weaknesses, this DPL series has recommended a participatory policymaking process, and that the subsequent actions from the DPL do not lead to any weakening or disregard of the environmental and social due diligence process. As per Operational Policy 8.60, the World Bank has assessed whether the country policies supported by this DPL series are likely to have an impact on the environment, forests, and natural resources. This assessment shows that the prior actions supported under this operation are likely to have a positive impact on the country's environment, forests, and natural resources. For this DPL3 operation, prior action 1 (environment levy to address waste management) will have a positive impact on the country's natural and human environment. Prior action 2 (adoption of Land Regulations and Subdivision of Parcels Regulations), to facilitate implementation of the Physical Land Act which puts in place measures to adapt, build resilience and minimize vulnerability to the impacts of climate change. Prior action 5 (adoption of the Mahe Fisheries regulations) addresses the challenge of resource utilization and supports policies that address pressures exerted by the fisheries sectors on the coastal and marine natural resources to ensure their long-term sustainability. Finally, prior action 6 (Energy Bill and Utility Regulatory Commission Bill) put in place the legislative and regulatory framework to support the energy transition and reduce costs.

CONTACT POINT**World Bank**

Kenechukwu Maria Ezemenari
Senior Economist

Borrower/Client/Recipient

The Republic of Seychelles



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Implementing Agencies

MINISTRY OF FINANCE, NATIONAL PLANNING, AND TRADE

Elizabeth Agathine

Principal Secretary

elizabeth@finance.gov.sc

FOR MORE INFORMATION CONTACT

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 473-1000

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

APPROVAL

Task Team Leader(s):	Kenechukwu Maria Ezemenari
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Approved By

Country Director:	Zviripayi Idah Pswarayi Riddihough	21-Oct-2023
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