



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 04-Jun-2020 | Report No: PIDA29577



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Seychelles	P174198	COVID-19 Crisis Response Emergency Development Policy Financing (P174198)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA	25-Jun-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Seychelles	Ministry of Finance, Trade, Investment and Economic Planning, Ministry of Environment, Energy and Climate Change, Ministry of Health		

Proposed Development Objective(s)

To support the Republic of Seychelles in its response and recovery from COVID-19 crisis by (1) enhancing response mechanisms in health, social protection and private sector; and (2) supporting sustainable post-crisis recovery through strengthened financial systems and climate resilience.

Financing (in US\$, Millions)

SUMMARY

Total Financing	15.00
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DETAILS

Total World Bank Group Financing	15.00
World Bank Lending	15.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

- 1. Following the economic crisis and resulting sovereign debt default in 2008, the Republic of Seychelles through a prudent reform program made significant progress in achieving economic stability and fiscal sustainability.** As a result, the economy grew by an average rate of 4.2 percent per annum between 2009 and 2019. In addition, after years of an IMF program the government had maintained its target of 2.5 percent primary balance and was on target to reduce the debt to GDP ratio to 50 percent by 2021. Prudent monetary policy, and significant Fund financial assistance also led to a build-up of the gross international reserves (GIR) to 3.5 months of import coverage by 2019 from less than 1 month at end-2008.
- 2. The COVID-19 pandemic is expected to have a significant impact on the economy given Seychelles strong dependence on international tourism.** Since the declaration of COVID-19 as a global pandemic by the World Health Organization in March 2020, many countries have closed their borders to contain the spread of the virus. Similarly, the Public Health Commission of Seychelles has imposed a ban on visitor arrivals. The lockdown is expected to cause a significant decline in the tourist sector, which is the corner stone of the domestic economy, with significant risk of the most vulnerable households falling into poverty. Also, falling revenues are worsening the fiscal position, and falling capital inflows are putting additional pressure on scarce foreign exchange reserves. Inflation is expected to increase only moderately as lower oil prices are expected to offset the impact of a depreciating rupee and supply side disruptions.
- 3. The proposed operation of US\$ 15 million provides financing to the Government of the Republic of Seychelles to cover an unanticipated financing gap that has arisen due to the impact of the COVID-19 pandemic.** Estimates from the government's recently approved supplemental budget, indicate that the total value of required public financing for COVID-19 related needs is US\$126 million (or 10 percent of GDP) in 2020. The proposed financing supports the Government's efforts to mitigate the immediate fallout of the economic crisis triggered by the COVID-19 pandemic and to put in place measures to facilitate a recovery and build resilience to future shocks. These measures primarily include increase allocation tot health and social protection and salary guarantee to businesses in the private sector.

Relationship to CPF

- 4. The proposed operation is aligned with the WBG twin goals, the Africa strategy and corporate priorities in Seychelles as per the Country Partnership Framework.** It contributes to the implementation of the WBG Africa strategy by promoting reforms that reduce the social and economic impact of shocks in the most vulnerable population from the disruption created by Covid-19 and maintain the viability of the productive and financial sectors. The proposed DPF also supports the Government in achieving its social and economic vision of a sustainable and inclusive future as outlined in its National Development Strategy 2019-2023. The support provided in this emergency operation is informed by the government's reform package to tamper the economic impact of COVID-19. The program is also informed by the constraints identified in the Systematic Country Diagnostic (June 2017) and directly relates to the Country Partnership Framework (CPF) for FY18-FY23, which acknowledged that Seychelles' isolation increases costs and limits opportunities, thus weakening the capacity to absorb shocks. Specifically, policy measures included in Prior Actions 2, 3, 4 and 6 in this operation contribute to the CPF focus area 1 (Growth for Shared Prosperity) while Prior Action 5 contributes to focus area 2 (Fostering Inclusion and Public Sector Performance).



C. Proposed Development Objective(s)

5. The overall program development objective is to support the Republic of Seychelles in its response and recovery from COVID-19 crisis by (1) enhancing response mechanisms in health, social protection and private sector; and (2) supporting sustainable post-crisis recovery through strengthened financial systems and climate resilience.

Key Results

Indicator Name	Baseline	Target
<i>Pillar A--- Protecting Lives and Livelihood</i>		
Daily COVID-19 testing capacity, equal to twice the number of estimated daily tourist arrivals	0 (December 2019)	700 (December 2020)
Percentage increase in households receiving social protection or social welfare support to alleviate COVID-19 impacts	0 (December 2019)	20 (June 2020)
Number of workers in the private sector having benefited from salary guarantee with the objective to reduce job and income losses	0 (December 2019)	25,000 (December 2020)
Percentage uptake of the credit line facility under the Private Sector Relief Scheme to help micro, small and medium enterprises (MSMEs) impacted by COVID-19	0 (December 2019)	80 (June 2021)
<i>Pillar B--- Protecting the Future</i>		
Percentage of legal entities that have submitted verifiable ownership information on the database held by FIU	0 (December 2019)	80 (June 2021)
Number of government sectors guided on the mainstreaming of climate change in sectoral policies through the new National Climate Change Council chaired by the Vice President.	0 (December 2019)	10 (June 2021)

D. Project Description

6. The operation’s first pillar (Protecting Lives and Livelihoods) support the adoption of the government’s Response Plan to COVID-19; the reinforcement of social assistance programs to aid vulnerable households; and the deployment of financial mechanisms to manage the adverse economic impact of COVID-19 in the private and financial sector. Through PA 1, the Government approved the Seychelles Response Plan for Covid-19, which defines the strategy for the immediate response to the first wave of COVID-19 and lays the foundation for subsequent reopening and testing strategies. PA 2 includes the increase in the allocation to Social Welfare Assistance and the Unemployment Relief Scheme, which has allowed the GoS to provide coverage to informal workers or others who were facing hardships. Through PA 3, the government aims to guarantee the salaries of employees in the formal private sector and temporarily lessening the tax burden for businesses, enhancing liquidity and maintaining their viability during the pandemic. Finally, PA 4 includes the approval of the Central Bank Act, 2020 (Amendment) and the Financial Institutions Act, 2020 (Amendment) to allow the Central Bank to maintain a healthy financial sector for a rapid and balanced economic recovery.

7. The second pillar (Protecting the Future) comprises prior actions to promote transparency in the domestic financial sector; and to tackle the challenges posed by climate change. Specifically, PA 5 includes the approval of the new anti-money laundering and combating the financing of terrorism (AML/CFT) Act 2020 and Beneficial Ownership (BO) Act 2020. The implementation of the AML/CFT and BO laws will assist to promote transparency and better align the country’s



legal framework with international standards by introducing new measures to combat money laundering and terrorist financing. PA 6 supports the Cabinet of Ministers approval of the first national Climate Change Policy and, through it, the establishment of the National Climate Change Council. This will facilitate a coordinated, coherent, proactive and effective response to the local, regional and global challenges and opportunities presented by Climate Change.

E. Implementation

Institutional and Implementation Arrangements

8. **Implementation of this operation is being coordinated by the Ministry of Finance, Trade Investment and Economic Planning as part of existing mechanisms for development coordination in the Republic of Seychelles.** While the MoFTIEP has overall responsibility, a number of other agencies are also closely involved in the reform program, including the Ministry of Health, the Ministry of Social Affairs, Community Development and Sports and the Social Protection Agency and the Central Bank of Seychelles.

9. **Monitoring and evaluation of the reform program will be undertaken jointly by the Government and WBG teams.** These two teams will engage regularly to monitor progress in implementing the agreed policy and institutional reforms supported by the operation, and to assess progress made towards achieving the expected results. Result indicators have been specifically selected to reflect available data sources in the country.

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

Poverty and Social Impacts

10. **The policy actions supported under the proposed DPF are expected to mitigate the negative economic and social impact of COVID-19 on the most vulnerable households.** Estimates based on the 2013 household survey indicate that poverty will rise to between 43.2 and 46.1 percent in 2020 without a response of the Government to the crisis brought about by the COVID-19 pandemic (national poverty line). Against this background, PA 1, 2 and 3 under the Pillar 1, which focus on strengthening the health response and protecting the most vulnerable through the strengthening of social protection schemes and the support to the private sector are expected to improve distributional outcomes and have a significant direct positive effect on the wellbeing of the poor. Additionally, measures under Pillar 2 aimed at building buffers against future shocks would indirectly affect poverty by improving the regulatory environment that will improve growth prospects. This is the case of PA 6, which indirectly supports poverty reduction in the medium-term by strengthening Seychelles' Climate Change Policy which will help to protect the fishing industry which accounts for approximately 0.7 percent of GDP.

Environmental, Forests, and Other Natural Resource Aspects

11. **The policy and institutional actions supported under this operation are not expected to have a significant impact on the environment.** On the contrary, policy actions to mitigate the impact of the COVID-19 through relief measures in support of vulnerable households, as well as structural reforms to support a more robust recovery and build future resilience to shocks, are all expected to demonstrate positive indirect effects on the environment by establishing a sounder basis for economic growth beyond the crisis.

G. Risks and Mitigation

12. **The overall risk rating for the project is Moderate.** This reflects a high level of macroeconomic risk due to



economic impact of COVID-19 which is tempered by moderate set of programs, institutional and stakeholder risks reflecting the strong consensus around the government’s response to the COVID-19 crisis.

13. **Macroeconomic (High).** Seychelles macroeconomic performance in 2020 will be severely affected by the COVID-19 pandemic due to the dependence of the country on tourism. Tourism is essential both for economic growth and the external sector and as such make the country extremely vulnerable to external shocks. While Seychelles prudent policies over the last few years have seen them achieve fiscal surplus, the magnitude of the effect of COVID-19 has reverse the gains made. In addition, uncertainty remains around the magnitude of the macroeconomic effect of COVID-19 on Seychelles as the crisis continues. The Macroeconomic risk rating is therefore ‘High’.

14. **Institutional capacity (Substantial).** The World Bank has been actively engaged in Seychelles and the measures adopted with the support of the DPF are expected to play a key role in providing relief to the population, as well as reforms that will help lay the foundations for a rapid recovery. The World Bank will continue to extend support to strengthen fiduciary capacity, including in procurement and internal audit.

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APPROVAL

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Approved By

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