



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 06-Apr-2019 | Report No: PIDC171774



BASIC INFORMATION

A. Basic Program Data

Country Seychelles	Project ID P168993	Parent Project ID (if any)	Program Name Strengthening Quality of the Social Protection System
Region AFRICA	Estimated Appraisal Date 20-Jun-2019	Estimated Board Date 16-Oct-2019	Does this operation have an IPF component? No
Financing Instrument Program-for-Results Financing	Borrower(s) Ministry of Finance, Trade Investment and Economic Planning	Implementing Agency Ministry of Family Affairs	Practice Area (Lead) Social Protection & Labor

Proposed Program Development Objective(s)

The development objective is to strengthen the efficiency of social protection services.

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	180.00
Total Operation Cost	80.00
Total Program Cost	80.00
Total Financing	80.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	10.00
World Bank Lending	10.00
Total Government Contribution	70.00



B. Introduction and Context

Country Context

1. Seychelles is one of the smallest countries in the world in terms of both its population and its land surface area with growth based on factor accumulation. The country comprises a total of 115 islands, but almost all the population lives on the islands of Mahé (86 percent), and Praslin and La Digue (11 percent combined). Despite the challenges associated with being a small, relatively isolated island nation, Seychelles is the only High-Income Country (HIC) in Sub-Saharan Africa (SSA), with a gross national income per capita equal to US\$14,760 (2015, Atlas method). Services activity, led by tourism, accounts for about three-quarters of GDP. Industry contributes almost all the rest of output, mainly fish processing. Primary sector activities account for only about 3 percent of output. Real GDP growth is above 4 percent but is expected to moderate to 3.5 percent in coming years. However, the growth pattern of Seychelles has been accompanied by limited structural change and mostly driven by factor accumulation. This underscores the need to have a productivity-based strategy through, among other means, a higher participation of the population in emerging economic opportunities (World Bank, 2017).

2. While extreme poverty is very small, Seychelles faces social inclusion challenges expressed in inequality and other social indicators, despite already generous social spending. Poverty in Seychelles, as defined for international comparison purposes, is very low: 2.5 percent at the US\$3.10 per day (2011 Purchasing Power Parity, PPP) line.¹ Income inequality is significant, however, as measured by an income Gini coefficient of 0.47 (2012) (Figure 1). The top 10 percent of the population earns 2.5 times the share of total income than what was earned by the bottom 40 percent. Lack of opportunities are also observed in some human capital indicators. Seychelles scores well in the World Bank’s Human Capital Index, scoring 68%, the highest in Africa and 43rd of 157 countries worldwide, indicating that each child born has a 68% chance of reaching their full potential as an adult. While children generally complete 13.7 years of schooling on average by age 18, when adjusted for quality of learning, the years of schooling drop to 10.1. Furthermore, while overall coverage of education is very high, almost 15 percent of the students in first grade of secondary school (S1) in 2013 were not found in the last grade in secondary (S5) in 2017, mainly driven by a higher dropout rate among males (23.5 percent). Further, learning outcomes among those finishing secondary school is also concerning: about 60 percent of S5 students obtained a D or lower graduation score (National Bureau of Statistics, 2018). Seychelles has a high rate of teen pregnancy among high income countries that has even increased between 2000 and 2017 (Ministry of Health, 2012, 2017). Labor market behavior is consistent with increasing

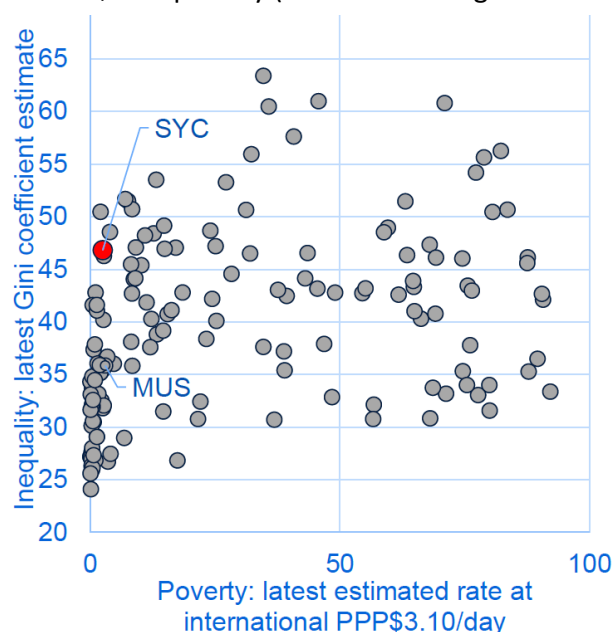


Figure 1. Poverty and inequality for select countries
Source: World Bank, 2017

¹ A national poverty rate measured using a higher poverty line (US\$13 per person per day in 2011 PPP dollars), is 39.3 percent (as of 2013). See National Bureau of Statistics Seychelles and The World Bank (2016).



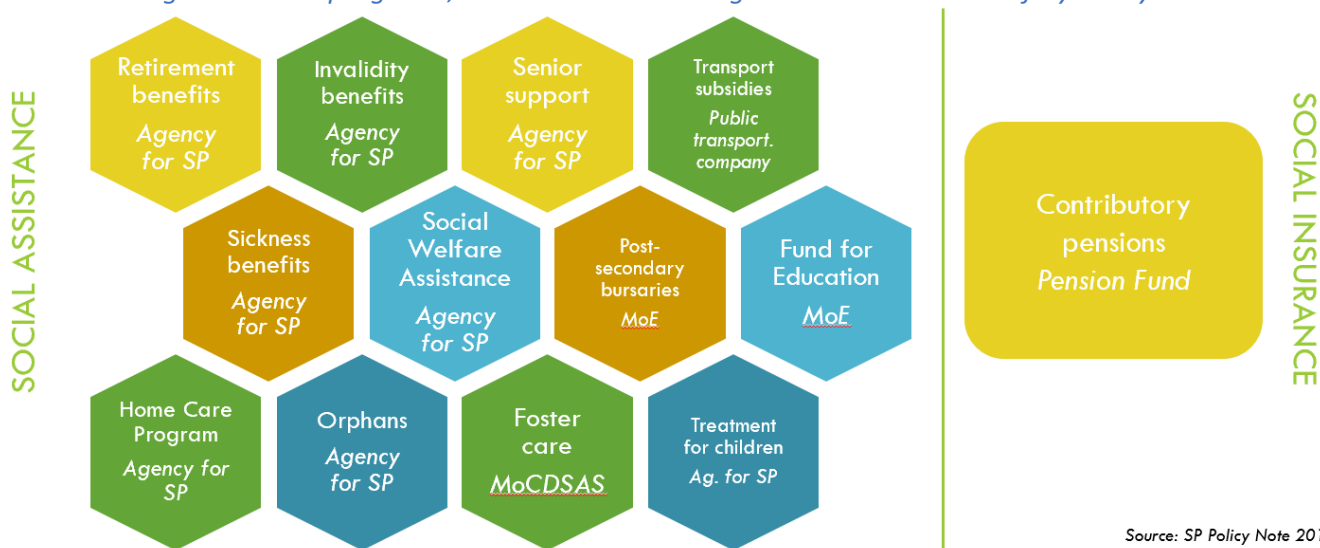
inequality as there is an increased share of employment of managers, technicians and skilled agricultural workers compared to low skilled occupations that experienced a contraction (Bhorat et al, 2017).

3. **The Seychellois population is aging rapidly, threatening both a surge in pensions spending, and a drop in the country’s productivity.** Seychelles has already missed its window of demographic opportunity and the country is categorized as a late-dividend country (Global Monitoring Report, 2015). The fraction of elderly is predicted to double in just 13 years from 9.2 percent in 2017 to 18 percent, while the share of working age population will decrease rapidly. In absence of reforms to the pension system, expenditure on universal pensions in 2030 is projected to be slightly less than double as a percentage of GDP from that observed in 2016 due to an already legislated rise in the eligibility age. Additionally, demographic dynamics have already been having a negative effect on the country’s productivity starting from the 2010s (World Bank, 2017), only partly offset by the influx of working-age migrants.

Sectoral (or multi-sectoral) and Institutional Context of the Program

4. **Seychelles has a comprehensive, but fragmented, social protection system.** The Agency for Social Protection (ASP) under the Ministry of Family Affairs is responsible for the implementation of most of the social protection programs (as many as 30 programs), ranging from universal pensions to social welfare for the poor, to programs targeting orphans and people with disability. Other smaller programs (both in terms of budget and scope) are run by different line Ministries, ranging from the Ministry of Community Development, Social Affairs and Sports (MoCDSAS) (foster care), Ministry of Education (education fund and post-secondary bursaries), and Ministry of Transport (transport subsidies for seniors). Contributory pensions are managed by the Seychelles Pension Fund. Finally, the Ministry of Employment runs some active labor market programs targeting the poor and vulnerable. There is limited systematic coordination between these programs.

Figure 2. Main programs, stakeholders and budget allocations in the safety net system



Source: SP Policy Note, 2016

Source: SP Policy Note 2016



5. The current social protection system, although effective in reducing poverty, is skewed toward the elderly – raising sustainability concerns in a context of rapid aging and decreasing productivity. As of 2015, Seychelles was spending as much as 3.3 percent of GDP on social protection, a level higher than the averages observed across SSA, small-state islands, and upper-middle income countries (UPMICs).² It is estimated that, in absence of social protection programs, the poverty rate in Seychelles (estimated at national poverty line) would jump from 39 to 48 percent. Yet, social protection spending is significantly biased toward the old-age population. Elderly account for 9 percent of the population, yet they represent 22 percent of all the beneficiaries of non-contributory programs and receive as much as 42 percent of total benefits. In contrast, children account for 26 percent of the population, but they are slightly sub-represented in terms of the proportion of the recipient population (23 percent). Only 13 percent of all non-contributory benefits are targeted to the new generations. On the other hand, most of the employment programs are focused on unemployed youth with little budget allocated to the re-skilling of the working-age population. Overall, the current design of the safety net system, while to be praised for its impact on poverty reduction, may need to be re-adjusted to adapt to a new demographic context.

6. The largest social protection programs are the non-contributory Retirement Pension (RP), the Home Care Program (HCP) and the Disability Pension (DB). The RP provides a universal benefit equal to the minimum wage to all residents of Seychelles who are 63 or older.³ This benefit level is among the highest relative to average wage among high- and middle-income countries offering non-contributory pensions, and among the highest as a percentage of GDP per capita among African countries with non-contributory pensions.⁴ The HCP finances a half-time or full-time carer to seniors, paid by the Government, for those deemed to need some form of care and subject to a limited means-test. Under the current structure of the HCP, 70 percent of the carers are providing care in their own homes as family members of the beneficiary benefiting both the caregiver and the care receiver. These HCP carers are entitled to some labor benefits, such as annual leave and 13th month pay even though they may have limited or no training in caregiving, and often just provide companionship for the elderly.⁵ Disability benefits have recently been extended from working age adults to children born with disabilities, and provide cash benefits, but do not encourage a return to education in the case of children or to work in the case of adults. RP and DB are paid SCR 5250 per month or US\$385 and represent slightly under 50 percent of average wage. The Home Carers receive a bit more, equivalent to minimum wage. As a result, these programs may discourage the working-age population, especially those with low skills, from seeking work.

7. The Social Welfare Assistance (SWA), the main poverty targeted program, is much smaller both in terms of scope and budget. The SWA is the main program targeting poverty reduction explicitly. By design, two of the largest social protection programs, RP and HCP, do not explicitly target the poorest. In contrast, about 70 percent of the SWA beneficiaries are poor. Contrary to the RP, HCP and DP programs, where minimum wage level benefits are given to individuals, under the SWA the same minimum wage level benefit is meant to cover an entire household, resulting in lower per capita payments. The program has also a much smaller coverage. Coverage of the SWA (7.7 percent) is less than one-tenth of the coverage of the Retirement Pension program. Overall, there seems

² Seychelles Social Protection Policy Note. World Bank, 2016. The perspective among HICs is different. If pension spending is included in the HICs, the total will be much higher than in Seychelles: average pension spending in the EU is more than 10 percent of GDP

³ The eligibility age is planned to be increased to be raised to 65 in 2023.

⁴ See OECD (2015) and Help-Age Pension Watch database.

⁵ While considered part of the labor force, once the elderly person requiring care passes on, the caregiver may lack the skills to be employable as a caregiver elsewhere and may have spent enough time out of the labor force to be unable to find other work as well.



to be room for improved efficiency in this program to enhance labor market participation that could reduce inequality.

8. Active labor market policies offer limited opportunities for low-skilled youth and mid-age workers. “My First Job Scheme” is a wage subsidy program that covers those graduates from post-secondary education centers (technical vocational education). Attendance to those centers, however, requires high secondary graduation grades resulting in an implicit selection of the better skilled students and exclusion of the lower attainers aggravating the exclusion of the worse off youth.⁶ Youth aged 18-30 years can also access the Skills Development Program (SDP), which provides an allowance for participation in on-the-job training (OJT) activities.⁷ SDP mostly captures unskilled population with a large share of school dropouts and females (about 60 percent of participants). The program includes a soft skills component but faces significant take up and retention challenges due to high level of pregnancies (one third of females). Albeit good as a concept, the quality of the program could be further improved, as for instance strengthening the skills signaling role. SDP does not provide any accreditation aside from completion of the program, so participants that retain the job for which they received training (about 80 percent) have fewer mobility opportunities due to employer attachment. Finally, low-skilled workers above the age of 30 can access the Unemployment Relief Scheme (URS), which provides job search and labor intermediation services. The URS was relaunched in 2017 and with an explicit objective to target welfare recipients, ex-convicts, and drug addicts, among other groups. Despite the broad target population and the collaboration with ASP, the success rate of the URS is concentrated among the better skilled participants: about 300 participants placed in permanent employment. The low skilled individuals opt to join casual or temporary work job offers in the URS since those provide more flexibility and more frequent payments. The GoS has recognized these challenges – the growing non-participation of youth in labor markets, the limited coverage of TVET, and the disconnect between skills formation system and the changing needs of the labor market – as the main issues (Ministry of Education, 2018).

9. In this context, the Government of Seychelles requested financial and technical support from the World Bank (WB) to improve the efficiency and quality of the social protection system. The above analysis suggests two important considerations: (i) in a context of rising inequality, the largest safety nets program needs to provide a path to more productive jobs and self-reliance; (ii) in a context of rapid aging, the programs need to enhance labor force participation to generate growth and provide a path out of dependence on welfare benefits. The Government recognizes the paramount importance of improving the social protection system to make it more redistributive towards the bottom 40 percent of the population income distribution. On the other hand, the generosity of some of the benefits that are provided has resulted in a growing dependence on welfare payments for a segment of the population. The Government is interested in exploring ways to break this dependence cycle and to use the social protection system to pull households and individuals into (more) productive work when possible, to mitigate potential labor shortages expected as the population ages. A reform of the social protection system will require greater integration between the social protection system and health, education and labor services to delivery of

⁶ Poverty incidence among the youth is 43 percent, against 35 percent for the rest of the working age population. Youth unemployment equals 14.5 percent, approximately 4 times the unemployment rate observed among the working age population (National Bureau of Statistics, 2018).

⁷ The SDP benefit level varies by age (SR 2,500 for those under 18 years or SR 3,000 for those 18 or older), and an additional SR 500 is provided to those youth with children to cover child care costs. These costs are shared between the Government (70%) and the firm (30%).



better-quality services focused on both reducing vulnerability and increasing productivity amongst the poorest population.

10. This vision is reflected in the draft National Development Strategy (NDS) 2019-2030. In the new NDS, the focus is shifted away from the reduction of uni-dimensional (income) poverty, in favor of a broader, multi-dimensional strategy to tackle inequality and promote social cohesion. To achieve this goal, the same policy document envisages a reform of the social protection system to “improve targeting and long-term sustainability”, and to build stronger linkages of the safety net system with social services to “to counsel and provide support to those with social challenges”. Finally, the document recognizes the importance of “ensuring there are opportunities for training knowledge-based workers as well as continuous workplace training and lifelong learning” in a context of aging workforce and decreasing productivity.

Relationship to CAS/CPF

11. The proposed PfR supports Objective 3 of the Country Partnership Framework (CPF) to reorient the social assistance system to prioritize the bottom forty percent. Objective 3 in the CPF seeks to reorient the social assistance system from a focus on social welfare to a focus on investing in human capital and participation in the labor markets, prioritizing the bottom 40 percent. The PforR would indirectly support the CPF pillar of Sustainable Growth for Shared Prosperity as it would enhance the employability of beneficiary households and participants, pulling households back into productive work and reducing their reliance on cash benefits. Moreover, this PfR relies on the ongoing technical assistance to the Ministry of Finance to support the Program Performance Based Budget.

Rationale for Bank Engagement and Choice of Financing Instrument

12. The PfR is the best-suited WB instrument to support a broader government program of implementation reforms and related expenditures. The choice of a PfR instrument relies on the following considerations: (i) the Government has a reform plan and program that the operation can help implement over the medium term; (ii) the program will leverage the government’s existing social protection instruments and programs, to support the sustainability of reforms; (iii) the implementing agency’s installed technical capacity is high, and technical assistance is needed only on specific aspects of the reform; (iv) the Government has fiscal space to advance financial resources for set-up and operating costs; (v) the instrument contributes to a broader reform of expenditure programs; (v) an approach based on specific results measured by performance indicators will help generate momentum for key policy reform actions to take place.

13. The WB will add value through knowledge sharing, capacity building, and the promotion of a results-oriented approach to policy implementation. The World Bank has been accumulating considerable experience in building efficient and integrated systems for delivering social protection services. Through the WB, the Government of Seychelles will have direct access to lessons learned from the actual implementation of SP systems in several regions in the world, especially Latin America, Eastern and Central Europe, and Africa. Similarly, the WB will be available to support with specialized technical assistance when needed.



C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

14. The development objective is to strengthen the efficiency of social protection services.

PDO Level Results Indicators

15. The PDO indicators are:

- Fraction of social protection beneficiaries in the MFA social registry.
- Percent of social protection program beneficiaries that have eligibility reassessed (Home Care Program, Disability Benefits).
- Trajectory of growth in Retirement Pension spending slows.
- Fraction of Social Welfare beneficiaries that are enrolled in employability programs increases.
- Fraction of those in employability programs retaining an employment within a year increases.

D. Program Description

PfR Program Boundary

16. **The World Bank will provide assistance to the Government of Seychelles through a Program for Results (PfR) to reform the social protection system.** The PfR aims at supporting the above Government's objective by focusing efforts on three pillars, as emerged from the technical assessment: (i) Pillar I: establishing a *social information system* that facilitates prioritization of households and districts and that facilitate interfaces among programs to increase efficiencies in their implementation; (ii) Pillar II: increase both the efficiency and the quality of social protection spending by improving the *design of social protection programs* and providing a package of services in addition to cash transfers which can provide a pathway to a more productive life; (iii) Pillar III: establishing a *policy coordinating body* which enables inter-sectoral linkages between social protection programs and services offered in education, employment, and health.

17. **Pillar I will support the development of a social registry that facilitates prioritization of households and districts and interfaces among programs to increase efficiencies in their implementation.** Building on the work of the Poverty Alleviation Department under MFA, the preliminary technical assessment identified the following activities as priorities: (i) define a normative framework for the social registry, the Poverty Alleviation Information Systems (PAIS), including data collection, processing, access policy, confidentiality, among others; (ii) implement data collection and validation protocols at district level; (iii) provide IT support to establish the ASP Unique Beneficiary Registry (UBR); (iv) provide IT support to establish interoperability protocols (ASP with NPD, Employment, Education, Health, etc.).

18. **Pillar II will support improving the efficiency and the quality of social protection spending with respect to the RP, HCP, DB, and the SWA programs.** Activities focused on the RP will look at how to better integrate the RP with the contributory pension and explore international best practice toward containing the cost of a universal pension in the face of rapid ageing. For the HCP, the PforR envisages activities such as: (i) revising eligibility criteria and HC needs; (ii) establishing revised protocols for HC services (adequate to needs); (iii) setting up an HC Training program; (iv) designing Memorandums of Understanding (MoUs) and operational design for Training HC. Activities



tailored to the DB program may include: (i) revising DB eligibility criteria based on functionality criteria (MoH, PAIS) and socioeconomic needs (PAIS prioritization); (ii) recommending an alternative DB benefit schedule based on disability level. Finally, improving the efficiency of the SWA program may require: (i) revising SWA eligibility criteria based on socioeconomic needs (PAIS prioritization); (ii) establishing referral and counter-referrals protocols between MFA/ASP and Ministry of Employment information systems for referrals of ASP beneficiaries; (iii) setting up operational arrangements to facilitate program participation of ASP beneficiaries; (iv) revising SDP (employment) operational rules to increase intake of vulnerable population; (v) preparation of proposal for SDP for 30-60 population (reskilling); and (vi) exploring creating linkages between benefit levels and activities like participating in drug rehabilitation programs, job retraining, and child participation in school.

19. Pillar III aims at establishing a policy coordinating body which allows adequate political endorsement for the proposed reforms, and policy coordination for referral activities. A Ministry-level Social Protection Reform Steering Committee would be formally established to reduce policy bottlenecks across ministries, departments, and agencies, which is particularly important when policies require coordination across ministries. This ministerial level decision making body that includes Finance, Family Affairs, Education, Employment and Health, will be twinned by a technical working group which will help raise issues which need to be resolved at the ministerial level. The group will also establish protocols for implementation of social protection policies at the District level.

E. Initial Environmental and Social Screening

20. An Environmental and Social Safeguards Assessment (ESSA) will be conducted during preparation. Given the expenditures categories the environmental and social risks are rated as medium, to be revised once the ESSA is completed.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	
Projects in Disputed Areas OP 7.60	
Summary of Screening of Environmental and Social Risks and Impacts of the IPF Component	
<p>Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.</p>	
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