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INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF SEYCHELLES

FOR THE PERIOD FY25-FY30

June 25, 2024

Southern Africa Country Department 2
Eastern and Southern Africa Region

International Finance Corporation
Sub-Saharan Africa Department

Multilateral Investment Guarantee Agency

The date of the last Country Partnership Framework (Report No. 122493-SC) was June 18, 2018.

FISCAL YEAR
January 1 – December 31

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As of June 24, 2024
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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank	MIGA	Multilateral Investment Guarantee Agency
ASA	Advisory Services and Analytics	MOFEPT	Ministry of Finance, Economic Planning and Trade
CCDR	Country Climate and Development Report	MSME	Micro, Small, and Medium Enterprise
CLR	Completion and Learning Review	NDS	National Development Strategy
CPF	Country Partnership Framework	NIEMP	National Integrated Emergency Management Plan
COVID-19	Coronavirus Disease	PER	Public Expenditure Review
DPI	Digital Public Infrastructure	PforR	Program for Results
DPF/O	Development Policy Financing/Operation	PIM	Public Investment Management
EFF	Extended Fund Facility	PLR	Performance and Learning Review
ESF	Environment and Social Framework	PPP	Public-Private Partnership
FY	Fiscal Year	PPP	Purchasing Power Parity
GOS	Government of Seychelles	RAS	Reimbursable Advisory Service
GDP	Gross Domestic Product	RSF	Resilience and Sustainability Facility
IBRD	International Bank for Reconstruction and Development	SCD	Systematic Country Diagnostic
ICT	Information and Communication Technology	SME	Small and Medium Enterprise
IFC	International Finance Corporation	SIDS	Small Islands Developing States
IMF	International Monetary Fund	SOE	State-Owned Enterprise
IPF	Investment Project Financing	TA	Technical Assistance
MDTF	Multi-Donor Trust Fund	WBG	World Bank Group (IBRD, IFC, and MIGA)

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REPUBLIC OF SEYCHELLES

I. INTRODUCTION

1. **The Republic of Seychelles lies northeast of Madagascar, an archipelago of 115 islands**. The country has a total population of 120,581[1] inhabitants, three-quarters of whom live on the main island of Mahé. Seychelles has Africa's highest gross domestic product (GDP) per capita. Its economy is highly dependent on tourism and fisheries, and climate change poses long-term sustainability risks.

2. **Independent since 1976, the Seychelles is a relatively young democracy**. The first multiparty presidential election was held in 1993 after the adoption of a new constitution. The latest presidential and parliamentary elections took place in October 2020, peacefully bringing an opposition candidate to the Presidency for the first time since the introduction of democratic elections. With well-established democratic institutions, Seychelles' political environment is expected to remain stable. The next general election will take place in 2025.

3. **The country achieved high-income status in 2015, on the back of strong growth driven by capital accumulation and underpinned by prudent macroeconomic management**. Exchange rate reforms adopted following the 2008 global financial crisis promoted flexibility and resilience of the economy and facilitated an accumulation of substantial reserves, backed by tightening fiscal policy, adoption of a single treasury account, and restructuring of public debt. As a result, growth averaged 4.3 percent between 2009 and 2019, and the primary balance declined to 2.5 percent of GDP. These reforms incentivized high investment rates and increased imported labor (to fill domestic skills gaps). Unemployment declined from 4.5 percent in 2009 to 2.8 percent in 2021; the poverty rate declined significantly from 9.67 percent in 2013 to 5.94 percent in 2023, based on the upper middle-income poverty line of US$ 6.85/day in 2017 PPP terms.

4. **Seychelles implemented reforms and successfully navigated the COVID-19 pandemic, which disrupted the momentum of Seychelles' progress**. It caused a sharp GDP contraction (8.5 percent in 2020) as movement restrictions and sharp decline in international travel hit the tourism-dependent economy. In the wake of the pandemic, the rapid expansion of social transfers to the vulnerable, financial forbearance, ballooning debt of state-owned enterprises (SOEs) (which rose 5 percentage points of GDP in 2021), and related transfers (2 percent of GDP in 2020) weakened Seychelles' fiscal stance. Over the past few years, Seychelles restructured its debt to lower costs, reduced transfers to SOEs, estimated at 0.2 percent of GDP by 2023, increased targeting of social transfers, and rationalized public sector compensation in 2022. Fiscal challenges arising from an aging population were addressed by raising the retirement age to 65. The Government also introduced measures to broaden the tax base and strengthen tax administration through increased adoption of digital systems to foster tax compliance and efficiency.

5. **However, to sustain progress in improving living standards, Seychelles will need to raise productivity**. First, the contribution of productivity and capital accumulation to overall GDP growth declined between 2010-2014 and 2015-2022, offset by a slight increase in labor's contribution. As a small island state, Seychelles cannot rely indefinitely on capital accumulation as the key growth driver. Transition to a productivity-led growth model is critical, notably by maximizing access to, and productive use of, digital technologies and data-driven services. Given the small size of the economy and labor force, Seychelles may continue to rely on expatriate workers to narrow the skills gap. Second, to sustain inclusive

[1] Source: National Bureau of Statistics. Catalogue Number: Population 2024/1. March 1, 2024.

growth, in the transition toward a skills and knowledge-intensive, sophisticated economy, it will be important to enhance the capability of the bottom 40 percent (B40) to participate in the economy, ensuring they effectively contribute to, as well as benefiting from a higher productivity growth path. Furthermore, critical social issues such as rising drug use, teenage pregnancy, and gender-based violence need to be addressed as they undermine labor force participation and future earnings. Third, sustaining higher and resilient productivity and inclusive growth will require improved public sector performance.

6. **Sustaining growth in living standards will also require greater resilience to shocks and adaptation to climate change**. Heavy rainfall, floods and landslides, and an industrial explosion that occurred late in 2023, significantly impacted the economy, with damages estimated at 0.72 percent of GDP. With climate change, these shocks are expected to occur with increasing frequency highlighting the urgent need to build resilience to such shocks. As with other Small Islands Developing States (SIDS), the Seychelles is particularly vulnerable to the impacts of climate change. Landslides and floods are expected to become more prevalent given its topography and climate projections. Most infrastructure (e.g., airport, ports) and economic activity centers are found along the coast and directly exposed to the threat of climate change (erosion, rising sea levels etc.). The country is also expected to experience increasingly severe water shortages on the islands of Mahé, Praslin, and La Digue, where most of the population lives. These islands face an increase in annual water demand of around 7-8 percent, due to reduced rainfall, decreased ground water recharge and reduced stream flow during dry periods. Currently, Seychelles can only meet 60 percent of its resident's water requirements.

7. **This Country Partnership Framework (CPF) lays out the World Bank Group (WBG) strategy for Seychelles for FY25-FY30 to support successful implementation of the Government's vision outlined in the National Development Strategy 2024-2028 (NDS)**.[2] The NDS outlines a multifaceted approach including public services modernization, economic transformation across tourism, agriculture, and the blue economy, and strengthening digital and financial sectors. It also focuses on promoting health, enhancing law and order, evolving education to future needs, and a strong commitment to environmental sustainability and climate resilience. To support the Government's vision, the proposed CPF outlines two High-Level Outcomes (HLOs): (i) Enhanced employment opportunities for youth, men, and women; and (ii) Improved climate resilience. Strengthened macroeconomic-fiscal resilience will be a crosscutting theme. The CPF is guided by the WBG's Evolution agenda and puts forward a one WBG approach to support Seychelles' green, resilient and inclusive growth. It builds on the lessons and experience of implementing the previous CPF for FY18-23. The CPF will also include joint WBG-GOS monitoring of results and impact through a results framework informed by the new WBG Scorecard.

8. **Seychelles, having surpassed the IBRD GDI level, will receive WBG support aligned with strategies for high-income small island states**. Graduation will be a challenge for Seychelles as it faces long-term external financing challenges due to reduced access to concessional funds, a high exposure to disasters and climate change impacts, amongst many other development constraints. Being a small island country comes with many vulnerabilities, not easily mitigated or responded to in an affordable manner. The IBRD will explore enhanced concessionality through bond markets utilizing a unified WBG approach, involving Treasury, IFC, and MIGA. World Bank Group financing will adhere to IBRD engagement principles for high-income countries and the WBG's commitment to small states. Given Seychelles' high vulnerability

[2] The World Bank Group includes the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation, (IFC), the Multilateral Investment Guarantee Agency (MIGA), the International Development Association (IDA) and the International Center for the Settlement of Investment Disputes (ICSID).

to natural disasters, it is eligible for Climate Resilient Debt Clauses (CRDC) under the World Bank Group's Crisis Response Toolkit, allowing payment deferrals during natural disasters.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1 Social and Political Context

9. **Seychelles, has achieved significant economic progress, transitioning to a high-income economy and virtually eliminating extreme poverty**. With an estimated population of approximately 120,000 residing primarily on three of its 115 tropical islands, Seychelles boasts a land area of under 500 km². The nation includes an exclusive economic zone that spans almost 1.4 million km², situated within one of the key global tuna fishing and processing regions. The economy leans heavily on tourism and the fisheries and seafood sectors, with tourism accounting for a significant portion of the aggregate demand and canned tuna representing a major source of export. Seychelles ranks highly on the United Nations Human Development Index (HDI), in line with its substantial achievements in human development. While the poverty rate (based on the upper middle-income line of US$6.85 per day per capita) is low at 5.6 percent, the poverty rate at the national poverty line of around US$13 (PPP), remains high at 25 percent.

10. **Since gaining independence from the United Kingdom in 1976 and becoming a republic within the Commonwealth, Seychelles has evolved into a vibrant democracy**. The political landscape underwent significant changes with the transition to multiparty elections in 1993, leading to greater political competition. Recent elections have underscored this competitive spirit. The latest presidential and parliamentary elections held in October 2020 ushered in a new government that has embarked on significant social spending initiatives, raising the minimum wage and introducing a progressive income tax, reflecting the challenges and aspirations of maintaining macroeconomic stability while fostering a more inclusive and accountable democratic governance.

2.2 Recent Economic Developments

11. **In 2023, Seychelles' economy demonstrated ongoing recovery, chiefly fueled by sustained tourist arrivals, which increased 5.7 percent compared to 2022**. This marked a notable recovery to 91 percent of the pre-pandemic levels (National Bureau of Statistics Seychelles). The construction sector, buoyed by the launch of several large hotel resorts and renovations of existing establishments, played a significant role in this growth, alongside a revival in residential construction. **T**his positive trend notwithstanding, the manufacturing sector experienced a deceleration, particularly in canned tuna production. Conversely, the ICT sector saw substantial growth, with a notable 16 percent increase in data traffic compared to the previous year, contributing to a 3.3 percent rise in employment and a 4.2 percent increase in average earnings.

12. **The surge in tourism revenues significantly appreciated Seychelles' currency, instigating deflationary pressures throughout 2023**. Seychelles, heavily reliant on imports, witnessed a decrease in consumer prices, primarily due to the currency's 67 percent appreciation in nominal terms between the second quarters of 2021 and 2022, spurred by tourism-driven foreign exchange receipts. This appreciation helped mitigate imported inflationary pressures from elevated global commodity prices and supply-side disruptions. As global prices for fuel and commodities stabilized, inflationary pressures in Seychelles moderated, leading to a decrease in consumer prices since May 2023, with the average inflation rate at -1.04 percent by December.

13. **In 2023, Seychelles' current account deficit decreased, thanks to increased tourism revenues and strong net financial inflows, raising reserves by 6.6 percent to US$681 million by December**. The Central Bank of Seychelles maintained an accommodative monetary stance throughout 2023, keeping the policy rate at 2 percent, in anticipation of the transient nature of deflationary pressures. Efforts to strengthen the monetary policy's interest rate transmission mechanism continued, with technical support from the International Monetary Fund (IMF).

14. **Seychelles' financial sector remains strong, with recent challenges including a rise in non-performing loans (NPLs) from the end of pandemic relief measures, posing minimal risk to financial stability**. Concurrently, initiatives to bolster crisis prevention and management are advancing, highlighted by the drafting of a Financial Stability Bill and a Bank Recovery and Resolution Bill, supported by IMF technical assistance (TA).

15. **The Government of Seychelles (GOS) has committed to maintain a prudent fiscal stance**. This is evidenced by a reduction in the deficit from 5.8 percent of GDP in 2021 to 1.1 percent in 2023, following the rollback of COVID-19 measures. In 2023, efforts to cap spending, allowed for increased capital spending and investments in climate resilience, with significant fiscal space created by the restructuring of Air Seychelles' debt. Legislative efforts, such as the adoption of the Public Enterprise Act, underscored a focus on enhancing SOE performance.

Table 1: Key Macroeconomic Indicators and Projections

	2020	2021	2022	2023	2024	2025	2026	2027
Real Economy								
Real GDP	-11.7	0.6	15.0	3.2	3.7	4.1	3.4	3.4
CPI (annual average)	3.8	7.9	2.5	-2.7	3.4	2.8	2.3	2.3
Fiscal Account								
Total revenue and Grants	31.2	33.2	30.0	32.5	34.5	34.5	33.5	33.6
Tax revenue	26.2	26.7	25.2	27.2	29.2	29.6	29.9	30.0
Expenditure and net lending	47.6	39.0	31.4	33.6	35.8	35.4	33.6	33.6
Current Expenditure	41.6	33.8	28.9	29.7	30.6	29.0	27.1	27.0
Capital Expenditure	4.1	4.5	2.0	3.3	4.5	5.5	5.5	5.6
Overall balance	-16.4	-5.8	-1.4	-1.1	-1.3	-0.9	-0.2	0.0
Primary Balance	-13.5	-2.9	0.6	1.7	1.1	1.0	1.5	1.5
Money and Credit								
Broad Money	27.0	-5.1	3.7	9.0	…	…	…	…
Credit to the Private Sector	20.2	-11.9	5.0	8.4	8.8	8.2	7.9	7.8
External Sector								
Current account balance (% of GDP)	-15.3	-9.0	-6.8	-7.2	-7.2	-7.3	-7.7	-8.0
Export, Goods and Services (growth)	-40.5	41.3	28.4	0.1	5.8	5.2	5.2	5.2
Imports, Goods and Services (growth)	-34.2	36.7	26.2	2.3	5.8	5.3	5.7	5.5
Gross official reserves (end of year, millions of U.S dollars)	559	702	639	681	…	…	…	…
Months of Imports	5.0	4.8	3.4	3.8	…	…	…	…
Debt								
Public Debt	80.2	73.6	61.1	58.3	60.0	59.0	57.0	57.0
External Debt	38.9	40.9	33.4	27.7	32.6	36.2	36.1	36.0
Other Memo Items								
Nominal GDP (US$ Millions)	1,131	1,712	2,076	2,112	2,213	2,348	2,482	2,619

Source: World Bank Group staff calculations/estimates based on official data provided by the authorities.

16. **The outlook for Seychelles' economy remains positive, with GDP growth expected to average 3.4 percent in the medium term (Table 1)**. This growth is buoyed by robust tourism arrivals and revenue. The government's continued fiscal consolidation efforts and investment in infrastructure and climate resilience projects are anticipated to sustain economic growth. However, the economy faces potential vulnerabilities to external shocks, including global financial conditions and climate-related risks. The macroeconomic framework, supported by ongoing reforms and international assistance from the IMF and the African Development Bank (AfDB), aims to bolster fiscal sustainability and foster resilient, inclusive growth. The IMF's approval of a new Extended Fund Facility (EFF)/ Resilience and Sustainability Facility (RSF) program in May 2023 further supports Seychelles in its efforts to strengthen macroeconomic, fiscal, and financial reforms while addressing climate change challenges.

2.3 Poverty Profile

17. **While extreme poverty is relatively low, Seychelles faces social inclusion challenges expressed in inequality indicators of access to services and socioeconomic outcomes, despite already generous social spending**. In Seychelles, extreme poverty affected 5.9 percent of the population living under the US$6.85 per day threshold (2017 PPP) in 2023. However, when using the national poverty line, the poverty rate is about 25 percent. Nonetheless, Seychelles leads in Africa with the highest Human Capital Index (HCI) score of 63 percent in 2020, a value that increased from 53 percent in 2010. While educational attainment is generally high, with an average completion of 13.7 years of schooling by age 18, quality-adjusted years drop to 10. About 15 percent of students, particularly males (23.5 percent), drop out during secondary education, and 60 percent of those completing secondary school receive low grades. Additionally, Seychelles faces public health issues, including one of the highest rates of teenage pregnancy per capita among high-income countries and per capita heroin abuse globally. This situation is exacerbated by childcare demands, which further constrain their ability to participate in the labor market. Concurrently, heroin addiction, affecting a considerable segment of the population, leads to severe health issues and social stigma that keep many out of the workforce.

18. **Gender disparities in social indicators highlight deeper issues related to familial roles and structures**. Despite the scarcity of gender-focused analyses, data from 2018 indicates that a significant proportion of children (76 percent) are born to unmarried parents, and a majority of households (58 percent) are led by women, often without the presence of a partner. This situation underscores the uneven burden shouldered by women in terms of child-rearing and household management, even within intact family units. The challenges are exacerbated by the limited availability of childcare services, and inflexible work schedules, which curtail women's economic prospects and hinder their upward mobility. Women typically start with lower educational attainment and fewer employment-relevant skills, facing unemployment rates in the 15-24 age group that are 4.9 times higher than the national average.[3] This leads to reduced job experience and contributes to a persistent wage gap between genders, further amplified by the responsibilities of childcare and family care predominantly assumed by women. The COVID-19 pandemic's repercussions, including lockdowns and school closures, likely intensified these challenges, disproportionately affecting households led by women. Consequently, over 85 percent of the recipients of social assistance are women, indicating a reliance on poverty alleviation measures that fail to tackle the root causes of their economic and social vulnerabilities.

19. **Seychelles is experiencing a rapid demographic shift towards an older population**, presenting challenges for pension spending and national productivity. As a late-demographic dividend nation, the elderly population is projected to double from 9.2 percent in 2017 to 18 percent by 2030, while the

[3] Public Expenditure Review for Education (FY24).

working-age population decreases. Without pension system reforms, expenditures on universal pensions by 2030 are expected to nearly double from 2016 levels, despite an increase in the pension eligibility age. This demographic trend, combined with a decline in productivity since the 2010s, has been partially offset by the arrival of working-age migrants. The authorities have taken steps to strengthen the capacity of the local workforce through skills development programs and currently preparing a national comprehensive program to improve human capital.

20. **Seychelles faces significant vulnerability to extreme climate events and external shocks, with climate change posing a direct threat to the livelihoods of its most vulnerable populations**. This underscores the critical need for enhanced disaster preparedness and climate change adaptation measures. The COVID-19 emergency and 2023 disasters highlighted Seychelles dependence on key national infrastructure such as the International Airport, Port Victoria, power generation, water supplies, and fuel storage. Much of this infrastructure is along the vulnerable coastline and is susceptible to single point failure. It is also essential to ensure that the GOS and the private sector have adequate business and service continuity arrangements in place to mitigate the impact of disruptive shocks. The National Development Strategy (NDS) for 2019-2023 draws on insights from the 2008 global economic downturn, which notably affected Seychelles' tourism-driven economy and fiscal stability, advocating for a transition towards more flexible economic policies and adjustments in the social welfare framework to mitigate these vulnerabilities and build resilience against adverse shocks.

2.4 Main Development Challenges and Growth Opportunities

Sustained and inclusive growth requires higher productivity.

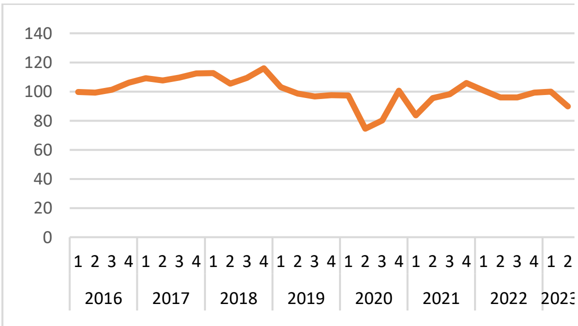
21. **Seychelles' economy, vulnerable to health and climate shocks, was hit hard by the COVID-19 pandemic, changing weather patterns, and the industrial explosion emergency of 2023**. These events underscored the small island state's susceptibility to health and climate shocks. The pandemic led to an 8.5 percent contraction in the economy in 2020, with poverty rates peaking at 7.2 percent that year, before decreasing to 5.6 percent in 2022. The fiscal deficit also reached 16.8 percent of GDP due to pandemic-related expenses. Moreover, the country's dependence on imports for over 90 percent of its production inputs increases its vulnerability to global commodity price fluctuations. Disasters, including storms, floods, and landslides, pose additional risks, with annual losses from floods estimated at US$2.5 million, or about 0.24 percent of GDP. The macroeconomic assessment after the late 2023 complex combination of severe weather, floods, and industrial explosion, indicated an anticipated contraction in both real GDP and potential GDP for the fiscal year 2024 of approximately 0.7 percent and 1.8 percent respectively. The total disaster effects (damages and losses) of the December 2023 disaster were estimated at SCR 2,221 million (US$150 million equivalent), including damages to infrastructure and physical assets rising to SCR 1,927 million (US$130 million equivalent) and losses of SCR 294 million (US$20 million equivalent), most of which were uninsured. About 315 enterprises in the Providence area were affected by the explosion, impacting the trading, micro and small manufacturing MSMEs.

22. **Strong economic growth has contributed to a notable reduction in poverty and inequality, despite significant external challenges**. From 2013 to 2018, the national poverty rate decreased from 38.3 percent to 25.4 percent, based on a daily poverty line of around US$13.00 in purchasing power parity per adult. The 2022 Census indicates a continued, though slower, reduction in poverty, with 20.9 percent of households considering themselves poor. Using the upper middle-income threshold of US$6.85 per day per capita, poverty rates fell from 9.7 percent in 2013 to 5.9 percent in 2023. Additionally, income distribution improved, as evidenced by the Gini coefficient dropping from 0.35 in 2013 to 0.30 in 2018, and the bottom 40 percent of the population seeing their income share increase from 19.6 percent to

21.1 percent. Workers in the lowest quintile and the middle class both experienced a 25 percent wage increase between 2013 and 2018, with similar gains in self-employment earnings for the bottom 40 percent. Education played a key role in poverty reduction, with individuals holding a university or postgraduate degree earning 30 percent more than those with a polytechnic degree. The period also saw a rise in vocational education completions.

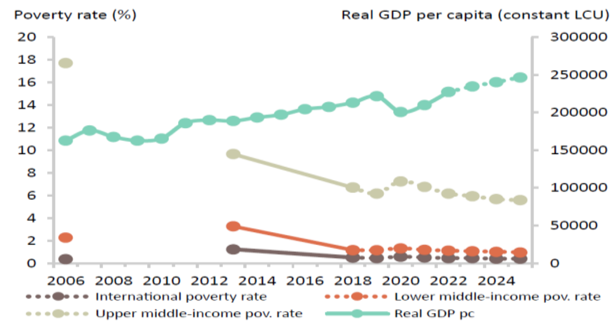
Productivity is constrained by slow reform progress in the business and investment environment.

Figure 1. Productivity - GDP per worker, 1000s SCR



Source: National Bureau of Statistics and World Bank Group staff calculations.

Figure 2. Actual, projected poverty, and real GDP per capita



Source: World Bank Group Macro Poverty Outlook

23. **Recent reforms in the management and regulation of SOEs have enhanced their efficiency and financial stability**. This has curbed their market dominance, fostering conditions for increased private sector participation. Nonetheless, there is a need for further enhancements in competition policy and the operational efficiency of SOEs, particularly in sectors ripe for private investment such as agriculture, fisheries, construction, manufacturing, energy, transportation/logistics, telecom/ICT, real estate, and trade. The WBG's Businesses of the State (BOS) database from 2019 highlighted that SOEs constituted 57 percent of GDP, markedly higher than the Sub-Saharan African average and significantly above figures observed in the Maldives and Mauritius. Evidence from select countries shows that higher presence of firms with state participation is associated with lower firm entry, greater market concentration, and misallocation that ultimately deter private sector led growth, including constraining MSME dynamism.[4] With a significant portion of SOEs operating in key sectors,[5] contributing to formal employment, the reduction of government subsidies to SOEs and the introduction of the 2023 Public Enterprise Monitoring Commission (PEMC) Act are steps forward in promoting competition and reducing fiscal risks.

24. **The untapped potential of micro, small, and medium enterprises (MSMEs) remains substantial**. Despite representing a significant share of businesses and employment, these enterprises face challenges in productivity, innovation, and access to finance. Challenges in various sectors, including limitations in expanding MSMEs, underscore the necessity for advancements in the business environment of Seychelles. The country's progress in the Global Competitiveness Index and infrastructure rankings points to improvements, yet the IMF's Public Investment Management Assessment (PIMA) underscores a notable public investment efficiency gap. The recently released Enterprise Surveys data point to access to land, a

[4] The Business of the State. 2023. Washington, DC: World Bank Group.
[5] According to the BOS database, most SOEs (68 percent) and most of the revenues (69 percent) generated by firms owned by the state are explained by operations in sectors that could be denoted as competitive and where the private sector could be viable such as agriculture, construction, manufacturing, real estate, and wholesale and trade.

poorly educated workforce and access to credit as the most cited obstacles to the business environment (25 percent, 20 percent and 15 percent of business cited these as the most important obstacles, respectively). Addressing access to credit, skills mismatches, SOE dominance, low entrepreneurship/innovation and high operational costs is crucial for bolstering MSMEs and enhancing productivity. Firm-level technology adoption is lagging compared to high-income country peers, and there are few data and metrics to track digital adoption in the private sector. Enhancing linkages to the tourism and tuna export sectors, along with promoting digital innovation, new product development and export competitiveness – including "greening" of business operations – is essential, particularly given the increased global scrutiny around the climate agenda. Streamlining trade logistics, reducing red tape and adopting more sustainable business models will further enhance the private sector's growth and international competitiveness.

25. **Investing in more inclusive access to and productive use of digital technologies is key to supporting business expansion and economic diversification**. Digital entrepreneurship skills, as well as opportunities to develop high-impact digital solutions aiming to strengthen linkages with key sectors of the economy, are limited. The Government is taking steps to set up the country's first business incubator, with a focus on digital entrepreneurship, however these efforts are still in the early stages, and more consultations with the private sector need to take place. Seychelles' significant ICT coverage (e.g., DataReportal indicates that 79 percent of the population has internet access) and the potential for leveraging the digital economy to support service exports and resilience are noteworthy. Despite high mobile coverage and broadband subscription rates, the cost of internet remains a barrier to greater digital inclusivity. The establishment of the Seychelles Communications Regulatory Agency (SCRA) under the 2022 Communications Act aims to foster competition, reduce internet costs, and encourage private sector involvement in digital infrastructure, which is critical for the country's digital and economic development. There is also a significant need to strengthen digital public infrastructure (DPI) and digital safeguards, to create the digital building blocks that enable the development of secure and trusted transactional digital services both in the public and private sectors. Similarly, the expansion of digital financial services could play an important role in enhancing financial inclusion, especially for the MSME segment.

Enhanced economic participation of the disadvantaged will ensure growth remains inclusive.

26. **Educational progress in Seychelles has seen improvements among the economically disadvantaged, though challenges persist with high dropout rates at the secondary level**. While achieving universal primary education, the nation faces a dropout issue at secondary school, particularly affecting the poorest students. Despite a favorable student-teacher ratio contributing to a significant portion of education budgets allocated to salaries, there is a need to enhance the appeal and quality of Technical and Vocational Education and Training (TVET) programs, including its links to skills demanded by the private sector, which remain underutilized due to perceptions of inferior quality. There has been a notable increase in tertiary enrollment, reflecting broadening access to higher education, although rates have fluctuated in recent years, but more can be done to improve access to Science, Technology, Engineering and Mathematics (STEM) education and research, as well as linkages to the innovation ecosystem, especially for women and girls.

27. **Health outcomes in Seychelles align with those of high-income countries, yet the rise in Non-Communicable Diseases (NCDs) poses a significant challenge**. With commendable achievements in reducing under-5 and maternal mortality and maintaining high immunization coverage, the country now faces the task of tackling NCDs, which dominate mortality rates, accounting for 71 percent of deaths in 2021 (WBG Public Finance Review, forthcoming). The ongoing HIV and hepatitis C issues, primarily among intravenous drug users, underscore the urgency in addressing substance abuse, highlighted by substantial

health budget allocations to methadone programs. The impact of the COVID-19 pandemic further stresses the need for efficient health expenditure focused on preventive care.

28. **Seychelles grapples with social challenges, notably drug use and teenage pregnancy, which adversely affect labor market participation**. Even with a low overall unemployment rate, a significant portion of the working-age population remains outside the labor force, attributed to factors like inflexible work schedules and the repercussions of high substance abuse and teenage pregnancy rates. The high prevalence of heroin use positions Seychelles among the countries with the highest per capita consumption globally, contributing to health and social issues that impede workforce engagement. Teenage pregnancy is persistent, affecting educational and career opportunities for young women.

29. **The social protection system faces difficulties in adequately addressing the needs of the population, particularly among the poor and young**. While the system offers generous benefits, predominantly to the elderly, there's a recognized disparity in support for the impoverished. Efforts are underway to refine targeting mechanisms within social welfare programs and adjust eligibility criteria to better serve disadvantaged groups. Upcoming reforms aim to provide a more accurate analysis for enhancing social protection measures, indicating a move towards more equitable and targeted assistance, powered by digital identification and authentication services. In addition, the private sector can also play a role in supporting educational and health outcomes in Seychelles, including through the deployment of Edtech and Healthtech platforms, providing remote services suitable for small islands states.

Public sector performance requires more attention to spending efficiency and climate risks.

30. **Seychelles has demonstrated significant progress in enhancing transparency and combating corruption**. This is evidenced by its improved transparency score to 70 in 2022, ranking it 23rd globally according to Transparency International. Despite this advancement, the European Union identified Seychelles as a non-cooperative tax jurisdiction, prompting the nation to implement legislative changes aimed at improving information exchange and transparency. These reforms include mandates for record handover by departing registered agents and enhancements to user-centric e-government platforms to boost digital public service delivery. Additionally, Seychelles has made legislative strides in modernizing its National Payment System and strengthening offshore reporting through amendments to the Beneficial Ownership regulations, further supporting anti-money laundering efforts, rolling out interoperability of payments services, and enhancing financial transparency.

31. **While Seychelles has exhibited a capacity for implementing reforms both amidst and in the aftermath of crises, there is room for improvement**. The country's ability to support its economy during the COVID-19 pandemic and subsequent recovery measures underscores the importance of spending efficiency and structural reforms. Improving the efficiency of State-Owned Enterprises and Public Investment Management, alongside strengthening debt management and budgeting practices, is critical. Digitalizing tax administration and integrating fiscal policies to manage climate-related risks are also vital for enhancing economic resilience.

32. **Efforts to strengthen economic resilience are critical for Seychelles**. This requires continuous macroeconomic and fiscal discipline, coupled with the implementation of high-quality reforms to bolster resilience against various shocks, including climate events. The country's vulnerability to environmental and economic fluctuations necessitates strategic investments in sustainable development, particularly in the blue economy and climate adaptation initiatives. Digital infrastructure and services can also play a key role in absorbing shocks related to climate and health events. An emphasis on renewable energy also

contributes to mitigation efforts, including improved air quality while also reducing imports of fossil fuels. Climate adaptation investments also align with Seychelles' commitments to mitigate climate change impacts, emphasizing the need for integrated strategies to ensure sustainable growth and resilience.

33. **The December 2023 disaster highlighted the need for a coordinated policy approach in addressing disaster risk and climate adaptation, coupled with the development of a robust financing mechanism to ensure fiscal resilience over the medium and long term.** The disaster also highlighted the vulnerability of critical infrastructure services due to single-point failure risk and the need to invest in infrastructure and urban resilience. In addition, the disaster brought to light the lack of insurance or under-insurance of businesses and households. Furthermore, strengthening disaster risk knowledge and risk analytics, multi-hazard early warning systems and emergency preparedness and response is of upmost importance to reduce the impacts of disasters and climate shocks on lives, livelihoods, the environment, and the economy in the short and long term.

34. **As a small island country, improving solid waste management is an important development agenda.** Challenges include landfills near capacity, limited programs to divert waste from landfill and encourage circularity, and an unsustainable financial model. The Solid Waste Master Plan and a new Circular Economy Roadmap and Action Plan provide strategic direction for waste minimization and the redesign of the solid waste management system, including exploring waste-to-energy solutions, to become more financially and environmentally sustainable and engaging MSMEs in new economic opportunities, but these plans need to be operationalized. In addition, there is need to strengthen the regulatory framework and build capacity to improve solid waste management.

III. WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

3.1 Government Program and Medium-term Strategy

35. **The Government program is underpinned by a medium-term strategy and the long-term Seychelles' Vision 2033**. In 2019, the GOS launched Vision 2033, which aims to set Seychelles on a sustainable development path, aligning with global commitments like the United Nations (UN) Sustainable Development Goals (SDGs) and the Paris Agreement. It is being implemented through three National Development Strategies, starting with NDS 2019-2023, focusing on six pillars: good governance, people-centered development, social cohesion, economic transformation, innovative economy, and environmental sustainability and resilience. These pillars highlight the importance of participatory governance, human capital, societal unity, economic growth through job creation and innovation, and the protection of natural resources to ensure resilience and prosperity.

36. **The National Development Strategy (NDS) for 2024-2028 builds upon the foundation laid by its predecessor**. This strategic framework guides the allocation of national budgetary resources towards these critical areas and as a beacon for leveraging domestic and international partnerships. The strategy delineates a comprehensive approach encompassing: the modernization of public services; a transformative economic agenda that spans tourism, agriculture, fisheries, and the blue economy, alongside bolstering enabling sectors such as the digital and financial economies. Furthermore, it emphasizes the cultivation of a healthy populace, the reinforcement of law and order, the evolution of the education system to meet future demands, and a steadfast commitment to environmental sustainability and climate resilience. This strategy represents a concerted effort to navigate Seychelles towards a sustainable and prosperous future, leveraging a balanced approach between economic

development and environmental stewardship. The WBG's assistance to Seychelles will be aligned with the socioeconomic pillars of the NDS 2024-2028.

3.2 Selectivity Filters Guiding Design of the CPF FY25-30

37. **To guide the formulation and focus of the CPF, three criteria were applied to identify High-Level Outcomes (HLOs) and Objectives and to shape the CPF's execution strategy:** (1) Seychelles' development goals as reflected in the Seychelles' Vision 2033 and NDS 2024-2028; (2) priorities identified from essential analytics such as the SCD Update and experiences gained from executing previous CPFs through the CLR; and (3) the WBG's comparative advantage in providing expertise, financial solutions, and ensuring synergies and coordination with other global partners. The principle of flexibility, especially where private sector involvement is concerned, is a key cross-cutting consideration to ensuring that the strategy will respond to future changes in the national and global environment.

38. **The CPF was developed in close collaboration with the Government of Seychelles (GOS) and reflects comprehensive consultations with a wide array of stakeholders**. The WBG employed a proactive and inclusive strategy to gather insights from the GOS, development partners, civil society, private sector and youth. These consultations aimed to gather input on: (1) challenges and opportunities for inclusive and sustainable economic growth and prosperity in Seychelles, especially in light of ongoing shocks and crises; (2) outcomes of the WBG's initiatives in Seychelles and lessons learned; and (3) directions for a continued and impactful partnership between the WB and Seychelles.

39. **The CPF also incorporates findings and recommendations from recent WBG analyses conducted on Seychelles, including updates to the Systematic Country Diagnostic (SCD)**. The updated SCD highlights how Seychelles' status as a small island state and vulnerabilities to external shocks and climate change impact its development prospects. It points out that declining productivity is hindering robust GDP growth, which is a significant challenge for Seychelles, as external pressures have been exacerbated by certain domestic structural obstacles that hinder private sector-driven job creation. The document emphasizes the need to retain the focus on priorities identified in the previous SCD but with additional areas that merit the attention of policymakers. The priority areas identified by the SCD Update are in alignment with Seychelles' Vision 2033 and National Development Strategy (NDS) 2024-2028.

40. **In line with the WBG's comparative advantage and guided by the Evolution agenda, this CPF adopts a One WBG (IBRD-IFC-MIGA) approach designed to navigate global, regional, and nation-specific challenges and opportunities**. The CPF aims to introduce, at the national level, solutions that are supported by comprehensive knowledge, robust partnerships, and operational excellence. This collective IBRD-IFC-MIGA strategy for Seychelles focuses on areas with potential for "WBG-packaged support" that also engage the private sector for development initiatives. Further, the CPF encourages Seychelles' engagement in issues of global and regional significance covering critical issues like water, energy, climate change, forests, and digitalization, and special support for small island states. In accordance with Vision 2033, the NDC and climate commitments by 2050, and the NDS 2024-2028, alongside the new WB Corporate Scorecard, the CPF will include joint WBG-GOS monitoring of results and impact. Finally, the objectives of the CPF are aligned with key priorities of the Africa East Region's priorities including in the energy, water, digital and education sectors.

41. **The CPF objectives and implementation approach are also informed by insights from the WB-Seychelles partnership as detailed in the Completion and Learning Review for the CPF FY17–FY23** (See Annex 2). The CLR evaluated the design and execution of the previous WBG strategy for Seychelles. Strategic lessons include:

- **Lesson #1: The two WBG premises for engagement in Seychelles remain valid and can provide basis for continuity into the next CPF period.** The first premise emphasizes Seychelles needs for sustainable growth by addressing structural challenges and building resilience to shocks; the second premise focusses on Seychelles' efforts as a potential IBRD graduate on building specific capacities and strengthening macroeconomic and debt management practices to attract private investment. To carry forward these priorities, the preferred *mode* of engagement should remain an effective mix of knowledge and lending services. The upcoming CPF program should draw upon core WBG analytics, such as Country Economic Memorandums (CEM), Public Expenditure Reviews (PER), and Country Climate and Development Report (CCDR) which will look at aspects of social inclusion and vulnerability. This analytical foundation should be complemented by lending in selected areas, aimed at enhancing social cohesion, building resilience against both man-made and natural disasters, and promoting climate change mitigation and adaptation.

- **Lesson #2: Despite being a high-income country, Seychelles continues to face significant capacity constraints and fiscal space limitations, making WBG policy advice and technical assistance highly relevant.** Although Seychelles is one of Sub-Saharan Africa's top governance performers, it lags behind many of its High-Income Country (HIC) peers.6 The GOS values WBG knowledge and there is an ongoing role for its knowledge services in addressing the non-income aspects of Seychelles' above the Graduation Discussion Income (GDI) profile.

- **Lesson #3: A closer collaboration among internal and external partners improved policy dialogue and strengthened implementation capabilities and options.** IFC and MIGA will routinely review their value proposition in Seychelles as a high-income country, to support private sector investments in projects that promote job creation and green development, align with UN SDGs to promote tangible development gains. Seychelles has been positioning itself as a leader in promoting global initiatives such as adoption of multi-dimensional vulnerability index for SIDS and the regulation of the use of ocean and marine resources under the Great Blue Wall Initiative. Over the next CPF period, the WBG can work together with development partners (e.g., IMF, UN agencies, and other IFIs) to explore entry points for support of such initiatives on a regional level.

- **Lesson #4: The effective implementation of cross-cutting reforms in Seychelles relies on a strong institutional "champion" to advance cross-sectoral policy dialogue.** The Ministry of Finance, Economic Planning and Trade (MOFEPT), plays a crucial role, providing an important impetus and alignment with national priorities. Seychelles faces multiple crises, which will pose new institutional capacity constraints. As demonstrated by the existing portfolio, the WBG shall continue to supplement Government efforts to reinforce institutional capacities and enhance policy outcomes.

- **Lesson #5: There is untapped potential for private capital mobilization in Seychelles; further progress is possible by combining WBG instruments to crowd in private sector finance, including climate finance.** The Bank's private sector engagement in Seychelles is nascent and can benefit from additional analytical work on key sectors with high growth potential, structural challenges in the labor market, women's economic opportunities, and the development of a conducive environment for institutional investors. Improved coordination can combine complementary financing instruments (policy lending, investment project financing, guarantees, IFC investment and advisory services, and

[6] Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

MIGA political risk insurance and guarantee instruments) to support Seychelles goals on private sector-led growth and job creation in a constrained fiscal environment. The Catastrophe Deferred Drawdown Option (CATDDO) as a contingent financing extending immediate liquidity to respond to natural disasters and/or health-related events shall remain a key emergency lending platform, which the WBG should keep ready to deploy when new disasters strike Seychelles.

3.3 Proposed WBG Country Partnership Framework FY25-30

42. **Based on the applied selectivity filters, and in line with the Vision 2033, the CPF FY25–FY30 focuses on supporting Seychelles to invest in inclusive growth that can underpin the country's stability and build resilience to future crises**. The CPF focuses on harnessing Seychelles' greatest potential source of wealth—its human capital, particularly its youth, and natural capital (land and marine ecosystems)—and integrates climate action in the country's growth model. The CPF will focus on enhancing the quality of life of citizens through improved business environment, improved job opportunities, and quality education and skills, as well strengthening the resilience of people and key economic sectors.

Table 2: Seychelles Country Partnership Framework (FY25-30)

Government Priority Areas	Proposed World Bank Group Country Partnership Framework	
	High Level Outcome	**Objective**
1. A Modern Public Service	**HLO1: Enhanced employment opportunities for youth, men and women**	**Objective 1**: Improved business environment for SMEs and entrepreneurship
2. The Transformative Economic Agenda		**Objective 2**: Improved human capital outcomes
3. A Healthy Nation		
4. Promotion of Law and Order	**HLO2: Improved climate resilience**	**Objective 3**: Improved social and environmental resilience
5. A Modern Education System In Line With Future Needs		
6. Environmental Sustainability And Climate Change Resilience	**Crosscutting Theme: Strengthened Macro-Fiscal Resilience**	

3.4 Objectives supported by the World Bank Group Program

HLO1: Enhanced employment opportunities for youth, men and women

43. **Creating better employment opportunities and preparing Seychellois youth for a changing job market are top priorities for the GOS**. The WBG will build on past support to focus on enhancing competitive practices, easing business operations, improving finance access for MSMEs, and promoting entrepreneurship. Complementing improvements in the business environment will be greater progress in reforming education and social protection systems to boost inclusivity and equipping citizens with future-oriented skills, thereby leveraging Seychelles' human resources. The acceleration of digital transformation is also crucial for more efficient governance and enhanced public service delivery. The diversification of

the tourism offering, by creating new tourism products beyond the existing sun, sand, sea value proposition, will be key for the growth of the sector and to strengthen linkages with the local economy. This is particularly relevant for tourism products and experiences outside of global hotel chains, which are vertically integrated. Diversification that also includes the greening of the tourism sector and boosting sustainable tourism will contribute to easing the current strains on the natural environment, particularly related to the expansion of lodging facilities and islands' development in sensitive areas. The WBG's support is tailored to Seychelles' economic diversification vision, focusing on sectors with high growth and employment potential, especially for youth and taking into account gender aspects specific to Seychelles.

Objective 1: Improved business environment for SMEs and entrepreneurship

44. **The WBG's strategy to enhance Seychelles' business environment for SMEs and boost entrepreneurship encompasses a broad spectrum of initiatives aimed at catalyzing economic growth and resilience**. This approach includes enhancing entrepreneurial skills, financial inclusion, and the investment climate by offering ecosystem support services for business incubators and tech hubs, managerial and business development training to entrepreneurs, access to financing for startups, supporting more climate/green finance opportunities for the local private sector, addressing the mismatch between supply and demand for skills in the labor market, and improving the quality of locally produced goods and services. The Bank is committed to fostering foreign direct investment (FDI) linkages, facilitating interactions between domestic and foreign companies to enable skill and knowledge transfer and more participation of the local workforce. The Bank will support improvement in the investment regime by potentially supporting institutional reform of the Seychelles Investment Board (SIB) and drafting an updated investment law that takes advantage of the African Continental Free Trade Area (AfCFTA) and enhancing value chain integration to attract more FDI. Efforts to streamline regulatory frameworks will also be made, including simplifying investment screening rules and aligning the Investment Act with international standards, aiming to create a conducive environment for investments and private capital mobilization.

45. **The WBG's support includes efforts to reform state-owned enterprises (SOEs) and competition policies, aiming to minimize bureaucratic obstacles and boost private sector involvement**. This includes policies to spur competition and enhancing credit access for MSMEs. Financial sector diversification is another critical area of focus, with plans to strengthen regulatory frameworks, promote transparency, and implement the Seychelles Fintech Strategy. The development of the ICT sector is prioritized to leverage the potential for economic diversification, operationalizing the National Digital Economy Strategy, and fostering ICT sector growth, based on robust digital foundations such as open and secure broadband infrastructure and DPI, improving ICT connectivity, competitiveness, and affordability through expanded broadband capacity – including IFC-facilitated private sector investments in new submarine cables, as well as strengthening high-impact use-cases in key sectors such as BlueTech. The Bank's support also includes focused assistance for MSMEs in high-potential value chains, in alignment with ongoing projects aimed at fostering a vibrant, competitive, and resilient Seychellois economy.

Objective 2: Improved human capital outcomes

46. **The WBG will target the enhancement of quality employment opportunities for youth, men and women by focusing on the pivotal roles of education and skills as well as addressing social challenges such as teenage pregnancy and substance abuse**. The NDS emphasizes foundational learning, continuing education, and skills upgrading, underpinned by data-driven decision-making and international skills

assessment for benchmarking. This approach leverages the critical need to improve technical skills across all educational levels, including specialized, industry-relevant digital skills aligning with private sector demands, particularly for climate-related jobs. Special attention is directed towards keeping girls in school, combating gender-based violence, and improving access to birth control for adolescent girls, underlining the commitment to enhancing educational attainment and broader social outcomes. Concurrently, addressing social issues such as teenage pregnancy, substance abuse, and school dropout rates is essential. The WBG employs a comprehensive approach that includes early prevention, support programs for educational attainment, and socio-emotional learning. Legislative efforts to improve access to contraceptives for girls at the legal age of consent, and enhancements to health and social protection programs, like the successful methadone program, illustrate a commitment to tackling the root causes of these social challenges.

47. **The World Bank Group's support for Seychelles is multifaceted, including a Public Expenditure Review, a Policy Note on Youth at Risk, and technical assistance for disaster risk reduction**. Further, a Programmatic ASA focusing on priority education reforms aims to improve educational outcomes and access to resources. This is complemented by efforts to build a supportive infrastructure through parent, community leader, and educator engagement, and by integrating drug prevention and screening within educational frameworks. This holistic approach not only aims to equip the Seychellois workforce with relevant skills but also addresses broader societal challenges, fostering an environment where youth and women can thrive in an evolving job market. Through this dual focus, the WBG commits to creating a more informed, resilient, and empowered society in Seychelles, laying the foundation for sustainable growth and development.

48. **To support improvements in human capital outcomes, the WBG's assistance leverages ongoing activities such as the Strengthening Quality of the Social Protection System program**. The digitalization of social protection systems stands out as a pivotal initiative, promising to significantly increase the efficiency and effectiveness of social assistance programs. By harnessing digital technologies, Seychelles can ensure more accurate targeting and streamlined delivery of social benefits, thereby reducing administrative burdens and facilitating easier access for beneficiaries. This comprehensive approach, supported by the WBG, aims to create a robust social protection system in Seychelles that not only addresses current needs but is also adaptable to future challenges, ultimately contributing to a reduction in poverty and an increase in social equity. Moreover, the establishment of the Inter-Ministerial Committee has enhanced cross-sectoral policy coordination, and the digitalization of social registries will enable interoperability across MDAs, facilitating referral processes to ensure pertinent and timely services are delivered.

HLO2: Improved climate resilience

49. **The WBG's approach in Seychelles centers on strengthening environmental and social resilience in the face of fiscal constraints, ecosystem fragility, and climate vulnerabilities**. It integrates climate adaptation and mitigation strategies across key sectors to support sustainable development and environmental sustainability. This effort is complemented by addressing solid waste management challenges to create positive externalities for key sectors such as tourism. The WBG's engagement will support renewable energy adoption and comprehensive climate and disaster risk management, with a focus on creating a sustainable and resilient framework for Seychelles' future.

Objective 3: Improved social and environmental resilience

50. **The WBG is actively engaged in Seychelles to enhance climate and environmental resilience, emphasizing the integration of sustainable practices across key economic sectors**. This engagement includes support for policies and investments aimed at strengthening the nation's adaptability to climate change impacts, ensuring a sustainable future for its ecosystems and communities. Recognizing the severe impacts of rising sea levels, coastal erosion, flooding, landslides, and other climate-induced challenges that could result in significant economic losses, particularly for SIDS, the WBG's strategy is focused on integrating climate change considerations into sectoral plans and strategies. This approach encompasses a range of climate-related initiatives, including those identified by the government in its National Adaptation Plan, which is being developed, and NDC, including coastal management actions to protect ecosystems, freshwater management, climate-smart agriculture, and sustainable fisheries. It also includes flood and landslide risk management, effective land use planning, and shock responsive social protection, along with a comprehensive national integrated emergency plan.

51. **Seychelles faces multiple and complex challenges arising from climate related disaster and external shocks.** The size of the county and its reliance on infrastructure in the Coastal Zone mean that the country is highly susceptible to complex and cascading disaster impacts. Whilst work continues to identify risk and to reduce the likelihood of disasters occurring, as a small island state, Seychelles must also develop the capability to manage climate and disaster shocks quickly, effectively. To do so, Government Ministries, Departments, Agencies, and key sectors such as shipping, transport, and energy, must each become more internally resilient so that they can continue to function despite sudden shocks or disasters. Increased understanding of risk (through valuing assets at risk and risk mapping) and risk financing mechanisms (such as insurance) is also critical. Government also requires the ability to identify, mobilize, and coordinate all available resources across sectors, to minimize disaster impacts and ensure rapid recovery. Improving resilience to climate and disaster shocks requires investments in infrastructure, which could potentially be delivered through IPFs in the pipeline along with continued technical assistance to assist Seychelles in fully implementing its National Integrated Emergency Management Plan (NIEMP), District Plans, and Sectoral Plans for critical services and infrastructure.

52. **The WBG recognizes the challenges posed by poor solid waste management in Seychelles, exacerbated by the country's high reliance on imports and the consequential waste generated by the tourism industry**. To address this, the WBG's proposed support includes the Seychelles Second Fiscal Sustainability and Climate Resilience Development Policy Operation (DPF), a Public Expenditure Review (ASA), and pipeline activities such as the Solid Waste Management Project (IPF), IFC's waste-to-energy advisory services, and Building Climate Resilience (infrastructure and institutions) (IPF), along with a Comprehensive Climate Disaster Recovery (CCDR) (ASA) and the Poverty and Equity Assessment (ASA). These initiatives aim to improve solid waste and landfill management practices, enhance the circular economy as outlined in Seychelles' draft Industrial Policy, and strengthen coastal resilience through improved management and monitoring, thereby ensuring that Seychelles can navigate the challenges of environmental sustainability and climate resilience effectively. This will also complement existing initiatives such as the implementation of the Solid Waste Masterplan (2020-2035).

53. **The WBG's support for renewable energy in Seychelles is an integral component of a broader GOS strategy aimed at bolstering climate resilience and sustainability within the archipelago**. The Government expressed its commitment to expand renewable energy through its National Energy Policy (Seychelles Energy Policy 2010-2030), pursuing a target of 100 percent renewable energy supply by 2050 and a target of 15 percent to be reached by 2030. Seychelles' clean energy transition faces hurdles such as limited investment, regulatory challenges that impede private sector engagement, and the difficulty of project bankability due to the country's geographical dispersion. The GOS is improving its regulatory

framework to bolster private sector confidence, thereby creating a more attractive environment for renewable energy projects, implemented and financed by the private sector. Recognizing the importance of grid stability for integrating more of these variable renewable energy projects, especially in the face of climate-induced shocks, the government intends to invest in new grid infrastructure. Finally, to complement the shift towards renewable energy, the government is also focusing on energy efficiency initiatives across key economic sectors, aiming to reduce overall energy consumption.

54. **The WBG's holistic support for Seychelles' renewable energy transition includes a variety of instruments aiming to boost sustainable growth, energy security and climate resilience**. This includes the P180425 - Seychelles Renewable Energy Transition (ASA) that provided much needed technical assistance supporting important sector studies looking at creating a more conducive enabling environment for private sector participation and which led to the regulatory changes and policy actions supported under Seychelles Third Fiscal Sustainability and Climate Resilience Development Policy Operation (DPF). A potential pipeline project is the Clean Energy Transition Project (IPF) that could include urgently needed climate-resilient investments in grid stability for increased variable renewable energy integration, technical assistance to support the competitive renewable energy auction program and provision of guarantees for private investment in renewable energy. This comprehensive support framework seeks not only to facilitate Seychelles' transition to renewable energy but also to ensure that such a transition contributes to the nation's long-term resilience and sustainability goals, reinforcing its development path amidst the escalating challenges posed by climate change.

55. **The WBG can support the Seychelles in strengthening the resilience of its digital infrastructure through increased linkages with renewable energy resources, increasing redundancies and disaster risk recovery.** Enabling climate data platforms can help collect evidence and analyze critical information infrastructure to support climate resilience, and strengthening DPI can support disaster risk prevention and response.7 The digital agenda would also benefit from adequate data enablers and safeguards to ensure a safe and trusted online environment for electronic transactions and digitally-enabled service delivery, as well as increased regulatory and technical capacity in the data protection and cybersecurity areas. In addition, IFC’s support to private submarine cable operators strengthens the resilience of international connectivity by adding a new submarine connection between Seychelles and East Africa, providing an alternative route to data traffic.

Cross cutting theme: Strengthened Macro-Fiscal Resilience

56. **The CPF will support Seychelles’ continued commitment to macroeconomic prudence, with a focus on efficient public resource utilization to promote economic, social, and environmental resilience**. This strategic focus necessitates a broadened tax base to counterbalance the demographic shifts associated with an aging population. It also requires enhanced efficiency in public spending, particularly in the education and health sectors, to improve the quality of investments and outcomes in human capital (HLO1). In particular, there is potential for cost savings linked to wages, which between 2016 and 2021 averaged 53.5 percent of total spending in the education sector and 52 percent of recurrent spending in the health sector. Additionally, enhancing Public Investment Management (PIM) processes with climate considerations is deemed essential for executing critical investments (HLO2). WBG support through the CPF will also be used to identify lessons from past experiences with major economic shocks, to promote countercyclical policies in maintaining macroeconomic stability and protect priority expenditures. This

[7] See for example MV: Digital Maldives for Adaptation, Decentralization and Diversification (P177040).

approach is vital for ensuring that the country's fiscal policies are resilient and adaptable to both current and future challenges.

57. **To support these objectives, the WBG's proposed assistance includes a range of ongoing and pipeline activities**. These initiatives are designed to reinforce Seychelles' efforts in improving expenditure management and public spending efficiency. A proposed Country Economic Memorandum (CEM) will focus on jobs and raising productivity to meet the needs of an increasingly knowledge-based economy and promote resilience (HLO1). The Seychelles Second and Third Fiscal Sustainability and Climate Resilience Development Policy Operations (DPFs), and the Public Expenditure Review (ASA) aim to integrate national strategies with climate-informed PIM processes, enhance macro-fiscal forecasting capabilities, and ensure effective tracking and monitoring of expenditure impacts (HLO2). Finally, the Country Climate and Development Report (CCDR) will be prepared (covering both Seychelles and Mauritius) to assess the impacts of climate shocks and strengthen adaptation and mitigation measures, it will also include a social inclusion and vulnerability assessment. These proposed analytical products will inform an improved understanding of climate shocks including what is needed to build climate resilience and determine risk financing mechanisms, with the aim of reducing the fiscal impacts of shocks (HLO2). By aligning these measures with Seychelles' broader fiscal goals, the WBG seeks to facilitate a sustainable and efficient economic framework that supports the country's development aspirations.

3.5 Implementing the CPF

58. **During the five-year CPF implementation period FY25-FY30, Seychelles will be supported by a suite of financing and knowledge instruments under the CPF program to achieve its strategic objectives**. Building upon the foundations laid by the previous CPF and the knowledge-based partnership, the WBG program will continue to offer its support to the GOS through expert knowledge and policy advice, including through RAS, depending on requests from Government, to bolster local capacity and institutions. The engagement with the Government on key ASAs is pivotal for steering the overall policy dialogue in support of the Government's goals, which encompass macroeconomic stability and addressing climate change through core diagnostics such as a PER, a Country Economic Memorandum (CEM), and a CCDR. ASAs financed by the WBG will maintain a significant role in advocating for institutional priorities of the WBG, such as enhancing the quality of development data, and conducting assessments on gender, poverty, and equity. Furthermore, the assistance will focus on enhancing the capabilities of the National Bureau of Statistics to deliver prompt and high-quality data for policy decision-making. The active and planned WBG program for FY25-FY30 is summarized in Tables 3 and 4. The RAS program aims to respond to specialized knowledge needs such as anti-money laundering efforts, banking supervision, guarantee programs, start-up ecosystems, etc.

Table 3: Seychelles Financing Portfolio and Indicative Program

Project (Active and Pipeline)*	**Approval date**	**Amount**
Strengthening Quality of the Social Protection System	March 25, 2021	US$30 million
Seychelles Third Fiscal Sustainability and Climate Resilience Development Policy Loan	January 11, 2024	US$25 million
Solid Waste Management Project (possible GEF addition, to be confirmed)	May 14, 2024	US$5 million
Renewable Energy Project (IPF) /Green Climate Fund *(to be confirmed)*	Pipeline	

Eastern and Southern Africa-Regional Emergency Preparedness & Access to Inclusive Recovery Program (REPAIR) *(to be confirmed)*	Pipeline	
Intelvision Investment (IFC)	August 16, 2021	US$10 million
ABSA/Barclays Seychelles (MIGA)	Jun 14, 2019	US$40.18 million
Guarantee: The Rise Fund II Aurora, S.A.R.L.	June 30, 2022	US$104.11 million

* Actual IBRD lending volumes will depend on country demand, overall performance, as well as global economic/financial developments which affect IBRD's financial capacity, and demand by other Bank borrowers.

Table 4: Seychelles Knowledge Program (Active and Pipeline)

Knowledge Products	Expected Completion (FY)
IBRD	
Public Expenditure Review	2024
Programmatic Resilience ASA	2025
Country Economic Memorandum	2025
Renewable Energy Transition	2025
Policy Note on Youth at Risk	2025
Country Climate and Development Report / Climate financing diagnostic	Pipeline
Gender Assessment	Pipeline
Capacity Building for Disaster Risk Management	Pipeline
Agro and Tourism Analytics/Technical Assistance	Pipeline
Seychelles Investment Board Strengthening and Value Chains	Pipeline
Technical assistance on improved education system – quality and access	Pipeline
Poverty and Equity Assessment	Pipeline
IFC	
IFC Investment Climate Program *(to be confirmed)*	Pipeline
IFC public-private partnership Advisory *(to be confirmed)*	Pipeline
IFC Corporate Governance Advisory *(to be confirmed)*	Pipeline
IFC Waste-to-waste Advisory Services and Initiatives for building climate resilience for infrastructure and institutions	Pipeline

59. **The WBG's support and engagement in the country will be coordinated with other development actors**. This includes the European Union, the United Nations (UN), bilateral partners, and international financial institutions such as the AfDB and the IMF. The WBG's unique advantage lies in its ability to provide in-depth technical expertise, global knowledge, and credibility among multilateral and bilateral partners active in Seychelles, the UN, and International Financial Institutions. The overall coordination of technical assistance is a crucial tool for advancing and aiding the Government's agenda for institutional and sector reform, with the Development Partner Group exploring the establishment of a platform to coordinate key activities of mutual interest to Seychelles' partners.

60. **Given that Seychelles surpasses the IBRD GDI level, WBG support will align with its approach to SIDS that have reached high-income status**. Despite Seychelles' success in issuing the world's first sovereign blue bond in 2018, it faces external financing challenges in the long-term as its high-income status reduces access to concessional sources of financing. Furthermore, as described in section 2.4, the

development constraints remain significant and require continued support. In this context, WBG financing support will be consistent with the principles for IBRD engagement in countries above the GDI and the WBG's commitment to supporting SIDS. Due to its high exposure to natural disasters, Seychelles as a SIDS is eligible for Climate Resilient Debt Clauses (CRDC) under the WBG's new Crisis Response Toolkit. CRDCs allow for the deferral of certain payments in the occurrence of a natural disaster and can be incorporated into the country's new and existing operations in the portfolio. IBRD will also explore the opportunity of a Blue bond 2.0 to potentially bring in more concessionality and promote a one WBG approach, working with Treasury, IFC, and MIGA. Activities will primarily focus on policy and institutional strengthening, managing global or regional crisis spillovers, generating insights, and offering innovative solutions to low-income countries in the region. In this regard, the program will prioritize the generation of knowledge, particularly in fields where Seychelles leads globally on issues pertinent to small island states. These areas include fisheries management, marine spatial planning, and pioneering financial mechanisms for the Blue Economy.

61. **MIGA, in collaboration with IBRD and IFC, will explore opportunities to assist foreign investors in Seychelles, with a keen focus on projects that promote job creation and green development**. The IFC's additional investments will provide essential financial and non-financial services not otherwise available on the market, focusing on projects that foster innovation, inclusion, climate change mitigation frontier areas, and best practices. These initiatives will catalyze private sector solutions and support private capital mobilization. MIGA activities will seek to encourage foreign investment into key sectors, including agriculture, manufacturing, and infrastructure, through the provision of political risk guarantees and credit enhancement products, in addition to their financial sector solutions. Currently, MIGA has two active engagements in Seychelles in the financial sector (Annex 5). The CPF will further seek to integrate the Seychellois economy into the broader African continent, capitalizing on the opportunities presented by the Africa Continental Free Trade Agreement and the African Union's initiative for a single digital market. Seychelles could also benefit from a Regional Digital Integration Project for East Africa, providing a framework for regional digital integration that includes Southern Africa and the Indian Ocean islands.

62. **The implementation of the WBG program will leverage insights from the CLR to enhance the impact of WBG knowledge services on institutional and policy reforms**. This involves improved selectivity, setting realistic targets and funding modalities with the Government from the outset, incorporating stakeholder risks and capacity challenges into the design and execution plans, emphasizing support for government priority initiatives, and enhancing strategic communication.

63. **The CPF design allows for sufficient flexibility to adapt to new demands and emerging opportunities**. The CLR underscores the importance of the flexible design of the previous CPF as a successful strategy. This flexibility necessitates periodic validation of engagement selections with departments and relevant agencies throughout the CPF period to gauge progress and formulate new programs for the latter years, following a PLR. It is anticipated that adjustments may be required in the short term as the indicative program adapts to evolving client needs. To support adaptive learning and ensure an impactful WBG engagement, a PLR will be scheduled to review and adjust the program and the Results Framework, including introducing result indicators that reflect the developing lending program.

IV. MANAGING RISKS TO THE CPF PROGRAM

64. Risks to the CPF have been assessed using the Standardized Operations Risk-rating Tool (SORT), as summarized in Table 5. All risk categories have been assessed as exhibiting low to moderate levels of risk, with the overall risk to CPF objectives being evaluated as moderate. In light of the WBG's interventions, which are characterized by a high degree of selectivity and concentration in specialized

sectors, strategies for risk mitigation will be customized for specific activities and implemented in a coordinated manner across the pertinent institutions within the WBG.

Table 5: CPF Risk Ratings

Systematic Operations Risk Rating Tool	CPF FY25–30
1. Political and Governance	M
2. Macroeconomic	M
3. Sector Strategies and Policies	L
4. Technical Design	L
5. Institutional Capacity for Implementation and Sustainability	M
6. Fiduciary	M
7. Environmental and Social	M
8. Stakeholders	M
9. Other (geopolitical/regional context)	
Overall	**M**

Note: H = high; S = substantial; M = moderate; L = low.

65. The principal risks to strategic and programmatic execution encompass political, macroeconomic, and stakeholder-related dimensions. The government is going into elections either by the end of 2024 or early 2025, which could weaken the focus on reforms that are politically sensitive. These risks will likely be minimal as we already saw a smooth transition of power in the last election cycle. In addition, Seychelles has shown leadership in reforms, even when there has been no IMF or WBG support. Continuous dialogue and robust relationships with a broad array of stakeholders, both within and outside the public sector will also help to mitigate the risks. Leveraging the WBG's regional presence and placing an enhanced emphasis on institutionalization and sustainability, for instance, through the utilization of the WBG's global expertise, are integral components of the risk management strategy.

66. Macroeconomic risks for Seychelles, including the susceptibility to external demand fluctuations—particularly in the tourism sector—and the volatility of global food and fuel prices, remain significant threats to the nation's external financial stability. Natural disasters, along with the potential loss of correspondent banking relationships (a process often referred to as "de-risking"), could further impede critical financial flows essential for trade and tourism. Continued structural reforms, including fiscal consolidation and exchange rate reforms, will bolster resilience, while active engagement with the International Monetary Fund (IMF) will help mitigate fiscal risks. Improved targeting of social programs and reforms to improve resilience to climate change, which are supported by the WBG, will further boost overall macroeconomic resilience. In response to an adverse event, the WBG would contemplate augmenting IBRD financing, potentially through development policy lending or alternative financial instruments. Furthermore, Fiduciary risks related to procurement processes will be addressed through the planned public expenditure and financial accountability assessment, including e-procurement with the objective of improving governance.

67. Certain initiatives and programs underpinned by the CPF may encounter resistance from key stakeholders. Specifically, efforts to combat substance abuse and teenage pregnancy will require careful communication given the discomfort such issues may create in conservative sections of society. Open

communication and genuine outreach to all concerned will be an important element of reducing any associated risks. The WBG also acknowledges the importance of balancing concerns regarding environmental sustainability with economic activities and is committed to engaging with all relevant stakeholders to address concerns and foster a collaborative approach to sustainable development. This is particularly important in the context of the Government's limited experience in meeting the WBG's environmental and social (E&S) requirements. Environmental and social risks will be managed proactively through projects, as is envisioned in the case of the recently approved Solid Waste Management project, for which a dedicated E&S Specialist in the project implementation unit will be recruited for hands-on project management support. Other opportunities to mitigate E&S risks will be through the implementation of relevant laws, e.g., the new fisheries legislation, and through an enhanced focus on the social impacts of measures affecting stakeholders. So, while the overall risk is M, barring major disasters or other unforeseen risks, the risks identified are manageable.

Annex 1: Results Matrix

High Level Outcome 1: Enhanced Employment Opportunities for Youth, Men and Women
Intervention Logic: Given the nation's small economy and the size of its public sector, it is clear that sustainable growth and employment opportunities must primarily come from private sector investment. To catalyze investment and job creation, focus areas include enhancing competitive practices, reducing constraints to business operations, improving access to finance and promoting growth for micro, small, and medium enterprises (MSMEs), and encouraging entrepreneurship and innovation. If Seychelles moves swiftly, it can capitalize on its most valuable resource—its citizens—by reforming the education system to equip students with skills for future job markets and to enhance productivity and continuing to reform and sustain its social protection system to promote inclusive growth. Additionally, Seychelles can accelerate its digital transformation to lay the groundwork for more efficient, transparent governance and to improve citizen participation in service delivery. The WBG will concentrate on sectors identified for their potential to drive high growth, productivity, and employment, particularly for women and youth, as outlined in Seychelles' economic strategies and diagnostics, ensuring alignment with the nation's vision for economic diversification and modernization. ***WBG engagement***: Contributions to HLO1 will include: (i) supporting policies to enable an improved business environment, with a strong focus on MSMEs; (ii) enhancing skills development and quality of education; and (ii) supporting the development of the digital economy and digitalization of public services; (iii) support for the Government's efforts to raise the quality of education at all levels as well as developing skills for employability now and in the future, including by focusing on social ills such as substance abuse and teenage pregnancy. Building on previous support, the WBG will help enhance Seychelles' fiscal sustainability, governance improvements in marine resources, and public expenditure optimization. Future support could include activities for driving Seychelles' economic growth and sustainable development through enhanced agro-tourism insights, support for SMEs in climate finance, digital financial services, and investment climate improvements, alongside strengthening corporate governance, public-private partnerships, and solid waste management, all aimed at fostering firm growth and creating quality employment opportunities. ***Knowledge gaps***: There is a critical gap centers around data. Updated firm level and labor force data would be needed to understand the constraints to sustained productivity and other sources of growth. More analysis is needed on firm level productivity (also entry, exit in sectors with SOE dominance), and obstacles to labor force participation and productivity, particularly for youths. More research is also needed to understand the behavioral and risk factors linked to drug use and teenage pregnancy. Similarly, more research is needed to understand gaps that may limit the entrepreneurship potential of women and youth. ***SDGs associated***: SDG 1: End poverty in all its forms everywhere; SDG 5: Achieve gender equality and empower all women and girls; SDG 8: Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all; SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation; SDG 14: Life below water.

High-Level Outcome Indicators	Data Source	Current Value
1. **Private Investment (% of GDP)**	World Development Indicators https://data.worldbank.org/indicator/NE.GDI.FTOT.ZS?locations=SC	18 **(2022)**
2. **E-Government index**	United Nations https://publicadministration.un.org/egovkb/en-us/Data/Country-Information/id/152-Seychelles	0.6793 (**2022**)
3. **Human Capital Index Score**	World Bank Group https://databank.worldbank.org/source/human-capital-index	0.6 (**2020)**

Objective 1: Improved business environment for SMEs and entrepreneurship

Intervention Logic: In Seychelles, significant reforms in the regulation and management of SOEs have notably improved their efficiency and financial posture, encouraging more private sector engagement and reducing SOEs' market control. Despite this progress, challenges persist, particularly in sectors poised for private investment, necessitating further improvements in competition policy and SOE efficiency. This backdrop highlights the critical need to bolster the business environment for MSMEs, which face barriers to productivity and innovation despite their vital role in the economy. Addressing these challenges requires a multifaceted approach, including enhancing access to credit, education, and land; adopting digital innovations; and streamlining trade processes. Moreover, the country's focus on digitalization underscores the pivotal role of digital technology in enhancing the business ecosystem and economic diversification. Strengthening digital public infrastructure and expanding digital financial services are essential steps towards improving the business climate, particularly for MSMEs, thereby fostering greater economic resilience and competitiveness. The WBG will focus on enhancing the business environment for SMEs and fostering entrepreneurship through a variety of interventions. This strategy emphasizes improving entrepreneurial skills, the investment climate, addressing the labor market's skills mismatch, and elevating the quality of local goods and services. It also includes efforts to strengthen FDI linkages, streamline regulatory frameworks, reform SOEs and competition policies, and increase private sector engagement. Additionally, the strategy covers financial sector diversification, the implementation of the Seychelles Fintech Strategy, and the development of the ICT sector through broadband, DPI and high-impact digital services, all aimed at creating a conducive investment environment, promoting economic diversification, and supporting the growth of MSMEs in high-potential sectors to achieve a vibrant, competitive, and resilient economy.

WBG engagement: The WBG is committed to fostering an enhanced business environment in Seychelles, with a particular emphasis on MSMEs, and the acceleration of the digital economy alongside the digitalization of public services. Leveraging its prior engagements, the WBG aims to bolster Seychelles' fiscal sustainability, enhance governance in marine resource management, and optimize public expenditures in different sectors. Looking ahead, the WBG plans to catalyze Seychelles' economic growth by providing targeted support for agro-tourism analytics, climate finance for SMEs, advancements in digital financial services, and improvements in the investment climate, all designed to stimulate firm growth and generate substantial employment opportunities.

Lessons learned and new knowledge at the program level: The World Bank Group's support will be more targeted going forward, reflecting the lessons learned from previous strategies where some of the support was considered too broad. MSMEs have been identified as a critical source of employment, highlighting the need for initiatives that support these businesses. One significant area of focus has been improving access to finance for MSMEs, understanding that financial inclusivity not only bolsters the local economy but also mitigates the negative sentiments towards the workforce's composition.		
CPF Objective Indicators	**Supplementary Performance Indicators (SPI)**	**WBG Program**
Indicator 1.1: Percentage of registered female-led MSMEs in the circular economy (Percentage) Baseline: 15% (2024) Target: 25% (2030) *Source:* National Business Registry **Indicator 1.2:** Number of mobile and internet banking transactions per 1,000 adults Baseline: 12,700 (2021) Target: 17,000(2025) *Source: Seychelles Third Fiscal Sustainability and Climate Resilience DPF* **Indicator 1.3**: Number of Aquaculture Businesses registered or licensed Baseline: 0 (2021) Target: 4 (2025) *Source: Seychelles Third Fiscal Sustainability and Climate Resilience DPF*	**SPI 1.1:** Percent of SOEs that have published annual reports including full annual financial statements (with notes), and audit report Baseline: 0 percent (2021) Target: 70 percent (2025) *Source: Seychelles Third Fiscal Sustainability and Climate Resilience DPF* **SPI 1.2:** Update to the Seychelles Investment Act 2010 Baseline: No (2024) Target: Yes (2026) *Source:* Ministry of Investment, Entrepreneurship & Industry **SPI 1.3:** Share of population with a bank account in a regulated financial institution that use electronic/internet banking (by gender) Baseline: 8 percent (2021) Target: 20 percent (2025) *Source: Seychelles Third Fiscal Sustainability and Climate Resilience DPF* **SPI 1.4:** Private sector investment in solar PV Baseline: US$ 1.14 million (2021) Target: US$ 1.95 million (2025)	**IBRD** ***Ongoing Operations*** ● Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)/Blue Bond (closing June 2024) ● Seychelles Third Fiscal Sustainability and Climate Resilience DPF ● Seychelles: Solid Waste Management Project (IPF) ***Ongoing Analytic Work*** ● Public Expenditure Review ● Seychelles Investment Act 2010 Review ***Pipeline Analytic Work*** ● Agro and Tourism Analytics/TA ● Country Economic Memorandum – firm growth and quality employment (TBC) ● Seychelles Investment Board Strengthening and Value Chains. **IFC** ***Investments*** ● Intelvision

	Source: Seychelles Third Fiscal Sustainability and Climate Resilience DPF	***Upstream and Advisory Pipeline*** ● IFC SME Climate Finance (Upstream, Advisory, Investments)- TBC ● IFC Digital Financial Services (DFS) Program – TBC ● IFC Investment Climate Program – TBC ● IFC PPP Advisory – TBC ● IFC Corporate Governance Advisory **MIGA** • Guarantee: The Rise Fund II Aurora, S.A.R.L. • Guarantee: ABSA Group Ltd.

Objective 2: Improved education outcomes and skills development

Intervention Logic: The WBG proposes to boost quality employment for youth, men and women in Seychelles, focusing on enhancing digital and climate-related skills, and modernizing the education system. Central to this approach is the improvement of foundational learning, continuous education, and skills development, tailored to meet private sector needs and the demands of a green economy, as emphasized in the 2021 NDC Update. This plan advocates for the integration of digital skills in school education, the promotion of a Seychellois innovation ecosystem through public-private partnerships, and the exploration of tech incubators for specialized digital training. Addressing broader social challenges, such as teenage pregnancy, substance abuse, and violence, is also critical. The strategy includes early intervention programs to prevent school dropout, investments in remedial education, socioemotional learning, and support for keeping girls in school to improve educational outcomes and social well-being. The World Bank Group supports this comprehensive approach through various activities, including a Public Expenditure Review, initiatives to mitigate youth at risk, and a grant to enhance digital skills education. Additionally, it encompasses priority reforms in education, such as EdTech, TVET, and early prevention of school dropout, aimed at preparing Seychellois youth and women for the evolving job market and supporting their success in an inclusive and sustainable economy. The WBG has devised a comprehensive strategy to tackle the intertwined issues of substance abuse and teenage pregnancy in Seychelles. It proposes providing critical social support, reskilling opportunities, childcare assistance, and flexible work arrangements to prevent teenage mothers from falling into poverty, alongside legislative changes to improve contraceptive access for underage girls. Acknowledging gaps such as the absence of comprehensive sex education and the scarcity of supportive resources in schools, the World Bank Group plans to introduce a suite of activities. These include a Note on Youth at Risk, a Trust Fund grant for enhancing digital education skills, and a Programmatic ASA for education reforms focusing on EdTech, TVET, and early prevention of school dropout. These initiatives are designed to tackle the root causes of substance abuse and teenage pregnancy by improving educational outcomes, increasing access to information and resources, and creating a supportive infrastructure involving parents, community leaders, and educators. Additionally, the strategy includes integrating drug prevention and screening within school-based frameworks; aiming to educate students on drug risks and provide assistance to those in need. Through these efforts, the World Bank Group seeks to empower Seychellois youth, mitigate risks, and foster a healthier, informed, and resilient society.

WBG engagement: Contributions will include support for the Government's efforts to raise the quality of education at all levels as well as developing skills for employability now and in the future, including by focusing on social ills such as substance abuse and teenage pregnancy. Building on previous support, the WBG will continue to strengthen the social protection system, provide knowledge services for improving the efficiency of public expenditures in social sectors, and build on the knowledge work done on at-risk youth. Expanded technical assistance on youth, a poverty and equity assessment and gender assessment are envisaged along with focused technical assistance on improving the quality of the education system, including a robust skills development program.

Lessons learned and new knowledge at the program level: There is a critical need for spotlighting the significance of policies that assist vulnerable populations. Such policies include providing social welfare assistance, eliminating barriers to labor market participation, enhancing skills development, and creating a more conducive environment for the private sector. The WBG program can also benefit from partnerships with key national institutions, as evidenced by the strong collaboration with the National Bureau of Statistics (NBS) of Seychelles which resulted in ensuring the timely preparation and delivery of the Poverty Assessment (2022).

CPF Objective Indicators	Supplementary Performance Indicators (SPI)	WBG Program
Indicator 2.1: Births per 1,000 women aged 15 to 19 Baseline: 63 (2021) Target: 56 (2029) [10% reduction] *Source: Population and Vital Statistics, National Bureau of Statistics.* **Indicator 2.2**: S5 learners continuing to an A-level program Baseline: 8% (2021) Target: 18% (2030) *Source: Ministry of Education* **Indicator 2.3** (CS): Number of students supported with better education	**SPI 2.1:** Share of schools that implement the new digital skill curriculum Baseline: 0% (2023) Target: 100% (2029) *Source: Ministry of Education* **SPI 2.2:** Data collection on Edtech readiness Baseline: n/a (2023) Target: completed (2026) *Source: Ministry of Education* **SPI 2.3:** TVET strategy revised and implemented Baseline: no (2023) Target: yes (2026) *Source: Ministry of Education*	**IBRD** ***Ongoing Analytic Work*** ● Strengthening Quality of the Social Protection System ● Public Expenditure Review (ASA) ● Policy Note on Youth at Risk (ASA) ***Pipeline Analytic Work*** ● TA on improved education system – quality and access (TBC) ● Expanded TA on Youth ● Poverty and Equity Assessment ● Gender Assessment

Baseline: 0% (2024) Target: xx% (2030) *Source: Ministry of Education*	**SPI 2.4**: Number of poor families with children attending school covered by social protection Baseline: 414 (2023) Target: 600 (2029) *Source: Agency of Social Protection*	
High Level Outcome 2: Improved climate resilience		
Intervention Logic: In Seychelles, enhancing resilience and sustainability is critical amidst challenges such as significant fiscal demands of service provision, fragile ecosystems, and heightened vulnerability to climate change. The World Bank Group's strategy for bolstering climate and environmental resilience in Seychelles employs a comprehensive approach, weaving climate change mitigation and adaptation measures throughout vital sectors to protect the nation from climate-related threats and encourage sustainable development. This strategy emphasizes the management of coastal and freshwater resources, the adoption of climate-smart agricultural practices, the promotion of sustainable fisheries, and the enforcement of effective land use policies. Additionally, it focuses on enhancing resilience against flood and landslide risks, accurately assessing and quantifying such risks, improving disaster risk financing mechanisms, and strengthening national capacities for disaster preparedness and response. This holistic plan is designed to ensure Seychelles' environmental sustainability and economic prosperity in the face of global climate challenges. Additionally, challenges in Seychelles' waste management sector, such as nearing landfill capacities, inadequate waste diversion programs, and an unsustainable financial model, call for the operationalization of the Solid Waste Master Plan and the new Circular Economy Roadmap and Action Plan. These strategies aim to minimize waste and overhaul the solid waste management system for financial and environmental sustainability, while also integrating MSMEs into new economic avenues, necessitating strengthened regulatory frameworks and capacity building for improved management practices. ***WBG Engagement***: The WBG is committed to aiding Seychelles in advancing its climate and environmental resilience through a broad range of initiatives. These efforts are geared toward promoting fiscal stability and resilience to climate change, encouraging the uptake of renewable energy, improving social protection frameworks, and enhancing overall resilience planning. Future directions include addressing key challenges such as solid waste management and carbon financing, providing targeted support for environmental sustainability, developing comprehensive climate strategies, and fostering disaster risk management capabilities. ***Knowledge gaps***: There are knowledge gaps on how to effectively use the energy sector to drive development and climate resilience in Seychelles. Achieving a 15 percent renewable energy target by 2030 and 100 percent beyond, will require a fundamental shift in the status quo, including ensuring regulations are consistent with energy sector goals and NDC Update. Analysis of the impact of climate change on Seychelles' development path and growth will help further refine and phase key priorities for climate resilience. ***SDGs associated***: SDG 1: End poverty in all its forms everywhere; SDG 6 Ensure availability and sustainable management of water and sanitation for all; SDG 7: Ensure access to affordable, reliable, sustainable, and modern energy for all; SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation; SDG 13: Take urgent action to combat climate change and its impacts SDG 14: Life below water		

1. Score on the ND_GAIN The ND-GAIN index is a composite indicator that assesses a country's vulnerability to climate change and readiness to improve resilience.	ND-GAIN Index: https://gain.nd.edu/our-work/country-index/rankings/	Score: 50.8 (**2023**)
2. Score on the Global Sustainable Competitiveness Index	https://solability.com/the-global-sustainable-competitiveness-index/the-index	Score: 42.8 (**2023**)
Objective 3: Improved social and environmental resilience		

Intervention Logic: The World Bank Group's strategy for enhancing climate and environmental resilience in Seychelles adopts a holistic approach, integrating climate change considerations across key sectors to safeguard the nation against climate-related risks while promoting sustainable economic growth. This comprehensive plan encompasses managing coastal and freshwater resources, implementing climate-smart agriculture, fostering sustainable fisheries, and ensuring effective land use. It also includes increasing flood and landslide risk reduction, understanding and quantifying risks, strengthening disaster risk financial approaches, and building capacity to prepare and respond to disasters. Global evidence suggests that climate change will deepen socioeconomic vulnerabilities and place the burden of climate risk disproportionately on vulnerable and marginalized groups in terms of mortality, livelihood impacts, food and water security, migration, threats to cultural identity, among others. Central to this approach is the promotion of circularity, aimed at minimizing waste and environmental impact through the reuse and recycling of resources, crucial for the preservation of Seychelles' natural beauty and biodiversity. The strategy also emphasizes the importance of environmentally sensitive tourism and the transition towards renewable energy to reduce the archipelago's fossil fuel dependency, aligning with global climate action efforts and enhancing energy security. In support of Seychelles' commitment to environmental sustainability and resilience, the World Bank Group is focusing on the development of renewable energy as a key aspect of its climate resilience strategy. This shift aims to significantly decrease the nation's reliance on fossil fuels, explore the potential of electric mobility to eliminate localized emissions, addressing the unique challenges faced by small island states due to climate change, such as rising sea levels and coastal erosion. The World Bank Group's suite of activities in Seychelles, including policy operations and projects focused on climate resilience, renewable energy transition, reliable connectivity and data tools for climate adaptation, and solid waste management, seeks to support the country in achieving its ambitious energy and environmental goals. Failure to develop well-designed and inclusive policies to mitigate climate change risk and impact, could potentially lead to a higher financial burden on the vulnerable groups. Additionally, citizens who are impacted the most are often not engaged in the decision-making process. Through regulatory reforms, engagement with the private sector, and targeted strategies, the World Bank Group assists Seychelles in navigating the complexities of climate change, aiming for a more resilient, sustainable, and economically vibrant future.

WBG Engagement: The WBG's ongoing and planned support for Seychelles for climate and environmental resilience encompasses a wide range of initiatives. These include building on the work being completed under the SWIOFish3, efforts to enhance fiscal sustainability and climate resilience, transitioning to renewable energy, improving the social protection system, and boosting resilience planning. Future activities aim to address solid waste management, leverage carbon financing, support through the Global Environmental Facility, develop a CCDR integrating an analysis of social

dimensions of climate change, and implement capacity-building programs for disaster risk management, alongside a specific focus on expanding renewable energy sources. ***Lessons learned and new knowledge at the program level***: Past experience underscores the unique needs of SIDS like Seychelles, highlighting the importance of addressing structural challenges and bolstering resilience against various shocks for sustainable growth. Focusing investments in specific areas that enhance social cohesion, improve resilience to both human-induced and natural disasters, and support initiatives for climate change mitigation and adaptation has proven essential. This approach not only addresses immediate vulnerabilities but also lays the groundwork for long-term sustainability and resilience, illustrating the importance of tailored interventions in achieving comprehensive development outcomes.		
CPF Objective Indicators	**Supplementary Performance Indicators (SPI)**	**WBG Program**
Indicator 3.1: Number of vulnerable families registered in the social registry in areas of high risk of emergencies. Baseline: (2023) 500 Target: (2029) 2000 *Source: Agency for Social Protection* **Indicator 3.2:** Percentage reduction of the amount of waste that goes to the landfill because of waste minimization and diversion Baseline: 0% (2024) Target: 10% (2029) *Source: Solid Waste Management Project* **Indicator 3.3 (CS):** Number of people benefitting from improved solid waste management services (Number) Baseline: 0 (2024) Target: 88,000 (2029) of which female	**SPI 3.1:** Improved Quality of HCP care services Baseline: 5 percent (2023) Target: 60 percent (2025) *Source:* **SPI 3.2:** Increase in Business plus tourism environmental levy (SCR Billions) Baseline: SCR 1.4 (2023) Target: SCR 2.3 (2025) *Source: Seychelles Third Fiscal Sustainability and Climate Resilience DPF* **SPI 3.3:** Percent of permits granted or decisions reached in land use planning, zoning, and development informed by relevant data and maps of hazard and climate risks as stipulated in the Physical Planning Act and subordinate regulations Baseline: 0 percent (2021) Target: 100 percent (2025) *Source: Seychelles Third Fiscal Sustainability and Climate Resilience DPF* **SPI 3.4:** Number of patrols to monitor compliance with the Mahé Plateau Regulations	**IBRD** ***Ongoing Operations*** ● Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)/Blue Bond (closing June 2024) ● Seychelles Fiscal Sustainability and Climate Resilience DPF ● Solid Waste Management Project (IPF) ***Pipeline Operations*** ● Renewable Energy Project (IPF) / GCF TBC) ***Ongoing Analytic Work*** ● Seychelles Renewable Energy Transition (ASA) ● Strengthening Quality of the Social Protection System ● Seychelles Resilience PA (ASA) ***Pipeline Analytic Work*** ● Climate Financing diagnostic ● Global Environmental Facility (TBC)

Target: 41,300 (2029) *Source: Source: Solid Waste Management Project*	Baseline: Coastal patrols 5 (2022) Target: Coastal patrols 8 (2025) *Source: Seychelles Third Fiscal Sustainability and Climate Resilience DPF*	● Country Climate and Development Reports (CCDR) ● Repair Program (TBC) ● Capacity Building for Disaster Risk Management (TBC) ● Disaster Risk Management Technical Assistance (TBC) **IFC** ***Pipeline Investment*** ● IFC Waste-to-Energy PPP Project – TBC

Annex 2: Seychelles (FY18–FY23) Completion and Learning Report

Date of CPF: June 18, 2018 (Report No. 122493-SC)
Period Covered by the Completion and Learning Review: FY18–FY23

I. INTRODUCTION

1. **This Completion and Learning Review (CLR) assesses the World Bank Group's (WBG's) program in Seychelles during fiscal year (FY)18-FY23.** The WBG Board of Directors discussed the FY18-FY23 Country Partnership Framework (CPF) for Seychelles on June 18, 2018.[8] A waiver was received on dropping the preparation of the Performance and Learning Review (PLR) because of the COVID-19 pandemic.

2. **The overall performance of the CPF program is rated Moderately Satisfactory.** The FY18-FY23 CPF was built around two focus areas (sustainable growth for shared prosperity, fostering inclusion and public sector performance) and had four objectives and 14 indicators. The CPF supported Seychelles' long-term vision (Vision 2032) and five-year National Development Strategy for 2019-2023 and was informed by findings of the Independent Evaluation Group Cluster Country Program Evaluation on Small States and the 2017 Systematic Country Diagnostic (SCD). The World Bank Group delivered a robust portfolio of eight advisory services and analytics (ASA) reports (Annex 6) supported by two reimbursable advisory services (RASs), two development policy financing (DPFs), one Program-for-Results (PforR) financing, and one Investment Project Financing. In close collaboration with the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC) provided long-term financing with a focus on digital connectivity and the financial sector; IFC financed a US$10 million project (a submarine cable connecting Seychelles to the East Coast of Africa) with Intelvision (Annex 7); and the Multilateral Investment Guarantee Agency (MIGA) supported three investment projects in the financial and digital sectors, each with a strong regional dimension.

3. **The WBG performance rating is Good.** The CPF aligned with Government objectives, incorporated lessons from the previous CPF, and adopted ex ante a fit-for-purpose program and results framework. The risks were accurately identified. The IBRD active program portfolio grew from US$25 million at the beginning of the CPF period to US$120.3 million by 2022 (Annex 3). No fiduciary or safeguards problems materialized during the CPF period, and disbursement reached 38 percent by FY23. Nevertheless, COVID-19 led to a severe economic contraction and lower tax revenue, and a commodity price shock followed external challenges, limiting program scope and implementation. The Government consolidated its fiscal position by prioritizing spending and dropped the RAS program. In 2021, in response to the difficult fiscal situation caused by COVID-19, the Government requested an International Monetary Fund (IMF) program[9] and a new World Bank Group DPF series. The PLR had to be postponed because of the pandemic and was dropped when the new CPF and the CLR preparation were launched. Two budget support operations closed during the CPF period and have been rated on exit Moderately Satisfactory or better.[10]

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[8] The CLR covers program implementation and Bank performance, assessing and rating the overall effectiveness of WBG programs in achieving their stated objectives, evaluating WBG performance, and discussing alignment of the CPF with WBG corporate priorities. It has drawn on discussions with WBG staff members involved in project delivery, ASA and advisory work, a range of WBG documents and reports, and discussions with Government counterparts.

[9] In July, the IMF approved a 32-month program under the Extended Fund Facility for US$106 million, with an immediate disbursement of US$34 million.

[10] Development policy loan with a Cat DDO (P148861), COVID-19 Emergency DPF (P174198), Fiscal Sustainability DPF (P176420).

II. STRATEGIC FOCUS AND CONTEXT

4. **Two considerations [sustaining Seychelles' decade-long economic progress, supporting a country above the graduation discussion income (GDI)] drove the WBG's engagement under the 2018 CPF.**[11] Seychelles had a stable political system and made significant progress in improving public sector governance. The presidential and parliamentary elections of 2020 resulted in the first democratic transition of power in Seychelles' recent history. As a high-income country, Seychelles focused on nonincome factors such as providing broad access to capital markets to fund development programs and projects, strengthening macroeconomic and debt management for economic and social development, increasing creditworthiness, and enhancing governance practices to attract private investment. The CPF was designed to address Seychelles' capacity constraints, knowledge gaps, and challenges tied to unique vulnerabilities that small island developing states (SIDSs) such as Seychelles face, such as vulnerability to economic shocks, natural disasters, and climate change. Initially, advisory and knowledge services were considered the primary modality of World Bank Group support, using RASs and ASAs with the flexibility to access IBRD financing, but tax revenues from tourism declined because of fiscal constraints caused by the COVID-19 pandemic and the external challenges, so the Government resumed borrowing and chose to defer the RAS pipeline and cancel existing RAS activities.

5. **Program selectivity, supported by the Systemic Country Diagnostic and country analytics, highlighted Seychelles' dependence on a narrow economic base and its incomplete structural transformation.** Innovation and local value added have been shallow, especially in vital sectors such as tourism and fisheries, driven more by factor accumulation than productivity gains. To sustain developmental gains, Seychelles needed to enhance prioritization and efficiency in public spending, improve state-owned enterprise management, and adopt a strategic approach to social protection. The CPF selective program was to focus on Seychelles' most critical development priorities, outlined in the National Development Strategy 2019-2023: productivity, participation, and performance. The CPF addressed these priorities with two mutually reinforcing focus areas and four supporting strategic objectives. The first focus area, growth for shared prosperity, was designed to help the Government retool the core economy (fisheries and tourism) for sustainability and inclusion and to strengthen management of natural endowments and resilience to natural shocks. The second focus area, fostering inclusion and public sector performance, was designed to help the Government build human capital for the bottom 40 percent, supporting consolidation of gains in public finances and increasing efficiency and improving regulations to create space for the private sector.

6. **The main challenge to the 2018 CPF's initial assumptions was the severe economic contraction due to the COVID-19 pandemic and external challenges; nonetheless, the swift Government response led to a robust economic rebound.** The disruption of the tourism and service sectors resulted in a 12.9 percent gross domestic product (GDP) growth contraction in 2020, leading to an increase in poverty from 6.7 percent in 2018 to 8.4 percent, erasing achievements made since 2013. The nation initiated an early, extensive vaccination campaign, enabling it to reopen in March 2021. The external challenges significantly affected Seychelles, decreasing tourist arrivals[12] and causing a surge in commodity prices, which decreased external and fiscal balances and increased inflation.[13] This led to lower growth projections for the economy and an increase in the current account deficit. Inflationary pressures were transmitted

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[11] In 2015, Seychelles became a high-income economy. In 2022, its gross national income per capita was US$14,340.

[12] Flights from Russia, which accounted for 20 percent of the tourism market, were suspended.

[13] Unlike many countries, inflation in Seychelles was relatively low in 2022, reflecting the large exchange rate appreciation due to an increase in tourist arrivals in 2021 and 2022. This partially mitigated inflationary pressures, and average annual inflation declined to 2.6 percent in 2022.

through higher fuel and wheat prices, which resulted in higher cereal, bread, housing, and transportation prices. Seychelles' fiscal account and debt profile felt the impact of the projected deficit increase and potential depreciation of the Seychelles rupee, but the Government's outperformance on fiscal adjustment targets and use of a special drawing rights allocation mitigated the combined negative impact of various global crises, including the pandemic.

7. **External financing was crucial for filling the financing gap that resulted from the pandemic response and higher import bills as a result of other ongoing global crises.[14]** Funding from the IMF and IBRD helped build foreign exchange reserves and filled the fiscal gap.[15] Tourism made a strong comeback, helping GDP growth to rebound to 7.9 percent (2021), surpassing expectations. The Government's consolidation efforts and the economic recovery led to strong fiscal performance.[16] The improved market prospects decreased financing costs and improved Seychelles' sovereign rating.[17] By the end of the CPF in 2022, Seychelles had returned to its long-term growth trend of 4 percent, with continued reliance on tourism and fisheries.

8. **COVID-19 revealed the structural weakness of the Seychelles economy, with dependence on imports for basic commodities and underdeveloped capacity for domestic production.** The Government was eager to spur further diversification away from traditional sectors in support of higher productivity growth. The new Government, elected in October 2020, emphasized continuity, a gradual approach, and targeted reform over disruptive change; shifted focus toward new sectors such as information and communications technology and financial services; and increased efforts to diversify traditional sectors such as tourism and fisheries to increase value addition. This included measures to enhance the efficiency of public spending, address inequalities and strengthen human capital, regulate the financial sector to avoid contagion from market disturbances, improve debt management, and manage contingent liabilities from state-owned enterprises. The social protection system was reformed to better direct spending toward the most vulnerable segments of the population and to support services to promote labor market integration. The World Bank Group helped the Government manage the economic impact of COVID-19 through the Seychelles COVID-19 Emergency Development Policy Financing (DPF) (P174198), enabling it to guarantee salaries for formal private sector employees and implement measures for economic recovery and resilience, including structural reforms to enhance financial system transparency and accountability, along with policies addressing climate change.

9. **Seychelles, as a SIDS, is vulnerable to economic, social, and environmental impacts, which pose significant risks to development outcomes.[18]** The CPF engagement was consistent with the World Bank Group Strategy for addressing the special needs and vulnerabilities of SIDSs.[19] Coastal erosion and sea-level rise, which are associated with climate change, are a significant threat to tourism and fisheries in Seychelles. Key barriers to climate adaptation for Seychelles are scarcity of land for development and lack

[14] The Government's COVID-19 response package included private sector salary guarantees, an increase in social protection spending for vulnerable groups, unemployment relief, and transfers to public enterprises such as Air Seychelles.

[15] In 2020, IMF extended US$31 million under the Rapid Financing Instrument in direct budget support for urgent needs arising from the economic impact of the pandemic; in July 2021, IMF approved a US$107 million three-year extended fund facility (EFF). The World Bank Group approved US$30 million in a Social Protection PforR in March 2021 and prepared a new DPF series for US$60 million.

[16] The primary deficit decreased from 14.7 percent of GDP in 2020 to 3 percent in 2021, well below the initial target. The debt-to-GDP ratio fell from 89 percent in 2020 to around 76 percent in 2021.

[17] On October 22, 2022, Fitch upgraded its outlook and rating on Seychelles' long-term foreign currency-issuer default rating to Stable and its issuer default rating to BB-, making it one of the highest-rated countries in sub-Saharan Africa.

[18] Its location, topography, and landscape make Seychelles vulnerable to cyclones, tsunamis, storm surges, extreme rainfall, flooding, landslides, and forest fires. More than 90 percent of the population and economic activities are concentrated in narrow coastal areas.

[19] As formulated in the World Bank Group's Forward Look strategy (2018) and Capital Increase Paper (2018).

of capital to implement projects. The World Bank Group, through the Catastrophe Deferred Drawdown Option (Cat DDO) and Third South West Indian Ocean Fisheries (SWIOFish3) Program launched in 2017, stepped in to support disaster risk management (DRM) and investments. Seychelles integrated climate adaptation into its policy through the 2009 National Climate Policy and its advocacy efforts, highlighting the unique challenges of SIDSs. The fiscal impact of COVID-19 further constrained the Government's ability to plan and prioritize coastal investments. During the CPF period, Seychelles pioneered an innovative financing mechanism through a debt restructuring and use of sovereign guarantee to support climate adaptation, including management of coasts, coral reefs, and mangroves. The issuance of the Seychelles Blue Bond[20] for financing investments in the blue economy may serve as a model for SIDSs to fund sustainable investments in conservation and climate change adaptation.

III. PROGRESS TOWARD CPF DEVELOPMENT OUTCOMES

10. **The CLR assesses the overall development outcome of the CPF as Moderately Satisfactory.** One objective was achieved, two were mostly achieved, and one was partially achieved (Table 1, Annexes 1 and 2).

Table 1: Ratings of Seychelles Fiscal Year 2018-22 Country Performance Framework Strategic Objectives According to Focus Area

Focus Areas and Objectives	Rating
Focus Area I: Sustainable growth for shared prosperity	Mostly achieved
Objective 1: Increasing opportunity in fisheries and tourism	Mostly achieved
Objective 2: Strengthening management and resilience of natural endowments	Mostly achieved
Focus Area II: Fostering inclusion and public sector performance	Mostly achieved
Objective 3: Reorienting the social assistance system to prioritize the bottom 40 percent of the population	Partially achieved
Objective 4: Improving public sector performance and accountability	Achieved

11. **There were several notable successes during the 2018 CPF implementation.** Seychelles' sovereign Blue Bond,[21] supported by the World Bank Group[22] and partially through SWIOFish3, was the first of its kind to finance fisheries and ocean health. World Bank Group disaster risk support has strengthened Seychelles' climate and disaster resilience, with economy-wide effects allowing quick recovery of the tourism sector and sustaining people's livelihoods, which is essential for protecting Seychelles' tourist brand. The Cat DDO, as the first source of external financing accessible to Seychelles, provided a lifeline to the people and the economy, buffering the immediate impacts of the crisis. The COVID-19 Emergency DPF helped guarantee salaries for formal private sector employees and reduce tax burdens for businesses. Lending support for DRM enhanced the Government's capacity to prepare for and respond efficiently to

[20] The Blue Bond issuance in 2018 represents Seychelles' first return to the market since its 2008 default, facilitated by credit enhancement using IBRD and Global Environment Facility resources.

[21] The issue raised US$15 million from three socially responsible impact investors with the intention of harnessing private capital to finance sustainable use and protection of marine resources through a blue grants fund (US$3 million) and a blue investment fund (US$12 million).

[22] The World Bank Group supported the Blue Bond with a partial guarantee (US$5 million) and a concessional loan from the Global Environment Facility (US$5 million), which allowed the 6.5 percent coupon rate to be reduced to 2.8 percent.

disasters and strengthened capacities in core DRM areas such as geospatial data, coastal management, and risk-informed land-use planning. The World Bank Group has also strengthened its partnership with government agencies, stimulating resilience dialogue and inter-ministerial collaboration and has promoted transparency and better aligned the country's legal framework with international standards by facilitating approval of the new Anti-Money Laundering (AML) and Combatting the Financing of Terrorism (CFT) Act 2020 and the Beneficial Ownership Act 2020.

Focus Area I: Sustainable Growth for Shared Prosperity

12. **Objective 1, Increasing Opportunity in Fisheries and Tourism, is Mostly Achieved.** Three indicators were achieved, and one mostly achieved. In 2020, to assess the first indicator, using swordfish as an example, the difference between the per kilogram landed catch price and the retail price reached 150 percent, against a target of 130 percent.[23] The second indicator was mostly achieved with 65 percent of the bycatch landed being sold in Seychelles, against a target of 50 percent.[24] The project source indictor from the SWIOFish3 (P155642) was revised during the project restructuring and extension. For the third indicator, the Government dropped the RAS on tourism because of fiscal difficulties during the COVID-19 period, but the regulatory framework of the tourism sector was strengthened, and the sector received vital support through Seychelles COVID-19 Emergency DPF (P174198) prior actions. As a prior action, the Seychelles National Assembly approved a supplemental budget in the form of a financial assistance for job retention scheme, which guaranteed salaries of all employees in companies affected by the COVID-19 pandemic and postponed taxes. This measure allowed the tourism sector to maintain its productivity and viability and the Government to mitigate the economic impacts of COVID-19, such as suspension of local economic activities and the decrease in international tourism. The financial assistance for job retention program provided temporary relief to affected businesses and households. The fourth results indicator, measuring progress on ease of doing business, was part of the Doing Business Index, which the World Bank Group discontinued in 2021, but assessments and reports that other development agencies provided and could substitute for the discontinued indicator show that Seychelles' progress on business environment, entrepreneurship and governance has been strong.[25] The WBG contributed to this outcome through the IFC advisory to the Government for an enabling legal and regulatory framework to be established for the credit reporting system, which was adopted in July 2023.

13. **Objective 2, Strengthening Management and Resilience of Natural Endowments, is Mostly Achieved.** Two indicators were achieved, and one was not achieved. Fisheries are the main natural endowment and are actively exploited economically. The first indicator measured the share of demersal species classified as stable in Mahé Plateau fisheries and which increased from 11 percent in 2018 to 100

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[23] Because the SWIOFish3 Project did not conduct a survey, the CLR used the project that the Seychelles Conservation and Climate Adaptation Trust financed, Fishing Livelihoods and Fisheries Management in the Mahé Granitic Island, Seychelles: A Cost-Benefit-Analysis based on a Value Chain Approach, as a proxy for data collection and verification. https://seyccat.org/fishing-livelihoods-and-fisheries-management-in-the-mahe-granitic-island-seychelles-a-cost-benefit-analysis-based-on-a-value-chain-approach/.

[24] Despite the positive trend and strong result, the indicator was rated as 'Mostly Achieved.' The source indicator from SWIOFish3 project was revised during the midterm review in 2023, which now reads as 'Share of value-added artisanal fisheries products retailed locally.' Thus, the latest available data is from 2022. The Seychelles Fishing Authority (SFA) has not yet validated the data for 2023 and 2024.

[25] Because the Doing Business exercise was discontinued during the CPF implementation period, according to World Bank Group management guidance, staff were advised to drop existing Doing Business indicators and use alternative indicators and assessments to track progress. See the Issues Note and Guidance for World Bank Group Group Staff, OPCS, p. 3. The Seychelles CLR assessed Indicator 4 corroborating assessments and data from three other assessments of governance and business climate: U.S. Agency for International Development International Data and Economic Analysis (data base), U.S. Department of State Investment Climate Statements, and improvements in Mo Ibrahim Index of African Governance, p. 52. Seychelles demonstrates sustained improvement in the business environment across multiple dimensions and significantly outperforms its African peers.

percent in 2022, exceeding the initial target of 55 percent. No survey has been conducted since 2022.[26] The DRM law was passed before CPF implementation was begun. Under the second indicator, World Bank Group support shifted toward implementation of the DRM law,[27] assisting the Government with preparation and adoption of its National Integrated Emergency Management Plan (NIEMP), which translated the objectives outlined in the DRM Law into a comprehensive statutory national plan. By the end of 2019, the Principal Secretary of the Division of Risk and Disaster Management had revised and approved five district contingency plans. The NIEMP and the contingency plans played crucial roles in the COVID response and the response to the events in December 2023.[28] Despite the imprecise baseline definition, the results attributable to the World Bank Group assistance indicate a stronger policy framework, greater capacity to respond to disasters, and increasing resilience to environmental risks, so this indicator was assessed as Achieved. Because of the financial constraints imposed because of the COVID-19 pandemic, the Government dropped the Boosting Tourism RAS, continuing its own efforts to increase compliance with the Sustainable Tourism Label, a sustainable tourism management and certification programme designed specifically for use in Seychelles. Because it is not possible to attribute the outcomes with World Bank Group support, the third indicator was rated as Not Achieved.

14. **Additional results under this objective were achieved in enhancing resilience and management of natural endowments.** The Cabinet approved a national climate change policy in May 2020, helping mainstream climate concerns in sectoral strategies, and the National Climate Change Council was created to strengthen coordination of climate actions. Efforts have also been made to enhance emergency preparedness and response in at-risk districts through development and approval of district contingency plans. In addition, the ministries of Health, Education, Tourism, Food Security and Nutrition, and Port and Airport revised their response plans during the CPF period, increasing the effectiveness of DRM. Geographic information systems data were modelled to help explain historic loss and damage caused by climate change. Greater sharing of risk information between ministries, departments, and agencies (MDAs) would strengthen response capacity further.

Focus Area II: Fostering Inclusion and Public Sector Performance

15. **Objective 3, Reorienting the Social Assistance System to Prioritize the Bottom 40 Percent, is Partially Achieved.** One indicator was Mostly Achieved, and two were Not Achieved. The share of poor households covered by social welfare assistance (SWA) increased by 4.7 percent, reaching 79 percent of its target, as compared to the baseline (6 percent). After a big drop between 2018 and 2022, the number of beneficiaries increased by 223 percent between 2022 and 2023, although the share of social protection noncontributory benefits directed to children was not achieved (5.0 percent, against a target of 20 percent).[29] There was no WBG activity to support an early warning system to prevent struggling students from dropping

[26] The catch per unit effort survey is costly and labor intensive and is not conducted annually. The Seychelles Fisheries Authority is preparing a new survey.

[27] The baseline of the indicator has been inaccurate and not well defined as "no DRM Law". The DRM Act was passed in 2014 and remains unchanged, providing Seychelles with a legal framework to respond efficiently to disasters. During the CPF period, the World Bank Group supported implementation of the DRM law by helping the Government formulate national and district plans to operationalize the law.

[28] A blast at an explosives depot and heavy rains that damaged an industrial zone and surrounding areas.

[29] Estimated using Ministry of Finance statistics on benefits that the Agency for Social Protection provided in 2018, which lists each Agency for Social Protection program and its expenditures. Benefits that individual programs direct to children were identified and aggregated. In the case of SWA, which is directed to households rather than individuals, it was assumed that children accounted for 30.4 percent of household size. Also, it was assumed that half of subsidized bus transport was focused on children. (Bus transport subsidies are available for children and seniors.) Estimate does not include benefits potentially accruing to children under categories of disability or under the Home Care Program.

out during the CPF period, and hence the outcome was not achieved. The World Bank Group report "Building Bridges to Empower At-Risk Youth in the Seychelles" was prepared in 2024.

16. **Beyond the results framework, the World Bank Group supported informal workers facing hardship in the context of COVID-19 by increasing the budget for SWA and the Unemployment Relief Scheme.** The SWA budget was raised from 47.8 million rupees to 77.8 million rupees, and the Unemployment Relief Scheme received twice the amount of its previous allocation of 10 million rupees, to meet growing demand. Between May 2020 and April 2021, the number of SWA beneficiaries rose from 2,400 to 3,425 as a result of these efforts. The Strengthening Quality of the Social Protection System PforR (P168993), under which the World Bank Group has supported an increase in the number of SWA beneficiaries to 19,266, against a target of 18,800, complemented these results.

17. **Objective 4, Improving Public Sector Performance and Accountability is Achieved.** Through the Program- and Performance-Based Budgeting (PPBB) RAS, the World Bank Group supported the technical design of PPBB, including systems, guidelines, tools, and capacity building. The CPF helped the introduction of reforms in a phased approach, leading to their mainstreaming across all MDAs from 2019 on. The support also resulted in integration of PPBB with r results-based management to enhance overall performance management in the public sector. The World Bank Group also supported design and implementation of performance monitoring and evaluation, enabling the Office of the President and the Cabinet to better monitor national and sectoral outcomes and hold MDAs accountable. The Cabinet adopted a performance monitoring and evaluation policy that was applied to seven pilot sectors. The percentage of MDAs using strategic planning and performance monitoring and evaluation instruments and the percentage using an integrated public service management and performance management system reached 100 percent, meeting the targets of all three indicators (Annex 2). The last indicator, strengthened capacity of national authorities to assess and address AML and CFT risks, was also achieved; the RAS resulted in the Government being provided with the necessary operating manuals, tools, and methodology and several workshops.[30]

IV WBG PERFORMANCE

18. **WBG performance is rated as Good**. The flexible design and implementation of the CPF program contributed to achievement of CPF development objectives. Efforts to help the Government accelerate inclusive growth at the outset of CPF design and implementation aligned the WBG program objectives and interventions with the Government programs. Although, the results framework showed several weaknesses and was not able to benefit from PLR adjustments to capture more results arising from the WBG efforts during the consecutive external health and economic shocks, the ad hoc adjustments to the program were timely and effective in responding to the changing operating environment and Seychelles' urgent needs.

Design

19. **The FY18-FY23 CPF design was relevant to and aligned with Seychelles' development challenges.** The 2018 CPF was prepared when the Government was drafting its Vision 2033 document and National

[30] Although part of the evidence refers to manuals, tools, and workshops, which appear as inputs and may not provide the guarantee that the national authorities have strengthened their capacity to address AML and CFT risks, the integrity of the AML legislative framework relies on the availability and effectiveness of such tools and their efficient use. Assessing effectiveness requires at least three years of data to demonstrate impact. Parameters such as the Beneficial Ownership register and percentage of firms registered are used as evidence to evaluate the National Risk Assessment. Additional evidence was gathered from Financial Action Task Force summaries, which are available on its website.

Development Strategy 2019-2023.[31] The CPF anticipated the priorities of the Government, focusing on making Seychelles' macroeconomic policy more robust, its business climate more favorable, and its society more inclusive and sustainable. The CPF was anchored in the priorities of Vision 2033, which the two CPF focus areas (sustainable growth for shared prosperity, fostering inclusion and public sector performance) reflect. The focus areas are designed to consolidate the gains that Seychelles has made in terms of health, wealth, and well-being while building its resilience as a SIDS. Overall, the CPF provided sound intervention logic for the two focus areas; the objectives were well aligned; and interventions directly supported the objectives, building on existing engagement areas.

20. **The choice of instruments at the design stage was intended to shift the program away from policy lending and toward knowledge services, complemented by investment lending, but because of the external shocks, the country engagement reverted to budget support.** Usually, Seychelles has a strong appetite for reforms and prefers borrowing from the Bank through budget support to other instruments. Still, to strengthen Seychelles' above-the-GDI profile, the CPF design presented a blend of knowledge products (RAS and technical assistance), with expected growth of the self-financed RAS portfolio and mobilization of innovative private long-term financing, including private investments and greater use of private-public partnerships for public investments, but the heightened international health and economic risks made private flows more volatile. As a result, to address the increase in macroeconomic imbalances and poverty and to bridge the growing financing gap, Seychelles had to turn to the international financial institutions (IFIs) for lending and restoring macro-fiscal stability through IFIs-funded technical assistance. In 2020 and 2021, the Government received US$76 million in budget support from the IMF, World Bank Group, and African Development Bank. The World Bank Group DPF series was the right instrument to respond to the evolving country strategic context (see para 28), and the Bank's technical support helped channel relief, increase financial system transparency, and implement climate-resilience policies. From the original pre-crisis CPF program, only the social protection PforR (US$30) remained relevant. The currency swap, which was intended to better align Seychelles debt obligations with foreign exchange earnings, did not materialize. The indicative IBRD lending pipeline of US$25 million during the first half of the CPF period quadrupled in commitments to a portfolio of US$120.3 million (Annex 3).

21. **The lessons learned from FY12-FY16 CPS were factored in during the design stage.** The lessons recommended that more technical assistance be provided in support of DPFs, more selectivity, greater understanding of political economy, and strategic review of RASs. Although many of these lessons were included in the original design, the new normal as a result of the external shocks made these less relevant (e.g., moving away from budget support; see previous paragraph). The CPF was designed to shift WBG support from a primary focus on fiscal sustainability to other government priorities, such as inclusion, but the pandemic and the impact of external challenges forced the Government to re-focus on macroeconomic sustainability, economic diversification, and climate action. The original CPF design could have benefited from the lesson recommending a broader political economy analysis, which would have been well suited to a fast-growing lending portfolio during the implementation period, but the CPF ASA program did not support this recommendation.

22. **The CPF design sought areas of complementarity within the WBG and with other development partners, considering the limited opportunities for collaboration in a SIDS setting.** Under Objectives 1 and 4, the IBRD and IFC were to collaborate on the delivery of their engagements, presenting a complementary, mutually reinforcing approach rather than a parallel one. The goal of the collaboration

[31] Vision 2033, released after the CPF was approved, is structured around six pillars: good governance, people-centered development, social cohesion, innovation economic transformation, and environmental sustainability and resilience.

between the World Bank Group and IFC was to use technical assistance and IFC advisory services to increase tourist activities, business ranking, financial product diversification, and capacity building. Another goal was to address environmental, social, and governance barriers to private sector investment and to expand ongoing RAS engagements to improve public sector performance and increase the Government's capacity to use public-private partnerships. The forms of World Bank Group and IFC coordination and implementation were intended to be flexible, open, and conditional on specific business cases and needs. Consultations were held with all stakeholders, including business leaders, civil society organizations, and members of parliament. The Ministry of Finance, Economic Planning, and Trade is usually the facilitator for these exchanges, to avoid duplicative activities. The design of the future CPF will benefit from identifying and aligning potential development partner priority areas to bolster collaboration within Seychelles' limited development partner community and to explore complementarities and synergies within the WBG (IBRD, IFC, MIGA).

23. **The CPF committed to playing an important role in knowledge creation** to fill the knowledge gaps identified in the Systemic Country Diagnostic though support to the National Bureau of Statistics to provide timely, good-quality data for policy makers; additional RASs to support detailed policy design and assist with implementation; WBG-financed ASAs for greater advocacy related to WBG institutional priorities such as supporting development data quality; and gender, poverty, and inclusiveness analysis. The CPF also promised to emphasize knowledge creation in areas where Seychelles is on the cutting edge of global issues relevant to SIDSs, such as fisheries management, marine spatial planning, and innovative financing for the Blue Economy.

24. **The identification and management of CPF risks to the overall strategy and program implementation were justified at the time, and a shock scenario was unforeseen.** It was expected that the CPF would be implemented in a low-risk environment and focused on mid-level political, macroeconomic, and stakeholder risks. The change of Government in the 2020 elections did not affect political risk, because Government priorities did not change. Macro-fiscal risk and structural exposure to external shocks, also rated Moderate during preparation, could not foretell the level of disruption in the international travel and tourism sectors or the rise in food and fuel prices during the COVID-19 pandemic and the external challenges, which resulted in High actual risk. The swift government response and liquidity that international financial institutions provided mitigated the high macro-fiscal risk. As a result of its remarkable economic rebound, Seychelles' sovereign credit rating was upgraded in 2022. As a SIDS, Seychelles is particularly vulnerable to extreme weather events, such as flooding, hurricanes, and tidal surges, which has reinforced its commitment to combating climate change. Tropical Cyclone Jobo passed through the Seychelles' Outer Islands in April 2021, damaging buildings and vegetation. The Low rating for environmental and social risks, given Seychelles' SIDS vulnerabilities,[32] was somewhat understated. An additional institutional risk that was not anticipated in the CPF was the high turnover among technical level staff in key ministries and agencies, which caused operational delays.

25. **The CPF accurately identified the measures to support implementation of the program.** These included measures to respond to macro-fiscal risks by increasing IBRD financing through development policy lending. Mitigation of stakeholder risks through communication and change management support from the WBG was effective. For example, a nationally televised workshop on the introduction of digital

[32] The CPF risk evaluation tool - Systematic Operations Risk-rating Tool (SORT) - lacks a category for assessing climatic risks, which are often rated by approximation as environmental and social risks. SIDS are particularly vulnerable because of their limited land area, geographic location, economic dependence on fisheries and tourism, biodiversity loss, coastal erosion, high population densities, and limited resources, which together pose significant risks to CPF implementation.

financial services was crucial in addressing stakeholder risk by obtaining stakeholder buy-in for implementation support that the World Bank Group provided.

26. **The results framework was coherent and aligned with government priorities related to the Systemic Country Diagnostic and the CPF focus areas.** The CPF had fewer focus areas than during the previous period, reflecting Seychelles' GDI profile and incorporating contributions from IFC and MIGA. Indicators generally measured objectives and were validated against defined baselines, but their types and scope varied, and they could have been better aligned with objectives overall. Because the PLR was postponed and ultimately dropped, some objectives and indicators could not be updated, leading to measurement challenges due to lack of data and agreement on metrics.

27. **Given the small size of the portfolio[33] and reliance on budget support, there were no relevant fiduciary or safeguard problems during the implementation period.** As part of the PforR operation, the program action plan was designed to strengthen the internal control system of the implementing agency and foster transparency in procurement. Oversight by the auditor general was also enhanced to address weaknesses identified during appraisal. The program has been implemented in accordance with the provisions of the anticorruption guidelines applicable to PforR operations. The World Bank Group regularly monitored the implementation status of the program action plan.

Implementation

28. **Emergency policy lending, which included Cat DDOs and DPFs, became the Government's instrument of choice and produced most of the results achieved under the 2018 CPF** (Annex 3). The Cat DDO, as a main DRM instrument, increased capacity for fast response to COVID-19 and natural disasters and provided an efficient, immediate source of liquidity at the onset of the COVID-19 crisis. Likewise, the DPFs matched the evolving country strategic context well because of their flexibility, expedited preparation, and ability to provide liquidity rapidly, allowing effective responses to crises, especially in a SIDS economy. The DPFs played a pivotal role in expediting post-pandemic recovery by facilitating essential reforms, supporting climate action initiatives with a focus on mitigation and adaptation, promoting adoption of renewable energy practices, and helping achieve fiscal and debt sustainability in coordination with IMF. Another reason the DPFs were an effective instrument was the Government's commitment to addressing fiscal challenges and its solid track record in doing so. For the decade before the pandemic, Seychelles consistently demonstrated a commitment to an adequate macroeconomic framework and ambitious policy and institutional reforms. During the CPF period, Seychelles used four DPFs (in addition to two DPFs in the previous CAS period).[34] The Independent Evaluation Group rated the Cat DDO and the COVID-19 DPF as Satisfactory.[35]

29. **IFC and MIGA activities in Seychelles were closely aligned with IBRD priorities** (Annex 6 and 7). IFC and the World Bank Group provided advisory support under a World Bank Group RAS to the Central Bank of Seychelles for deployment of a modern credit reporting system to strengthen financial sector development. IFC has engaged with the Government to potentially provide support to replace heavy fuel oil with liquefied natural gas and to explore options for involving the private sector in developing cost-

[33] Three development policy loans were discussed and closed: development policy loan with a Cat DDO (P148861), Seychelles COVID-19 Emergency DPF (P174198), and Fiscal Sustainability DPF (P176420).

[34] I.e., 2020 COVID-19 Emergency DPF (P174198); First (2021; P176420), Second (2022; P178209), and Third (2023; P178210) DPFs from the series on Sustainability and Climate Resilience; and the previous cycle DRM DPF (2017; P148861) and Sustaining Reforms for Inclusive Growth (2016; P153269). Also, the 2017 Cat DDO revised its trigger in 2020 to include major health-related emergencies like COVID.

[35] Staff and the Independent Evaluation Group have not completely evaluated the DPF series that are still ongoing with the processing of the third DPF.

effective approaches to waste management in a solid waste-to-energy project on Mahé. Additionally, in May 2021, IFC signed a US$10 million loan that will enhance internet connectivity of Seychelles to the rest of the world while increasing competition within the country's information and communications technology sector. IFC also collaborated closely with IBRD under Objectives 1 and 2 of the CPF (primarily with a focus on developing the Blue Economy), although no investment opportunities materialized because of the pandemic. During the CPF period, MIGA supported three investment projects in Seychelles, each with a strong regional dimension. MIGA issued a capital optimization guarantee to Absa Group of South Africa covering the activities of its subsidiaries in 10 sub-Saharan African countries, including Barclays Bank (Seychelles). In line with the CPF, this transaction was designed to promote private sector-led growth by increasing access to finance in Seychelles. MIGA guaranteed foreign investments in Airtel Money's operations across 12 sub-Saharan African countries, including Seychelles, which was designed to increase consumer access to mobile money services. Seychelles is benefiting from MIGA's guarantee to the Eastern and Southern African Trade and Development Bank provided on trade finance activities and as such can facilitate critical imports to and exports from Seychelles.

30. **The quality of the World Bank Group's lending portfolio during the CPF was Satisfactory.** The latest implementation status report of the national PforR rates progress toward its project development objectives and implementation progress as Moderately Satisfactory. The other operations that have closed during the CPF have all received ratings of Moderately Satisfactory or better for project development objective progress and implementation progress. Disbursements have increased to 38 percent in FY23. The regional SWIOFish3 project, with the objective of improving management of fisheries and strengthening their value chains, had a slow start and was suspended during the pandemic and restructured to simplify its design and extend the closing date to 2024. Project implementation accelerated, with a significant increase in disbursements, as a result of the recent signing of the first loan under the innovative Blue Investment Fund.

31. **The World Bank Group faced several challenges in implementing the CPF during the pandemic because of remoteness and high supervision costs.** The Government opted to drop the PPBB RAS because of a lack of counterpart funds. To complete the work and deliver the results documented under Objective 4, the World Bank Group chose to finance the remainder using its own budget. The disruption of travel prompted the WBG to shift supervision to online modalities, ensuring business continuity for the World Bank Group and counterparts. Other challenges were the mixed capacity within the project implementation unit in implementing a complex project such as SWIOFish3 and lack of local World Bank Group presence.

32. **Given the pandemic circumstances occurring during the FY18-FY23 CPF, the IBRD adjusted its response by changing its instruments of support without a PLR.** The pandemic delayed implementation of all activities. By the time the emergency eased, a PLR no longer had any value. From a programming perspective, even without a PLR, the WBG responded to the pandemic well. The Cat DDO was revised to allow drawdown triggers to include health-related emergencies. The funds were thus leveraged as the first source of external financing accessible to Seychelles and provided a lifeline to people and the economy. Moreover, the Government used the framework developed through the NIEMP to coordinate the overall emergency response to COVID-19, enabling effective communication and coordination between government and nongovernment actors. In addition, the COVID-19 Crisis Response Emergency DPF (P174198) was approved on June 25, 2020, with the goal of supporting the Government response and recovery from the COVID-19 crisis by enhancing response mechanisms in health care, social protection, and the private sector and supporting sustainable post-crisis recovery by strengthening financial systems and increasing climate resilience. Results from the DPF were largely satisfactory. The World Bank Group also provided technical assistance to Seychelles Airlines, which was facing insolvency during the crisis.

33. **The CPF filled important knowledge gaps that the systemic country diagnostic identified.** Productivity and Employment in the Informal Sector in Seychelles analyzed Seychelles' market structure and performance. A poverty assessment (2022) addressing inclusion challenges in Seychelles was completed in 2022 and drew wide public attention. A household budget survey was also conducted in 2019. Marine spatial plan for the protection of marine resources and an innovative financing instrument were produced to inform the SWIOFish3 project. Rigorous analytical work that drew on international experience in managing economic crises supported the COVID-19 DPF and the DPF series design. This prior work was used to target vulnerable groups for interventions and included policy notes on the response to the pandemic and on implications for corporate and individual insolvency, secured transactions and collateral registry, and the implementation of the Seychelles financial sector development plan. Nevertheless, knowledge gaps remain that should be considered for the next cycle, especially in education, the digital economy, and land management.

34. **Although the ASA program under the CPF strengthened the knowledge base in Seychelles, there is room to increase dissemination of WBG analytical products** (Annex 5). Eight ASA products were delivered between FY18 and FY23 on six distinct themes, with an additional five under preparation. Of those with activity completion summaries, six were rated as Satisfactory in development effectiveness. Most activity completion summaries were about finance, competitiveness, and innovation, although typical dissemination challenges such as limited awareness and use of research, reports, and policy recommendations by key stakeholders in the country limited the impact and uptake of valuable insights. The World Bank Group has started to adapt its approach, with the use of workshops for engagement and awareness building; these were successful in the financial technology component of the financial sector development RAS and the poverty assessment.

35. **The Poverty Assessment (2022) was widely disseminated and elicited public discussions, and the Government valued it highly.** The report provided an in-depth evaluation of factors contributing to and trends in poverty in Seychelles. It emphasized the importance of a strategy to address poverty and policies targeting vulnerable groups via SWA, remove obstacles to labor market entry, improve skill acquisition, and foster an environment for private sector development. Collaboration with the National Bureau of Statistics played a critical role in ensuring timely preparation and delivery of the report. Such collaboration will pave the way for future opportunities to partner on other products and initiatives in the future. The World Bank Group team and National Bureau of Statistics prepared briefing notes and disseminated the findings widely, increasing the reach and overall impact of the assessment.

36. **The RAS program focused on financial sector reform and governance:** financial sector development, PPBB, and performance monitoring and evaluation. The financial sector development RAS has helped the Central Bank and Financial Services Authority develop a legislative framework for new banking activities, including Islamic banking, regulatory frameworks for nonbank financial institutions, a financial consumer protection law, amendment of the Financial Institutions Act 2004, preparation of a nonbank financial institutions act, and preparation of financial consumer protection laws and regulations. The component on Islamic banking has been delayed pending amendment of the current banking legislation. The objective of the PPBB and performance monitoring and evaluation RAS was to enhance public sector performance in selected areas by strengthening planning, performance management, performance monitoring and evaluation, and open government through analytical work, policy support, and capacity building. This RAS contributed significantly to the results under Objective 4, despite having to be terminated early during the CPF period because of lack of counterpart funds.

IV. ALIGNMENT WITH CORPORATE GOALS

37. **Before the pandemic, Seychelles was on a steady path to decreasing poverty, but poverty increased as a result of the pandemic as the Seychellois people experienced losses in income and employment associated mainly with the slowdown in the tourism sector.** In 2018, Seychelles' poverty rate was 6.7 percent when measured against the poverty line for upper-middle-income countries of US$6.85 (purchasing power parity) a day in per capita terms. This is considerably lower than the upper-middle-income country average of 23.5 percent, indicating Seychelles' progress. In 2020, it had risen to 7.2 percent, but as tourism picks up, it is estimated that it declined to 6.2 percent in 2022. Extreme poverty (US$1.90 purchasing power parity a day per capita terms) has been eliminated. The Government has begun to scale back COVID-19-related programs and focus on targeted programs of social support and temporary cash transfers to protect the most vulnerable.

38. **Achievement of the CPF objectives is important in making progress toward the twin goals.** CPF design and implementation address several corporate and GDI priorities:

- **Institutional strengthening:** Institutional quality, financial sector governance, and public sector effectiveness are important for Seychelles' developmental success. With a small budget package — funded advisory and technical assistance deliverables, the WBG supported the implementation of performance-based budgeting throughout the Government, the elaboration of restructuring options for the national airline and supported regulators, supervisors, and law enforcement agencies on their national risk assessments on AML and CFT. The capacity of the anticorruption office to manage cross-border cases was strengthened and further support was provided to the Government towards its digitalization.
- **Jobs and economic transformation:** During implementation and following the two external crises of the pandemic and the external challenges, the Bank responded to the Government's request for assistance with diversifying its economy through trust fund-financed technical assistance with a review of the investment law and the Seychelles Investment Board to support the newly developed Sustainable Development Goals Investor Map and just-in-time knowledge exchange to set up the first business incubator in Seychelles. Further engagements are forthcoming on human capital development to increase digital literacy of all age groups and participation in the labor force by addressing social ills related to drug addiction and teenage pregnancy.
- **Climate change and resilience:** Objective 1 plays a crucial role in driving economic growth and reducing poverty given the contribution of the fisheries and tourism sectors to the country's GDP and employment, including for vulnerable groups. Moreover, by enhancing the productivity and sustainability of these sectors, CPF Objective 1 not only creates income-generating opportunities in the present, but also supports conservation of marine resources, promoting long-term economic resilience and environmental sustainability. Objective 2 complements this latter aspect. The country's rich marine and terrestrial ecosystems are major attractions for tourism and provide essential ecosystem services and livelihoods for local communities.

39. Seychelles' gross national income per capita of US$14,340 (2022) is above the GDI threshold of US$7,155[36] and above the high-income threshold of US$13,205,[37] placing the country at the starting point

[36] Current US$, Atlas method.
[37] According to the latest World Bank Group classification for FY24.

for a management review of its overall economic status and non-income factors for graduation, in line with the key elements of the IBRD graduation policy.[38]

V. LESSONS LEARNED

40. **Design and implementation of the 2018-23 CPF provides important lessons that can be used to inform preparation of the next CPF.** These are derived from the results of the past CPF program and consultations with the Government, stakeholders, and WGB staff.

41. **Lesson #1: The two WBG premises for engagement in Seychelles remain valid and can provide a basis for continuity into the next CPF period.** The first premise emphasizes Seychelles' SIDS needs for sustainable growth by addressing structural challenges and building resilience to shocks; the second premise focuses on Seychelles' efforts as an IBRD graduate to build specific capacities and strengthen macroeconomic and debt management practices to attract private investment. To respond to these priorities, the preferred mode of engagement should remain a mix of knowledge and lending services. The upcoming CPF program should draw upon core WBG analytics such as country economic memorandums, public expenditure reviews, and country climate and development reports. This analytical foundation should be complemented by lending in selected areas, designed to enhance social cohesion, build resilience against man-made and natural disasters, and promote climate change mitigation and adaptation. Further ASAs may be considered in line with the structural challenges, including an infrastructure sector assessment program that may provide a roadmap for much-needed infrastructure development with a proper public investment management and public asset management framework in place. The next CPF design must apply a political economy analysis at the program and project levels.

42. **Lesson #2: Despite being a high-income country, Seychelles faces significant capacity constraints and fiscal space limitations, making WBG policy advice and technical assistance highly relevant.** Although Seychelles is one of Sub-Saharan Africa's top governance performers, it lags many of its high-income country peers.[39] The Government values WBG knowledge, and there is an ongoing role for the WBG's knowledge services in addressing the non-income aspects of Seychelles as a country above the GDI threshold. The country office opened in FY23 will increase WBG effectiveness in addressing the above-mentioned capacity constraints by working closely with the Ministry of Finance, Economic Planning, and Trade.

43. **Lesson #3: Closer collaboration among internal and external partners improved policy dialogue and increased implementation capabilities and options.** IFC and MIGA will routinely review their value proposition in Seychelles as a high-income country to support foreign investment in projects that promote job creation and green development and align with the UN Sustainable Development Goals to promote tangible development gains. Additional joint World Bank Group-IFC analytical work such as the Country Private Sector Diagnostic can be used to identify sector-specific opportunities for leveraging synergies between the institutions, especially from a policy reform perspective. Seychelles has been positioning itself as a leader in promoting global initiatives such as adoption of a multidimensional vulnerability index for SIDS and regulation of the use of ocean and marine resources under the Great Blue Wall Initiative.

[38] The IBRD Graduation Policy emphasizes two criteria: access to external capital markets on reasonable terms and progress in establishing key institutions for economic and social development. Although WBG financing prioritizes countries below GDI, engagement continues with clients across the income spectrum, as does lending for crisis response to countries above GDI.

[39] Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

Over the next CPF period, the WBG can work with development partners (e.g., IMF, UN agencies, other international financial institutions) to explore entry points for support of such initiatives on a regional level. More broadly, the next CPF design should consider mapping potential development partners' priority areas, taking into account their value propositions and comparative advantages in Seychelles.

44. **Lesson #4: Effective implementation of cross-cutting reforms in Seychelles relies on a strong institutional champion to advance cross-sectoral policy dialogue.** The Ministry of Finance, Economic Planning, and Trade plays a crucial role in facilitating the policy process and making sure that stakeholders take ownership of policy responses developed in alignment with national priorities. With new development challenges constantly arising from the current rapidly evolving polycrisis, the vulnerabilities of Seychelles as a SIDS economy will pose new capacity constraints. As the DPF and DRM efforts demonstrate, for example, the WBG will continue to supplement Government efforts and respond to demands for technical assistance to reinforce institutional capacities and enhance outcomes.

Lesson #5: There is untapped potential for private sector mobilization in Seychelles; further progress is possible by combining World Bank Group instruments to crowd in private sector finance. The Bank's private sector engagement in Seychelles is nascent and would benefit from a Country Private Sector Diagnostic that will inform on structural challenges in the labor market, women's economic opportunities, greening of the energy sector (and associated climate finance opportunities), and development of an environment conducive to institutional investors. Improved coordination will allow the deployment of complementary financing instruments (policy lending, investment project financing, guarantees, IFC investment and advisory services, as well as MIGA risk insurance and guarantee instruments) to support Seychelles' goals on private sector-led growth and job creation in a constrained fiscal environment. The Cat DDO, as contingent financing extending immediate liquidity to respond to natural disasters and health-related events, shall remain a key emergency lending platform, which the WBG should keep ready to deploy when new disasters strike.

Annex 3: IBRD Portfolio as of May 31, 2024

Project ID	Project Name	Bank Approval	Closing Date	Commitments (IBRD)	Cumulative Disbursements	Undisbursed Balance
P168993	Strengthening Quality of the Social Protection System	25-Mar-2021	31-Dec-2024	$30.00M	$14.00M	$16.00M
P178210	Seychelles Third Fiscal Sustainability and Climate Resilience Development Policy Financing	11-Jan-2024	31-Dec-2025	$25.00M	$25.00M	$0.00M
P181243	Seychelles Solid Waste Management Project	14-May-2024	30-Nov-2028	$5.00M	$0.00M	$5.00M
T O T A L				**$60.00M**	**$39.00M**	**$21.00M**

Annex 4: IFC Portfolio as of June 30, 2024

1. Seychelles Historical Investment Program Commitments by Fiscal Year

	FY19	FY20	FY21	FY22	FY23	FY24 YTD	FY19-FY24
Long Term Finance (LTF)	**-**	**0.0**	**19.5**	**0.0**	**0.0**	**-**	**19.5**
of which IFC Own Account	-	0.0	10.0	0.0	0.0	-	10.0
of which Core Mobilization	-	0.0	9.5	0.0	0.0	-	9.5
Short Term Finance (STF)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
of which IFC Own Account	-	-	-	-	-	-	-
of which Core Mobilization	-	-	-	-	-	-	-

2. Seychelles Investment Portfolio by Industry Group

Industry Group	FIG	MAS	INR	Total
Committed Exposure	**-**	**-**	**2.4**	**2.4**
Portfolio Outstanding	-	-	2.4	**2.4**
of which Loan Outstanding	-	-	2.4	**2.4**
of which Equity Outstanding	-	-	-	**-**
Undisbursed	-	-	-	**-**
Non-Performing Loans (NPLs)	-	-	-	**-**
NPL Ratio (%)	0.0%	0.0%	0.0%	**0.0%**

3. Top 5 Portfolio Clients by Committed Exposure in Seychelles

Client	Industry	Industry Group Sector	Committed Exposure	Portfolio Outstanding
Intelvision	INR	Telecom, Media, and Technology	2.4	2.4

Annex 5: MIGA's Guarantee Portfolio as of May 31, 2024

MIGA's guarantees in Seychelles

Effective Date	Expiry Date	Guarantee Holder	Project	Business Sector	Region	Host Country	Risk Cover	Gross Expo	Description
12/06/2019	12/05/2034	ABSA Group LTD	ABSA\/Barclays Seychelles	Financial	Sub-Saharan Africa	Seychelles	EXP	40,175,061	This is a capital optimization project for South Africa's Absa Group
06/30/2022	06/30/2027	The Rise Fund II Aurora, S.A.R.L	Airtel Mobile Money Seychelles	Financial	Sub-Saharan Africa	Seychelles	TR;EXP;WCD	104,106	MIGA's guarantees cover equity investments in the mobile money and digital financial services companies operating under the Airtel Money brand in 12 countries across Sub-Saharan Africa, including Seychelles
Total								**40,279,168**	

MIGA's guarantees to Regional Development Banks with relevance to Seychelles

Effective Date	Expiry Date	Guarantee Holder	Project	Business Sector	Region	Host Country	Risk Cover	Gross Expo	Description
06/29/2020	06/28/2030	Standard Chartered Bank	TDB	Financial	Regional Development Bank	Regional Development Bank	NHSO	365,094,172	MIGA guarantee to the the Eastern and Southern African Trade and Development Bank (TDB) to support the growth and diversification of TDB's trade finance.
12/20/2023	06/28/2030	Standard Chartered Bank	TDB	Financial	Regional Development Bank	Regional Development Bank	NHSO	374,277,458	
Total								**739,371,630**	

Annex 6: Systematic Country Diagnosis Update

Document of

The World Bank Group

Report No: SCD0000025

REPUBLIC OF SEYCHELLES

SYSTEMATIC COUNTRY DIAGNOSTIC UPDATE (P500375)

January 15, 2024

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Republic of the Seychelles
Government Fiscal Year: January 1 – December 31
Currency Equivalents
(Exchange Rate Effective as of December 15, 2023)
Currency Unit = Seychelles rupee (SR)
US$1.00 = SR 13.409

ABBREVIATIONS

AML/CFT	Anti-money laundering/combating the financing of terrorism
BOS	Businesses of the State
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IMF	International Monetary Fund
MSME	Micro, Small, and Medium-sized Enterprises
NCD	Noncommunicable disease
PIM	Public Investment Management
SCD	Systematic Country Diagnostic
SOE	State-Owned Enterprise
SR	Seychelles rupee
3Ps	Productivity, Participation, and Performance

1. Country Context and Recent Developments

1. **The three key development challenges highlighted in the 2017 SCD remain valid: (i) declining productivity; (ii) maintaining inclusion and participation of the poorest in the economy; (iii) improving public sector performance to sustain productivity and inclusive growth**. These challenges were framed in terms of the "3Ps". First, the contribution of *productivity* to an overall robust GDP growth declined between 2009-2014 and 2015-2019, offset by the increase in the contribution of capital accumulation, while labor's contribution remained unchanged. For Seychelles, a small island state, continued reliance on capital accumulation as the key driver of growth will be increasingly unsustainable, and sustaining growth will require transitioning to a productivity-led growth model. Second, absolute poverty rate remains low, with inequality declining from 0.35 (2013) to 0.30 (2018). To sustain inclusive growth, in the transition toward a skills-intensive, sophisticated economy, it will be important to enhance the capability of the bottom 40 percent (B40) to *participate* in the economy, ensuring they effectively contribute to, as well as benefit from a higher productivity growth path. Furthermore, critical social issues such as rising drug use, teenage pregnancy, and gender-based violence need to be addressed as they undermine labor force participation and earnings. Third, sustaining higher and resilient productivity and inclusive growth will require improved public sector *performance*. Transformative reforms in the wake of the 2008 financial crisis have enabled the government to improve its efficiency, maintain macro-fiscal stability and build resilience to shocks, as evidenced in the context of the recent COVID-19 pandemic and high global commodity prices.

2. **In addition to increasing productivity, participation, and performance (or "3Ps"), building resilience to climate and other shocks has become more pressing**. Acknowledging the current global context and the rising incidence and intensity of climate related shocks, the SCD Update identifies vulnerability to shocks among the top 5 priorities, increasing its ranking compared with the 2017 SCD when it was included in the top 10 priorities. Shocks such as the COVID-19, as well as severe rainfalls, landslides, and related damages that occurred late in 2023 significantly impacted the economy, highlighting the urgent need to build resilience to such shocks. Increased climate resilience will also help protect biodiversity and nature that is the basis of Seychelles' tourism industry. With growing tourism, and population concentrated along the coast, improved waste management and development of a circular economy have become key to addressing climate risks. Links between waste management and renewable energy could generate new areas of private investment and sources of growth and employment. The ongoing digitalization of the economy also helps build resilience, through greater connectivity and service delivery.

Sustained and inclusive growth requires higher productivity and MSME growth

3. **Since the 2008 financial crisis, Seychelles has maintained prudent macroeconomic management and robust growth**. A successful program of macroeconomic and institutional reforms enabled the country to sustain average annual growth of 4.5 percent over 2010-2014 and achieve high income status in 2015. Seychelles, the only high-income country in Sub-Saharan Africa, recorded a gross national income per capita of US$14,340 in 2022 (Atlas method). Over the decade leading up to the pandemic, economic growth averaged 3.9 percent, driven by capital accumulation. During 2015-2019, capital accounted for 57 percent of growth (compared to a share of 46 percent over 2009-2014). Total factor productivity contributed 34 percent (compared to 44 percent over 2000-2014); and labor's contribution remained unchanged at around 9 to 10 percent[40]. With declining productivity, continued reliance on high levels of

[40] Macro-Poverty Outlook, various years and CEM 2.0. World Bank Group.

investment and foreign labor, sustaining growth will be increasingly challenging, especially since labor productivity has been stagnant (Figure 1), calling for a shift toward more productivity-led growth.

4. **However, as a small island state, Seychelles' economy is extremely vulnerable to health and climate shocks as evidenced during COVID-19 pandemic and heavy rainfalls in 2023**. The COVID-19 pandemic hit the economy hard, creating macroeconomic imbalances and increasing poverty. In 2020, the shock to the tourism sector caused the economy to shrink 8.5 percent and estimates of poverty rates (based on the upper middle-income line of US$6.85 per day per capita) peaked at 7.2 percent in 2020, and gradually declined to 5.6 percent in 2022. Also, the fiscal deficit peaked at 16.8 percent of GDP, due to COVID related measures. The country also relies on imports for more than 90 percent of its primary and secondary production inputs, making it susceptible to global commodity shocks. Most disasters in the country are fueled by storms, floods, rain, and landslides. In December 2023, heavy rains, flooding, landslides, and related damages resulted in a one-day state of emergency that is expected to result in significant fiscal costs. Average annual loss from floods is estimated at US$2.5 million, (roughly 0.24 percent of Seychelles' GDP)[41].

Figure 1. Productivity - GDP per worker, 1000's SCR

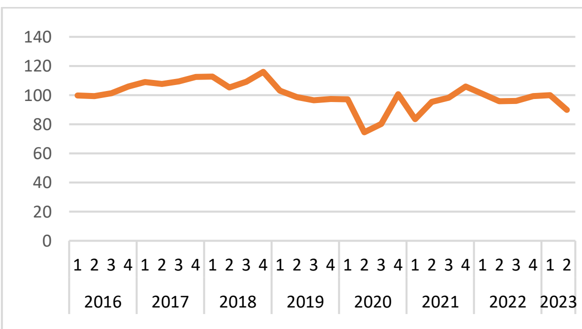
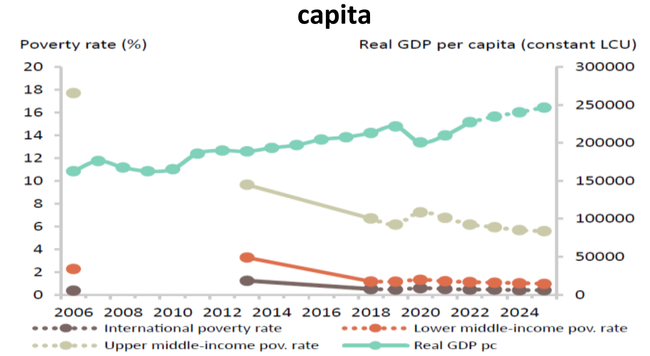


Figure 2. Actual, projected poverty, and real GDP per capita



5. **Robust growth has helped reduce poverty and inequality notwithstanding large external shocks** (Figure 2). Between 2013 and 2018, the poverty rate had declined from 38.3 percent in 2013 (based on the national poverty line of around US$13.00 purchasing power parity, a day per adult) to 25.4 percent in 2018. The 2022 Census data suggest continued albeit more moderate decline in poverty, as 20.9 percent of households perceive themselves to be poor. Based on the upper middle-income line (US$6.85 per day per capita), the poverty rate declined from 9. 7 percent in 2013 to 6.7 percent in 2018. The Gini coefficient in turn declined from 0.35 in 2013 to 0.30 in 2018, as the share of income held by the B40 percent of the population increased from 19.6 percent in 2013 to 21.1 percent in 2018[42]. The average worker in the bottom quintile experienced a 25 percent increase in wages between 2013 and 2018, as did workers in the middle-class. The B40 percent of households also experienced a similar increase in self-employment earnings; returns to education contributed to reducing poverty. Among the employed, individuals with a university or a postgraduate degree earned 30 percent more than those with a polytechnic degree. At the same time, there was a significant increase in the percentage of individuals completing vocational education during 2013-18.

[41] The estimated cost of the flooding disaster that occurred on December 7, 2023, could be as much as US 15 million; floods that occurred in 2013 were estimated at US 8.5 million.
[42] "Progress Towards Inclusive Growth: A Poverty and Equity Assessment for Seychelles," World Bank Group, Washington, DC, 2021.

Productivity is constrained by slow reform progress in the business and investment environment

6. **Recent reforms in oversight and governance have helped improve efficiency and financial health of SOEs, and contained market dominance, creating some space for more private sector engagement**. But further strengthening of competition policy and SOE efficiency (particularly in sectors where private sector engagement is most viable, such as agriculture, construction, manufacturing, real estate, wholesale/retail, and trade) is needed. For example, in 2019, the World Bank Group's Businesses of the State (BOS) database, estimated that SOEs accounted for 57 percent of GDP, more than twice the average of other Sub-Saharan African countries, and contrasts with 49 percent in Maldives and 26 percent in Mauritius. Sixty-eight percent of SOEs and 69 percent of revenues generated are in competitive sectors, accounting for 12 percent of formal employment. Recent reforms have lowered transfers to SOEs to 0.2 percent of GDP in 2023 compared to 2 percent in 2020. Also, the 2023 Public Enterprise Monitoring Commission (PEMC) Act that establishes a coherent framework for the oversight and operation of SOEs is helping to further encourage competition while reducing fiscal risks.

7. **The full potential of micro, small, and medium enterprises could be further exploited**. Microenterprises are an important source of employment, representing 68 percent of all businesses; however, they exhibit low productivity and innovation levels. Existing constraints undermine value addition in tourism and fishing and limit opportunities to expand other private sector opportunities for micro, small, and medium enterprises (MSMEs). Seychelles lags other high-income economies, notably in business startups, contract enforcement, insolvency resolution, corporate governance, and regulatory frameworks for credit access. Seychelles' overall ranking in the 2019 Global Competitiveness Index improved to 76th out of 141, (from 97th out of 140 countries in 2015/16). Still, the IMF's 2023 Public Investment Management Assessment (PIMA) estimated a 25 percent public investment efficiency gap, highlighting the need for further strengthening public investment processes. Low access to credit, skills mismatch, limited competition and SOEs dominance, high logistics and energy costs remain pertinent, for all firms, particularly MSMEs[43, 44]. Additional efforts are needed to link local businesses to the tourism and tuna export sectors, and encourage development of new products, while raising Seychelles' export competitiveness. The World Trade Organization estimated that in 2022, trade restrictions and tariffs are among the lowest globally. However, reducing export and import dwell times (averaging 7.9 and 11.7 days respectively as per the Logistics Performance Index 2023, compared to Mauritius with export and import dwell times of 3.9 and 4.3 days respectively) will also support improved competitiveness. This requires closing skills gaps, as well as entrepreneurship and business development, facilitating access to finance and land, and removing the red tape[45] linked to trade logistics that constrains private sector growth.

8. **Innovation and investments in digital development and skills would greatly support firm growth**. Growth of the digital economy would support diversification and greater resilience to shocks. Seychelles has achieved wide ICT coverage and accessibility, enhanced by a second international undersea fiber-optic cable. There is currently 99 percent 3G and 4G mobile coverage and a mobile broadband subscriber base of 62 percent, a figure only rivaled by South Africa and Mauritius, in Africa. To overcome its small and isolated market, the government has expressed interest in leveraging the ICT sector to support exports of services. However, the ICT infrastructure requires further investments and internet

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[43] UNCTAD. 2023. Seychelles – National Entrepreneurship Strategies. https://unctad.org/system/files/official-document/tcsdiaeinf2023d2_en.pdf. and UNDP. 2021. Empowering the Private Sector to Diversify Seychelles' Economy. Discussion Paper. November.

[44] UNCTAD. 2020. Seychelles – Investment Policy Review. https://unctad.org/system/files/official-document/diaepcb2020d1_en_0.pdf.

[45] Entrepreneur Needs Survey. Seychelles Ministry of Investment, Enterprise, and Industry (MIEI). 2019.

connectivity remains expensive. In 2022, the cost of 2GB of data represented 2.5 percent of monthly individual income, just short of the UN Broadband Commission's 2 percent target, making internet costs significantly less affordable in Seychelles than in many low and middle-income countries in Africa. The major barriers to a vibrant broadband market and lower costs include limited competition, and limited use of available broadband capacity. Recent reforms are expected to help reduce costs. The 2022 Communications Act established the independent Seychelles Communications Regulatory Agency (SCRA) to encourage competition, investments, and private sector engagement in digital and data infrastructure, as well as exports of digital services.

Enhanced economic participation of the disadvantaged will ensure growth remains inclusive

9. **Educational achievement increased for the poor, while dropout rates remain high at the secondary school level and beyond**. The Seychelles has achieved universal primary education but at the secondary level, 1 out of 8 students that enroll do not graduate, and dropout rates are more than double for the poorest students. Despite this, 2020 data show Seychelles maintains a low student-teacher ratio in primary and secondary education when compared to other countries, resulting in a high share of education expenditures going to salaries in basic education (85 percent of the education recurrent budget). There has been a steady increase in Technical and Vocational Education and Training (TVET) enrollment. Nevertheless, TVET institutions still struggle to attract sufficient learners, due to perceived low quality and relevance of training with higher prevailing preferences for general education. Enrollment levels for the poor were higher (with a marginally higher likelihood of employment) in 2018 than in 2013. Overall tertiary enrollment also increased from 1.3 percent in 2012 to 19.7 percent in 2017, before falling to 14.7 percent in 2020.

10. **Health outcomes are at par with those in high-income countries, but the demographic transition underscores the importance of addressing Non-Communicable Diseases** (NCDs). Under-5 and maternal mortality are low and decreasing, all children are fully immunized, and fertility is at 2.2 children per woman. Life expectancy at birth reached 77.3 years (2020), increasing the prevalence of age-related NCDs such as diabetes, hypertension, and cardiovascular disease, which account for about 81 percent of all deaths. The HIV epidemic is concentrated among drug users and youths, with a relatively high hepatitis C rate among intravenous drug users. The methadone program takes up close to 50 percent of the health sector budget, indicating the severity of the drug problem. In addition, the COVID-19 pandemic has affected health services use and health outcomes, representing a significant burden for a country with a population of less than 100,000. Efficient health expenditures and investments, along with a focus on preventive services, are essential.

11. **Social challenges linked to drug use and teenage pregnancy have become key public health issues that are threatening labor market participation**. While overall unemployment rate is low (3 percent in 2023), an estimated 28 percent of the working-age population is not in the labor force[46]. This is partly due to inflexible work schedules, which may particularly hinder the participation of single mothers and contribute to the gender wage gap[47]. The labor force participation is also affected by the high levels

[46] *World Economic Outlook April 2023*, *Unemployment in Seychelles*, International Monetary Fund: https://www.imf.org/external/datamapper/LUR@WEO/SYC?zoom=SYC&highlight=SYC. This contrasts with Mauritius at 58 percent (2023); Iceland at 18 percent (2021); Greece at 33 percent (2021).

[47] Men earned wages 9 percent higher than women at the 10th percentile and 19 percent higher at the 90th percentile (controlling for other characteristics). Source: Systematic Country Diagnostic (2017). World Bank Group.

of drug and alcohol addiction and teenage pregnancy[48]. In 2017, the Integrated Biological Behavioral Survey (IBBS) found that 4,318 people reported using heroin, an increase of 53 percent since 2011. According to the former Agency for the Prevention of Drug Abuse and Rehabilitation (APDAR), these numbers are likely higher, between 5,000 and 6,000 making Seychelles one of the countries with the highest number of heroin consumers per-capita in the world[49]. One third of admissions to psychiatric wards in 2022 was due to use of illicit drugs, including opioids, cannabis, or multiple drugs[50]. In terms of teenage pregnancy, rates have remained at around 60 births per 1,000 women ages 15-19 between 1998 and 2021, peaking at 63 births in 2021[51]. More than one in ten births in the country involved women aged less than 20[52]. Drug abuse often leads to decreased productivity, absenteeism, and health-related issues, hindering individuals' capacity to engage effectively in the workforce due to health complications, legal entanglements, and social ostracization linked to addiction[53]. Concurrently, teenage pregnancy disrupts educational pathways, limiting career prospects for young parents.

12. **The social protection system cannot adequately respond to the growing pressures on equity and social cohesion**. Seychelles provides generous universal benefits. Spending continues to be skewed toward the elderly who represent 9 percent of the population but constitute 22 percent of noncontributory program beneficiaries and receive 42 percent of social protection benefits. Also, based on the 2018 household data, just 11 percent of the poor are covered by social welfare assistance (SWA). Recent reforms will help improve the targeting mechanism and a planned 2024 survey will help with updated analyses. With the retirement age raised to 65 in January 2023, a Home Care Reform Bill aims to revise eligibility tiers, including means-testing mechanisms. Proposed measures include reducing the universal retirement benefit for those with substantial pensions. The eligibility criteria for SWA are being reviewed and updated, but increased spending is needed on youths and the poor.

Public sector performance requires more attention to spending efficiency and climate risks

13. **Seychelles has made impressive strides in fighting corruption**. Seychelles' transparency score has steadily improved since 2017, reaching 70 in 2022, ranking 23rd out of 180 countries, according to Transparency International. However, the European Union (EU) recently listed Seychelles as a non-cooperative jurisdiction in tax matters due to challenges in exchange of information linked to a particular agent who left the country with related records in 2018. Seychelles has since adopted legislative reforms that require departing registered agents to hand over records to the Financial Services Authority and has requested a supplementary EU review. Improvements in online e-government services could help further improve transparency and service delivery, improving Seychelles' ranking of 85th the 2022 UN eGovernment Development Index. Legislation adopted in 2023 will modernize the National Payment System (NPS) to ensure privacy and security of personal data, helping to connect people to markets as well as e-government services, making it easier to move money and share information, and support the income of the poor. Amendments to the Beneficial Ownership (BO) regulations in 2023 have strengthened offshore reporting. The BO Act will also be amended to expand financial institution access to the central BO database to strengthen AML/CFT and reduce reputational risks that could impact correspondent banking. To further strengthen the focus on transparency and performance, Seychelles has adopted

[48] Adolescent fertility rate (births per 1,000 women ages 15-19) is 53 (2021) compared to 25 in Mauritius and 100 in Sub Saharan Africa. UNFPA.
[49] https://www.bbc.com/news/world-africa-50488877.
[50] Ministry of Health 2022 End of Year Report.
[51] Ministry of Health's 2022 Annual Performance Report indicates a reduction to 46, with rate oscillating around 60 over the past 20 years.
[52] National Institute for Statistics, Population Statistics 2021.
[53] World Bank Group. 2024 (forthcoming). A Note on Youth at Risk in The Seychelles.

results-based management, including program- and performance-based budgeting, and zero-based costing. While public spending policies are in place, they lack effective integration with the national strategy and proper monitoring. Specifically, assessing the effectiveness of climate related spending requires improved tagging and tracking of public spending on the blue economy and climate change initiatives.

14. **Greater emphasis on spending efficiency needs to complement difficult but transformative reforms**. In response to the 2008 financial crisis, the Seychelles liberalized its exchange rate and consolidated expenditures, enabling the country to double its growth rate between 2009 and 2019 (relative to the preceding decade). Seychelles was able to provide support to firms and households affected by the COVID-19 pandemic, then successfully rolled back this support by 2021. Reduced spending was combined with a restructuring of debt to lengthen the repayment period, as well as transfers to SOEs. Going forward, it will be important to improve efficiency in SOEs, as well as in Public Investment Management (PIM) processes including climate considerations. It is also important to continue strengthening debt management, performance-based budgeting, and the expenditure framework (and links to national strategies), and countercyclical fiscal policy. Tax administration needs to be digitalized to increase compliance, and revenue or fiscal measures that incentivize behavior to better manage climate-related shocks and risks.

15. **Maintaining good economic performance requires continued macroeconomic and fiscal stability and effective implementation of high-quality policy reforms that promote resilience to shocks**. Seychelles lags its peers in the contribution of investment and labor to growth[54]. This may partly be due to Seychelles vulnerability to shocks capable of derailing the economy, including financial, food, health related (e.g., COVID-19), and climate shocks. Climate shocks including tsunamis and tropical storms have impacted vital infrastructure, tourism facilities, and housing stock along the coast, and caused further costal erosion. Damage to coral reefs intensifies erosion along the cost and beaches due to rising sea levels, while fluctuations in fish stocks threaten livelihoods, food security, and the ocean's carbon sink capacity. Critical investments would be needed to support sustainable fisheries and expansion of the value chain, with forays into the blue economy, marine bioprospecting, and marine plastic management. Coping with 90,000 tons of waste annually requires investments for a circular economy and potentially waste-to-energy initiatives. The government is prioritizing transitioning from fossil fuels to achieve 15 percent renewable energy by 2030 and 100 percent by 2050. Given Seychelles' vulnerability to climate shocks, it has prioritized climate adaptation investments in its 2021 Determined Commitments (NDC) Update.

2. Priorities for greater productivity, participation, and public sector performance

Table 1. Policy Priorities Identified in the 2017 SCD and 2024 SCD Update

2017 SCD Priorities	2024 SCD Update Priorities
1. Private sector enabling environment 2. Education and skills development 3. Social assistance 4. Macroeconomic and fiscal policy stability 5. Public spending efficiency	1. Improve the business enabling environment with focus on MSMEs 2. Improve educational achievement and skills development 3. Increase targeting and efficiency of social protection 4. Reduce risks of drug abuse and teenage pregnancy 5. Build climate resilience and circularity in key sectors Cross-cutting - Sustain macroeconomic prudence with attention to climate risks

[54] World Bank Group. CEM 2.0; and IMF Public Investment Management Assessment (PIMA) 2023.

Table 2. Prioritization Criteria for the 2024 SCD Update Priorities		
World Bank Group Mission	Seychelles' Development Challenges	2024 SCD Update Priorities
Boost shared prosperity	**Low *productivity*** limits growth and the income growth of the bottom 40 percent **Low public sector *performance*** due to inefficient spending susceptible to climate shocks	Improve the business enabling environment with focus on MSMEs Sustain macroeconomic prudence with attention to climate risks
Eradicate poverty	**Constrained *participation*** of the poorest groups in economic activity	Improve educational achievement and skills development Reduce risks of drug abuse and teenage pregnancy Increase targeting and efficiency of social protection
Livable Planet	**Vulnerability to *climate shocks* contribute to volatile growth** limiting prosperity and poverty reduction	Build climate resilience and circularity in key sectors (i.e., energy, waste management, blue economy)

16. **The policy priorities identified in the 2017 SCD remain relevant to the development agenda, with the crucial addition of environmental sustainability and a cross-cutting emphasis on resilience.** Additionally, the SCD Update identifies reduction in drug use and teenage pregnancy as the third priority with reforms to the social assistance programs to strengthen targeting being advanced by government. The SCD Update also places greater emphasis on building resilience to climate shocks in response to elevated risks (Table 1). Prioritization adopts the 2017 SCD approach based on importance in addressing the challenge, the evidence base, and attainability (in terms of cost, technical feasibility, and timeframe). An additional criterion used is contribution to the World Bank Group Mission. Consultations with stakeholders in the public and private society sectors confirmed the priorities.

Priority 1: Improve the business enabling environment for MSMEs

17. **Bolstering entrepreneurship requires managerial training (including in business development) and measures to address the supply and demand skills mismatch**. Improved skills impact the quality of locally produced goods and services. Policies should focus on improving the investment regime and fostering foreign direct investment (FDI) linkages for entrepreneurship. Domestic and foreign company interactions should be facilitated to promote skills and knowledge transfer, while enhancing horizontal value chain integration and attracting FDI. Improved delivery of TVET programs will help address the skills mismatch. It will be essential to address overlapping responsibilities among key agencies like the Seychelles Investment Board and the Seychelles Enterprise Agency, which is responsible for MSME promotion. This includes simplifying investment screening rules for both foreign and domestic investments while aligning the Investment Act with international standards[55].

[55] The World Bank Group Group Investment Climate team is supporting a review of the Investment Act, which will be finalized before the end of 2023.

18. **Improvements in Seychelles' business environment should go hand-in-hand with SOE reforms**. Reducing bureaucratic hurdles, especially for MSMEs is critical for improving the business environment. Evidence-based policy can be used to establish a comprehensive action plan to reduce red tape. The government also needs to take steps to improve access to credit for MSMEs, which is the top constraint to doing business. Natural and de-facto monopolies also need to be addressed, especially in the food, transportation, and telecommunications sectors, with improved competition policy for both SOEs and private operators. Given the predominance of SOEs in the economy, it is essential to put in place policy to create a level playing field that promotes increased private sector participation.

19. **There is significant potential for diversification of the financial sector**. The country could improve its regulatory framework, including legal reforms for macroprudential policies; strengthening anti-money laundering/combating the financing of terrorism (AML/CFT) measures, based on the October 2023 National Risk Assessment; and promoting transparency. Financial market infrastructure needs to be upgraded, and new technologies and digital products embedded. Banking sector digitalization is considered critical for effective financial sector supervision. The country should continue to implement the Seychelles Fintech Strategy and establish an innovation hub for firms to engage with authorities on regulatory matters.

20. **Building on its nascent ICT sector, Seychelles can diversify its export base to digital services exports in high-value segments**. To emulate the model deployed by countries such as Jamaica, which successfully fostered services exports that include the animation industry and sports telemedicine, Seychelles needs to develop a robust ICT infrastructure, digital platforms, and digital skills. The August 2022 National Digital Economy Strategy provides a roadmap for entrepreneurship in digital services, building on ongoing ICT improvements. The first step would be to develop a roadmap for operationalizing the strategy and create digital foundations for sustainable ICT sector growth, including infrastructure, policy, regulations, and data-driven platforms that promote competition, digital safeguards, and skills development.

Priority 2: Improve educational achievement and skills development

21. **Boosting employability requires among other things strengthening digital skills and revitalizing technical education across all levels[56], and this is expected to contribute to sustain inclusive growth**. An immediate priority is measuring skills through assessments that allow international benchmarking and implementing measures to improve learning, including foundational skills. Measures should include efforts to develop and expand opportunities for continuing education and skills upgrading, to keep up with the evolving needs of the private sector. With implementation of the 2021 NDC Update, climate-related jobs and skills are expected to account for a higher share of the economy, requiring green or climate-related skills in key sectors. Also, higher education institutions must enhance digital skills delivery and engage with the private sector for a Seychellois innovation system. Exploring tech incubators' role in providing short-term specialized digital courses is also essential.

22. **In addition to lowering dropout rates, education programs could be used to also address the high prevalence of teenage pregnancy, drug use, and violence**. Strategies for the early prevention of school dropout and substance abuse are imperative to improve economic outcomes. Early warning systems for dropout prevention, remedial education, and comprehensive socioemotional learning and

[56] Seychelles National Development Strategy 2019-2023.

support are promising strategies to improve education attainment and broader social outcomes. Investments to keep girls in school may be particularly critical because it would have an impact on earnings and standard of living, childbearing, fertility and population growth, health and nutrition, agency and decision-making, social capital and institutions, and future per capita investments in human capital, among others. Improving access to birth control is extremely important for adolescent girls. Gender-based violence should be meaningfully targeted through advocacy, behavior change campaigns, and context-sensitive programming.

Priority 3: Increase targeting and efficiency of social protection

23. **Continued reform of the social protection system to support the most vulnerable and increase public spending efficiency is required**. The overarching objective of the social protection system should be to prevent the emergence or perpetuation of intergenerational cycles of poverty.[57] Targeting needs to be improved within the Seychelles' social protection framework,[58] and welfare spending priorities need to be realigned to better adapt to evolving demographic trends. Social assistance spending needs to focus on those who have financial and physical needs and to help people emerge from poverty. It is essential to complete ongoing reforms to raise the retirement age, and to conduct a systematic assessment of the needs of the disabled, revise criteria for home care eligibility, professionalize home care services, better target social welfare assistance toward the poor, and accompany cash benefits with services that will help create a more inclusive society. Measures such as cash transfers targeted to the youth and young women in particular, skills vouchers, or direct benefit programs could incentivize young single mothers and drug addicts to stay in school. The digitalization of social protection systems would enhance the efficiency and effectiveness of these programs.

Priority 4: Reduce risks of drug abuse and teenage pregnancy

24. **Drug addiction and teenage pregnancy are interconnected and are becoming increasingly pressing issues that reflect broader poverty and societal challenges**. To effectively address these problems, a comprehensive approach encompassing health, education, and crucially, social protection, is necessary. Seychelles has implemented strategies to tackle these issues, including the methadone program, which provides support to over 5000 participants to aid in their recovery from drug addiction. While this program offers incentives like skill-building opportunities and welfare benefits through social protection, there remains a need to better target participants, as some individuals are excluded due to concerns about potential misuse of benefits. Additionally, efforts to prevent teenage mothers from slipping into poverty involve providing social support, reskilling opportunities, childcare assistance, and flexible work schedules. Challenges persist, linked to limited access to contraceptives for girls under 18, although recent legislative advancements aim to rectify this by making contraceptives more accessible pending cabinet approval. Despite this progress, the lack of comprehensive sex education in schools and limited resources such as nurses, counselors, and psychologists remain barriers to addressing peer pressure and unprotected sex among students. Hence, a holistic approach focused on prevention, education, and access to resources is crucial to curbing teenage pregnancy. Also, education on the risks of drug abuse coupled with screening out students who have a substance abuse problem (to get more targeted assistance) could help reduce the problem. Drug prevention and screening programs could be

[57] Seychelles SCD, 2017.

[58] The country spent almost 7 percent of GDP on social protection in 2020, but youths and the poor are not adequately targeted (https://worldbank.org/en/news/press-release/2021/03/25/world-bank-supports-seychelles-to-reform-its-social-protection-system#:~:text=Seychelles%20has%20a%20generous%2C%20comprehensive,orphans%20and%20people%20with%20disability)
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integrated within a school-based prevention framework, engaging parents, community leaders and members, and building the capacity of teachers.

<u>Priority 5</u>: Build climate resilience and circularity in key sectors

25. **Climate adaptation should prioritize investments and policies to build resilience**. Rising sea levels, coastal erosion, storm surges, heavy rainfall, floods, and saltwater intrusion pose risks to infrastructure, agriculture, and land development, especially along the coast. For small island states, estimated average annual losses could be up to 6.5 percent of GDP by 2030, compared to the global average of 0.5 percent[59]. Adaptation measures should start with integrating climate change considerations into sector plans and strategies, particularly coastal management to protect coastal eco-systems, freshwater management, climate smart agriculture, sustainable fisheries, land use, and national integrated emergency plan. This would support long-term competitiveness, and expansion of value chains including backward and forward linkages between the tourism and fisheries sectors to support growth. Also, mitigation measures should prioritize the circular economy and an environmentally sensitive tourism brand, to reduce the carbon footprint, divert waste from landfills, and improve ocean health. Equally important are reforms for transitioning to renewable energy sources to reduce costs and dependence on fossil fuels. Given the intersectoral interdependence, strong cross-sectoral coordination will be important in implementation.

26. **Recognizing the importance of environmentally sustainable development, the government has outlined climate mitigation and adaptation plans**. An IMF Resilience and Sustainability Facility was approved in 2023; however, more funds will be needed, particularly for adaptation plans. According to the 2017 Climate Policy Assessment Report, financing requirements for climate-related capital projects were estimated at 40 percent of Seychelles' 2019 GDP[60]. The government has already been promoting the blue economy to boost sustainable development[61], such as the Seychelles Marine Spatial Plan, which is funded through a debt-for-nature-swap, and the world's first sovereign Blue Bond[62]. These initiatives could benefit from adequately leveraging data generation and analysis through digital platforms. The focus on improving coastal resilience needs to be strengthened. Bolstering disaster preparedness systems (given the recent explosives disaster), building resilient infrastructure, and improving coastal management and monitoring will be critical[63].

27. **Poor solid waste management is a national challenge**. The Seychelles' capacity to sustainably manage solid waste is severely strained, with landfills reaching capacity, regularly occurring landfill fires, and underdeveloped waste diversion programs, despite strong policy and planning. A high reliance on imports and packaging, the waste generated by the tourism industry, and increasing challenges in accessing overseas recycling markets are creating a waste management crisis that could undermine tourism and lead to increased environmental pollution. Limited data on waste, including amounts, categories, diversion, exports, and sector-specific contributions, hinders planning for sustainable waste management and a circular economy. Better solid waste and landfill management are needed, as is improving the circular economy, as outlined in Seychelles' draft Industrial Policy.

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[59] Thomas, A., et. al. 2020. Climate Change and Small Island Developing States Annual Review of Environment and Resources. Vol. 45:1-27. October. https://www.annualreviews.org/doi/pdf/10.1146/annurev-environ-012320-083355.

[60] Seychelles: 2022 Article IV Consultation. IMF. (July 26, 2022).

[61] https://www.worldbank.org/en/news/feature/2019/07/18/coastal-resilience-in-seychelles-charting-a-path-forward.

[62] Seychelles' Blue Bonds were issued in 2018 with World Bank Group support. Proceeds from the Blue Bonds are designed to support sustainable marine and fisheries projects.

[63] https://climateknowledgeportal.worldbank.org/country/seychelles.

<u>Cross-cutting</u>: Sustain macroeconomic prudence with attention to climate risks

28. **Efficient use of public resources while enhancing fiscal sustainability is essential**. It will be important to broaden the tax base to address the challenges of an aging population. Also needed is an increased focus on efficiency to deliver improved outcomes in education and health, given that wages as a share of GDP was 35 percent in 2002, up from 32 percent in 2016. In the health sector wages are 52 percent of overall health recurrent expenditures and an important factor keeping health spending high. In the education sector, wages averaged 53.5 percent of total spending during 2016–21. Attention to spending efficiency and improved PIM processes (with climate considerations) is also important for implementing needed investments. Lessons should also be drawn from Seychelles' experience with the major shocks in 2008 and 2020, to underscore the importance of countercyclical policy for maintaining macroeconomic stability and safeguarding priority spending.

29. **Improving public spending efficiency and sustainability should be a key priority**[64]. Seychelles is undertaking a number of measures to improve expenditure management and the efficiency of public spending, including an integrated financing framework to guide resource mobilization. It also includes strengthening macro-fiscal forecast capacities and debt scenarios to monitor medium-term fiscal strategies. In January 2022, the Seychelles Infrastructure Agency was set up to improve the planning and execution of capital projects, and a PIMA was completed in January 2023. There is also ongoing implementation of results-based management. Going forward, the priority should be to integrate these measures with national strategies, and implement climate informed PIM processes, along with improvements in the tracking and monitoring of expenditure impacts.

3. Knowledge Gaps

30. **A critical gap centers around data**. Updated firm level and labor force data would be needed to understand the constraints to sustained productivity and other sources of growth. More analysis is needed on firm level productivity (also entry, exit in sectors with SOE dominance), and obstacles to labor force participation and productivity, particularly for women, and youths (including the effects of drug use, teenage pregnancy and gender-based violence). More recent data on firm dynamics (i.e., B-Ready along with data on informality) would provide updated insight on MSME growth (including firm dynamics and productivity). Gender disaggregated data is needed to inform the design of policies to reach women entrepreneurs and youths. With the increasing importance of the formal wage sector and evidence of significant gender gaps, a decomposition analysis would help to identify the drivers of the gender wage gap, and help explain how limited access to credit, land, and skills affect men and women differently. Analysis of the impact of COVID-19 and how firms have recovered could help inform approaches to business continuity, to strengthen resilience and build back better.

31. **An updated household data is needed to assess more recent poverty trends and their key drivers**. The last household survey was in 2018, limiting the ability to identify factors impeding participation of the disadvantaged in the economy, and effectively target social protection, particularly to women-headed households and youth at risk. Internationally comparable data on learning outcomes (and basic data on digital and socioemotional skills of students) could also inform approaches to ensure school leavers are better equipped for the job market.

[64] Seychelles: 2022 Article IV Consultation. IMF. (2022, July 26).

32. **Research is also needed to understand the behavioral and risk factors linked to drug use and teenage pregnancy**. There is surprisingly little information on drug use among Seychelles' youth, to better tailor programs that prevent risky behavior. Both qualitative and quantitative research is needed in this area. This needs to be complemented by more behaviorally informed prevention and screening campaigns in secondary schools, informed by scientific analysis to gain insights on the indicators of risk behavior.

33. **Finally, there are knowledge gaps on how to effectively use the energy sector to drive development and climate resilience in Seychelles**. Achieving a 15 percent renewable energy target by 2030 and 100 percent beyond, will require a fundamental shift in the status quo, including ensuring regulations are consistent with energy sector goals and NDC Update. Options for licensing, a project pipeline and pre-feasibility studies would need to be developed, including assessments of risks and mitigation options, and opportunities for climate finance. Renewable energy technologies and related technical skills to implement them would be another gap to be filled. Analysis of the impact of climate change on Seychelles' development path and growth will help further refine and phase key priorities for climate resilience.