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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US\$35 MILLION

TO THE

REPUBLIC OF SEYCHELLES

FOR THE

SEYCHELLES FIRST FISCAL SUSTAINABILITY AND CLIMATE RESILIENCE DEVELOPMENT POLICY
LOAN

November 18, 2021

Macroeconomics, Trade And Investment Global Practice
Eastern and Southern Africa Region

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Republic of Seychelles
GOVERNMENT FISCAL YEAR

January 1 – December 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 31, 2021)

Currency Unit = Seychellois Rupee

SCR14.68= US\$1

ABBREVIATIONS AND ACRONYMS

AML	Anti-money Laundering	MIS	Management Information System
ASA	Analytical and Advisory Services	MLI	Multilateral Instrument
AfDB	African Development Bank	MMP	Mariculture Master Plan
ASP	Agency for Social Protection	MoFEPT	Ministry of Finance, Economic Planning and Trade
BEPS	Base Erosion and Profit Shifting	MPR	Monetary Policy Rate
BO	Beneficial Ownership	MSME	Micro, Small and Medium Enterprises
Cat DDO	Catastrophe-Deferred Drawdown Operations	MTDS	Medium-term Debt Strategy
CBS	Central Bank of Seychelles	NDS	National Development Strategy
CFT	Combating the Financing of Terrorism	NGO	Non-governmental Organizations
COVID-19	Corona Virus Disease 2019	NPL	Non-performing Loan
CPI	Consumer Price Index	NRA	National Risk Assessment
CPF	Country Partnership Framework	OECD	Organization for Economic Co-operation and Development
CSR	Corporate Social Responsibility Tax	PA	Prior Action
DE4A	Digital Economy for Africa Initiative	PEFA	Public Expenditure and Financial Accountability
DICT	Department of Information, Communication and Technology	PEMC	Public Enterprise Monitoring Commission
DPF	Development Policy Financing	PFM	Public Financial Management
DSA	Debt Sustainability Analysis	PforR	Program for Results
EAC	Environmental Appraisal Committee	PIM	Public Investment Management
EFF	Extended Fund Facility	POU	Procurement Oversight Unit
FA4JR	Financial Assistance for Job Retention	PPA	Public Procurement Act
FDI	Foreign Direct Investment	PPP	Purchasing Power Parity
FIU	Financial Intelligence Unit	RAS	Reimbursable Advisory Services
FinTech	Financial Technology	RBM	Results Based Management
GIR	Gross International Reserves	SCD	Systematic Country Diagnostic
GDP	Gross Domestic Product	SCR	Seychelles Rupees
GFN	Gross Financing Need	SDR	Special Drawing Rights
GoS	Government of Seychelles	SETS	Seychelles Employment Transition Scheme
GRID	Green, Resilient and Inclusive Development	SIDS	Small Island Developing States

GRS	Grievance Redress Services	SOE	State Owned Enterprises
HDI	Human Development Index	SRC	Seychelles Revenue Commission
IBRD	International Bank for Reconstruction and Development	SWIOFish3	Third South West Indian Ocean Fisheries Governance and Shared Growth Project
IBC	International Business Companies	TSA	Treasury Single Account
ICT	Information Communications Technology	UAE	United Arab Emirates
IDSR	Integrated, Disease, Surveillance and Response Committee	UN	United Nations
IFI	International Financial Institutions	URS	Unemployment Relief Scheme
IFRS	International Financial Reporting Standard	US\$	United States Dollars
IMF	International Monetary Fund	VAT	Value-added Tax
ISR	Issuer Default Rating	WB	World Bank
KPI	Key Performance Indicators	WBG	World Bank Group
LOS	Large Ocean State	WHO	World Health Organization
LMO	Liability Management Operation		

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REPUBLIC OF SEYCHELLES**SEYCHELLES FIRST FISCAL SUSTAINABILITY AND CLIMATE RESILIENCE DEVELOPMENT POLICY LOAN****TABLE OF CONTENTS**

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**SUMMARY OF PROPOSED FINANCING AND PROGRAM****BASIC INFORMATION**

Project ID	Programmatic	If programmatic, position in series
P176420	Yes	1st in a series of 3

Proposed Development Objective(s)

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

Organizations

Borrower: THE REPUBLIC OF SEYCHELLES

Implementing Agency: MINISTRY OF FINANCE, ECONOMIC PLANNING AND TRADE

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Financing	35.00
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DETAILS

International Bank for Reconstruction and Development (IBRD)	35.00
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INSTITUTIONAL DATA**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating



Results

Indicator Name	Baseline	Target
1. (i)Percent of SOEs that have published their annual reports. (ii)Number of SOES using climate smart PIM.	(i) 0 (ii) 0	(i) 3 (ii) 2
2. Increase in Business Tax	SCR 1,197 (2021)	SCR 1,888 (2023)
3. Percentage of planning decisions informed by an analysis of natural hazard and climate risks as stipulated in the Physical Planning Bill.	0	80 percent
4. Percentage of legal entities that have submitted verifiable ownership information on the database held by FIU	0	80 percent
5. Share of banked population that use electronic/internet banking	8 percent	20 percent
6. (i) Number of aquaculture businesses registered or licensed. (ii) Percentage of infractions to the Mahé Plateau Regulations during controls. (iii) Number of patrols to monitor compliance with the Mahé Plateau Regulations. (iv)Gender assessment in the fisheries sector conducted	(i) 0 (ii) N/A [regulations not adopted] (iii) N/A [regulations not adopted] (iv) No	(i) 4 (ii) Decrease in the number of infractions (down by 20%) (iii) Information to be taken from the Monitoring Control and Surveillance Plan (iv) Yes



IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE REPUBLIC OF SEYCHELLES

1. INTRODUCTION AND COUNTRY CONTEXT

1. This Program Document presents the rationale for a programmatic Development Policy Financing (DPF) International Bank of Reconstruction and Development (IBRD) loan to the Government of Seychelles (GoS). The proposed operation, for US\$35 million, is the first in a planned series of three operations that will help to support the government's effort to achieve fiscal sustainability following the impact of COVID-19 on the government's fiscal performance and to support critical structural reforms that will lay the foundation for resilient economic growth. The GoS changed in October 2020 following a general election that resulted in the opposition being elected to form the new government for the first time since the coup d'état in 1977. The new Government is committed to returning to a sustainable debt path and improving the prospects for sustainable and inclusive medium-term growth.

2. **Seychelles is an archipelago of 115 islands with almost 98,000 citizens.** About 90 percent of its total population is clustered on the three main islands of Mahé, Praslin and La Digue. Seychelles is categorized as a Small Island Developing State (SIDS) and a Large Ocean State (LOS) based on the similar characteristics of other SIDS and LOS in relation to their remoteness, small land area, limited capacity and lack of resources. A lack of economic diversification and the high dependence on the tourism and fishing sectors as well as imports, exposes Seychelles to external shocks. These shocks are transmitted through disruptions in international travel and tourism demand; fluctuations in fishing stocks and instabilities in the price of essential commodities such as food and fuel prices; and natural hazards. In addition, Seychelles relies heavily on its coastal zone as a site for economic development and this means that a large share of its critical infrastructure, tourism establishment and housing is located in the coastal zone, which is at risk to coastal flooding and sea level rise.

3. **The incidence of poverty in Seychelles is aligned with that of countries at similar levels of income while inequality is somewhat lower.** Seychelles has been a development success story. The country attained high-income status in 2015 and eliminated extreme poverty. Gross Domestic Product (GDP) per capita in 2020 was US\$12,313. The Coronavirus 2019 (COVID-19) pandemic reversed the strides made in poverty reduction in preceding years by deepening poverty and creating a new group of poor. Although the country avoided a major outbreak of COVID-19, the economic crisis from the pandemic led to an increase in poverty in 2020 to 37.1 percent from the observed 25.3 percent in 2018, thereby wiping out progress achieved since 2013. This was primarily driven by contraction in services sectors which account for the largest share of employment. The increase in poverty was mitigated by the introduction of measures by the government in response to the pandemic. After incorporating mitigation measures, the poverty rate dropped from 37.1 percent in 2020 to 29.1 percent in 2021.

4. **Seychelles has recorded a total of 22526 cases of COVID-19 (119 deaths), 149 of which are active (as of November 2, 2021).** The large majority of cases have been imported. After the initial outbreak in March 2020 was contained quickly, a second cluster emerged in late June 2020 through a large group of sailors flying into Seychelles for crew changes. The country reopened its international airport on August 1, 2020 for visitors from countries deemed low risk subject to a negative COVID-19 test and health screening at the hotel. After a second lockdown in January 2021, the country was reopened again for tourism in March 2021. In May 2021 Seychelles experienced a rise in COVID-19 cases despite having a high vaccination rate. Furthermore, 37 percent of the new infections were in people who had received both doses of vaccines¹. Approximately 83 percent of the population has been fully vaccinated. Since the outbreak in May 2021, the GoS tightened containment measures (limiting public gatherings and a nighttime curfew), resulting in lower COVID-19 cases.

¹ The country is administering Sinopharm vaccine as well as the AstraZeneca shot (known as Covishield, a version produced in India).



5. **COVID-19 hit Seychelles hard, interrupting a successful trajectory of inclusive growth.** With an ambitious program of economic policy and institutional reforms undertaken by the GoS, macroeconomic stability was re-established following the 2008 sovereign debt crisis and led to an average real GDP growth of 4.2 percent between 2009 and 2019. Tourism and fisheries are the pillars of the economy, with tourism accounting for about 25.6 percent of the total GDP, while the fisheries sector accounts for about 7.7 percent. The economy contracted by 12.9 percent in 2020, due primarily to the impact of COVID-19 on the tourism sector. To mitigate the impact of the pandemic on the economy, the government guaranteed salaries to the private sector; increased allocations to social protection for vulnerable groups for the unemployment relief scheme and increased transfers to public enterprises such as Air Seychelles. This contributed to an increase in expenditures and as a result an increase in the fiscal deficit to 19.5 percent of GDP from 0.9 percent in 2019.

6. **Climate change is deemed to be one of the greatest threats to Seychelles' sustainable development, because of its heavy dependence on tourism and fisheries.** Economic concerns about climate change center on the damage likely to be caused by rising sea level (coastal erosion and salinization, and consequent losses to tourism and food and water security); extreme rainfall (crop and fish losses, flooding) and rising sea temperature (coral bleaching and losses to fisheries and tourism). Seychelles is still marked by the massive coral bleaching events which took place in the years of 1998 and 2016 and an increase of the global temperature of 2 degrees Celsius will be catastrophic to the existing corals which provide coastal protection and habitat for some fish stocks. The country's broader vision of sustainable development is heavily focused on environmental management, in particular of its ocean and coastal resources. Many of the Seychelles' islands lie outside the cyclone belt, thus there is relatively less exposure to such catastrophic natural disaster. In recent years Seychelles has been hit once by a major natural disaster which imposed economic damage of over 3 percent of GDP. With this record, it ranks 26th among 33 small states worldwide in vulnerability to natural disasters (2 percent of GDP is the average annual cost of natural disasters for small states).

7. **The proposed programmatic DPF series aims to support crucial structural reforms to improve the post-pandemic recovery potential of the Seychelles economy and strengthen the resilience of the country to climate change.** The first pillar aims to strengthen medium-term fiscal sustainability by reducing the fiscal risks and restoring the public debt path from high levels since 2008. As a Small Island Developing State, Seychelles is exposed and vulnerable to natural hazards and the adverse effects of climate change. In addition, the pandemic has posed significant risks to the financial sector. The second pillar of the DPF supports the government's commitment to build greater resilience against natural hazards, climate change and financial risk. The third pillar supports strengthening policies to create an enabling environment for inclusive and sustainable growth, in particular the development of the digital economy and the blue economy. The DPF is a part of the GoS' reform plans aimed at reducing debt sustainability risks through a three-pillared approach comprising of fiscal consolidation, a liability management operation, and external support.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

8. **Economic growth is projected to recover to 6.9 percent in 2021.** The recovery of the economy is contingent on the performance of the tourism sector. Tourist arrivals begun to rebound in April 2021 and is expected to grow by 40 percent, (relative to the previous year's decline of 67 percent), driven by an increase in tourist arrivals from traditional markets such as Germany and France (due to the gradual easing of travel restrictions in line with their vaccination progress) and new markets (Russia, United Arab Emirates (UAE) and Israel). Since the reopening of the borders at the end of March, tourist arrivals have followed the longstanding seasonality pattern, with arrivals increasing in the third quarter. Forward-looking data for the fourth quarter of 2021, which includes winter holidays, are encouraging. In addition, the fisheries sector is



expected to grow by 2.5 percent in 2021 as the tourism sector recovers and demand for fisheries increase in hotels and restaurants (the fisheries sector sells approximately 50 percent of the domestic artisanal catches to resorts and restaurants). The agricultural sector is projected to grow by 3.5 percent for 2021, driven by policies to increase food security (such as developing agriculture on the outer islands and re-allocating agricultural land on the main islands to more productive farmers) as well as higher demand for fresh produce from hotels and restaurants due to higher tourist arrivals.

9. Inflation is expected to increase in 2021 due to domestic and international developments. The inflation rate is expected to increase to 10.0 percent in 2021 due to increasing consumption as economic activity improve following the opening of the borders at the end of March 2021. Also, contributing to the expected increase is the revision of the Consumer Price Index (CPI) basket as of January 2021 to incorporate the outcome of the most recent household budget survey as well as exchange rate depreciation. In addition, commodity prices are expected to increase due to higher demand in view of rising global economic activity and the decision of the Organization of the Petroleum Exporting Countries to cut back oil production. Also, rising food prices due to higher demand coupled with supply constraints attributed to production and transportation challenges is expected to contribute to the rise in the inflation rate. In October 2021, year-on-year inflation in Seychelles stood at 9.9 percent.

10. The Central Bank of Seychelles (CBS) has maintained an accommodative monetary policy stance amid the COVID-19 crisis. In response to the impact of COVID-19 on the economy, the Central Bank lowered its policy rate by 200 basis points in 2020 to support domestic economic activity and reduce financial stability risks. The Central Bank also amended the procedures that govern access to the emergency lending facility that financial institutions can call on should the need arise to ensure that financial stability is maintained. In June 2021, the Monetary Policy Rate (MPR) was further reduced to 2.0 percent to support private sector credit and better align with domestic conditions².

11. Seychelles financial system continues to be resilient due to strong capitalization and liquidity. The banking system supported the business sector with a moratorium of loan repayments for up to a 6-month period starting in March 2020, while for individual borrowers the moratorium was for up to 3 months. Non-performing loans (NPL) increased moderately from 3.3 percent of total loans in December 2020 to 4.9 percent in September 2021 in part reflecting some regulatory forbearance measures (relaxed credit classification). Given the possibly high level of forborne loans in banks' balance sheets, the CBS requires banks to differentiate nonviable borrowers from viable ones with temporary liquidity shortages and to ensure that banks' loan classification correctly reflects the asset quality of the banking system. The banking sector's capital adequacy ratio stood at 17.5 percent in September 2021, above the prudential limit of 12 percent due primarily to a reduction in risk adjusted assets, following the rupee appreciation. The CBS is planning to unwind the COVID-related forbearance and other support measures to the financial sector starting in January 2022 (using a phased approach in which some measures will likely be unwound in their entirety and some measures will likely be replaced with more targeted versions). The CBS will provide guidance on prudential treatment of moratoria and NPL management strategies and develop detailed reporting templates for restructured and rescheduled loans and for monitoring the impact of COVID-19 measures on the asset quality of banks.

² The reduction in the policy rate was accompanied by a downward structural shift of the short-term interest rate corridor from 5 percent to 3 percent. The Minimum Reserve Requirement remains unchanged at 13 per cent of applicable deposit liabilities, but as approved by the Board on June 22, 2020, it may be reduced to 10 per cent on rupee deposits should liquidity conditions warrant such an adjustment.



Table 1. Seychelles: Key Macroeconomic Indicators, 2018 – 2024

	2018	2019	2020	2021	2022	2023	2024
Real Economy	Annual percent change, unless otherwise indicated						
Real GDP	1.3	1.9	-12.9	6.9	7.7	6.8	5.0
GDP deflator average	1.9	1.1	3.5	10.2	3.2	3.2	3.0
CPI (annual average)	3.7	1.8	1.2	10.0	3.7	3.2	3.0
Fiscal Account	Percent of GDP, unless otherwise indicated						
Total Revenue and Grants	38.4	38.0	37.6	34.8	35.9	36.3	37.7
Tax revenue	32.9	33.5	31.8	28.0	29.3	30.3	32.2
Expenditure and net lending	38.8	37.7	57.1	48.4	43.6	39.2	38.1
Current Expenditure	33.6	33.8	50.1	38.9	35.4	33.0	33.1
Capital Expenditure	5.2	3.9	5.9	7.6	7.4	6.0	5.5
Overall balance	-0.2	-0.9	-19.5	-13.6	-7.7	-2.9	-0.4
Primary balance	3.0	2.8	-16.3	-9.7	-5.0	-0.4	2.8
Money and Credit							
Broad Money	7.7	13.9	29.2
Credit to the Private Sector	11.5	22.3	20.2	-7.3	17.2	17.6	17.5
External Sector							
Current account balance including official transfers (in percent of GDP)	-18.9	-16.1	-29.5	-22.4	-23.3	-21.8	-17.8
Export, Goods and Services (growth)	9.4	-4.2	-32.3	12.2	18.0	20.1	12.7
Tourism (growth)	15.8	5.5	-62.5	11.5	53.0	39.1	16.2
Imports, Goods and Services (growth)	9.6	-3.6	-25.1	10.3	18.3	14.4	9.7
Gross official reserves (end of year, millions of U.S. dollars)	548	581	561	670	743	815	816
Months of imports	3.7	5.2	4.6	4.5	4.3	4.4	4.1
Debt							
Public Debt	62.3	61.8	100.8	86.2	84.5	77.7	71.9
External Debt	29.1	28.1	52.7	48.2	44.0	44.0	38.6
Other Memo Items							
Nominal GDP (SCR Millions)	21540	22192	20021	23585	26219	28878	31221
Nominal GDP (US\$ Millions)	1542	1580	1138	1288	1751	1942	2124

Source: Ministry of Finance, Economic Planning and Trade, Seychelles

12. **The external account is expected to narrow in 2021 as tourism earnings rebound.** In 2021 the current account deficit is expected to narrow to 22.4 percent of GDP (compared to 29.5 percent in 2020) based on the revival of tourist activity. In addition, there is expected to be a rebound in export of goods, primarily due to an increase in tuna exports. The external deficit will be mostly financed by external borrowing and foreign direct investment (Table 2). Foreign Direct Investment



(FDI), which has been the major source of financing of the country's current account deficits, is expected to rebound in 2021 following a decline in 2020. For 2021, gross international reserves are expected to increase to US\$683 million (4.5 months of imports) from US\$561 million (4.6 months of imports) in 2020.

Table 2: External Financing Requirements and Sources, 2021 – 2024
(US\$ millions, unless otherwise indicated)

	2021	2022	2023	2024
1. Current account balance	-288.7	-408.6	-423.4	-377
2. Capital and Financial account balance	285.9	334.3	383.4	411
Capital account, net	33.2	59.4	76.8	77.4
Financial account, net	252.7	274.9	306.5	333.8
Foreign direct investment, net	172.4	208	258.7	297.3
Portfolio investment, net	41.6	5.2	5.5	5.6
Other Investment, net	38.7	61.7	42.3	30.8
3. Overall Balance	-2.8	-74.4	-40.0	34
Changes of gross reserves ("-" increase)	-122.2	-62.6	-52.6	-14.0
4. Financing Requirement/Gap	-124.9	-137	-92.6	20
5. Financing Sources	127.8	142.4	105	75
International Monetary Fund	68.8	18.8	19.0	-
World Bank (Budget Support and Social Protection Project)	44	21	21	9
African Development Bank	20	30	30	-
Bilateral Budget Support	-	72.5	35	67.5

Source: Ministry of Finance, Economic Planning and Trade, Seychelles; International Monetary Fund and World Bank

13. The nominal exchange rate has strengthened, following a significant depreciation in 2020. In 2020 the exchange rate depreciated significantly prompting the central bank to intervene in the foreign exchange market to stabilize the market. The significant slowdown of tourist arrivals caused a decline in income in the tourism industry. Consequently, foreign exchange inflow declined resulting in a depreciation of the domestic currency from SCR 14.0 per dollar in December 2019 to SCR 21.5 in December 2020. The domestic currency has appreciated by 33 percent against the U.S. dollar since March 2021. The exchange rate stood at SCR 14.7 per US dollar in October 2021 from SCR 21.4 per dollar in March 2021, offsetting almost all the depreciation in 2020. This appreciation is due to an increase in the supply of foreign exchange, coupled with a reduction in demand which has led to some degree of stability in the foreign exchange market.

14. Measures to mitigate the impact of Covid-19 on business and households resulted in an increase in the fiscal deficit. The GoS responded to COVID-19 with measures to mitigate the economic fallout on businesses and households such as the financial assistance for job retention scheme and increase in allocations to social protection (see Box 1). In addition to the mitigating measures of COVID-19, the fiscal deficit also increased due to increases in: public sector wages and salaries (2.9 percentage points), goods and services (2.0 percentage points) and capital expenditure (2.2 percentage points). Wages and salaries increased due to the My First Job initiative where the government guaranteed the employment of college graduates in areas of the public service such as health and education. The government also introduced an internship scheme for returning and local-based graduates as well as post-secondary students. Capital expenditure increased due to a number of projects that were in various stages of implementation in 2020, such as the construction of the New



Magistrate's court, the construction of the new block of the Belonie Secondary School, the construction of a new creche at Anse Royale, as well as various housing and land bank projects. As a result of these measures, government expenditure increased drastically to 57.1 percent of GDP in 2020 from 37.7 percent of GDP in 2019. At the same time, revenue declined to 37.7 percent of GDP from 37.9 percent of GDP in 2019. While tax revenue declined in 2020 due to lower aggregate demand as tourism activities declined, there was an increase in grants from 0.4 percent of GDP in 2019 to 1.9 percent of GDP in 2020. Consequently, the fiscal deficit increased to 19.5 percent of GDP in 2020 from 0.9 percent in 2019. The financing gap that arose was financed with increased borrowing from both the domestic and external markets. Foreign financing included budget support loans from the International Monetary Fund (IMF), the World Bank and the African Development Bank (AfDB) in the amount of 2.5, 2.4 and 0.7 percent of GDP, respectively. On the domestic market, the government increased its issuance of Treasury bills and issued three Treasury bonds valued at SCR 1.5 billion. The debt to GDP ratio increased to 100.8 percent of GDP in 2020 from 61.8 percent in 2019 due to the significant decline in GDP (-12.9), a 50 percent depreciation in the exchange rate and the increase in the deficit.

Box 1: Seychelles' COVID-19 Policy Response

In 2020 the GoS introduced emergency intervention measures to manage the economic and social impact of the COVID-19 pandemic, totaling 10.6 percent of GDP. Measures that affected expenditure include:

- Guaranteed salary for employees in the private sector (6.3 percent of GDP).
- Increase in allocations to social protection for vulnerable groups (2.2 percent of GDP)
- Transfer to Public enterprises including Air Seychelles (1.8 percent of GDP)
- Seychelles Employment Transition Scheme (0.1 percent of GDP)
- Property Management Corporation and Home Finance Company Housing Loan Repayment Scheme (0.1 percent of GDP)
- Covid-19 Micro and Small Business Support Fund (0.1 percent of GDP)

15. **In 2021, the fiscal balance will improve due to the withdrawal of the COVID-19 fiscal support package which represented a significant part of transfers in 2020.** Transfers are expected to decline to around 9 percent of GDP in 2021 from 18 percent of GDP in 2020. The decline in transfers reflect the removal of COVID-19 measures such as the guarantee of salaries to the private sector and the increase in allocation to social protection to finance the unemployment relief scheme program (see Box 1) which were all stopped in early 2021. The impact of the withdrawal of the fiscal support package on the most vulnerable will be mitigated by a more targeted social protection program which is being supported by a recently approved Social Protection Program for Results (P168993). Capital expenditure will increase slightly in 2021 as foreign financed projects are carried out. Revenue will contract in 2021 (34.8 percent in 2021 from 37.6 percent in 2020) due to generous loss-carry forward provisions for business taxes; the abolishment of Corporate Social Responsibility tax, a decline in excise, trade and value added taxes due to lower imports of alcohol and motor vehicles. As a result, the fiscal deficit is expected to decline from 19.5 percent of GDP in 2020 to 13.6 percent of GDP.



Table 3: Seychelles Key Fiscal Indicators, 2018 – 2024 (Percent of GDP)

	2018	2019	2020	2021	2022	2023	2024
Total Revenue and Grants	38.4	37.9	37.6	34.8	35.9	36.3	37.7
Tax Revenue	32.9	33.4	31.8	28.0	29.3	30.3	32.2
Personal Income Tax	4.5	4.4	5.1	4.3	4.4	4.6	4.9
Trade Tax	1.5	1.4	1.3	1.2	1.3	1.5	1.8
Excise Tax	5.9	6.2	6.3	5.6	5.9	6.2	6.4
Value Added Tax	11.6	11.7	10.6	11.1	11.3	11.7	11.7
Business Tax	6.4	6.3	6.0	4.2	4.5	4.8	5.3
Corporate Social Responsibility Tax	0.5	0.5	0.5	0.3	0.0	0.0	0.0
Tourism Marketing Tax	0.3	0.3	0.3	0.1	0.2	0.2	0.4
Other Tax	2.2	2.6	1.7	0.9	1.6	1.2	1.7
Non-Tax Revenue	4.2	4.1	3.9	2.8	3.8	4.0	4.0
Grants	1.3	0.4	1.9	4.1	2.8	2.1	1.5
Expenditure and net lending	38.6	37.8	57.1	48.4	43.6	39.2	38.1
Current expenditure	33.6	33.8	50.1	38.9	35.4	33.0	33.1
Wages and salaries	10.5	11.3	14.2	12.6	12.0	10.9	11.0
Goods and services	13.0	12.6	14.6	13.3	12.5	11.6	11.3
Social program of Government	0.5	0.7	7.6	1.9	0.7	0.7	0.6
Transfers to Public Enterprises	0.3	0.4	2.2	0.9	1.3	1.6	1.3
Benefits and approved programmes of SSF	5.9	6.1	8.3	6.1	6.1	5.6	5.3
Others	0.1	0.2	0.2	0.1	0.1	0.1	0.4
Interest	3.2	2.5	3.2	3.9	2.7	2.4	3.2
Capital expenditure	4.4	3.0	5.2	7.6	7.4	6.0	5.5
Net lending	0.4	0.7	1.1	1.7	0.6	0.1	-0.6
Contingency	0.2	0.2	0.7	0.2	0.2	0.2	0.2
Primary balance	3.0	2.8	-16.3	-9.7	-5.0	-0.4	2.8
Overall balance	-0.2	-0.9	-19.5	-13.6	-7.7	-2.9	-0.4
Financing	-0.7	0.9	20.4	13.6	7.7	2.9	0.4
Foreign financing	-0.2	-0.2	3.3	15.6	8.6	5.6	-1.9
Disbursement	1.4	1.6	5.9	19.3	11.9	9.0	1.7
Budget Support: IMF, World Bank and AfDB	1.4	1.6	5.9	19.3	8.8	6.4	0.1
Scheduled Amortization	-1.6	-1.8	-2.6	-3.7	-3.3	-3.3	-3.6
Domestic financing, net	-1.3	1.1	15.9	-2.4	-1.3	-3.2	2.3
Bank	-2.6	0.5	13.5	-2.1	-1.1	-3.5	2.1
Non-Bank	1.4	0.6	2.4	-0.2	-0.1	0.2	0.2
Public Debt, % of GDP	62.3	61.8	100.8	86.2	84.5	77.7	71.9

Source: Ministry of Finance, Economic Planning and Trade, Seychelles



16. **External financing is expected to play a significant part in filling the fiscal financing gap.** The financing requirement for 2021-23 is estimated at US\$354.5 million. Foreign financing, including through the proposed operation, is expected to fully finance the external financing gap (see table 2). This includes the IMF 32-months Extended Fund Facility (EFF) of US\$105.6 million; AFDB budget support of US\$80.0 million; US\$90 million from the World Bank (US\$60.0 million in budget support (2021 to 2023) and US\$30.0 million from the Social Protection project³) and US\$175.0 million from bilateral partners. (expected from 2022 to 2024). In 2022 there is a shortfall in fiscal financing of US\$40 million due to the non-materialization of bilateral foreign financing. The shortfall in financing in 2022 will can potentially be financed through the increase in the SDR allocation (US\$31.8 million) that was approved by the IMF's Board of Directors in August 2021 and the issuance of domestic bonds.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

17. **Economic growth is projected to average 5.9 percent over the medium-term.** The recovery of the economy is contingent on the performance of the tourism sector. Private consumption is also expected to contribute to the recovery in the economy. Although the recovery of the domestic economy is heavily reliant on external developments, interlinked domestic factors such as fiscal and debt sustainability, policy alignments and labor market conditions are also critical elements going forward. Whilst the above pose some degree of uncertainty, the outlook for a gradual recovery seems promising, despite the planned fiscal consolidation (which is predominantly a reversal of COVID-19 measures). Tourist arrivals are projected to rebound by 50 percent in 2022 (due to increase tourists from both traditional and new markets (Russia, UAE and Israel) and the economy is projected to grow by 7.7 percent in 2022. In 2023 and 2024, economic growth is projected to be 6.8 percent and 5.0 percent, respectively, as tourism continues to rebound.

18. **Inflation is expected to decline over the medium-term.** In 2022, inflation in Seychelles is projected to decline to 3.7 percent as the exchange rate appreciates and consumption moderates. In addition, commodity prices are expected to moderate as supply pressures fade gradually. The inflation rate is projected to decline to 3.2 percent in 2023 and 3.0 percent in 2024.

19. **On the external sector, the current account balance as a share of GDP is expected to remain in deficit but will narrow over the medium-term.** The current account will largely reflect improvements in export of goods and services due to a rebound in tourist arrivals. However, tourist arrival is not expected to reach pre-crisis level until 2023. Capital inflows are also projected to increase, reflecting a recovery in foreign direct investment. There is significant uncertainty about travel habits in a post-COVID world and corresponding tourism inflows to Seychelles.

20. **The fiscal deficit is expected to contract over the medium-term, as the government undertakes fiscal adjustment.** The GOS introduced expenditure-saving measures in 2021 that are expected to continue in the medium -term, including: limiting new recruitments to key positions in certain ministries and departments; freezing salaries for public service employees; freezing long term service allowance and the introduction of new schemes of service. In the medium-term, revenue collection will increase, driven by a resumption of economic activities as well as measures to improve tax policy such as: (i) the prevention of base erosion of the corporate tax base through international profit shifting (supported by this DPF series); (ii) streamlining of VAT exemptions (structural benchmark for the IMF EFF program). Tax reforms are expected to generate 3.6 percent of GDP in the medium-term.

³ Total financing for the Social Protection Project PforR is US\$30 million. Disbursements from the PforR is contingent upon the Government's ability to achieve the targets set out in the project document. Planned disbursements for 2021 is US\$13.5 million and disbursements for 2022 and 2023 is 6 million for each year. the remining US\$4.5 million will be disbursed in 2024.



21. **The composition of domestic debt created high financing cost.** Seychelles domestic debt accounts for half of the total debt stock and consisted mainly of short-term (treasury bills) debt that mature in 2021. As a result, the country faced a high roll-over risk from the higher interest rates and shorter maturities which resulted in high gross financing needs (GFNs). To reduce the financing/rollover risk from domestic debt the GoS with assistance from the IMF designed a liability management operation (LMO) which was announced on July 6, 2021. The T-Bills covered in the LMO comprised 182 and 365-day bills accounting for one-third of the total stock of T-Bills. The LMO offered to exchange up to SCR 1.5 billion of outstanding T-bills (6.4 percent of GDP) for 3, 5, and 7-year bonds in equal proportion and ensured a neutral net present value exchange⁴. The LMO was held on a voluntary basis and closed on July 14, 2021. The LMO switched SCR 1.2 billion (5.2 percent of GDP) of T-Bills into bonds. The LMO has extended the average maturity of the participating debt portfolio by 4.8 years compared to the previous maturity of less than 1 year and the weighted average yields on the LMO for the bonds were lowered by 125-150 bps compared to the previously issued rates and contribute to mitigate rollover risks. As a result of the LMO, fiscal consolidation and low-cost external financing, combined with strong growth, the GFNs will sharply decline from 42 percent of GDP in 2021, to 24 percent in 2022.

Table 4: Seychelles Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

	Actual			Projections					
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	74.5	61.8	100.8	86.2	84.5	77.7	71.9	65.8	59.2
Of which: guarantees	2.4	4.1	4.3	6.5	4.8	3.9	3.4	2.9	2.6
Public gross financing needs	26.1	29.3	50.8	42.0	23.8	16.2	13.3	12.6	11.0
Net public debt		52.8	97.8	83.6	81.6	74.5	69.1	63.4	56.1
Real GDP growth (in percent)	4.6	1.9	-12.9	6.9	7.7	6.8	5.0	5.0	4.8
Inflation (GDP deflator, in percent)	2.6	1.1	3.5	10.2	3.2	3.2	3.0	3.0	3.0
Nominal GDP growth (in percent)	7.3	3.0	-9.8	17.8	11.2	10.2	8.1	8.2	7.9
Effective interest rate (in percent) ^{4/}	5.1	4.4	5.0	4.5	5.5	5.1	5.4	5.4	5.9

Source: World Bank Debt Sustainability Analysis

22. **Seychelles debt is assessed to be sustainable although risks are substantial.** Public debt will exceed the high-risk benchmark in 2021 but is expected to decline over the medium-term. The DSA concluded that Seychelles' external debt is sustainable but is subject to significant risks. In 2021 the public debt to GDP ratio is expected to decline to 86.2 percent due to a recovery in the tourism sector, the roll back of COVID-19 measures, and the appreciation in the exchange rate. The improvement in the medium-term is predicated on the government's commitment to implement fiscal saving measures to bring the primary balance to a surplus of 3.2 percent of GDP. In the medium-term the public debt to GDP ratio is projected to decline gradually reaching 59.2 percent of GDP by 2026. In addition, gross financing needs is projected to

⁴ The debt exchange ensures a neutral net present value (NPV) exchange, whereby the present value of the Source T-Bill portfolio is equal to the present value of the Destination T-Bonds to be issued. If the present value of the Source T-Bills, is more than the cost value of the Destination T-Bonds allocated to the Eligible Investor, the GoS shall settle difference in value. If the reverse is true, the investor settles the GoS. The bids for bonds were based on an auction mechanism that included both competitive and non-competitive bids, with competitive bidding available only to banks. The shares of the 3, 5 and 7-years bonds allocated in the auction amounted to 38 percent, 33 percent and 29 percent, respectively.



gradually decline to 11 percent by 2026 from 50.8 percent in 2020 due to the liability management operation that lengthened domestic debt maturities and lowered debt costs.

23. The public debt path will remain above the high-risk benchmark under all shock scenarios. Under the primary balance shock scenario, the debt-to-GDP ratio would increase to 99 percent in 2023 and decline at a slow pace to reach 68 percent in 2026. The real exchange rate shock (real depreciation by around 16 percent after 2020) and a one-time shock to real GDP growth (lower than the baseline by 2 percent during 2021–22) would cause an increase in the debt to GDP ratio to 97 percent in 2022, with the ratio falling to around 71 percent in 2026. A combined macro fiscal shock which is an aggregation of the shocks to real growth, the interest rate, the primary balance and the exchange rate would cause the debt to GDP ratio to remain elevated throughout the medium-term period and reach 113 percent of GDP in 2026. Gross financing needs are significantly higher under the real interest rate shock and the combined macro-fiscal shock throughout the period of projection.

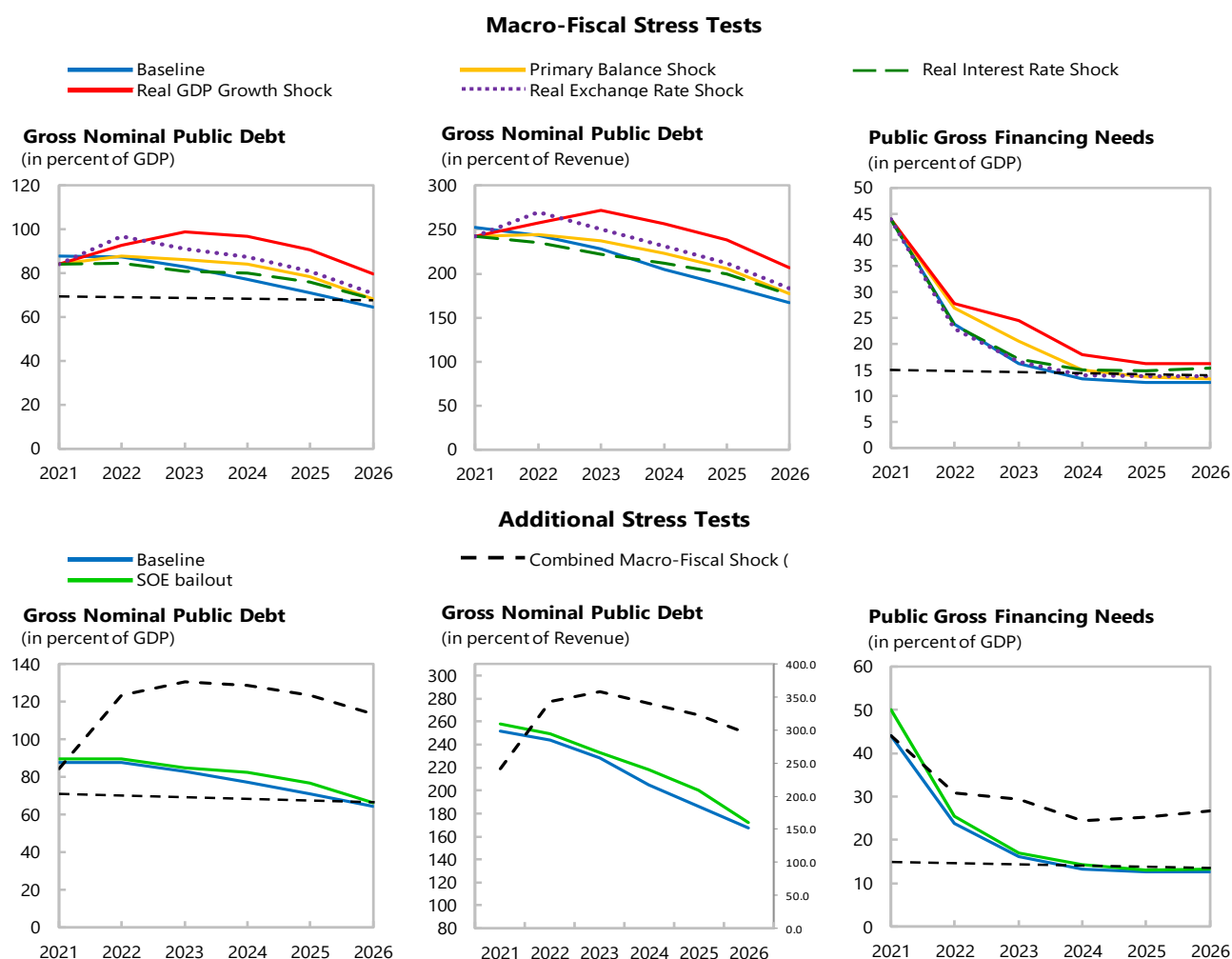
24. Seychelles external debt vulnerability increased in 2020 and is expected to remain high in the medium-term. The increase in external debt vulnerability in 2020 resulted from the increase in the current account deficit due to the significant decline in tourism receipts (which account for about 50 percent of exports of services and 35 percent of exports of goods and services). As a result of the deterioration in the current account and a decline in FDI, the total external debt increased significantly. The external debt to GDP ratio will remain high in the range of 282.1–214.1 percent throughout the medium-term. The country's external debt is particularly sensitive to currency depreciation shocks. A 30 percent depreciation of the domestic currency would lead to a spike in the external debt-to-GDP ratio to around 396 percent in 2022, however such a ratio would decrease steadily and would equal around 300 percent by the end of the projection period, compared to about 214 percent under the baseline scenario. The risks of external debt vulnerability continue to be mitigated by the maturity profile of the external debt of the country's, which is medium to long-term government borrowing, largely from official sources and at favorable interest rates and maturities.

25. To keep the debt on a downward trajectory, the GoS will strengthen the debt management functions in the Ministry of Finance and the CBS. The overall approach will be to develop a strategic approach for debt management that will replace the current practice of issuing T-bills to meet weekly cashflow needs. The GoS will receive technical assistance from the IMF to: (i) establish a medium-term debt management strategy and execute it through developing an annual borrowing plan; (ii) improve government cash flow forecasting capacity to support better debt management; and (iii) set up a market-determined auction mechanism for long-term securities and initiate trading platforms. The MTDS would ensure that the government's financing needs, and its payment obligations, are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. These are also structural benchmarks in the IMF EFF program.

26. Seychelles has sought to enhance debt transparency by initiating a dedicated quarterly debt report. Debt transparency is especially critical at times of elevated debt vulnerabilities. Debt vulnerabilities in Seychelles increased significantly due to the pandemic. This makes debt and debt management transparency even more important. A cornerstone of debt transparency is debt reporting. Debt management and debt transparency improve accountability and, potentially, borrowing outcomes. Publicly available, easily accessible and timely information on the debt portfolio, with a breakdown by currency and with key cost and risk indicators is key towards enhancing debt transparency towards the public, investors, rating agencies and creditors. Public disclosure of official loans helps prevent corruption and harmful lending practices. The MOFEPT is publishing the debt bulletin on a quarterly basis. This will enhance transparency of public debt management practices including increased transparency through expanded debt data coverage (this is supported by the IMF EFF program).



Figure 1. Indicators of Public Debt under Shock Scenarios (2021–2026)



Source: World Bank Debt Sustainability Analysis

27. **Contingent liability poses risks to medium-term debt reduction.** Air Seychelles' project box bond of US\$71.5 million (around 6 percent of GDP) owed to Etihad bondholders could pose significant rollover risks to the company in 2021⁵. While the debts do not benefit from an explicit government guarantee, in the past these debts have been assumed by the Government. The DSA provides a scenario where SOEs' external debts of a similar magnitude (6 percent of GDP) are assumed by the government in 2021. Under this scenario, the public debt-to-GDP ratio at the end of the projection period (2026) would reach 66.4 percent, higher than under the baseline scenario (59.2 percent). This highlights the need to mitigate any risk arising from Air Seychelles. On October 5, 2021, Air Seychelles was placed under administration. To reduce contingent liability risk, the DPF is supporting the amendment of the PEMC Bill to improve monitoring and transparency of public enterprises.

⁵ The airline was part-owned by the Government of Seychelles (60 percent) and Etihad (40 percent) through EAG Investment Holding Company. Etihad relinquished its 40 percent shareholding to the Government of Seychelles in March 2021, and the government has taken over US\$11.4 million of the unsecured debt to be repaid until 2024.



Box 2: Air Seychelles

Air Seychelles began a comprehensive operational restructuring in late 2018, including staff redundancy and the closure of loss-making international routes. As a result, the loss of the company declined to US\$4.6 million in 2019 from US\$41.5 million in 2018. However, the COVID-19 pandemic significantly affected the airlines earnings due to the initial grounding of flights and later reduction in flight activity. This aggravated an already precarious financial position and created more demand for government support. Consequently, the GoS transferred a total of SCR 220 million to Air Seychelles in 2020, SCR109 million (0.5 percent of GDP) of which was wage grant assistance. The remaining transfer was financial support to the company that was already incorporated in the authorities' medium-term debt projections.

Air Seychelles was part-owned by the Government of Seychelles (60 percent) and Etihad (40 percent) through Etihad Aviation Group Investment Holding Company. In March 2021, Etihad relinquished its 40 percent shareholding valued at US\$72.3 million for only US\$11.34 million (approximately 16 percent of the value) to the GOS, to be repaid until 2024. However, the GOS owes US\$71.5 million to bondholders. In August 2021, representatives of the Etihad Airways Partners' bondholders filed a petition in the Supreme Court of Seychelles to wind up the airline after negotiations failed. On October 5, 2021 the GoS announced that as a result of the debt burden and the court proceedings, the airline entered company reorganization (a process under the Insolvency Act that is designed to allow the company to continue its business while it determines whether a rescue plan should be presented to its creditors in order to provide a long-term solution for the company's financial difficulties) under the country's bankruptcy protection laws.

Two administrators have been appointed by the government to assess the company's financial situation and propose a way forward. Currently the authorities are faced with three options: (i) find a rescue plan to get Air Seychelles out of its current state; (ii) re-structure the company; or (iii) recommend the winding up of the company. A winding up of the company will affect not only those working directly for the airline itself, but also its ground handling company at Seychelles' international airport, Pointe Larue. The Seychelles Civil Aviation Authority runs the airport, but Air Seychelles provides the ground handling. The government has expressed its desire to keep the ground handling operations which is the only profitable part of the airline. However, a condition of the IMF EFF agreement with the GOS is that the government provides no further subsidy to Air Seychelles, except for the agreed repayment of the Etihad debt that government took at a discount. This will be US\$5 million for 2022 and 2023 and US\$1.4 million in 2024.

28. **In 2020, Fitch downgraded Seychelles' Long-Term Foreign-Currency Issuer Default Rating (IDR).** In May 2020 the rating was downgraded by two notches from 'BB' to 'B+', with a Stable Outlook. Whilst the outlook remained stable, in December 2020, Seychelles' rating for Long-Term Foreign Currency IDR was downgraded further from 'B+' to 'B'. The underlying factor for both of these revisions was mainly related to the sustainability of public debt, coupled with concerns on the economy due to the pandemic. In May 2021 Fitch affirmed Seychelles rating at 'B' with a stable outlook.

29. **The degree to which Seychelles can access external finance in the medium-term is a critical factor for improving fiscal sustainability and reducing debt vulnerabilities.** The more external finance that Seychelles can access, the less the GoS will be compelled to resort to domestic financing for financing the public sector deficit. This would give the country the best possible chance of keeping the debt on a sustainable path. The government is conducting fiscal consolidation, implemented a liability management operation to extend the maturity and lower the cost of domestic debt and is switching to lower cost external financing through borrowing from the IMF, World Bank and bilateral partners. These policies as well as a recovery in economic growth are expected to place the debt to GDP ratio on a firm downward path over the medium-term, improve the countries credit rating and help the country to access less costly external debt.



30. **The macroeconomic framework is deemed adequate despite risks to the outlook.** Government is appropriately balancing its commitment to return to fiscal sustainability with its efforts to achieve inclusive growth. The COVID-19 outbreak has severely impacted Seychelles' economy. To bridge the financing gaps created by the crisis, the GoS requested support from the IMF (approved July 2021); the AfDB (approved June 2021); the World Bank and other partners. Economic stability is expected in the medium-term as the tourism sector recovers and the government undertakes fiscal consolidation. However, outcomes remain subject to uncertainty and notable downside risks. Risks to medium-term growth outlook include a prolonged COVID-19 outbreak as variants of the virus materialize which would result in a continued decline in foreign direct investment, and a further decline in tourist arrivals. Domestic risks are centered around potential fiscal slippages as the Government may face challenges implementing permanent saving measures as the pandemic continues. Risks to the macroeconomic framework will be mitigated by the government's strong commitment to fiscal consolidation and debt sustainability which is being supported by this DPF series as well as the IMF EFF program. The government is targeting spending in social protection through the PforR for Social Protection and freezing hiring in the public sector. The DPF supports reduction in fiscal risks from SOEs (prior action #1) and enhancing improving debt transparency (IMF EFF contain structural benchmarks on debt management). The GOS is also creating the environment to facilitate a recovery in economic growth. Rising reserves through the increase in SDR allocation may provide a buffer against financing risks.

2.3. IMF RELATIONS

31. **The IMF has provided resources to help Seychelles manage the economic impact of the COVID-19 pandemic on the economy.** The Board of the IMF approved a 3-year EFF of US\$107 million on July 29, 2021. In 2020, the IMF provided US\$31 million under the Rapid Financing Instrument in direct budget support to the Ministry of Finance, economic Planning and Trade (MoFEPT) to support the urgent needs arising from the economic impact and mitigation efforts to the COVID- 19 pandemic. In addition, the IMF maintains close relations with the authorities through policy dialogue, technical assistance and capacity building, including a policy coordination instrument, with the IMF since 2017 following the conclusion of three successive IMF financial programs. Periodic monitoring also continued through Article IV consultations the latest of which was March 2019. The World Bank maintains a close working relationship with the IMF, with regular collaboration across policy issues between the two institutions.

3. GOVERNMENT PROGRAM

32. **The government's medium-term economic program is defined in the National Development Strategy (NDS) 2019-2023, under the theme 'Towards a sustainable and inclusive future.'** This NDS is the first in a series of three five-years plan. The NDS 2019-2023 identifies Seychelles' most critical development priorities "the 3 Ps": Productivity, Participation, and Performance and highlights what needs to be done to overcome these challenges. Productivity focuses on how Seychelles could benefit from placing more emphasis on boosting the efficiency with which it uses its existing resources. Participation refers to how the Seychelles' education system needs to equip graduates with the tools they need to reap the benefits of the growing opportunities offered by the country's increasingly sophisticated economy. It also addresses the fact that social spending needs to be better targeted to shore up its sustainability, boost its impact for protecting the vulnerable, and empower Seychellois to get high quality jobs. Performance requires a public sector that is efficient enough to deliver high quality public services, agile enough to respond to and anticipate emerging priorities, and small enough not to divert scarce financial and human resources away from the private sector, which is responsible for generating the bulk of employment and income.



33. **The NDS encompasses six strategic pillars.** These include: (i) good governance; (ii) people at the center of development; (iii) social cohesion; (iv) having an innovative economy, underpinned by advances in science, technology and innovation for development; (v) economic transformation; and (vi) environment sustainability and resilience. The pillars address the need to make fundamental changes in the traditional approach to development and achieve socioeconomic transformation. In the short term, the GoS will have to manage the impact of COVID-19.

4. PROPOSED OPERATION

34. **The Program Development Objectives of this proposed programmatic series are to (i) strengthen medium-term fiscal sustainability; (ii) strengthen resilience and (iii) strengthen policies to create an enabling environment for inclusive and sustainable growth.** The financing of US\$35 million provided by this first operation will address Seychelles' immediate funding needs that emanated due to the government's response to COVID-19 in 2020. The proposed approach is a programmatic series of three operations focused on strengthening the government's medium to long-term reforms.

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

35. **The proposed operation supports reforms that are critical for a strong and inclusive recovery.** As in all small state countries, the crisis has demonstrated the fragilities of Seychelles' current growth model and has opened a window of opportunity to advance reforms where consensus has strengthened or that have become more critical for Seychelles' resilience. In sum, the operation supports reforms that help the country to build back better, including through measures that will help unleash the potential of other industries outside the tourism sector, such as digital and the Blue economy. The reforms build on policies supported by previous DPFs and complementary advisory services and analytics (ASA). These ASAs have allowed the identification of prior actions and phasing of reforms during intensive dialogue between the government and the World Bank.

36. **The design of the operations builds on key lessons from previous DPF operations in the country.** These include the Sustaining Reforms for Inclusive Growth Development Policy Loan (P153269) delivered in 2016, Seychelles COVID-19 Crisis Response Emergency Development Policy Financing (P174198) and subsequent Analytical and Advisory Services (ASAs) on Tax and the Offshore Sector (P152882), and Reimbursable Advisory Services (RAS) on Financial Sector Development (P156528) and Enhancing Transparency, Accountability and Good Governance for Inclusive Growth: Maximizing Results-Based Management (P168554). Key lessons emerging from these operations that will be considered in the design of the proposed DPF are: 1) Policy reforms supported by technical assistance are more likely to succeed; 2) it is critical to align the ambition of any DPF support with the government's capacity to deliver on the reforms. The proposed series aims therefore to build on ongoing momentum and champions in Seychelles to advance difficult reforms, while making space for a gradual process.

37. **The proposed operation complements the World Bank's engagement with the GoS on building resilience to climate and hazard risks.** With World Bank technical support, the Government has developed and is implementing the Coastal Management Plan (2019), which outlines priority interventions in coastal infrastructure, ecosystem restoration and land planning to tackle erosion issues and secure a resilient coastal zone. Pre-feasibility studies are ongoing to identify innovative, nature-based protective and restorative measures for coral reefs and coastal resilience as well as options to reduce coastal erosion and improve land use planning. The World Bank is also building capacity through the Coastal Management Course being conducted (September/October 2021), in conjunction with the University of Seychelles. This certificate course aims to build technical capacity and enhance coordination between agencies involved in coastal



management in order to sustainably manage the coastal environment towards a robust Blue Economy for the Seychelles. In addition, the World Bank is working with the GoS to enhance their early warning systems as well as emergency preparedness and response capacities with the goal of reducing the impacts of hazards on lives and livelihoods. This comprehensive resilience program underpins this operation.

38. The proposed programmatic DPF series aims to help the authority to implement crucial structural reforms:

Pillar A aims to strengthen medium-term fiscal sustainability by reducing fiscal risks from SOEs and restoring the public debt path on a downward trajectory. The effect of COVID-19 on the economy and the resulting increase in borrowing has raised the urgency of measures to reduce fiscal risks and strengthen fiscal management. Consequently, enhancing revenue performance, and reducing fiscal risks are a priority for maintaining medium-term fiscal and debt sustainability and cementing the public debt ratio on a declining path.

Pillar B aims to strengthen physical and financial resilience. Seychelles remains vulnerable to the adverse effects of natural hazards and climate change. In addition, the impact of the pandemic on the economy (growth and employment) poses significant risks to the financial sector. The GoS has shown strong leadership to better understand the sources of vulnerabilities and to build greater resilience against natural hazards, climate change impacts and financial sector risk.

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

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A: Fiscal Sustainability

Reducing Fiscal Risks

39. Rationale: State-owned enterprises (SOEs) in the Seychelles operate across a wide range of sectors and they are the country's largest business entities. The whole economy depends on the ability of these SOEs to deliver services reliably and at competitive prices. The 30 SOEs employed a total of 6,400 persons at the end of 2019, equivalent to 14 percent of the national labor force. At the end of 2018, the SOE portfolio appeared in relatively sound financial health overall, with an aggregate profit of SCR 900 million (US\$ 60 million) and a moderate leverage (debt-to-equity ratio of 24 percent). The level of debt has grown on par with the SOEs' activity, to SCR 3.3 billion (US\$ 220 million) at the end of 2019, equivalent to 16 percent of GDP. Air Seychelles had by far the largest debt among the SOEs at the end of 2018, for SCR 1.1 billion (US\$80 million). However, recent trends point to a significant decline in the SOE portfolio's profitability, with several SOEs reporting losses in early 2019 and Air Seychelles in an insolvent financial position (see box 2). Total return on equity for the portfolio as a whole reached a peak of 10.6 percent in 2016, then decreased. Following government's adoption of the 'Good Governance Code' and policies that are linked to public enterprises, the GOS will place more emphasis on the governance



of those enterprises.

Prior Action #1: To improve performance management (including risks) and fiscal reporting of SOEs, the Borrower through its Cabinet of Ministers has approved and submitted to the Attorney General's office the draft Public Enterprise Monitoring Committee (PEMC) Bill which aims to strengthen the enforcement power of PEMC.

DPO 2, Trigger #1: To meet its commitments and targets included in the PEMC Act, the Borrower through its Ministry of Finance and Economic Planning and Trade publishes in the Gazette regulations to facilitate the implementation of the PEMC Act, with focus on prescribing sanctions, establishing a common policy framework on SOEs human resources, assets and finances, operationalizing a performance measurement and evaluation system, and setting governance agreements with the Boards, including performance agreements for Board members.

DPO 3, Trigger #1: To meet its commitments and targets on climate change, the Borrower through its Cabinet of Ministers has submitted to Parliament, legislation on climate resilience investment management and green procurement by SOEs, which ensures adaptation and transition to a low-carbon economy.

40. **Tightening government oversight is an important step to managing the risks from SOEs.** PEMC has developed a range of monitoring activities to enable the government to assess the strength of the portfolio and fiscal vulnerabilities arising from individual SOEs. PEMC is starting a process of performance target setting for each SOE which they will closely monitor once they receive annual SOE performance reports. The PEMC compiles the financial returns of each SOE on a quarterly basis and analyzes the information to assess the economic performance, financial situation and the fiscal risks. PEMC also monitors the SOE's compliance with corporate governance. SOEs prepare annual financial statements under International Financial Reporting Standards and annual financial statements are subject to independent audits. PEMC publishes annual aggregate reports which give a reasonably good sense of the portfolio's economic performance. However, majority of the SOEs submit their financial reports late which undermines PEMC's ability to monitor their performance and to prepare complete aggregate reports. As noted in PEMC's aggregate report for 2018, as of the time it was issued 15 SOEs out of 23 had not submitted their 2018 annual report. In addition, no SOE in Seychelles publishes annual reports on their website which limits transparency of the sector. The first DPO supports the approval of the Public Enterprise Monitoring Bill that strengthens the position of the Public Enterprise Monitoring Commission (PEMC) (the dedicated agency for SOE monitoring) by providing the agency with more powers including setting performance targets. The second operation supports the implementation of the legislations included in the PEMC Bill. In particular, the operation will support the government's development of performance targets and the implementation of these targets. Reforms under the first and second operations are being supported by a Governance Results-Based Management (RBM) RAS (P168554) that includes support to the SOE oversight body, the Public Enterprises Monitoring Commission. Specifically, the RAS supports (i) streamlining monitoring and enhancing aggregate reporting; (ii) expanding the SOEs' reporting, to cover the service-delivery dimension, including through the use of key performance indicators (KPIs) and (iii) requiring all SOEs to publish their audited financial statements and annual reports on their website (even though the PEMC already publishes that information, it should be the SOEs' responsibility to do so).

41. **Expected Results:** The PEMC bill is expected to improve the governance of SOEs by making PEMC the only authority to oversee public enterprises. The PEMC is expected to work with the ministries and their boards to establish targets for SOEs to ensure that they are more efficient and are generating revenue for the government. More generally, the reform will contribute to strengthening a culture of citizen engagement and demand for accountability on state performance and



the use of public resources.

42. The third operation supports the approval of legislation on climate resilience investment management and green procurement by SOEs. SOEs are and will remain major actors in achieving national climate mitigation and adaptation goals. Therefore, SOEs should play an instrumental role in assisting the government to meet climate change commitments by taking appropriate impactful actions to prevent dangerous climate change and environmental damage. This includes shifting to climate-smart public investment which should mainly be driven by government policy and regulation. Such shift will result to investing in renewable energy, increasing energy efficiency across all sectors, green buildings, use of climate smart materials and technology, amongst others. In addition, the SOEs should shift to green procurement that cause minimal adverse environmental impacts. Embedding Green Procurement in the procurement systems are an important method for reinforcing commitment to climate change adaptation and mitigation. The approval of the legislation and regulation on climate resilience investment management and green procurement by SOEs will support government approach to adaptation and transition to a low-carbon economy, and to ultimately meet its commitments and targets on climate change.

Modernizing International Business Tax Policy

43. Rationale: Recent years have seen unprecedented public scrutiny over the tax practices of multinational enterprise (MNE) groups. Tax policy and administration concerning international transactions, aggressive tax planning, and tax avoidance have become an issue of extensive national and international debate in developed and developing economies alike. In Seychelles, tax evasion contributes to the imbalance in the business tax burden. From a revenue-raising perspective, larger companies that are part of multinational groups can easily reduce their effective tax burdens through international tax planning as Seychelles' current international tax rules do not effectively protect its corporate tax base. In addition, Seychelles is perceived as a tax haven and currently there are ample opportunities for MNE groups to engage in base erosion and profit shifting (BEPS). BEPS arises when businesses can exploit gaps and mismatches between different countries' tax systems: BEPS negatively affects tax revenues as well as the efficiency and the ability of tax systems to create a level playing field for all firms. In order to prevent situations of double non-taxation that may arise under territorial tax systems, Seychelles needs to introduce the necessary anti-abuse rules. Enhanced revenue mobilization is essential to protect macro stability during the COVID-19 recovery phase. Therefore, creating fiscal space through revenue mobilization is key to fiscal and macro stability with countercyclical fiscal policies following external shocks.

44. The multilateral instrument (MLI) modernizes the definition of permanent establishments in treaties. In the first operation, the GoS will strive to reduce the gaps in the defenses against tax avoidance, including profit shifting by international businesses. The Seychelles has yet to adopt this aspect of the MLI but doing so would improve its defenses against abuse of the existing rule, so long as the domestic definition is updated too. The current definition of a permanent establishment in the Business Tax Act reflects the approach adopted by most countries prior to the BEPS project. The generous incentives available to businesses in the tourism sector both reduce revenue and encourage domestic profit shifting to entities enjoying low rates and special allowances. Many countries have adopted rules that cap the amount of interest that can be deducted for tax purposes. These rules, based on the recommendations of BEPS Action 4, are mechanical in nature and relatively simple to apply (allowable interest is capped as a percentage of earnings). This mechanical approach can also be applied to limit deductions for other high-risk payments. This prior action also supports Seychelles objective of addressing treaty shopping by ratifying the MLI which it signed in 2017. The MLI contains anti-abuse provisions designed to deny treaty benefits in cases of treaty shopping.



Prior Action #2: To address BEPS and to reduce tax avoidance by multinational enterprises, the Borrower through the Cabinet of Ministers approved the ratification of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting and has submitted it to parliament for ratification.

DPO 2, Trigger #2 To address the issue of tax erosion, the Borrower through the Seychelles Revenue Commission Gazettes Transfer Pricing Regulations, which proposes the use of the arm's length principle to control transfer-price manipulation.

DPO 3, Trigger #2: To improve tax administration, the Seychelles Revenue Commission issues a Decree for the rollout of a new tax management system with the aim of digitizing the tax system by integrating the tax system with e-Services, and including functions such as case management, debt management, business intelligence, and data warehousing.

45. **The Seychelles has already enacted a basic transfer pricing provision but needs to apply it.** The main foundation of transfer pricing, the arm's length principle, is already enshrined in Section 54 of the Business Tax Act and since 2018, taxpayers have been obliged to calculate profits arising from related party transactions in accordance with the principle. However, Seychelles need to include a concise statement of the arm's length principle in primary legislation and back that up with more detailed provisions in regulations and guidance. This legislative approach could be very effective in providing business certainty and securing tax revenues. This can be done by legislating a so-called "safe harbor" that specifies the rate of return that is expected from the routine provision of accommodation. The second operation supports the approval of transfer pricing regulation. The World Bank providing technical assistance in drafting the law governing transfer pricing. In recognition that the SRC needs to develop the operational capacity, Tax Inspectors Without Borders will be providing technical assistance on transfer pricing audits, with specific attention to preventing cross border tax avoidance, developing risk assessment, obtaining information from third parties, identifying transfer pricing transactions, and applying treaty provisions. Developing auditing skills is crucial to implementing transfer pricing regulation, however this is usually a lengthy process, thus establishing a clear legal framework is a necessary first step.

46. **The third operation supports the Seychelles Revenue Commission's (SRC) aim to implement a new tax management system.** The system will be more digital and will enhance case management, debt management, business intelligence, and data warehousing. In addition, the new system will facilitate the sourcing and utilization of third-party information to identify risk of non-compliance; including use of information received from financial institutions that report to Seychelles, under the 'Global Forum's Automatic Exchange of Information', since 2017. The GoS acknowledges that increased automation may expose SRC to cyber security threats that could undermine the integrity of the information and systems and could compromise the confidentiality of information. To mitigate, these potential downfalls, the government is enhancing cybersecurity with the approval of a cybercrime bill; developing a data protection act; and working closely with the department of information, communications, and technology (DICT) and other international expert partners to ensure the security of the system.

47. **Results:** The combination of measures supported by the proposed series are expected to have an important impact on business tax revenue collected by the Seychelles Revenue Commission. These policies are expected to broaden the tax base through (i) the prevention of the erosion of the corporate tax base through international profit shifting and (ii) the strengthening of the operations of the tax commission. These measures would contribute to raising additional business tax revenues.



Pillar B: Strengthening Resilience

48. **The GoS recognizes the importance of hazard, climate and financial resilience for sustainable development.** It has embarked on a set of reforms to incorporate climate and disaster risks into the legal and institutional frameworks for improved physical planning, land-management, construction practices and risk assessments. It has also taken the steps to enhance financial stability.

Strengthening Hazard and Climate Resilience

49. **Rationale:** The GoS has developed inter alia, with the support of the World Bank, the Seychelles Coastal Management Plan 2019-2024, which aims to help maintain and protect the coastal zone to reduce coastal risk, support healthy ecosystems and enable sustainable coastal economic development. A key discipline in coastal management and strengthening Seychelles' hazard and climate resilience is an effective risk-based land use planning. As the main settlement area is located on the narrow coastal strip of the three main islands and partly on the lower slopes of the inland mountains, the existing building stock and technical infrastructure as well as potential development areas are extensively exposed to especially flooding (pluvial, fluvial and coastal) as well as landslides. Suitable building land is generally scarce, leading to a practice of land reclamation. At the moment there is a lack of consistent information on hazard exposure and climate change induced increase of event frequencies and extents. Therefore, it is inevitable to inform development decisions and building permissions by hazard and risk data and adapt the existing building stock and infrastructure to changing environmental conditions. This prior action supports efforts within GoS to update the regulatory framework for land use planning as well as day-to-day practice. The current legislative enhancements will provide the basis for enacting binding land use plans, which are currently not in existence. Land use planning is based on the Town and Country Planning Act that determines administrative procedure and responsibilities of the Seychelles Planning Authority and the Minister for Lands and Housing in land planning and permitting development. This established distribution of power and duties will be maintained by the intended new legislation. The Physical Planning Bill has been drafted in a lengthy process and submitted to the National Assembly for decision in 2019. In July 2021, the Cabinet of Ministers adopted the Physical Planning Bill and GoS is working on updating the subordinate regulations to align them with the Physical Planning Bill. The legal revision process allows to mainstream hazard and climate risks into the land use planning framework.

50. **The specific exposure of developments to natural hazards (especially floods and landslides) is at the moment primarily evaluated by developers themselves as they provide risk assessments for development sites.** Additionally, there is no consistent integration of hazard and risk information in planning documents to serve as basis for restrictions and conditional development. The Physical Planning Bill hardly addresses climate and hazard risks, as it provides in the first place the administrative planning framework. Still, the new legislation will bring a major shift in the planning framework as it paves the ground for binding land use plans in addition to strategic planning documents. Zoning criteria can be then linked to hazard and risk information to define no development zones and areas for conditional development in line with other policies (e.g. coastal setback). As the bill has been approved by the Cabinet of Ministers in July 2021, the subordinate regulations need to ensure the integration of hazard and risk information in a consistent manner, to be able to achieve a certain standard in hazard prevention and take into account climate change induced environmental dynamics. The prior action supports the establishment of binding land use plans, that integrate hazard and risk information in zoning decisions. Additionally, subordinate regulations will ensure hazard and climate risk sensitive development and adaptation of the



building stock and infrastructure.

Prior Action #3: To enhance legal framework for property owners concerning land development rights, the Borrower has adopted and published the Physical Planning bill, which provides an administrative framework that enables the integration of climate and hazard risks in land-use planning decision.

DPO 2, Trigger #3: To facilitate the implementation of the administrative framework of the Physical Planning Bill, the Borrower, through the Ministry of Agriculture, Climate Change and Environment has formulated and adopted guidelines for the preparation and implementation of land use plans, which set out the criteria for (1) the fundamental research for zoning decisions, (2) the suitability for building zones based on the exposure to climate and natural hazards, and (3) determining what hazard and climate risk information should be displayed in land use plans.

DPO 3, Trigger #3: To improve resilience in spatial development, the Borrower, through the Ministry of Agriculture, Climate Change and Environment has updated and adopted Control of Development of Land Regulations, Development and Subdivision of Parcels Regulations, to align with the then Physical Planning Act which is aimed at incorporating graduated provisions concerning restrictions and conditionalities for any kind of development that is located in hazard prone areas, as well as addressing physical resilience.

51. **Results:** The policies covered under the three DPOs are expected to improve the physical resilience concerning hazard and climate risk by addressing land use and zoning decisions as well as development permits. Through these policies it is expected that the percentage of planning decisions informed by publicly led analysis of hazard and climate risks as stipulated in the Physical Planning Bill will increase from 0 in 2020 to 80 percent by 2023. Planning decisions that will be monitored include: (i) (strategic) development plans, (ii) zoning decisions and (iii) permits. This should ensure the integration of the idea of 'safe' locations and 'resilient' design in a comprehensive manner.

Enhancing the Effectiveness of the Beneficial Ownership and Anti-Money Laundering/Combating the Financing of Terrorism Framework

52. **Rationale:** The GoS is currently implementing a three-year program to tighten up its beneficial ownership (BO) and anti-money laundering (AML) framework and to align itself with international standards. Seychelles offshore financial sector and the broader financial industry has faced challenges with pressures to comply with global transparency standards and AML regulations. In February 2020, France blacklisted the territory for insufficient provision of information on offshore entities. In addition, the sector has faced the challenge of declining correspondent banking relationships through the de-risking efforts of US and European banks. To restore its reputation and maintain its attractiveness for foreign direct investment, Seychelles has undertaken to comply with international compliance standards. In 2020, with the support of the COVID-19 Crisis Response Emergency Development Policy Financing (P174198) and the Financial Sector Development RAS (P156528), the GoS approved the Beneficial Ownership Bill. The bill provides for the identification and verification of beneficial ownership of legal persons and legal arrangements; to establish and maintain an up-to-date register of beneficial owners, a centralized database and for matters connected therewith. In addition, the Bill stipulates that the Register has to be kept by all legal persons and legal arrangements and shall be maintained in confidentiality. The first DPF supports the government's approval of the amended Beneficial Ownership Act and efforts to establish and maintain an up-to-date register of beneficial owners, and a centralized database for international and domestic financial entities. In accordance with Section 13 (1) of the Bill, the Financial Intelligence Unit ("FIU") will maintain the Seychelles Beneficial Ownership



Database. The Bill also makes provision for the confidentiality of the register of beneficial owners and the inspection of the register of beneficial owners maintained by every legal person or the legal arrangement through the resident agent. Following the approval of the amended Bill, the FIU issued a circular to inform the public of the decision. A BO Database Registration Guideline was subsequently issued to facilitate the registration process. The creation of the BO registry and the centralized databases will assist to promote transparency and better align the country's legal framework with international standards by introducing new measures to combat money laundering and terrorist financing. Additionally, the registry will help to address threats to the integrity of the financial system as well as reputational risks and help counter other threats, such as corruption and tax crimes.

Prior Action #4: To ensure transparency in the financial sector, the Borrower through its National Assembly has adopted and published the amendments to the Beneficial Ownership Act and, through the Financial Intelligence Unit (FIU), has established a central database for the operationalization of the Beneficial Ownership Register for the Offshore Sector which sets out the international financial entities participating in the offshore financial sector.

DPO 2, Trigger #4: To assess the country's AML/CFT compliance, the Borrower, through its Cabinet of Ministers, has approved updates to the National Risk Assessment, which is aimed at reassessing the Seychelles anti-money laundering and combatting the financing of terrorism ((AML/CFT) regulatory and supervisory framework.

53. **The second DPO will support the approval of an updated national risk assessment that assesses the areas where the country is compliant and where further actions need to be taken.** This prior action is supported by the AML/CFT Act 2021. This Act which seeks to provide for the prevention, detection and combating of money laundering and terrorist financing activities, provides for preventive measures such as the National Risk Assessment. The Act states that the national risk assessment of the country under clause (j) of subsection (1) of section 7 shall be carried out in such time and interval as may be prescribed and shall disseminate the results of risk assessment to all the stakeholders. Based on the results of the national risk assessment, the AML/CFT Committee may consider allocation of resources through the Minister for prevention and mitigation of the money laundering and terrorist financing.

54. **Results:** The beneficial ownership databases are expected to improve the level of transparency around the owners of the IBCs in Seychelles. The database will be populated with the beneficial ownership information (including the periodic update requirements) reported by the legal persons or the legal arrangements, through their resident agent. Results will be measured by the percentage of legal entities that have submitted verifiable ownership information to the database held by the FIU.

Pillar 3: Strengthening policies to create an enabling environment for inclusive and sustainable growth

55. **The COVID-19 pandemic has exposed the dangers of the country's reliance on a narrow economic base.** To overcome these challenges, Seychelles must be driven forward by innovation and economic diversification to achieve sustainable and inclusive medium-term growth. However, the GoS must first address the legal and regulatory frameworks needed to create the enabling environment to develop the digital economy by modernizing the financial sector and to enhance the capacity of the fishery and aquaculture sector where large potential exists through diversification of the production chains.

Strengthening the legal and regulatory framework for the Digital Economy



56. **Rationale:** While Seychelles economic development has been impressive, the country will need to do more on the digital front to keep pace with its high-income peers. The digital economy offers a unique opportunity for Seychelles to accelerate economic growth, promote competition and enhance public service delivery. It brings the opportunity to build a future in which seamless and efficient services are available at the touch of a button, even from remote islands. However, the development of the digital economy rests on improvements in key digital infrastructure and payment systems and lowering the cost of internet which is significantly higher in Seychelles than in many African low and middle-income countries. The confluence of technology and finance, known as Fintech, which continues to evolve into more advanced products and services by the day, has the potential to ensure the financial sector better meets the country's onshore and offshore financial services-related needs. Given the high rate of financial inclusion and relatively small population, Seychelles can implement changes to its payment infrastructure and regulatory environment, to increase the use of electronic payments. At present, the financial system is dominated by banks and the economy is predominately cash-based. In addition, the government could vastly improve public service efficiency by increasing its application of digital platforms that save time and resources. The digitization of government to person payments and person to government can expand financial inclusion and boost uptake of digital financial services, expanding the reach of the financial sector, improving efficiency, and helping to mitigate risks, leading to economic growth and diversification, by strengthening the financial sector and increasing businesses' access to new financial services. To build trust in the digital economy, including data collection, processing and further data usage, the GoS will have to create a secure and trusted ICT environment that requires balancing security, privacy, and access. Striking this balance is key to preserve and encourage innovation. With the outbreak of COVID-19, there is an added urgency to leapfrog toward the digital financial services realm and benefit from its gains in efficiency, tailored products, and new services. In this context, Seychelles aims to modernize and digitalize its financial sector through enabling legal, and regulatory frameworks and developing Fintech to ensure it better meets the country's development needs. The policy actions under this sub-pillar are being supported by the Financial Sector Development RAS (P156528).

57. **The DPF supports the submission of a suite of regulatory measures that are instrumental to the establishment and operation of FinTechs and technology-driven business models to Parliament.** These products, and services promote innovation, competition, and inclusion in the financial sector, while safeguarding financial integrity, stability and consumer protection. Seychelles has some aspects of the requisite legislation, but it requires upgrading, while other legal instruments need to be introduced, to support the development of the Fintech sector. The second operation supports: (i) Updating the National Payment System Act to include amendments regarding e-money providers, innovations in the financial sector, and agent exclusivity which is critical to facilitating interoperability. The availability of instant payments will provide financial consumers with an efficient and convenient alternative to cash-based payments and encourage broader participation in the formal financial sector. Furthermore, this reform is expected to have long-term and positive market impacts by enabling competition among payments instruments at merchants and check-out points, as payment services providers may develop functionalities over their solutions that allow them to use credit transfer as a mean of payment at retailers. (ii) Introducing the Data Protection Act - Seychelles lacks a national data protection legislation because the Data Protection Act, 2002 was not enacted. New data protection regulations will require businesses to protect the personal data and privacy of citizens which is important as Seychelles moves towards a more open architecture including open application programming interfaces. (iii) Introduction of the Credit Reporting Act to upgrade the credit information system by incorporating automated input and allowing access to the credit information system database by all financial institutions, including Fintechs, stimulating more competition in the marketplace.



DPO 2, Trigger #5: To ensure the privacy of consumer credit information and improvement in the payment system, the Borrower, through its Cabinet of ministers has submitted to Parliament: (1) Data Protection Act; (2) Credit Reporting Act and (3) National Payment System Act, which are aimed at governing the treatment of personal data, and regulating national payment systems, respectively.

DPO 3, Trigger #4: To facilitate further digitalization of the government services, the Borrower, through the Department of Information, Communication and Technology has issued a Decree for the sequential rollout of digital payments for government services.

58. **The operation also supports the digitalization of government payment systems.** Although the government has recently moved to digitally process government salaries and support the digital automation of payment processing for businesses, most government services remain manual and paper-based, resulting in inefficiencies. Currently Government to business payments are largely done by over-the-counter cash or cheques. In addition, some social payments are still made in cash, which has a transaction cost for the government and recipient. This deprives the recipient from capturing these receipts in their financial transaction history, which can help in accessing credit. Integrating digital payment functions into the online user-journey would both prevent trips to the bank, needed to complete a transaction, as well as reduce the manual workload for government and banks. This Trigger supports the digitization of all government payments to businesses and individuals, including salary and welfare payments, and vice versa, to reduce the reliance on cash and support the move towards a more digital economy. Digital platforms are becoming prominent, with acceleration of functions following the onset of COVID-19 pandemic. Such platforms facilitate virtual and digital connection between people, exchange and access to information, good and services.

59. **Results:** Policy reform in this area is expected to expand financial inclusion and boost uptake of digital financial services there by expanding the reach of the financial sector. The availability of instant payments will provide financial consumers with an efficient and convenient alternative to cash-based payments and encourage broader participation in the formal financial sector. Furthermore, these reforms are expected to have long-term and positive market impacts by enabling competition among payments instruments at merchants and check-out points, as payment services providers may develop functionalities over their solutions that allow to use credit transfer as a means of payment at retailers. The impact of this reform is expected to be measured by increase in the share of bank population using internet banking.

Strengthening the legal and regulatory framework for the Blue Economy

60. **Rationale:** Seychelles' locational advantages have allowed it to exploit economic gains from tourism and fisheries, the two pillars of the economy. However, overreliance and overexploitation, and unsustainable management practices have placed severe pressure on these economic bases. Given its natural dependence on marine assets, the country decided to refocus its national development strategy around a sustainable Blue Economy. The Blue Economy has been embraced by the GoS as an integrated mechanism to realize sustainable economic development based around a sustainable and multisectoral ocean-based economy. The GoS' intention is to implement the Blue Economy concept at the national level as a framework to foster an integrated approach for sustainable development programs. As a result, in 2018 the country conceived a sustainable ocean-based development pathway—the Seychelles' Blue Economy Strategic Framework and Roadmap. This is an integrated approach to ocean-based sustainable development which brings together economy, environment and society, consistent with the Sustainable Development Agenda 2030. Seychelles also finalized its Marine



Spatial Plan⁶ under which 30 percent of the country's waters (410,000 sq. km) were placed under protection status, including 15 percent in 'fully protected' areas. Seychelles updated and submitted its Nationally Determined Contributions to the United Nations Framework Convention on Climate Change in July 2021. In the National Determined Contribution, the GoS "commits to continue integrating climate change considerations into plans and strategies across all key sectors by 2030", including the Fisheries sector. In addition, the GoS has pledged to protect 100 percent of its mangroves and seagrass ecosystems by 2030. The key contributions to adaptation will include appropriate coastal planning and management and the use of Nature-based Solutions for climate resilience. Seychelles also commits to the implementation of its adopted Marine Spatial Plan and the effective management of the 30 percent marine protected areas within the Seychelles' Exclusive Economic Zone.

61. As one of the pillars of its Blue Economy, Seychelles coastal fisheries need reform to ensure their long-term sustainability, in keeping with the GoS recently submitted Nationally Determined Contributions. While the effects of climate change on fisheries and aquaculture are still uncertain; temperature plays a critical role in the growth and development of aquatic animals (Ngoan, 2018) as well as on the health of the ecosystem supporting fisheries (e.g. coral reefs). Fish, in particular, may be sensitive to temperature variations resulting from climate change and coral reefs are very sensitive to a rise in sea temperature. With the predicted 1.5°C rise in average global temperature this century, increased mortalities are likely to occur for most fish, especially cold-water species, and more frequent coral bleaching event will negatively impact the resilience of these ecosystems. Therefore, prolonged temperature stress may affect fisheries as well aquaculture productivity through various ways centered on lowered output. These effects may lead to increased management costs and low productivity that threaten the sustainability of fisheries and aquaculture production. In addition, there are increasing evidence that the pressures exerted by the fisheries and tourism sectors on the coastal and marine natural resources are reaching unsustainable levels. Most of these pressures come from overfishing in the artisanal, recreational, and sport fishing subsectors and from an increasing environmental footprint and demand of/by the tourism industry. Seychelles' fisheries are currently open-access and technical management measures are not yet fully in place. The current South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFISH3 – P155642) project aims at transitioning to sustainable fisheries through the adoption and implementation of management plans, with a view to move towards more controlled fisheries. Preservation for the Seychelles environment and economy will require that stocks are managed with precaution to ensure their resilience. Reforms in the fisheries sector to ensure improve management and offer diversification such as aquaculture to allow for a reduction of fishing efforts would allow a reduction of fishing pressure on coastal stocks for their rebuilding and sustainability. Together with the various initiatives that Seychelles has taken, i.e. Blue economy policy, Marine Spatial Planning, these reforms will complement and provide the implementation framework for SWIOFish3 activities for a more sustainable fisheries and aquaculture sector and increased resilience against climate change.

62. Sustainability of the aquaculture sector is at stake due to the predicted effects of climate change as well as unsustainable fleet expansion and subsidies. Climate change is felt through the modifications it brings to aquatic ecosystems and their productivity. Rising sea temperatures and ocean acidification is radically altering aquatic ecosystems. Increased temperatures will affect physiological processes of aquatic plants and animals resulting in modification in fish distribution and the productivity of marine and freshwater species. In particular, fish or shellfish which are used in aquaculture production will be subject to different stresses and physiological effects, affecting growth and development, which may further increase their susceptibility to diseases and infections. Sea level rise and changes in precipitation, groundwater and river flows will significantly affect coral reefs, wetlands, rivers, lakes and estuaries, requiring adapting measures to exploit opportunities and minimize impacts on aquaculture systems. The effects of climate change may render aquaculture environmentally unsuitable for production leading to higher production/management costs and low

⁶ <https://seymsp.com/>



productivity that affects economic and social sustainability. Challenges were also encountered in the fishery export sector—the high operating and investment costs made it difficult for the country to meet global quality standards, making its products less competitive in international markets. A lack of development in value-added products coupled with a limited number of processing companies on the island also served to hinder the sector’s sustainable growth. In this light, developing a sustainable aquaculture industry in Seychelles to promote food security and exports of high value products, reduce fishing pressure on coastal stocks, and create high value jobs proves desirable. Seychelles has developed a Mariculture Master Plan and adopted a National Aquaculture Policy (2018-2022). However, sound regulatory frameworks, lack of investment, market access, lack of knowledge and skills, and high investment and operational costs have prevented most enterprises from progressing beyond the experimental phase. The first operation supports the approval of aquaculture regulations. This regulation provides the necessary framework for the implementation of the Mariculture Master Plan and investment in the sector, including through the mobilization of the Blue Investment Fund under the SWIOFish3 project which uses proceeds of the Blue Bond. In addition, the regulation promotes the innovation and adoption of new technologies, in an effort to maintain healthy fish stocks and look after the marine environment. To address the impact of climate change on the sector, the regulation stipulates that before a public piece of land or sea can be designated an aquaculture development zone, the authority needs to: prepare a bio-physical and socioeconomic assessment of the proposed aquaculture development zone; undertake an environmental and social impact assessment on the proposed designation and consult with the Minister of Planning to ensure that the land complies with the planning guidelines to protect the coastal zone to reduce coastal risk, support healthy ecosystems and enable sustainable coastal economic development. In addition, the regulation stipulates that the Licensees keep a written record of the use of all antibiotics and therapeutic agents, to be submitted to the Authority on an annual basis; notify the authority in the occurrence of a fish disease, escaped fish, failure to maintain the genetic variability of farmed fish, pollution incident and any flood event or natural disaster impacting the aquaculture sector. Also, the regulation forbids Licensees from holding animals in any cage, tank or pond at a stocking density above which the animals show visible signs of stress.

Prior Action #5: To foster the development of and investment in aquaculture life, the Ministry of Fisheries adopted and published the Fisheries (Aquaculture) Regulations aimed at regulating development, operations and licensing in the fisheries sector, as evidenced in the Fisheries (Aquaculture) Regulations, 2020, published in the Borrowers’ official gazette No 108 dated December 21, 2020.

DPO 2: Trigger #6: To make fishing resources in Seychelles sustainable for long-term use, the Borrower through its the Ministry of Fisheries adopt the Mahe Plateau Regulations, which impose limitations on the fishing of specific species of fish.

DPO 3: Trigger #6: To ensure sustainability of aquatic organisms, the Borrower through its Cabinet of Ministers has submitted to Parliament amendments to the 2014 Seychelles Fisheries Act and accompanying implementing Fisheries Regulations which regulate the management of the fisheries industry.

63. Over the past three decades, illegal, unregulated and unreported fishing contributed to an over 60-percent decline in the main fish stocks, resulting in loss of livelihood and revenue. The second operation supports the approval of regulations under the Mahé Plateau trap and line fishery co-management plan which introduce specific technical management measures for implementation of the plan. The Mahé Plateau trap and line fishery co-management plan supports management of coastal demersal fishery that is critically important in participating local food security and economic development in Seychelles. The plan introduces innovative management arrangements through co-management, which allow the full participation of fishers and other stakeholders. The plan was official launched on October



2, 2021 and it provides the necessary framework to strengthen management measures of the artisanal demersal fishery that has been decreasing catch rates and sizes of target species in recent years. Through the regulations, a number of management measures will be implemented, including minimum size and bag limits for some key species to avoid overexploitation and ensure sustainability. Fisheries will be made more resilient to climate change by the incorporation of adaptation and mitigation measures within fisheries management.

64. The third operation supports the adoption by cabinet of the revision of the 2014 fisheries act to create a robust and modern legal framework for fisheries in Seychelles. The Fisheries Act of 2014 is the primary legislation governing the fisheries sector of the Seychelles. The present Act provides for the management and sustainable development of the fisheries sector, including aquaculture, and makes provision for the licensing of fishing vessels, the regulation and enforcement of fishing and fishing related activities and caters for offences with regards to the breach of its provisions. The Fisheries Act 2014 recognized the need for effective management and sustainable development of fisheries, taking into account to a certain extent internationally recognized norms, standards and best practices, particularly those established by the United Nations Convention on the Law of the Sea and the United Nations Agreement for the Implementation of the Provisions of the United Nations Convention on the Law of the Sea. However, it has since been recognized that the Fisheries Act 2014 did not make adequate provisions for several key issues, which has created legal gaps and loopholes in the fisheries legislation. Gaps include inadequate provisions for the licensing of vessels and gears, weak enforcement mechanisms and a lack of framework to implement fisheries management plans. Furthermore, the legislation requires alignment with recent national policy instruments, including the Fisheries Sector Policy and Strategy, which was adopted in 2019, and adopted management plans. In addition to the required amendments to the Act, the main piece of secondary legislation, namely the Fisheries Regulations 1987, are a product of the Fisheries Act 1987 and, as a result, are outdated and in urgent need of modernization.

65. Development of the blue economy has the potential to increase the participation of women in the sector. The 2018 Household Budget Survey indicated that the fisheries sector is dominated by males. This was further affirmed by the employment data for 2020 which shows that of the 10 percent of the employed population working in the fisheries sector (fishermen and fish processing), 95 percent are males. Men have traditionally taken care of fishing and marketing, while women are responsible for fish processing. In 2019 the GOS outlined in its strategy and policy that it will intensify its effort to provide for the upliftment of young people and woman as entrepreneurs across the value chain by using appropriate support mechanisms, education, training and institutional strengthening to encourage them to join and develop a career in the sector. To analyze the impact of these policies on the participation of women in the sector, the government, with the help of the World Bank through the SWIOFish3 project, will conduct a Gender Assessment in the Blue Economy Sector, including the fisheries sector in 2022. This assessment will discuss the progress made since 2019 and identify remaining gaps. The findings of the assessment will inform future policies and legislation in the fisheries sector.

66. Results: Development of the aquaculture sector in Seychelles will help bring about greater additions to the supply volumes and diversifications in seafood products available to the value chains. While Seychelles intends to continue fostering growth within the fisheries sector by adding greater value, the country is also committed protecting its resources and transition to sustainable fisheries and safeguard the oceans. The Fisheries Act will ensure that the ocean economy is sustainably developed and ensure that diversification and growth in the sector is not at the expense of ocean protection and conservation. These will also contribute to increase resilience of the Seychelles Blue Economy against climate change, with stocks and ecosystems better managed and preserved.



Table 5: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings (be specific about the <i>key findings</i> informing the prior action)
Operation Pillar 1: Fiscal Sustainability	
Prior Action #1	<i>Enhancing Transparency, Accountability and Good Governance for Inclusive Growth: Maximizing Results Based Management (P168554) and Assessment of SOE Governance in Seychelles (2020)</i> . Fiscal risks emanating from SOEs are a concern given government's transfer, coupled with weak governance and monitoring, and expansion into new areas due to blurry mandates. The immediate priority of SOEs should be to seek ways to make the system in place work better. This includes: (i) Streamlining monitoring and enhancing aggregate reporting; (ii) adapting PEMC's organizational structure; (iii) expanding the SOEs' reporting, to cover the service-delivery dimension, including through the use of KPIs and (iv) requiring all SOEs to publish their audited financial statements and annual reports on their website. In carrying out its monitoring activities, PEMC could adopt a "tiered" (or differentiated) approach whereby much more effort would be devoted to monitoring the SOEs presenting the highest risks (e.g., high losses, high gearing ratio, declining revenues and profits, and large provider of dividends).
Prior Action #2	<i>Seychelles Tax and Offshore Sector Advisory (P152882)</i> . The poor performance of business taxation in Seychelles results from a mix of policy and operational shortcomings. There are significant gaps in the Seychelles defenses against tax avoidance, including profit shifting by international businesses. The generous incentives available to businesses in the tourism sector both reduce revenue and encourage domestic profit shifting to entities enjoying low rates and special allowances.
Operation Pillar 2: Building Resilience	
Prior Action #3	<p><i>Disaster Risk Management Development Policy Loan with Catastrophe-Deferred Drawdown Operation CAT DDO (P148861)</i>. Disaster Risk Management Development Policy Loan with a Cat DDO (P148861). As a small island state, Seychelles is exposed to a disproportionately high economic, social and environmental impact of natural and environmental disasters. Vulnerability characteristics such as the concentration of population and development in narrow coastal zones make the country extremely sensitive to the natural hazards and associated impacts. Adaptation to the adverse impacts of climate change and a robust disaster prevention and mitigation program are major priorities for Seychelles.</p> <p><i>Assessing climate risks and behavior associated with waste management in Seychelles (P169875)</i>. Among the registered 636 disaster events in Seychelles National Loss Database was developed (1980 to 2014, UNISDR), storm is ranked the first, followed by flood, rain, landslide and tsunami. The largest share of economic loss is flood, followed by tsunami, landslide, rain and storm.</p> <p><i>Seychelles Coastal Management Plan 2019 – 2024</i>. Small Island Developing States (SIDS) such as Seychelles are likely to be impacted by factors such as coastal erosion, flooding, tidal variations and tropical cyclones that are exacerbated by climate change. Moreover, the growing population and economic development will simply add more pressure on land use and the natural resources along the coastal zones. Seychelles needs to protect its natural assets for its coastal communities and for future economic prosperity.</p>
Prior Action #4	<i>Financial Sector Development RAS P156528</i> . Anti-money laundering (AML) regulations to international standard are not being implemented in practice for Seychelles International Business Companies (IBCs). In recent years, Seychelles' IBCs have been implicated in a number of high-profile international corruption scandals and bank frauds. To be a driver of growth for Seychelles in the global context of higher disclosure and compliance requirements to combat crime and terrorism, the sector would likely need to shift away from its current "mass market" model of registering and providing basic company secretariat services to IBCs. This would require a robust domestic regulatory and enforcement system



	to prevent reputational risks to Seychelles.
Operation Pillar 3: Strengthening policies for inclusive and sustainable growth	
Prior Action #5	<i>SEYCHELLES: Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFISH3 – P155642).</i> Under the Third South West Indian Ocean Fisheries Governance and Shared Growth project (SWIOFish3), the Bank is supporting the management and conservation of marine areas and strengthening seafood value chains in the Seychelles.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

67. **The DPO incorporates the Green, Resilient, and Inclusive Development (GRID) approach 2021 of the World Bank that integrates a shared vision for a sustainable and inclusive economic recovery that addresses structural challenges as well as the adverse impact of the COVID-19 pandemic.** For Seychelles, maintaining a line of sight to long run goals of greener, more inclusive and more resilient development is critical. About 90 percent of the population is clustered in the shoreline and the country relies heavily on its coastal zone as a site for economic development. This means that a large share of its critical infrastructure and housing is located in the coastal zone. Thus, building resilience and enhancing climate-change adaptation is particularly relevant, given the country's high physical vulnerability to disasters and climate change impact. The operation supports actions to mainstream hazard and climate risks into the land use planning framework to reduce vulnerability in coastal areas, where a large part of the vulnerable population is located. Also, through pillar 3, the operation supports strengthening the enabling environment for sustainable and inclusive growth by supporting the development of the blue economy, particularly the fisheries sector to achieve a dual objective of marine resources conservation and expansion of the seafood value chains. Fish plays a vital role in the nutrition of the people and per capita consumption of fish is high, between 48 and 65 kg per annum, contributing 35 to 40 percent of protein consumed by Seychellois. The locally consumed fish is obtained mainly from the small-scale fishery. The fisheries industry suffers from a steady decline in artisanal demersal fish catches while it still must sustain the country's need for fish. Ensuring food security will remain one of the highest priorities for aquaculture development in Seychelles. Seafood value chains are a cornerstone of the country's blue economy strategy and their expansion is expected to deliver long-term, resilient growth, jobs, and food security.

68. **The proposed operation is also aligned with the World Bank Group strategic priorities and the World Bank Group Country Partnership Framework (CPF)**⁷. The DPF is informed by the constraints identified in the Systematic Country Diagnostic (SCD -June 2017) and directly relates to the CPF for FY18-FY23, which acknowledged that Seychelles' isolation increases costs and limits opportunities, thus weakening the capacity to absorb shocks. The DPF addresses issues to preserve natural capital, reduce risk affecting sustainability and address structural weaknesses and promote growth. The proposed operation also supports the Government in achieving its social and economic vision of a sustainable and inclusive future as outlined in its National Development Strategy 2019-2023.

69. **The WBG is providing support to the GoS to implement reforms to address fiscal sustainability, resilience and structural reforms, utilizing all WBG operational and policy instruments and working in close partnership with governments and other agencies.** The proposed operation builds upon previous and ongoing WBG-supported operations. Selected pillars supported by the DPF series are aligned with the SCD and CPF priorities, including macroeconomic and fiscal stability, debt management, financial sector stability, climate change and the development of a digital economy. Prior

⁷ Country Partnership Framework for the Republic of Seychelles, 2018-2023. Report number 122493-SC



Actions in Pillar 1 are directly linked to (1) the Enhancing Transparency, Accountability and Good Governance for Inclusive Growth: Maximizing Results Based Management (P168554) RAS, and Seychelles tax and offshore sector advisory (P173929). These ASAs address constraints/challenges in governance and tax avoidance, respectively. Pillar 2 is informed by the Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (P148861), Strengthening Coastal Resilience in Seychelles (TF0B1706), the COVID-19 Crisis Response Emergency Development Policy Financing (P174198) and the Financial Sector Development RAS (P156528). The proposed operation is also directly aligned with the Digital Economy for Africa initiative, which recognizes that the digital economy can help Seychelles to achieve the United Nations SDGs and the WBG twin goals. This operation also builds on the South West Indian Ocean Fisheries (SWIOFish3) Project (P155642), which supports transition to sustainable fisheries and the implementation of the Blue Economy to make the sectors of the Blue economy more resilient to shocks and climate change.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

70. The design of this operation is informed by Seychelles' National Development Strategy which benefitted from wide-scale consultations. Consultation is an important feature of the GoS's institutional requirements and viable feedback from stakeholders is used to inform the development or revision of major policies, programs, plans, and services. The consultation methods include public meetings, community workshops, focus groups and surveys as well as interactive websites. Also, the design of the program was prepared with extensive consultations with government officials from various ministries including the Ministry of Finance, Economic Planning and Trade, Seychelles Revenue Commission, Department of Information, Communication and Technology and the Public Enterprise Monitoring Commission, and the Central Bank of Seychelles. In line with the GoS' policy of transparency and accountability, the design of the DPF involved consultations with public sector, private sector, and other interest groups. The reforms also benefited from extensive consultations with key stakeholders. Stakeholders particularly in the business community, agreed on the Government's overall policy directions since the 2008 debt crisis, especially the emphasis on expanding and enhancing the role of the private sector in the economy and a reduction in the role of SOEs, which are sometimes perceived as crowding out the private sector. In addition, participants recommended that the government focuses on governance, in particular, increased transparency and accountability and a more efficient government administration. The GoS engaged with several parliamentary committees during the preparation of this operation, as several of the prior actions are subject to legislative review and approval.

71. The program has benefited from the World Bank's consultation and coordination with various stakeholders in Seychelles through various projects and engagements. Given the continued effect of COVID-19 on travelling, stakeholder consultations have focused on relevant government agencies as well as regular exchanges with development partners. The prior actions were designed pulling from ongoing analytical as well as through a wide stakeholder consultation process, including all relevant private sector players. PA3 supports reforms on tax avoidance and profit shifting which informed by working closely with the Seychelles Revenue Commission through the Tax and Offshore ASA. Through previous work on Disaster Risk Management the team has consulted extensively on climate change risk adaptation issues, including with District Administrators, Regional Council members, Non-governmental Organizations, development partners and private sector representatives.

72. The WBG has been working in close collaboration with Seychelles' main development partners in supporting the design and implementation of reforms. The IMF has provided critical support to Seychelles' fiscal consolidation effort and the Bank continues to collaborate closely with IMF counterparts on reforms promoting macroeconomic stability. To leverage complementarities and avoid duplicative efforts, the WBG also collaborates with the AfDB. The World Bank is also working with development partners on targeted investments in disaster risk and public financial management.



73. **The proposed operation complements programs by other development partners.** It has been closely coordinated with the IMF, which recently approved a 3 year EFF to support the GoS. The EFF disbursement of US\$107 million will help to bolster foreign exchange reserves and, together with the World Bank's funds finance the fiscal financing gap. The World Bank and IMF collaborated on the macroeconomic policy framework and the DSA. The AfDB has also approved a budget support operation of US\$20 million.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

74. **The COVID-19 pandemic is estimated to have reversed the strides made in poverty reduction in preceding years by deepening poverty and creating a new group of poor.** Prior to the outbreak of COVID-19, Seychelles had made notable progress in reducing poverty, having declined by 13 percentage points from 38.3 percent in 2013 to 25.4 percent in 2018. The country had also become more equal as indicated by the decline in Gini coefficient from 0.35 in 2013 to 0.30 in 2018. Average income per adult increased from SCR 6,375 to SCR 7,025 per month (US\$389 - 428) and the share of income held by the bottom 40 percent of the population increased from 19.6 percent in 2013 to 21.1 percent in 2018. Although the country avoided a major outbreak of COVID-19, the measures adopted to contain the virus disrupted economic activity leading to a contraction of the economy in 2020, particularly in tourism. Simulations suggest that the economic crisis from COVID-19 may have led poverty in 2020 to increase to 37.1 percent from the observed 25.3 percent in 2018, thereby wiping out progress achieved since 2013. This was primarily driven by contraction in services sectors which account for the largest share of employment.

75. **The measures introduced by the government in response to the pandemic mitigated some of the impacts on welfare.** Following a revision of the national budget in April 2020, the government committed to subsidize wages for private companies for three months through the Financial Assistance for Job Retention program (FA4JR). Due to continued disruption from COVID-19, the initial three-month period was further extended. While the FA4JR was aimed at preventing private sector from laying off employees, the government's policy of mandating no furloughs or redundancies was revised from July 2020, allowing the private sector to make employees redundant with the provision that the Seychelles Employment Transition Scheme (SETS) under the FA4JR would assist redundant employees by continuing to provide their monthly salary with a cap of SCR 30,000 per year. The SETS also covered formal self-employed earners. A provision was also made for the Agency for Social Protection (ASP) to provide financial assistance to the informal sector under the Unemployment Relief Scheme. Additionally, the ASP offers social welfare assistance to households through a means-tested program. On average, 4,410 beneficiaries received social welfare assistance between May 2020 and January 2021 and the number of beneficiaries is estimated to have doubled from 2019 (World Bank, 2021). The simulated poverty rate in 2020 dropped from 37.1 percent to 29.1 percent after incorporating mitigation measures (see Box 1), while inequality declined to about the same level as the pre-pandemic level. The COVID-19 response measures benefitted the poorest population. However, they do not adequately protect the new poor that are not in the bottom of the distribution. As a result, even in the presence of these measures, poverty at 29.1 percent is still a substantial increase from both the pre-pandemic level and the anticipated rate in the absence of the pandemic.

76. **The unwinding of these measures as part of the fiscal consolidation being carried out by the GoS is likely to adversely affect welfare.** Additional spending on the mitigation measures contributed to a weakened fiscal position and as a result, some components, notably, the unemployment relief scheme and salary compensation were discontinued in early 2021. The reversal of these measures is expected to adversely affect welfare and while economic recovery is forecasted, the projected economic growth is unlikely to offset a rise in poverty in the short-term. Poverty is simulated to increase



from 29.1 percent in 2020 under the mitigation measures to 33.2 percent in 2021 after withdrawal of the mitigation measures. However, the extent of the effect depends on the social welfare assistance to the new poor. If social welfare assistance to new poor households is continued, for example as a result of better beneficiary targeting, the adverse impact of reversing mitigation measures would be slightly lessened leading to a poverty rate of about 30.7 percent, a rate that although higher than the pre-pandemic rate, is closer to the mitigated scenario. The recently approved PforR in social protection which aims to address leakage of social welfare assistance and achieve better targeting of beneficiaries is expected to address the challenge of ensuring the limited resources reach the most vulnerable.

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

78. Prior Actions 1 and 2 are expected to be distributionally neutral in the short-term while having the potential to foster inclusive growth and poverty reduction in the medium- to long-term through improvement in fiscal management. Prior Action #1 supports needed reforms to SOEs with an eye towards increasing SOE oversight and ensuring stronger monitoring and evaluation backed by timely and accurate statistics, and a more efficient SOE sector. Reforms supported in this policy area are expected to enhance accountability, transparency and performance of SOEs. Specifically, compliance with the new monitoring and reporting framework are expected to increase accountability to the public and limit the cost of underperforming SOEs on the budget, freeing up more resources for service delivery and public investment targeted to the poor and vulnerable in the medium-term. Prior action #2, improvements in the mobilization of tax by reducing the gaps in the defenses against tax avoidance such as profit shifting by international businesses is further expected to strengthen the fiscal position of the government. This, in turn, will allow the Government to sustain public service provision and human capital investments such as health and education. Such support would disproportionately benefit the poor and vulnerable.

79. Prior Action #3 aimed at strengthening climate resilience, under pillar 2 is expected to generate positive poverty and social effects. A World Bank report estimated that the impacts of disasters are more than twice as significant for poor people than anyone else⁸. This is because low-income communities tend to be located in low-cost risk prone areas in fragile dwellings, and commonly have no, or limited, access to credit or insurance to mitigate the post-disaster impacts. They are also the most adversely affected by disruptions in infrastructure services such as electricity, roads and running water. COVID-19 highlights the vulnerability of the poor and the importance of the proposed policy actions in building their resilience. Land use planning and integration of hazard and risk information in planning that serve as the basis for restrictions and conditional development could yield positive benefits for the poor if risk-based land-use is aimed at protecting poor people. Seychelles being a small island state, is predicted to be highly exposed to disasters such as coastal floods and cyclones, while poor and vulnerable are often disproportionately affected by disasters. In this respect, thus, land use planning and development policies that are risk based and climate sensitive are paramount in mitigating the impact of

⁸ Hallegatte, Stephane; Vogt-Schilb, Adrien; Bangalore, Mook; Rozenberg, Julie (2017). Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters. Climate Change and Development. Washington, DC: World Bank.



future climate change induced events on the country's poor.

80. Prior Action #4, strengthening the financial system through the introduction of measures to combat money laundering and terrorist financing will have a neutral effect on poverty reduction. On the one hand, these measures will help to restore the reputation of the financial system and potentially lead to the restoration of corresponding banking relationships. The underlying principles of effective AML/CFT controls are transparency and risk management. These principles ensure the safety, soundness and proper regulation of financial systems that promote consumer protection and provide an enabling environment for the development and usage of financial services. Thus, complying with AML/CFT requirements through the amendment of the beneficial ownership law and the establishment of the registry will lead to an increase in public confidence in financial institutions, thereby promoting market integration and investments through cross-border financial intermediation. On the other hand, overly cautious AML/CFT safeguards can have the unintended consequence of excluding legitimate businesses and consumers from the financial system and reducing the access of low-income individuals to formal financial services. To mitigate against this, the Financial Action Task Force emphasized the need to ensure that such safeguards also support financial inclusion.

81. Prior Action #5, regulations to promote the aquaculture industry are likely to have positive long-term impacts on the livelihoods of fishers in coastal communities and poor households through enhanced food security and job creation. The DPF supports regulations to address threats to the livelihood of the country. Regulations in the aquaculture sector are expected to boost the health, productivity and diversity of fish resources to restore and sustain the sector; and improve the resilience to climate change, which should boost the livelihoods of small fishers in the medium run and safeguard them in the long run. In addition, with a more sustainable fisheries sector, there could be increased income to the fishermen and the government.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

82. The GoS environmental laws, regulations and policies are in place and generally acceptable. Biodiversity conservation and ecosystem protection are regulated under different legislation, notably the National Parks and Nature Conservancy Act (1969, as amended), the Fisheries Act (1987), the Wild Animals and Birds Protection Act (1961). Other Acts supporting keystone species protection (marine turtles, certain sea bird species, whale sharks and marine mammals) and their habitats include: The Wild Animals (Whale Shark) Protection Regulations (2003); Fisheries (Amendment) Act, No. 2 of 2001; Environment Protection (Landscape and Waste Management Agency) (Amendment) Regulations, 2016; etc. In addition, key laws and regulations pertaining to environmental assessment, include Environmental Protection Act (1994); Environmental Protection (Impact Assessment) Regulations (1996); Environmental Protection (Standards) Regulations (1995), and the Environmental Protection Act, No 18 of 2016. The Act establishes the National Environment Advisory Council, and an Environmental Appraisal Committee (EAC). The function of the EAC is to evaluate the environmental impacts of any development, project or activity referred to it and make recommendations to the Ministry of Agriculture, Climate Change and Environment, responsible for administering the Environmental Protection Act. Notwithstanding, the comprehensive legal framework, Seychelles natural resource endowment faces threats from rising sea levels, variable weather patterns and ocean acidification due to climate change as well as from overexploitation of fisheries resources and degradation of coastal habitats and ecosystems. Capacity and track record for managing environmental risks associated with development initiatives and overseeing and ensuring environmental compliance monitoring is limited. To mitigate the identified weaknesses, the DPO has recommended a participatory policymaking process, and that the subsequent actions from the DPO do not lead to any weakening or disregard of the environmental and social due diligence process. The policymaking process should rather result in the strengthening of Key Performance Indicators (KPIs) for SOEs by integrating for example environmental, social, health and safety performance indicators.



83. **As per Operational Policy 8.60, the World Bank has assessed whether the country policies supported by this DPF are likely to have an impact on the environment, forests, and natural resources.** This assessment shows that the Prior Actions 1, 3 and 5 are likely to have a positive impact on the country's environment, forests, and natural resources.

84. Prior Action #1 (expanding the SOEs' reporting, to cover the service-delivery dimension, including through the use of KPIs) will have a positive impact on the country's natural and human environment if KPIs consider environmental performance indicators. Managing and reporting on environmental performance can significantly benefit both SOE/businesses and the environment.

85. **Prior Action #3 on adopting a new Physical Planning Bill put in place measures to adapt, build resilience and minimize vulnerability to the impacts of Climate Change.** However, it could also likely lead to more physical investments, which may contribute to negative environmental impacts due to an increase in demand on natural resources. In Seychelles, Town and Country Planning Act (1972) - Revised Edition (1991) provides the primary instrument for land, infrastructure and physical development control, and the environmental regulations defines Projects or Activities Requiring Environmental authorization. Care should be taken to ensure that the new Physical Planning Bill is consistent with existing Acts listed under Paragraph 80 and a participatory policymaking process shall be required. In addition, the land use planning provisions should be integrated with environmental approval processes for developments going forward in order to ensure the effectiveness of this PA in mitigating any potential adverse impacts on the environment, forests, and natural resources. To ensure the effectiveness of integrating climate and hazard risks in land-use planning, the environmental impact assessment legislation may likely need to be amended to make provision for assessment of climate risks as part of the environmental approval process.

86. **Prior Actions #5, adoption of the aquaculture regulation address the challenge of resource utilization and support policies that address pressures exerted by the fisheries sectors on the coastal and marine natural resources to ensure their long-term sustainability.** Most of these pressures come from the lack of fisheries management plans as well as overfishing in the artisanal, recreational, and sport fishing subsectors and from an increasing environmental footprint of the tourism industry. Reforms in the fisheries sector to ensure improve management and offer diversification such as aquaculture to allow for a reduction of fishing efforts would allow a reduction of fishing pressure on coastal stocks for their rebuilding and sustainability. However, PA#5 may also have negative effects on the environment with the development of aquaculture which can generate pollution, the release of non-indigenous species, and habitat degradation. Along the development of its Mariculture Master Plan (MMP), Seychelles completed a detailed Environmental and Social Impact Assessment for implementation of the MMP and under the Seychelles environmental regulatory framework, Environmental and Social Impact Assessments need to be prepared for aquaculture projects. Subsequent trigger #6 on the adoption of the Mahé Plateau Regulations is expected to have medium to long term positive environmental and social impacts thanks to the improved management and protection of marine and coastal ecosystems that serve as habitats for fauna species of commercial and recreational value, as well as species important to overall ecosystem health and functioning.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

87. **Seychelles has substantially improved its Public Financial Management (PFM) system that will be used to support the proposed operation.** This is evidenced by the improved rating in the Public Expenditure and Financial Accountability (PEFA) in 2016. The report indicates improved fiscal discipline, efficient budget formulation and allocation and effective budget execution, reporting and oversight. The improvement is due to implementation of PFM reforms in 2012 -2014 PFM action plan prepared after 2011 PEFA. The key reforms included adoption of PFM Act 2012, phased implementation of



Programme Performance Based Budgeting to improve allocative efficiency, operational efficiency and accountability of the achieved results; revising chart of accounts to incorporate functional and programmatic classification; developing comprehensive cash-flow forecasting tools; revising Financial Instructions and Accounting Manual 1997; strengthening Finance and Public Accounts committee and adopting public sector accounting standards. The budget information is transparent and freely available to the public on timely basis in the Ministry of Finance, Economic Planning and Trade, website.

88. **The Government is committed to implementing the identified PFM weaknesses in the 2016 PEFA report.** In this regard, the Government developed 2017 -2020 PFM action plan which they have been implementing. The weaknesses relate to the need to improve efficiency of Public Investment Management (PIM); improve asset register to include buildings and land, improving commitment controls, improving internal controls, and improving public access to procurement information. The Auditor-General has regularly reported weaknesses on adequacy and adherence with internal controls in his annual reports. Based on recent reforms, the Public can now access procurement related information in the Procurement Oversight Unit and National Tender Board websites.

89. **Based on the review of the IMF 2018 Safeguard Assessment report of the CBS we conclude that the CBS's internal controls, financial reporting, and external audit and internal audit systems were adequate and continue to comply with international standards.** However, further efforts are needed to support the development of internal audit, which lacks capacity and absence of Head of the Unit since 2013. CBS has committed itself to addressing the identified weaknesses in order to improve the safeguard environment. The joint auditors, the Auditor General and independent external audit firm issued an unqualified audit report for financial statements (prepared using international financial reporting standards) as at December 31, 2019: the statements are published on the CBS website.

90. **Public Procurement.** Public procurement is guided by the Public Procurement Act (PPA) of 2008, which was enacted in December 2008, and regulated by Public Procurement Regulations, 2013. The law generally aligns with international standards and contains most elements of a modern legal and regulatory framework for procurement. The PPA defines and prescribes the hierarchy of the different procurement actors in the public procurement sector: the implementation falls on three result areas, namely the procuring entities which lead the process through their procurement officer in the ministries, a supervisory body (the National Tender Board) and the Procurement Oversight Unit (POU) as a regulator.

91. **A review of Seychelles Procurement Act and Seychelles Procurement Regulation and the World Bank New Procurement Framework revealed that the two are comparable.** In fact, the Seychellois public procurement is governed by most of the core principles in the Bank's procurement regulation: transparency, economy, efficiency and fairness. The regulation adds competition and accountability, but the Bank's core procurement principles add value for money, fit for purpose and integrity. Nevertheless, the following issues were noted: (a) the Procurement Plan does not include the issuing date; (b) the bidding document require to be paid for; and (c) the Seychellois system has provisions for debarred firms, but the list is not yet available neither in the Procurement Oversight Unit Website nor in the National Tender Board (NTB) website.

92. **Procurement planning.** According to the Procurement Act and Regulation, procurement is fit for purpose and must be linked to available budgets⁹. The procuring entities in the Program are all subject to the procurement planning requirements included in the Public Procurement Regulation, 2013. In practice, the procuring entities prepare themselves the annual procurement plan based on the purpose of their annual objective. Once approved, the Procurement Plan must

⁹ A procurement unit shall ensure that adequate funds are budgeted prior to initiating procurement proceeding, taking into account all costs involved in the procurement.



be published at least in newspaper and its website. Before the implementation of each activity, the procurement unit ensures the existence of funds prior to procurement proceeding. If the procurement is for a multi-year contract, they must ensure that funds are included in budget for each covered year.

93. **Procurement processes and procedures.** The organizational structure of procurement function and the human resources and tools and method of work are adequate. Standard bidding document is available to the public through the POU website. Many standards documents are available for procurement users from POU. However, PEFA report raised the issue of databases or records and the inefficiency of the document filing and archiving system. PEFA report raised a problem of public access to information but is now addressed through the POU and NTB websites. It is important to note that these two websites are widely used.

94. **The performance and efficiency of the system throughout the procurement cycle is generally acceptable.** The (i) contracts tend to be open tender (competitive basis) as mentioned in the PEFA report of 2016. (ii) For a national tender, the bidding document is paid for but is free for open competition at international level; (iii) Bids opening is transparent, widely accepted by all bidders and takes place at National Tender Board. Nevertheless, there are still challenges in the following points: (i) the template of advertisement has no date. This does not allow the reviewer or the bidder to know the exact duration of the advertisement; (ii) pre-tender meetings are mandatory. This limits the access to information for international candidates; (iii) The bidding document is only available during a limited period of time which may limit the number of bidders; and (iv) PEFA report raised the use of direct selection method for awarding contract (54,9 percent) while Procurement Act prefers the open method.

95. Payment of contractors are made on time and generally within 30 days as it is written in the Procurement Act.

96. **Contract management process is provided by the Procurement Act and the Regulation.** Each procurement entity needs to nominate a contract manager who will monitor the performance of contractors/consultant. The challenge is to have a standard contract monitoring dashboard in order to follow the evolution of each contract implementation.

Disbursements - Funds Flow Arrangements

97. **The loans disbursement will follow the World Bank's procedures for development policy lending.** The loan will be disbursed in a single tranche upon effectiveness of each operation and provided IBRD is satisfied with the implementation of the development policy program and the appropriateness of the country's macroeconomic policy framework. The loan proceeds from the World Bank will be credited to an account that is part of the country's official foreign exchange reserves at the CBS. The CBS will credit the Seychelles Rupee equivalent to the Ministry of Finance Treasury Single Account (TSA) using the prevailing exchange rate on the date the funds are credited to the TSA. The TSA – which is part of budget management system - centralizes government revenues for financing of public spending; upon its deposit, the DPF disbursement will become available to finance budgeted expenditures. The Central Bank will not impose any charges or commission on the government for these transactions.

98. **The Government, through the office of the Comptroller General at the MoFEPT, will provide written confirmation to the World Bank within 30 days.** The confirmation will state that (a) the loan proceeds were received into an account of the government that is part of the country's foreign exchange reserves indicating the date and the name/number of the government's bank account in which the amount has been deposited; and (b) an equivalent amount has been recorded in the country's budget management system (including the Chart of Accounts name/account number, the date, and the exchange rate used). The loan proceeds shall not be applied to finance excluded expenditures in the negative list as defined



in the Loan agreement. If any portion of the loan is used to finance ineligible expenditure as so defined, the World Bank shall require the Government to promptly refund the amount upon notice from the World Bank.

Accounting and Auditing

99. **The accounting and auditing of the loan proceeds will be the responsibility of the Comptroller General at the MoFEPT and the Auditor General.** Government procedures will be followed to manage, record and report the loan proceeds and related payments. The loan proceeds shall be subject to external audit by the Auditor-General under the normal auditing arrangements applicable to the Government. The IBRD will have access to these audit reports. Since the fiduciary risk related to the control environment is considered to be moderate, no additional fiduciary requirements shall apply.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

100. **The MoFEPT is responsible for supervision and monitoring of the reform program supported by this operation.** The monitoring will be closely coordinated by the principal secretary. The participating ministries, departments and agencies will furnish relevant information and documentation on the status of their respective programs to MoFEPT which will monitor progress against the operation's objectives and results framework. For those that are not, MoFEPT will liaise with focal points in the other ministries involved as needed to provide such information at a frequency and in a format satisfactory to the World Bank. The World Bank may provide implementation support and periodic monitoring and dialogue with the relevant line ministries and other stakeholders to ensure timely implementation and adequate monitoring of indicators and outcomes of the program.

101. **Data availability and quality are appropriate to monitor progress of the DPO Program.** The Program outcomes will be monitored through results indicators as detailed in the Policy and Results Matrix (Annex 1). Most of these results indicators are based on routinely published information and for those that are not, the concerned ministries or agencies will be responsible for collecting the data, tracking the relevant indicators and providing these to the MoFEPT on a timely manner. MoFEPT will be responsible for submitting such information at a frequency and in a format satisfactory to the World Bank. The World Bank will provide implementation support, including technical assistance in needed reform areas as described above, to ensure timely implementation and adequate data collection and monitoring of indicators and outcomes of the program.

102. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org."



6. SUMMARY OF RISKS AND MITIGATION

103. **The overall risk to this DPF is moderate.** This reflects a range of risks including macroeconomic, institutional capacity and uncertainty surrounding COVID-19. Macroeconomic risk in Seychelles is elevated due to the negative external shock experienced in 2020 from COVID-19 that still persist. Mitigating factors are the strong political resolve of the GoS, on-going communication efforts, and growing realization within Seychelles that there are few good alternatives at this point to pursuing the major reforms highlighted in this operation. In addition, the World Bank and other international organizations are currently working with Seychelles to mitigate these risks through budget support operations. Seychelles is quite vulnerable to environmental disasters, although policies supported in this DPF will give the country more capacity to address these risks.

104. **The macroeconomic risk for the operation is rated as substantial.** Although Seychelles has maintained macroeconomic prudence and achieved economic stability over the last ten years, as with most other countries, the pandemic has affected the economy of Seychelles through both domestic and external channels. The significant decline in economic activity resulted in lower domestic revenue and drastically higher government spending in response to the economic and social effects of the crisis. This has resulted in a high financing gap for which the Government sought external financing as well as domestic financing. The financing of the deficit has affected fiscal and debt sustainability. In addition, contingent liabilities from SOEs, in particular Air Seychelles poses additional risk to debt sustainability. This operation contributes to the mitigation of fiscal risks by providing concessional financing which would lower debt service costs as compared to financing through capital markets or the domestic market. A prolonged COVID-19 outbreak through variants of the virus would continue to affect tourism and FDI inflows, causing a deeper recession and prompting further intervention by the Government. The proposed financing for 2021 to 2023 from the World Bank and other international financial institutions is expected to keep reserves at around four months of import cover. In addition, the approval of the IMF SDR allocation of US\$650 billion provides scope for US\$31.8 million increase in allocation¹⁰ for Seychelles. The allocation would primarily be used to increase reserves. However, if budget financing fails to materialize or the financing costs are higher than planned, the increase in the SDR allocation which was recently approved by the IMF management could be used to meet the financing gap.

105. **The institutional capacity for implementation and sustainability risk are substantial.** The implementation of the reforms supported by this DPF requires strong collaboration among a number of implementing agencies and strong coordination by MoFEPT as executing agency. While Seychelles has made significant progress in institutional capacity building since 2009, implementation capacity is lagging. The DPF mitigates this risk by providing strong dialogue between the World Bank and the Government and close coordination with the international development partners.

106. **Other risks are Substantial.** The spread and duration of the COVID-19 crisis both at the national and global levels remain uncertain due to the discovery of additional strains of the COVID-19 virus. As a result, the extent of the economic impact is uncertain. A protracted and deeper crisis would slowdown the recovery, weakening tax revenue collection while expenditure steeply rise, thus posing risks to fiscal sustainability. Financing pressures could increase again impacting debt sustainability in the medium-term and undoing the gains made with the government's fiscal consolidation and the liability management operation. Also, while Seychelles was able to contain the virus and has vaccinated more than 80 percent of its adult population, the threat of new variants of the virus is a constant threat on the capacity of the health system which is low. The burden on the healthcare systems from COVID-19 could impede treatment of other diseases and the provision of other routine care (preventive, promotional and adaptative) which can hamper Human Capital accumulation in the long

¹⁰ This is captured under the program through an adjustor on the NIR target.



term.

Table 6: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● Moderate
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Moderate
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	● Substantial
Overall	● Moderate



ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers			Results		
Prior Actions under DPF 1	Triggers for DPF 2	Triggers for DPF 3	Indicator Name	Baseline	Target
Pillar A--Fiscal Sustainability					
Prior Action #1: To improve performance management (including risks) and fiscal reporting of SOEs, the Borrower through its Cabinet of Ministers has approved and submitted to the Attorney General's office the draft Public Enterprise Monitoring Commission (PEMC) Bill which aims to strengthen the enforcement power of PEMC.	Trigger #1: To meet its commitments and targets included in the PEMC Act, the Borrower through its Ministry of Finance and Economic Planning and Trade publishes in the Gazette regulations to facilitate the implementation of the PEMC Act, with focus on prescribing sanctions, establishing a common policy framework on SOEs human resources, assets and finances, operationalizing a performance measurement and evaluation system, and setting governance agreements with the Boards, including performance agreements for Board members.	Trigger #1: To meet its commitments and targets on climate change, the Borrower through its Cabinet of Ministers has submitted to Parliament legislation on climate resilience investment management and green procurement by SOEs, which ensures adaptation and transition to a low-carbon economy.	Results Indicator #1: Percentage of SOEs that have published their annual reports Results Indicator #2: # of SOEs using climate smart PIM	0 0	3 2
Prior Action #2: To address Base Erosion and Profit Shifting (BEPS) and to reduce tax avoidance by multinational enterprises, the Borrower through the Cabinet of Ministers approved the ratification of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting and has submitted it to parliament for ratification.	Trigger #2: To address the issue of tax erosion, the Borrower through the Cabinet of Ministers submit to parliament Transfer Pricing Regulations, which proposes the use of the arm's length principle to control transfer-price manipulation.	Trigger #2: To improve tax administration, the Seychelles Revenue Commission issues a Decree for the rollout of a new tax management system with the aim of digitizing the tax system by integrating the tax system with e-Services, and including functions such as case management, debt management, business intelligence, and data warehousing.	Results Indicator #2: Business Tax Revenue (SCR Millions)	1,197 (2021)	1,888 (2023)



Prior actions and Triggers			Results		
	Pillar B: Strengthening Resilience				
Prior Action #3: To enhance legal framework for property owners concerning land development rights, the Borrower has adopted and published the Physical Planning bill, which provides an administrative framework that enables the integration of climate and hazard risks in land-use planning decision.	Trigger #3: To facilitate the implementation of the administrative framework of the Physical Planning Bill, the Borrower, through the Ministry of Agriculture, Climate Change and Environment has formulated and adopted guidelines for the preparation and implementation of land use plans, which set out the criteria for (1) the fundamental research for zoning decisions, (2) the suitability for building zones based on the exposure to climate and natural hazards, and (3) determining what hazard and climate risk information should be displayed in land use plans.	Trigger #3: To improve resilience in spatial development, the Borrower, through the Ministry of Agriculture, Climate Change and Environment has updated and adopted Control of Development of Land Regulations, Development and Subdivision of Parcels Regulations, to align with the then Physical Planning Act which is aimed at incorporating graduated provisions concerning restrictions and conditionalities for any kind of development that is located in hazard prone areas, as well as addressing physical resilience.	Results Indicator #3: Percentage of planning decisions ((1) development planning, (2) zoning, (3) development permitting) informed by an analysis of hazard and climate risks as stipulated in the Physical Planning Bill and subordinate regulations	0	80%
Prior Action #4: To ensure transparency in the financial sector, the Borrower through its National Assembly has adopted and published the amendments to the Beneficial Ownership Act and, through the Financial Intelligence Unit (FIU), has established a central database for the operationalization of the Beneficial Ownership Register for the Offshore Sector which sets out the international financial entities participating in the offshore financial sector, as evidenced by the Supplement to	Trigger #4: To assess the countries AML/CFT compliance, the Borrower, through its Cabinet of Ministers, has approved updates to the National Risk Assessment, which is aimed at reassessing the Seychelles anti-money laundering and combatting the financing of terrorism ((AML/CFT) regulatory and supervisory framework.		Results Indicator #4: Percentage of legal entities that have submitted verifiable ownership information on the database held by FIU	0	80%



Prior actions and Triggers		Results			
Official Gazette dated 5 March 2021, and FIU's circular number 5 of 2021 dated June 2, 2021.					
Pillar C: Strengthening policies to create an enabling environment for inclusive and sustainable growth					
	Trigger #5: To ensure the privacy of consumer credit information and improvement in the payment system, the Borrower, through its Cabinet of Ministers has submitted to the Parliament: (1) Data Protection Act; (2) Credit Information System Act and (3) National Payment System Act, which are aimed at governing the treatment of personal data, and regulating national payment systems, respectively.	Trigger #4: To facilitate further digitalization of the government services, the Borrower, through the Department of Information, Communication and Technology has issued a Decree for the sequential rollout of digital payments for government services.	Results Indicator #5: Share of banked population that use electronic/internet banking	8 percent	20 percent
Prior Action #5: To foster the development of and investment in aquaculture life, the Ministry of Fisheries adopted and published the Fisheries (Aquaculture) Regulations aimed at regulating development, operations and licensing in the fisheries sector, as evidenced in the Fisheries (Aquaculture) Regulations, 2020, published in the Borrowers' official gazette No 108 dated December 21, 2020.	Trigger #6: To make fishing resources in Seychelles sustainable for long-term use, the Borrower through its Ministry of Fisheries publishes in the Gazette the Mahe Plateau Regulations, which impose limitations on the fishing of specific species of fish.	Trigger #5: To ensure sustainability of aquatic organisms, the Borrower through its Cabinet of Ministers has submitted to Parliament the 2014 Seychelles Fisheries Amendment Act and accompanying implementing Fisheries Regulations which regulate the management of the fisheries industry.	Results Indicator #6: (i) Number of Aquaculture Businesses registered or licensed (ii) Percent of infractions to the Mahé Plateau Regulations during controls (iii) Number of patrols to monitor compliance with the Mahé Plateau Regulations (iv) Gender assessment in the fisheries sector conducted	(i) 0 (ii) N/A (regulations not adopted] (iii) N/A (regulations not adopted]/A (iv) No	(i) 4 (ii) Annual decrease of the number of infraction (down to 50%) (iii) Information to be taken from the Monitoring Control and Surveillance Plan (iv) Yes

ANNEX 2: FUND RELATIONS ANNEX



PRESS RELEASE

PR21/234

IMF Executive Board Approves US\$105.63 Million Extended Arrangement Under the Extended Fund Facility for Seychelles

FOR IMMEDIATE RELEASE

- The COVID-19 pandemic severely hit Seychelles' economy. The authorities responded with exceptional measures to mitigate the economic fallout on businesses and households, but fiscal and external balances deteriorated.
- The IMF Executive Board approved today a 32-month extended arrangement under the Extended Fund Facility (EFF) for Seychelles, with access equivalent to US\$ 105.63 million. The Board's approval allows for an immediate disbursement equivalent to US\$34.26 million.
- The program aims to support the government's policy and reform efforts aimed at reinforcing the country's recovery from the pandemic, preserving macroeconomic stability, and sustaining inclusive long-term growth. Key policy actions under this program will focus on reducing debt sustainability risks.

Washington, DC – July 29, 2021: On July 29, 2021, the Executive Board of the International Monetary Fund (IMF) approved a 32-month extended arrangement under the [Extended Fund Facility](#) (EFF) for Seychelles for SDR 74 million (US\$105.63 million), or 323 percent of Seychelles' quota. The Board's approval allows for an immediate disbursement equivalent to US\$ 34.26 million.

Seychelles was hit hard by the COVID-19 crisis. The authorities reacted swiftly, by locking down the economy, thereby keeping infection and fatality rates low. However, the travel restrictions and global economic downturn triggered unprecedented economic contraction. The authorities responded with measures to mitigate the economic fallout on businesses and households. But the public debt ratio increased sharply, reflecting the primary balance deterioration, exchange rate depreciation, and GDP contraction. As soon as vaccines became available, Seychelles led the world in vaccination coverage and reopened its borders. With tourist arrivals bouncing back, a V-shaped recovery is now expected.

The key objective of the proposed program is to support the authorities' efforts to restore macroeconomic stability and debt sustainability while strengthening the post COVID-19 recovery. The program would support the authorities' ambitious fiscal consolidation efforts and reduce debt sustainability risks through a three-pillared, frontloaded adjustment comprising fiscal adjustment, a liability management operation (LMO), and external support. The authorities successfully completed the LMO, which seeks to significantly reduce the rollover risks, immediately after the conclusion of the program discussions.

At the conclusion of the Executive Board's discussion, Mr. Tao Zhang, Deputy Managing Director and Chair stated:

"The Seychelles' economic outlook is positive, but risks remain high. Tourist arrivals since March 2021 point to a strong recovery. Nonetheless the outlook is uncertain and contingent on



the pandemic path, the effective rollout of vaccines in Seychelles' key tourist markets, and the expected recovery in external demand.

"The new arrangement under the Extended Fund Facility will support Seychelles' post-pandemic recovery, anchor reform implementation and catalyze additional external financing.

"The key strategy focuses on maintaining the recovery momentum while reducing the risks to debt sustainability. Advancing the reform agenda through an ambitious fiscal adjustment, reinforced debt management, strengthened fiscal governance frameworks, and financial sector development and inclusion are essential priorities to sustain the post-COVID-19 recovery and generate high, sustainable, and inclusive growth.

"Enhancing public financial debt management, and improving governance of state-owned enterprises, will reduce fiscal vulnerabilities. Modernizing and revamping the banking resolution and emergency liquidity assistance frameworks will help safeguard financial stability. Further reforms to modernize the financial sector, including through digital finance, and improve the business environment will help support private sector development and foster sustainable and inclusive growth. The capacity development strategy aligned with the program is an important tool to achieve reform potential."

Seychelles: Selected Economic and Financial Indicators

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Act	Act	Act	Act	Prel			Proj			
(Annual percent change, unless otherwise indicated)											
National income and prices											
Nominal GDP (millions of Seychelles rupees)	18,989	20,858	21,540	22,192	20,021	23,585	26,219	28,889	31,235	33,781	36,464
Real GDP (millions of Seychelles rupees)	8,423	8,843	8,960	9,132	7,957	8,506	9,160	9,780	10,266	10,781	11,297
Real GDP	4.4	5.0	1.3	1.9	-12.9	6.9	7.7	6.8	5.0	5.0	4.8
CPI (annual average)	-1.0	2.9	3.7	1.8	1.2	10.0	3.7	3.2	3.0	3.0	3.0
CPI (end-of-period)	-0.2	3.5	3.4	1.7	3.8	8.6	3.9	3.5	3.2	3.0	3.0
GDP deflator average	-0.8	4.6	1.9	1.1	3.5	10.2	3.2	3.2	3.0	3.0	3.0
Money and credit											
Broad money	12.1	16.4	7.7	13.9	29.2	—	—	—	—	—	—
Reserve money (end-of-period)	14.5	18.9	4.5	22.7	40.4	—	—	—	—	—	—
Velocity (GDP/broad money)	1.4	1.3	1.3	1.1	1.1	—	—	—	—	—	—
Money multiplier (broad money/reserve money)	4.6	4.5	4.6	4.3	3.9	—	—	—	—	—	—
Credit to the private sector	10.3	17.8	11.5	22.3	20.2	9.1	16.6	17.7	18.7	16.5	15.6
(Percent of GDP, unless otherwise indicated)											
Savings-Investment balance											
External savings	20.6	19.6	18.9	16.1	29.5	25.7	22.0	19.8	17.8	16.9	15.5
Gross national savings	9.6	9.2	7.8	10.3	-6.2	2.3	5.7	8.1	8.8	9.5	10.8
Of which: government savings	3.8	3.7	4.3	4.6	-13.8	-6.1	-1.1	2.6	3.7	5.3	5.8
private savings	5.8	5.5	3.5	5.7	7.7	8.4	6.7	5.4	5.1	4.2	5.0
Gross investment	30.2	28.9	26.7	26.4	23.4	28.0	27.7	27.8	26.6	26.4	26.3
Of which: public investment ¹	5.0	4.3	5.2	3.9	5.9	9.0	8.7	7.3	6.1	5.9	5.5
private investment	25.2	24.6	21.5	22.5	17.5	19.0	19.0	20.5	20.5	20.5	20.8
Private consumption	47.1	50.9	52.6	52.6	49.9	54.9	56.1	54.8	52.7	53.4	52.1
(Percent of GDP)											
Government budget											
Total revenue, excluding grants	36.7	35.0	37.1	37.6	35.7	30.7	33.1	34.3	36.2	36.8	37.2
Expenditure and net lending	38.2	36.4	38.8	37.7	57.1	48.4	43.6	39.2	38.1	38.0	37.9
Current expenditure	33.2	32.1	33.6	33.8	50.1	38.9	35.4	33.0	33.1	32.0	31.9
Capital expenditure ¹	5.0	4.3	5.2	3.9	5.9	9.0	8.7	7.3	6.1	5.9	5.5
Overall balance, including grants	-1.4	0.1	0.7	-0.9	-19.5	-13.6	-7.7	-2.9	-0.4	0.2	0.7
Primary balance	0.0	0.0	0.0	0.0	—	—	—	—	—	—	—
Primary balance	3.4	3.1	3.0	2.8	-16.3	-9.7	-5.0	-0.4	2.8	3.0	3.2
Total government and government-guaranteed debt ²	72.8	65.7	62.3	61.8	100.8	87.7	87.6	83.0	77.2	71.2	64.5
External sector											
Current account balance including official transfers (in percent of GDP)	-20.6	-19.6	-18.9	-16.1	-29.5	-25.7	-22.0	-19.8	-17.8	-16.9	-15.5
Total external debt outstanding (millions of U.S. dollars) ³	4,299	4,475	4,682	4,874	5,093	5,452	5,823	6,147	6,362	6,588	6,830
(percent of GDP)	301.5	292.8	303.7	308.5	447.7	346.7	331.8	314.8	297.6	281.2	264.0
Terms of trade (=deterioration)	-13.8	-2.9	-3.3	6.7	10.6	-3.6	-4.1	-0.4	0.9	0.9	0.0
Real effective exchange rate (average, percent change)	-0.1	-3.2	—	—	—	—	—	—	—	—	—
Gross official reserves (end of year, millions of U.S. dollars)	522.6	546	548	581	561	670	743	815	816	824	848
Months of imports, c.i.f.	3.7	3.5	3.7	5.2	4.5	4.6	4.4	4.4	4.0	3.8	3.9
In percent of Assessing Reserve Adequacy (ARA) metric	113.3	112.6	110.9	112.4	111.9	114.4	115.9	117.4	111.1	107.0	104.6
Exchange rate											
Seychelles rupees per US\$1 (end-of-period) ⁴	13.5	13.8	14.0	14.1	21.6	—	—	—	—	—	—
Seychelles rupees per US\$1 (period average) ⁴	13.3	13.6	14.0	14.0	17.6	—	—	—	—	—	—

Sources: Central Bank of Seychelles; Ministry of Finance; and IMF staff estimates and projections.

¹ Includes onlending to the parastatals for investment purposes.

² Includes debt issued by the Ministry of Finance for monetary purposes.

³ Includes private external debt.

⁴ As to 2020, exchange rate measured as of July 14, 2020.

ANNEX 3: LETTER OF DEVELOPMENT POLICY



The Minister

8th November, 2021

Mr. David R. Malpass
President
The World Bank Group

Mr. President

LETTER OF DEVELOPMENT POLICY

The Government of Seychelles is seeking the support of the World Bank Group on fiscal sustainability, strengthening resilience and strengthening policies to create an enabling environment for inclusive and sustainable growth that will enable Seychelles' economy to emerge stronger from the COVID-19 economic crisis through a USD 30 million budget support facility. The ongoing global pandemic has affected Seychelles main sources of revenue and requires that we demonstrate our resilience as a nation and take into account the economic reality that we now face.

I. Medium-Term Development Objectives

1. To commence on the journey of tackling the constraints Seychelles is faced with, the Government launched in 2019, the Seychelles' National Development Strategy (NDS) 2019-2023 under the new Vision 2033 and which is underpinned by six pillars: (i) Good governance, transparency and accountability; (ii) People at the Centre of development; (iii) Social cohesion; (iv) Innovative economy; (v) Economic transformation; and (vi) Environmental sustainability and resilience. The NDS 2019-2023 incorporates global and continental commitments, namely, the United Nations (UN) Agenda 2030, the Sustainable Development Goals (SDGs), and the African Union's Agenda 2063.
2. More recently, the Medium-Term Fiscal Framework (MTFF), 2021-2023 that the Government issued in February 2021 and the accompanying 2021 Budget outline several measures that the Government is committed to implement over the short-to-medium term. The measures will enable Seychellois to be in a better position to take opportunities that the global economy will present post COVID-19 crisis. Among the immediate priorities, as stated in the 2021 Budget, is for the Government's budget to become more sustainable.

Ministry of Finance, Economic Planning and Trade
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This calls for reduction in fiscal deficits and making a gradual transition towards making Government debt sustainable. Several measures are envisaged in this regard, including reducing Government spending, removing abuse and corruption in Government, and removing dependence on social assistance by those individuals who can work.

Further, there is need for putting in place policies that will relaunch the economy in key sectors of tourism, fisheries, agricultural, financial, and the digital economy.

II. Economic Performance

Real GDP growth

3. Economic growth averaged 4.2% over the 2016-2019 period supported by strong performance in the tourism and the information and communication (ICT) sectors. Growth, however, contracted sharply in 2020 by 13.5% because of a decline in tourism activities due to the adverse effects of the COVID-19 pandemic. GDP growth is projected to recover in 2021 to 6.72% (compared to an initial estimate of 2.8%) and by 6.5% on average for the period 2022-2024, pegged on the recovery in tourism activities. This, however, continues to depend on the success of the ongoing vaccinations efforts, globally. Looking ahead, the main sectoral drivers for growth will remain tourism, fisheries, financial services, the digital economy and agriculture, where output is expected to increase significantly given Government led initiatives on the outer islands

Fiscal position

4. Prior to the pandemic, Seychelles maintained overall fiscal surpluses ranging between 0.2%-0.9% of GDP over the period 2016-2019. However, because of the devastating effects of the pandemic, the 2020 fiscal performance deteriorated with the overall fiscal deficit being at 18.9% of GDP in 2020 and estimated at 10.4% in 2021. This is mainly because of the fiscal measures that the Government introduced to protect business and the people from the adverse economic shocks on the pandemic.

Public debt

5. The Government had put in place a strategy to reduce public debt to less than 50% of GDP by end-2021 and in line with this objective, public debt stood at about 60% of GDP at end-2018. However, because of the fiscal measures that were instituted to protect the economy and the people from the pandemic, the debt-to-GDP ratio rose to 100.8% at end 2020. As at end September 2021, public debt stood at to SCR 17.3 billion or 78% of GDP. It is expected that by public debt will stand at 81% of GDP by the end of December. A substantial portion of the debt with short-term maturities was domestic debt. This poses a major fiscal risks, and as such in July this year, the Government together with the Central Bank implemented a Liability Management Operation through a debt restructuring operation. The objective of the operation was to improve the country's debt sustainability by reducing interest rate and refinancing risk. The operation was a successful one with a total of SR 1.24Bn or 5.2% of GDP, of source T-bills exchanged at the auction.

Monetary and external sectors

6. The Central Bank of Seychelles (CBS) has maintained an accommodative stance since the second quarter of 2020 in view of the challenges and macroeconomic risks caused by the COVID-19 pandemic, whereby support to the economy was necessary in the form of a lower interest rate environment.

The Monetary Policy Rate (MPR) of 3.0% that was set since the third quarter of 2020 was maintained up to the second quarter of 2021. In June 2021 a structural shift in the interest rate corridor was approved to ensure that market interest rates are aligned with prevailing macroeconomic fundamentals. As a result, the MPR has been set at 2%. In line with the accommodative stance, market interest rates have continued to decline.

The country's gross international reserves are expected to end the year at USD 650m or 6.3 months of import cover. This is an increase of USD 91m in comparison to USD 559m or equivalent 5.0 months of imports in the previous year. The rise in external reserves partly relates to inflows in the form of budget support loans from development partners.

III. The Reform Agenda

7. Over the 2021-2023 fiscal years, the Government's broad reforms agenda cover areas of climate change, public procurement, state owned enterprises, education reform, specifically technical and vocational training, debt management, and public administration and results-based management. President Ramkalawan, in January 2021 launched a major restructuring program that ultimately will make the public sector, including state-owned enterprises (SOEs), be more efficient in the use of public resources. There are also reforms that aim to enable the private sector, including the micro and small medium enterprises (MSMEs) be more competitive in international markets so that they can capture the dividends of global value chains.
8. The reforms that underpin the MTFF 2021-2023 cut across several areas but broadly aim to reinforce governance and economic management in the public sector including state-owned enterprises so as to sustain inclusive growth momentum while mitigating the adverse impacts of the COVID-19 pandemic. These include: (i) strengthening oversight over state-owned enterprises; (ii) reinforcing the financial sector by amending anti-money laundering and combating the financing of terrorism (AML/CFT) frameworks; (iii) making progress towards achieving fiscal and debt sustainability in the medium term; (iv) strengthening the efficiency and effectiveness of social protection programs; (v) strengthening the environment for doing business including expediting business start-up and export compliance procedures; (vi) improving tax administration and tax compliance; (vii) ensuring accountability and transparency is entrenched in the public service, especially in the area of public procurement; and (viii) reinforcing Seychelles' green growth agenda including environmental and climate resilience.



Achieving Fiscal Sustainability

9. **Maintaining fiscal prudence remain a key priority of the Government.** Over the medium term the Government aims to strengthen the operational efficiency of the Seychelles Revenue Commission (SRC) in areas of tax administration to enhance revenue collection. Major efforts in this area include the strengthening of customs procedure at the enhance the facilitation imports and export trade and reduce the cost and time it takes for Seychelles business, particularly MSMEs to engage in international trade transactions. At the SRC there will be reforms on major systems such as the ASYCUDA whose functionality need to be upgraded, the installation of a cargo tracking system, and the development of risk-management methods including introduction of the authorized economic operator status for traders. The Government also envisages to revamp the tax administration procedures at the SRC by implementing electronic services to replace the existing manual systems.

This includes the installation of electronic filing of tax returns and systems and automating the linkage of the 'Global Forum's Automatic Exchange of Information' to SRC application to facilitated tax compliance procedures. Also, there are plans to improve the effectiveness of the SRC in tax administrative matters by introducing a common client/taxpayer database and improving the tax audit skills of its professionals.

The Cabinet of Ministers has approved the ratification of the *Multilateral Convention to Implement Tax Treaty (MLI) Related Measures to prevent Base Erosion and Profit Shifting (BEPS)*. This will be the final action that is needed for Seychelles to be compliant with the four minimum actions of the OECD inclusive BEPS framework

10. Another aspect of the reform program aims to enhance accountability and transparency in the public sector. This includes reinforcing oversight over SOEs operations to ensure that they remain accountable to the Government. To achieve this, the Government aims amend the Public Enterprise Monitoring Commission (PEMC) to make PEMC accountable for overseeing the operations of SOEs. Seychelles continues to partner with the Open Government Partnership to strengthen its E-Government systems that the Government views as crucial in the fight against corruption in the public sector. Another aspect of the reform agenda involves making amendments to the public procurement law to close gaps relating to inefficiency in the procurement process and corrupt practices. To strengthen Seychelles' offshore financial sector the Government in March 2021 enacted amendments to the AML/CFT Act 2020 and the Beneficial Ownership Act 2020. Other fiscal measures aim to reform the social protection program with technical support of the World Bank. A major measure in this regard is to implement reforms that aim to achieve better targeting of social welfare spending.
11. To make the level of public debt sustainable, the Government's Debt Management Strategy, 2021-2023 has proposed several measures that include lengthening maturity profile of domestic debt. This plus other measures including the implementation of fiscal consolidation measures that will rationalize public spending are being discussed with the IMF in the context of the Debt Sustainability Analysis. In the meantime, to enhance transparency of public debts, the Government will be publishing an annual debt bulletin that will disclose information such as debt service profile and risk indicators. In anticipation of the annual debt bulletin publication, quarterly debt bulletin is already being published on the Ministry of Finance website.

Fostering Climate Change and Environmental Resilience

12. The Government recently the Seychelles revised Nationally Determined Contributions (NDC) to the United Nations Framework Convention for Climate Change (UNFCCC). These submissions will guide the Government's agenda on climate resilience across sectors and in particular infrastructure developments. Renewables will be at the heart of economic recovery strategies to advance economic, social and climate priorities for a Sustainable Post-COVID Recovery, so as to meet the set target of renewable energy (RE) providing 15 percent of Seychelles' energy consumption by 2030 with reinforcement of the grid through investments in distribution networks and energy storage systems, as well as an increase in the number of households and public infrastructures utilizing alternate or RE sources. The long-term commitment is to achieve a decarbonized economy by 2050 and to boost electricity generation from renewable energies, including marine energy technologies, bio-energies, such as biomass and waste-to-energy, and the use of environment friendly intermittent energy storage technologies;

Anti-Money Laundering/Countering the Financing of Terrorism (AML/ CFT)

13. The Anti-Money Laundering/Countering the Financing of Terrorism (AML/ CFT) framework of Seychelles was assessed against the FATF 2013 Methodology and the 2012 FATF Recommendations in the Second Round of Mutual Evaluations conducted by Eastern and Southern Africa's Anti-Money Laundering Group (ESAAMLG). The Report was adopted by the ESAAMLG Council of Ministers in September, 2018. In August 2020, the new AML/CFT Act and Regulations came into force. The main changes include the establishment in law of the National Anti-Money Laundering and Countering the Financing of Terrorism Committee; the transition of the Financial Intelligence Unit (FIU) to an administrative model with a focus on the receipt, analysis and dissemination of relevant information; the provision of sectoral supervisory powers to the Central Bank of Seychelles (CBS) and Financial Services Authority (FSA) to supervise institutions falling under their regulatory purview and the FIU to supervise DNFBPS (Designated Non-Financial Businesses and Professions) and the high-risk NPOs (Non-Profit Organisations); the provision of dissuasive and proportionate sanctions that can be imposed for non-compliance; the provision of investigation powers to the relevant law enforcement authorities to investigate alleged violation of the provisions of this act; as well as the establishment of an Asset Recovery Fund to be managed by the Ministry responsible for Finance.
14. The new Beneficial Ownership law aims to provide for identification and verification of beneficial ownership of legal persons entities and legal arrangements, extending to domestic as well as international companies registered in Seychelles, trusts, associations and foundations among others. The law includes provisions for the establishment of a register of beneficial owners which should be kept up to date, as well as a centralised Seychelles Beneficial Ownership database to be securely maintained by the FIU. Seychelles views having a secure, centralised, database maintained by the FIU, of beneficial ownership information, as a proactive response to deterring and preventing the misuse of corporate vehicles.

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15. Based on the significant reforms done by Seychelles, the ESAAMLG have approved 9 re-ratings for Seychelles so far out of the 20 recommendations which have deficiencies. Seychelles intend to request for another re-rating for another 10 recommendations by the end of January 2022.

Digital Economy

16. The COVID-19 pandemic has reinforced the urgency to shift away from the traditional ways of transacting to adopting more digital platforms, particularly to ensure efficiency and business continuity in order to preserve the functioning of financial systems and the stability of the economy as a whole. The Government has given due attention to the digital transformation of the economy and the creation of an enabling environment for the uptake and usage of Digital Financial Services. The Digital Economy Diagnostic Report coupled with the Seychelles Fintech Strategy have identified key pillars that need to be established so that Seychelles can progress on moving forward the digital economy agenda. These pillars include a robust regulatory framework, efficient and reliable digital infrastructures as well as enhanced digital skills and literacy.
17. Similarly as part of the public service reform, there is a drive for the implementation of Digital Government. The success of which is dependent on the confidence in the security of using electronic channels of interaction with Government. The new Cybercrimes and Other Related Crimes Bill aims to combat criminal activities perpetrated using computer systems and for matters connected therewith. The law includes provisions for offences as well as investigations and procedures. Its alignment to international best practices will also facilitate the coordination between different jurisdictions when responding to transnational crimes.

Fisheries Sector

18. The fisheries sector remains a key one in our quest for economic transformation with the various potential it offers. After many years of research and investment, the Seychelles Aquaculture sector has now officially been launched.

The government has promulgated the first Aquaculture Regulations and its accompanying standards. The regulations were developed based on global best practices to ensure that the sector develops in a well-coordinated and regulated manner with the highest compliance levels. The Aquaculture Standards would serve to guide the private sector operators and always ensure that the best practices are being observed. The regulations also makes for provision for the establishment of the Aquaculture Regulatory Committee. The committee is responsible for the effective and efficient development of the sector and consist of the key ministries, departments, agencies, Ceps (Citizens Engagement Platform Seychelles) and SCCI (Seychelles Chamber of Commerce and Industry) to better represent the mandate of the committee. Their mandate is to provide an inter-departmental focus to coordinate policy, align legislative and institutional structures, drive and track aquaculture development progress and make recommendations throughout the development of the sector.



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IV. Conclusion

We are counting on the continued support of the World Bank Group to provide the required financial assistance to support implementation of the above-mentioned reforms in order to minimize the impact of the pandemic, and to enable the country's return to its prudent growth performance.

Please accept, Mr. President, the assurances of my highest consideration.

Yours sincerely

MR NAADIR N. H. HASSAN
MINISTER

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: Fiscal Sustainability		
Prior action #1	Positive. if KPIs include environmental management indicators. Managing and reporting on environmental performance can significantly benefit both SOE/businesses and the environment.	Positive. No significant direct impact in the short term. Potentially positive indirect effect on social outcomes in the long term if increased transparency contributes to more and better use of public resources for the poor and vulnerable.
Prior action #2	Neutral	Negligible impact on the poor. Tax administration measures reduce the cost of compliance for withholding taxpayers, encouraging formalization.
Operation Pillar 2: Strengthening Resilience		
Prior action #3	Positive. This prior action seeks to put in place measures to adapt, build resilience and minimize vulnerability to the impacts of Climate Change. Seychelles is highly exposed to climate and disaster risks including landslides. The new Physical Planning Bill accounts for changes to the development trajectory of Seychelles and will indicate no-development zones, which tend to comprise wetlands, protected coastline and National Parks. This will help to enhance the country's resilience. It could also lead to more downstream investments, which may contribute to negative environmental impacts due to an increase in demand on natural resources.	Positive. Low-income communities tend to be located in low-cost, risk prone areas in fragile dwellings, and commonly have no, or limited, access to credit or insurance to mitigate the post-disaster impacts. Seychelles being a small island state, is highly exposed to disasters such as coastal floods and cyclones. In this respect, land use planning and development policies that are risk based and climate sensitive are paramount in mitigating the impact of future climate change induced events on the country's poor.
Prior action #4	Neutral	Neutral
Operation Pillar 3: Strengthening policies to create an enabling environment for inclusive and sustainable growth		



Prior action #5	<p>Positive. This prior action support regulations that would maintain or even increase the pressure on fishing, and without the proper management tools in place, this may negatively impact fisheries resources through further overexploitation of the domestic fisheries stocks. The implementation of the Mahé Plateau Management Plan, which has been recently officially published, will be supported by the World Bank through the SWIOFish3 Project. Activities under the Plan will include the development of a fleet management plan and a new licensing framework that will mitigate the risk from this shock on marine resources.</p>	<p>Positive. A more sustainable fishing industry is expected provide the citizens of Seychelles with a healthier marine environment. With a more sustainable fisheries sector, there could be increased income to the fishermen and the government as well as increased resilience against climate change.</p>
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