



The World Bank

Seychelles Second Fiscal Sustainability and Climate Resilience Development Policy Loan (P178209)

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PGD352

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US\$25 MILLION

TO THE

REPUBLIC OF SEYCHELLES
FOR THE

SEYCHELLES SECOND FISCAL SUSTAINABILITY AND CLIMATE RESILIENCE
DEVELOPMENT POLICY LOAN

November 22, 2022

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

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.



Republic of Seychelles
GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of October 31, 2022)
Seychellois Rupee (SCR)
US\$1 – SCR 14.50

ABBREVIATIONS AND ACRONYMS

AML	Anti-money Laundering	IMF	International Monetary Fund
ASA	Analytical and Advisory Services	MoFNPT	Ministry of Finance, National Planning, and Trade
BEPS	Base Erosion and Profit Shifting	MSME	Micro, small and medium enterprises
CBS	Central Bank of Seychelles	NDS	National Development Strategy
CFT	Combatting the Financing of Terrorism	NPL	Non-performing Loan
COVID-19	Coronavirus Disease 2019	NRA	National Risk Assessment
DICT	Department of Information, Communication and Technology	PEFA	Public Expenditure and Financial Accountability
DPL	Development Policy Loan	PEMC	Public Enterprise Monitoring Commission
EFF	Extended Fund Facility	PFM	Public Financial Management
FDI	Foreign direct investment	PIM	Public Investment Management
FIU	Financial Intelligence Unit	POU	Procurement Oversight Unit
GCRF	Global Crisis Response Framework	RAS	Reimbursable Advisory Services
GDP	Gross Domestic Product	RCP	Representative Concentration Pathways
GoS	Government of Seychelles	SCR	Seychelles Rupees
GRS	Grievance Redress Services	SDR	Special Drawing Rights
IBRD	International Bank for Reconstruction and Development	SOE	State Owned Enterprises
ICT	Information, communication and technology	SRC	Seychelles Revenue Commission

Regional Vice President: Victoria Kwakwa
Country Director: Zviripayi Idah Pswarayi Riddihough
Regional Director: Asad Alam
Practice Manager: Marco Antonio Hernandez Ore
Task Team Leader: Kenekukwu Ezemenari



**REPUBLIC OF SEYCHELLES
SEYCHELLES SECOND FISCAL SUSTAINABILITY AND CLIMATE RESILIENCE DEVELOPMENT POLICY LOAN**

TABLE OF CONTENTS

SUMMARY OF PROPOSED FINANCING AND PROGRAM3

1. INTRODUCTION AND COUNTRY CONTEXT5

2. MACROECONOMIC POLICY FRAMEWORK.....7

2.1. RECENT ECONOMIC DEVELOPMENTS..... 8

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY 12

2.3. IMF RELATIONS 16

3. GOVERNMENT PROGRAM16

4. PROPOSED OPERATION16

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION 17

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS 17

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY 30

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS 30

5. OTHER DESIGN AND APPRAISAL ISSUES31

5.1. POVERTY AND SOCIAL IMPACT 31

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS 33

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS..... 34

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY 36

6. SUMMARY OF RISKS AND MITIGATION37

ANNEX 1: POLICY AND RESULTS MATRIX39

ANNEX 2: FUND RELATIONS ANNEX44

ANNEX 3: LETTER OF DEVELOPMENT POLICY.....46

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE54

ANNEX 5: COMPARISON OF THE DPF 2 INDICATIVE TRIGGERS AND THE DPF 2 PRIOR ACTION56

The Seychelles Second Fiscal Sustainability and Climate Resilience Development Policy Loan was prepared by a World Bank Group core team led by Kenechukwu Maria Ezemenari (Senior Economist, EAEM2), and comprising Abdoulaye Ouedraogo (Economist, EAEM2), Sashana Whyte (Senior Economist, EA1M2), Keren Charles (Senior Disaster Risk Management Specialist, SAEU2), Arthur Schindelegger (Consultant, SAEU2), Brinda Devi Dabysing (Sr Financial Sector Specialist , EA1F2), Kirk Schmidt (Governance Specialist, EAEG2), Ana Cristina Barros (Senior Governance Specialist, EAEG2), Zubair Bhatti (Lead Public Sector Specialist, EAEG2), Miarana Heriniaina Aime Razaf (Procurement Specialist, EAERU), Charlotte de Fontaubert (Senior Fisheries Specialist, SAE3), Julien Million (Senior Fisheries Specialist, SENGL), Tandile Gugu Zizile Msiwa (Senior Financial Management Specialist, EAEG2), Francis Muamba Mulangu (Senior Economist, Statistician, EAEPV), Cecilia Maria Paradi-Guilford (Senior Digital Development Specialist, IDD04), Wilson Muyenzi (ET Consultant, IDD04), and Cyrille Valence Nguouana Kengne (Senior Environmental Specialist,SAEE3), Elisa Ilibagiza Mugiraneza (Counsel, LEGAM), Adama Diop (Finance Officer, WFACS),

Maharavo Ramarotahiantsoa (Governance Specialists, EAEG2), Aimnn Hassan (Program Assistant, AEMSD). The team benefitted from guidance from Idah Z. Pswarayi-Riddihough (Country Director, AECS2), Asad Alam (Regional Director, EAEDR), Marco Antonio Hernandez Ore (Practice Manager, EAEM2), and Paulo Guilherme Correa (Lead Economist and Program Leader, EAEDR). The team gratefully acknowledges the excellent collaboration of the Government of Seychelles and the comments of peer reviewers Anton Dobronogov (Senior Economist, ELCMU) and Andrew Blackman (Senior Economist, EEADR).



SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P178209	Yes	2nd 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, NATIONAL PLANNING, AND TRADE

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing	25.00
-----------------	-------

DETAILS

International Bank for Reconstruction and Development (IBRD)	25.00
--	-------

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

Moderate



Results

Indicator Name	Baseline (2021)	Target (2024)
RI# 1. Percent of SOEs that have published annual reports, including full annual financial statements (with notes), and audit report.	0	50
RI# 2. Percent of SOEs using climate-smart PIM.	0	50
RI# 3. Increase in Business Tax Revenues (SCR Millions)	1,457	SCR 2,118
RI# 4. Percent of decisions in development planning, zoning and development permitting informed by relevant data and maps of hazard and climate risks as stipulated in the Physical Planning Act and subordinate regulations.	0	80
RI# 5. Percent of legal entities that have submitted verifiable ownership data to the Financial Intelligence Unit	0	80
RI# 6. Risk-Based Action Plan Based on the national risk assessment results is developed that outlines steps for implementing a risk-based approach to prevent and mitigate identified AML/CTF risks.	No Action Plan in place	Action Plan completed
RI# 7. Share of banked population that use electronic/internet banking	8 percent	20 percent
RI# 8. Seychelles Communications Regulator Agency (SCRA) is made operational	SCRA not operational	SCRA operationalized organigram published, including its Board composition, Organizational Structure, and approved Corporate Plan
RI# 9. Number of aquaculture businesses registered or licensed.	0	4
RI# 10. Percent of infractions to the Mahé Plateau Regulations during controls.	No Regulations in place	Infractions reduced to 20 percent
RI# 11. Number of patrols to monitor compliance with the Mahé Plateau Regulations.	No Regulations in place	Data to be taken from the Monitoring Control and Surveillance Plan
RI# 12. Gender assessment in the fisheries sector conducted.	No	Yes



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

1. INTRODUCTION AND COUNTRY CONTEXT

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

2. **Seychelles had achieved significant economic progress leading up to the Coronavirus Disease 2019 (COVID-19) pandemic.** On the back of the Government's of Seychelles (GoS) ambitious policy and institutional reforms, macroeconomic stability was re-established following the 2008 sovereign debt crisis, leading to an average real gross domestic product (GDP) growth of 4.3 percent between 2009 and 2019. In 2015, Seychelles became a high-income economy, with a GDP per capita of US\$16,975 in 2019, up from US\$11,130 in 2008. After years of persistent government action to consolidate fiscal accounts, backed by six International Monetary Fund (IMF) programs the primary balance was stabilized at the 2.5 percent target, with a line of sight to a 50 percent debt-to-GDP ratio in the medium-term. High economic growth in Seychelles has been accompanied by low unemployment, at 2.4 percent (2019) and a significant reduction in extreme poverty (that is, the population living below US\$1.90/day).

3. **The COVID-19 pandemic hit the economy hard, increasing poverty, but swift government action prompted a rapid recovery.** Disruption of the tourism and service sector, caused a 12.9 percent growth contraction in 2020, with simulations showing poverty (based on the upper middle-income poverty line of US\$6.85/day in PPP¹ term) increased from 6.71 percent in 2018 to an estimated 8.44 percent in 2020, effectively wiping out achievements since 2013 (when poverty was 9.67 percent)². Nonetheless, Seychelles' early and widespread vaccination campaign allowed a resurgence of tourism starting in March 2021, even as the world was hit by successive coronavirus variants. Tourist arrivals fueled a faster-than-expected economic rebound, with growth at 7.9 percent in 2021 and projected to be a robust 10.6 percent in 2022. However, spillover effects from the war in Ukraine are expected to weigh on external and fiscal balances in 2022 due to the surge in commodity prices.

4. **As a small island economy dependent on tourism and fisheries, enhancing economic resilience is critical to Seychelles' sustainable development.** Seychelles is an archipelago of 115 islands with almost 98,000 citizens. Tourism and fishery account for roughly 26 and 8 percent of GDP, respectively. Tourism centers on large hotels offering comprehensive packages and a high degree of vertical integration, with limited participation of local operators that provide complementary services. The fishing industry, meanwhile,

¹ Purchasing power parity (PPP).

² Based on the national poverty line (US\$13/day per capita in 2011 PPP dollars), relative poverty has remained significant. In 2020, 37.1 percent of the population was poor. The pandemic effectively wiped out the past gains when poverty declined to 25.3 percent in 2018, from 39.3 percent in 2013. After implementing COVID-19 mitigation measures, the poverty rate dropped from 37.1 percent in 2020 to 29.1 percent in 2021.



employs 17 percent of the labor force, comprising one of the largest tuna canneries in the world, plus low value-added traditional fishing activities. Its volatile annual GDP contribution varies from 8 to 20 percent. Seychelles' dependence on tourism and fishing, coupled with a large share of imports, exposes it to shocks, transmitted through disruptions in international travel and tourism demand; fluctuations in fishing stocks; variability in food and fuel prices; and natural hazards. Economic activity, housing, and infrastructure are concentrated along the coast, with high flooding risks. According to the IMF's 2016 Policy Paper "Small States' Resilience to Natural Disasters and Climate Change", Seychelles ranks 26th among 33 small states worldwide in terms of vulnerability to natural hazards, even though its islands lie outside the cyclone belt (the last time the country was hit by a major natural hazard the damages were over 3 percent of GDP).

5. **Seychelles, like other small island states, has disproportionately high exposure to economic, social and environmental impacts due to increasing climate variability and change which presents a significant risk to its sustainable development.** The country's location, topography and landscape make it vulnerable to natural hazards, which have been exacerbated by increased temperature, changing of precipitation patterns, sea level rise, and recurrency of extreme events, including tropical cyclones and storm surge. Increase of frequency of these events are responsibly of coastal and pluvial flooding, landslides, reduced productivity in agriculture, and health impacts due to extreme heat events. Seychelles is also exposed to non-climate related hazards such as tsunami. The average annual loss from disasters is estimated at US\$2.8 million (2016)³ and is expected to greatly increase as a result of changing climate impacts. Sea levels have been steadily rising over the past three decades on average, and the Northwest monsoon has become stormier in the past 20 years than during the preceding decades⁴. For example, the 2019 Northwest monsoon season had the third highest total wave energy and the highest average water level since 1980; the combination of these two factors led to the severe coastal erosion. Probabilistic flood and erosion hazard models have projected an increase of coastal flooding and coastal erosion in a multi-decadal horizon⁵ due to current and projected impacts from waves and sea levels at the 10, 50, 100 and 500-year recurrence intervals. A 2-degree Celsius increase in global temperatures will also be catastrophic for the corals that provide coastal protection and habitat for fish stocks. The drastic impacts of sea temperature increase on coral bleaching and death are already being felt in Seychelles, as in many other island states. Infrastructure, economic activity, and residential housing concentrated along the coast are increasingly stressed by coastal erosion and flooding due to the direct impacts from a changing climate. Under such increased risks of climate change, climate-risk informed land-use and development planning are major priorities for the GoS.

6. **Seychelles' swift response to the crisis and external shocks created a significant financing gap.** The decline of tourism-related activities and underperforming dividends significantly reduced revenue collection in 2020. In response to the pandemic, expenditures increased from 35.5 percent of GDP in 2019 to 51.5 percent in 2020, driven by higher health spending and the government's COVID-19 response package, including: private sector salary guarantees, increased social protection spending for vulnerable groups, unemployment relief, and increased transfers to public enterprises such as Air Seychelles. Given stable revenues, higher spending pushed the primary balance into a deficit of 14.7 percent of GDP in 2020. Consequently, the fiscal financing gap increased to 18.4 percent of GDP in 2020 (compared to 0.8 percent before the pandemic), and public debt rose beyond the high-risk benchmark (60 percent of GDP) to 88.7 percent in 2020 (from 58.0 percent in 2019).

³ World Bank. 2013. Disaster Risk Profile: Seychelles.

⁴ UNDP 2008, Disaster Risk Profile of the Republic of Seychelles, prepared by Chang Seng, D & Guillaude R., pp. 95-97.

⁵ World Bank. 2021. Coastal Modeling and Assessment of Potential Solutions of Coastal Defense and Adaptation Measures at Priority Sites in Seychelles.



7. **To bridge its financing gap and lay foundations for an inclusive and sustained recovery, the government requested support from the IMF, the World Bank, and other partners.** The current DPF series builds on reforms under the 2020 COVID-19 Crisis Response Emergency Development Policy Loan (P174198), which financed government relief to affected households and firms, advanced reforms to improve the transparency and accountability of the financial system, as well as policies to increase resilience to climate change. In response, the economy rebounded in 2021, as the number of COVID-19 cases dropped to single digits, with the government's vaccination rollout. Tourism grew by a 39.8 percent, (following a decline of 60 percent in 2020), largely due to Russian tourists (who accounted for 20 percent of tourist arrivals in 2021). In addition, the telecommunications sector grew by 13 percent as the use of digital platforms increased across various entities, such as schools, workplaces, and retailers. Economic growth was also buoyed by an expansion of the agriculture and fisheries sectors, by 4.0 percent and 1.0 percent, respectively. The government's ongoing efforts to diversify the economy, increase local production capacity, reduce imports, and explore export opportunities underpinned the strong growth performance, decreasing the poverty rate to 29.1 percent in 2021 (from 37.1 percent in 2020).

8. **The proposed US\$25 million DPF would provide budget support to help the government continue its recovery from the economic impact of COVID-19 while strengthening its resilience to increasing risks of a changing climate.** It is closely aligned to the Global Crisis Response Framework (GCRF). The first DPF pillar aims to strengthen medium-term fiscal sustainability by addressing fiscal risks. This aligns with the GCRF pillar on strengthening resilience through macro-fiscal reforms. The second DPF pillar supports the government's commitment to enhance its resilience against natural hazards, with a particular focus on climate related impacts, and financial risks and aligns to the GCRF pillars linked to protecting people and preserving jobs through strengthening financial stability; and strengthening policies to rebuild better through climate smart investments. The third DPF pillar supports policies to strengthen the enabling environment for inclusive and sustainable growth, particularly the development of the digital and blue economies. This aligns with the GCRF pillar to strengthen policies and investments for digital development and strengthening resilience to climate change effects. The DPF also supports government efforts to reduce debt sustainability risks through a three-pronged approach comprising fiscal consolidation, a liability management operation, and external support.

2. MACROECONOMIC POLICY FRAMEWORK

9. **Over the decade that preceded the COVID-19 pandemic, Seychelles' high economic growth was accompanied by a significant reduction of poverty.** Prior to COVID-19, poverty (based on US\$6.85/day in PPP terms) had declined by roughly 3 percentage points down to 6.71 percent in 2018 and the country had become more equal, with a Gini coefficient of 0.3 in 2018 (compared to 0.35 in 2013). The 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 was 21.1 percent in 2018 (compared to 19.6 percent in 2013). Simulations indicate that poverty increased almost 2 percentage points during the pandemic, primarily driven by a contraction in the services sectors, the largest employer in the economy. After the government's COVID-19 mitigation measures (that is, the Financial Assistance for Job Retention program, the Unemployment Relief Scheme, and social welfare assistance), the poverty rate dropped to 7.44 percent in 2021. As tourism continues to pick up, the poverty rate is expected to decline further. Overall, tourist arrivals are expected to increase by 41 percent in 2022. An analysis of the increase in commodity prices due to the War in Ukraine indicates that inflationary pressures from the war will not have a noticeable impact on poverty rates.



2.1. RECENT ECONOMIC DEVELOPMENTS

10. **As the pandemic recedes, the economy is expected to continue the recovery path it began in 2021 (Table 1).** Tourist arrivals rebounded as borders reopened in late March 2021, to yield new and more diversified tourist markets (Russia, United Arab Emirates and Israel). In response, the fisheries industry (which sells about 50 percent of domestic artisanal catches to resorts and restaurants) grew by 2.5 percent in 2021. This recovery continued into 2022, with real GDP growth at 10.6 percent driven by the services sector, particularly tourism. As of mid-2022, tourist arrivals were 320,593 or about 87 percent of levels seen during the same period in 2019, reflecting a renewal of Western European arrivals (68 percent of total arrivals) that have offset the losses from Russia and Ukraine. Economic growth in 2022 has been buoyed by a 3.0 percent uptick in construction activity, as a few large hotel resorts projects started, together with some renovation of existing hotels. Private housing construction gradually recovered. The fisheries and agriculture sectors grew by 3 percent (in line with the tourism recovery); and the expansion of information, communication and technology (ICT) services contributed significantly to overall service sector growth.

11. **Employment has improved in 2022, in line with the ongoing economic recovery.** Total employment grew by 4.5 percent (year-on-year) between the first half of 2022 (H1 2022) and the first half of 2021 (H1 2021). Over the same period, private sector employment grew by 10.3 percent while public sector employment (parastatal and government) declined by 5.4 percent. The private sector remains the largest formal employer accounting for 66.4 percent of employment, followed by the public sector at 20.9 percent and public enterprises at 12.7 percent. Approximately 16 percent of the total labor force is employed in the informal sector, particularly in agriculture and fishing, manufacturing, and construction. Employment in tourism-related industries increased by 15.7 percent (year-on-year), between H1 2022 and H1 2021, representing 22.3 percent of total employment. Private sector employment in tourism stood at 10,741 in H1 2022, or 21.0 percent of total employment.

12. **Average inflation moderated in 2022, after rising sharply in 2021⁶, reflecting an appreciation of the Seychelles rupee.** Due to Seychelles' heavy reliance on imports, the exchange rate has been a key determinant of inflation. Border closures in March 2020 caused a depreciation of the rupee, but the pass-through to domestic prices occurred 18 months later causing a sharp price rise in 2021. Similarly, inflation has dropped in 2022, as the rupee appreciated (due to increased tourist arrivals). The 12-month average inflation rate stood at 4.8 percent in August 2022, while the year-on-year was at 2.8 percent. By the end of 2022, annual average inflation is expected to reach 3.0 percent (compared to 9.8 percent in 2021), as tourism continues to recover. However, the country's heavy reliance on imports, high global prices for fuel, commodities and shipping costs will likely put upward pressure on domestic prices.

13. **On the external front, gross international reserves strengthened as the current account deficit narrowed (Table 2), due to the boom in tourist arrivals, in the first half of 2022.** Gross international reserves stood at US\$644.1 million or 4.2 months of imports, as of end-August 2022. The COVID-19 shutdowns and related contraction in tourist arrivals led to a significant depreciation in 2020. But the reversal in tourist arrivals in 2021 supported a 34 percent appreciation of the rupee; and a further appreciation to SCR 13.3 per US dollar in July 2022 (from SCR 21.6 per US dollar in January 2021), offsetting almost all the depreciation in

⁶ In 2022 inflation stood at 3.0 percent, in line with an appreciation of the Seychelles rupee (as tourism has recovered). This has partly offset the upward pressure on prices from the War in Ukraine and residual cost-push factors arising from pandemic-related disruptions of production, trade, and distribution channels.



2020. This appreciation arose from an increased supply of foreign exchange coupled with a fall in demand, contributing to stability in the foreign exchange market.

14. **Private sector credit contraction has persisted (albeit at a slower pace), despite ample liquidity in the banking sector.** The limited risk appetite of banks for lending amid the rise in non-performing loans (NPL) and lingering uncertainty have all contributed to the credit slowdown. Specifically, contraction in private sector credit slowed to 1.7 percent (year on year) in 2022 from 12 percent in 2021, as the COVID-19 infection rates dropped, and tourism recovered. The economic recovery and increased economic stability have reduced the level of uncertainty for investors and contributed to a gradual rise in banks' risk appetite. The projected strong economic recovery is likely to further improve the risk appetite for bank lending, given that banks are well-capitalized and highly liquid.

Table 1. Seychelles: Key Macroeconomic Indicators, 2019 – 2025

	2019	2020	2021	2022	2023	2024	2025
Real Economy							
Real GDP	3.1	-7.7	7.9	10.6	5.4	3.9	4.0
GDP deflator average	0.1	1.8	2.7	2.0	4.2	3.6	3.2
CPI (annual average)	1.8	1.2	9.8	3.0	4.5	3.8	3.5
Fiscal Account							
Total Revenue and Grants	35.7	34.0	34.0	33.1	35.0	35.2	35.0
Tax revenue	31.4	28.7	27.3	28.0	30.2	31.2	31.3
Expenditure and net lending	35.5	51.5	40.0	36.5	36.8	34.7	32.8
Current Expenditure	31.8	45.2	34.5	32.5	31.0	28.4	26.8
Capital Expenditure	2.8	4.6	5.1	3.5	5.1	6.0	5.9
Overall balance	-0.8	-18.4	-5.6	-3.3	-1.8	0.4	2.2
Primary balance	2.6	-14.7	-3.0	-1.1	1.1	2.2	3.5
Money and Credit							
Broad Money	13.9	29.1	5.8	2.6
Credit to the Private Sector	22.3	20.2	-11.9	3.3	10.5	9.3	7.8
External Sector							
Current account balance including official transfers (in percent of GDP)	-3.2	-13.7	-10.5	-6.7	-4.9	-4.5	-4.8
Export, Goods and Services (growth)	-2.8	-40.5	41.3	30.5	6.7	5.7	5.7
Tourism (growth)	7.0	-61.8	79.8	64.4	4.0	6.4	6.3
Imports, Goods and Services (growth)	-1.8	-34.2	36.7	26.0	5.3	4.7	7.3
Gross official reserves (end of year, millions of U.S. dollars)	581.2	575.1	701.6	651.7	707.5	795.6	971.3
Months of imports	5.2	3.8	3.7	3.2	3.4	3.5	4.0
Debt							
Public Debt	58.0	88.7	76.2	67.9	64.6	60.3	55.3
External Debt	26.3	46.2	39.5	31.7	31.9	28.4	26.1
Other Memo Items							
Nominal GDP (SCR Millions)	23635.2	22211.0	24610.7	27784.7	30494.7	32824.6	35237.9
Nominal GDP (US\$ Millions)	1682.8	1262.0	1457.1	1956.7	2027.6	2179.6	2337.5

Source: Seychelles' Ministry of Finance, National Planning and Trade, World Bank and IMF estimates.



15. **Monetary policy has been accommodative since the pandemic to foster a conducive environment that would stimulate credit and encourage economic activity.** In response to COVID-19, the Central Bank of Seychelles (CBS) first reduced the policy rate by 200 basis points (from 4.0 percent to 2.0 percent) in 2020, to support domestic economic activity and mitigate financial stability risks. Since then, the Monetary Policy Rate has been kept at 2.0 percent. To ensure monetary and fiscal policy are aligned, the CBS remains vigilant to monitor inflationary developments and take appropriate measures. This has helped keep the domestic currency stable despite inflationary pressures from high fuel, commodity, and international shipping costs.

16. **Despite higher NPLs, well capitalized and liquid banks have kept the financial system resilient.** As the Central Bank unwound the COVID-19 private sector relief schemes, the risk appetite of banks declined, reducing the number of loans and increasing the share of NPLs to 8.1 percent in July 2022 (from 4.8 percent in July 2021). The banking sector's capital adequacy ratio stood at 17.1 percent in July 2022, above the prudential limit of 12 percent due primarily to a reduction in risk-adjusted assets, amidst the continued stability of the rupee in the first quarter of 2022. The CBS began to unwind the temporary COVID-mitigating measures in January 2022. Effective April 1, 2022, the CBS withdrew the Private Sector (micro, small and medium enterprises -MSME) Relief Scheme for small and medium enterprises and the Private Sector (Large Enterprise) Relief Scheme. As of end-March 2022, 28 percent of the SCR 500 million had been utilized under the Private Sector (MSME) Relief Scheme and around 40 percent of the SCR 750 million had been used under the Private Sector (Large Enterprise) Relief Scheme. The full exit of firms from these schemes coupled with accounting for COVID-impacted loans could lead to more overdue loans and higher NPL ratios.

Table 2: External Financing Requirements and Sources, 2019 – 2025
(US\$ millions, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025
1. Current account balance	-53.2	-173.2	-152.8	-131.2	-99.3	-98.5	-112.4
2. Capital account, net	38.3	20.9	23.8	5.6	9.2	11.0	15.7
3. Financial account, net	-39.3	-92.8	-207.4	-63.1	-139.9	-193.2	-281.8
Foreign direct investment, net	-265.2	-135.0	-160.2	-275.7	-266.3	-266.5	-340.4
Portfolio investment, net	11.3	96.5	-13.1	15.5	19.0	15.8	15.7
Other Investment, net	214.6	-54.3	-34.1	197.1	107.4	57.5	42.9
4. Overall Balance	24.4	-59.5	78.3	-62.5	49.8	105.7	185.1
Changes of gross reserves (increase: +)	17.4	-34.6	140.9	-50.0	55.9	88.0	175.8
5. Financing Requirement/Gap	7.0	-25.0	-62.6	-12.5	-6.0	17.7	9.4
6. Financing Sources	0.0	31.0	64.0	63.5	45.0	7.0	0.0
World Bank	0.0	21.0	44.0	27.5	21.5	7.0	0.0
African Development Bank	0.0	10.0	20.0	20.0	20.0	0.0	0.0
Bilateral Budget Support	0.0	0.0	0.0	16.0	3.5	0.0	0.0
7. Remaining Financing gap	7.0	6.0	1.4	51.0	39.0	24.7	9.4
Change in liabilities to IMF, net	-7.0	25.0	62.6	12.5	6.0	-17.7	-9.4

Source: Seychelles' Ministry of Finance, National Planning and Trade, IMF, and World Bank estimates (October 2022).

17. **The fiscal deficit continued to decline, as the authorities persisted with difficult fiscal saving measures (Table 3).** Fiscal saving measures initiated in 2021 include: 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. These measures have continued into 2022. Total expenditure declined by 3.5 percentage points to 36.5 percent of GDP in 2022, driven by a reduced



wage bill, and the roll back of COVID-19 measures. As a result, the budget deficit is estimated to reach 3.3 percent of GDP in 2022 from 5.6 percent of GDP in 2021. Foreign financing, including through this budget support operation, played a significant part in supporting the government's response, covering 78.9 percent of the financing gap (2.6 percent of GDP); domestic financing covered 12.1 percent of the gap (0.4 percent of GDP). Due to the larger fiscal gap from COVID-19 related shocks, Seychelles' public debt rose by 30 percentage points, to 88.7 percent of GDP in 2020. In 2022 the public debt to GDP ratio declined to 67.9 percent due to an appreciation of the rupee, and the continued economic recovery.

Table 3: Seychelles Key Fiscal Indicators, 2019 – 2025 (Percent of GDP)

	2019	2020	2021	2022	2023	2024	2025
Total Revenue and Grants	35.7	34.0	34.0	33.1	35.0	35.2	35.0
Tax Revenue	31.4	28.7	27.3	28.0	30.2	31.2	31.3
Personal Income Tax	4.1	4.6	4.2	4.0	4.0	4.0	4.0
Trade Tax	1.3	1.2	0.9	1.0	1.1	1.1	1.0
Excise Tax	5.9	5.7	4.9	5.2	5.6	5.7	5.7
Value Added Tax	11.0	9.5	9.5	11.0	11.0	11.1	11.1
Business Tax	5.9	5.4	5.9	5.2	6.1	6.9	7.0
Corporate Social Responsibility Tax	0.5	0.5	0.2	0.0	0.0	0.0	0.0
Tourism Marketing Tax	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Other Tax	2.5	1.5	1.3	1.2	2.0	2.0	2.0
Non-Tax Revenue	3.9	3.5	3.8	4.5	3.5	3.3	2.9
Grants	0.4	1.7	2.8	0.7	1.3	0.6	0.8
Expenditure and net lending	35.5	51.5	40.0	36.5	36.8	34.7	32.8
Current expenditure	31.8	45.2	34.5	32.5	31.0	28.4	26.8
Wages and salaries	10.6	12.8	11.2	10.8	11.3	11.2	10.7
Goods and services	11.8	13.1	11.5	12.0	11.8	10.8	10.3
Social program of Government	0.7	6.8	1.9	1.1	1.0	0.9	0.8
Transfers to Public Enterprises	0.4	2.0	1.0	1.0	0.1	0.1	0.1
Benefits and approved program of SSF ¹	5.7	7.5	5.7	5.2	3.9	3.7	3.6
Others	0.2	0.1	0.2	0.2	0.0	0.0	0.0
Interest	2.4	2.9	3.0	2.2	2.8	1.8	1.3
Capital expenditure	2.8	4.6	5.1	3.5	5.1	6.0	5.9
Net lending	0.6	1.0	0.2	0.3	0.5	0.1	-0.1
Contingency	0.2	0.7	0.2	0.2	0.2	0.3	0.1
Primary balance	2.6	-14.7	-3.0	-1.1	1.1	2.2	3.5
Overall balance	-0.8	-18.4	-5.6	-3.3	-1.8	0.4	2.2
Financing	0.8	18.4	5.6	3.3	1.8	-0.4	-2.2
Foreign financing	-0.2	2.9	6.0	2.6	1.1	-1.5	-1.3
Disbursement	1.5	5.3	8.6	5.0	4.1	1.7	1.1
Budget Support: IMF, World Bank and AfDB ²	1.5	0.2	0.6	0.8	1.0	1.3	0.9
Scheduled Amortization	-1.7	-2.4	-2.6	-2.4	-3.0	-3.2	-2.4
Domestic financing, net	1.0	14.4	-0.1	0.4	0.3	0.8	-1.2
Bank	0.5	12.2	-0.8	0.4	0.3	0.8	-1.1
Non-Bank	0.5	2.2	0.7	0.0	0.0	0.1	-0.1
Public Debt, % of GDP	58.0	88.7	76.2	67.9	64.6	60.3	55.3

Source: Seychelles' Ministry of Finance, National Planning and Trade, IMF, and World Bank estimates.

Note: 1. Social Security Fund (SSF); 2. African Development Bank (AfDB).



2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

18. **Following a solid growth rebound in 2022, growth is expected to average around 4 percent in the medium-term.** Tourism will remain the key growth driver, followed by private consumption. External developments will weigh heavily on growth, as will policies to maintain fiscal and debt sustainability, and support increased employment as services recover. Continued fiscal consolidation is expected to put the country on a solid fiscal position and support increased investor confidence, and foreign inflows. Between 2023 and 2025, growth is projected to average around 4.4 percent, as tourism rebounds, the pandemic recedes, and global economic growth and trade resumes.

19. **Inflation is projected to increase to just under 4 percent over the medium-term.** Annual inflation in 2023 is expected to reach 4.5 percent, reflecting rising global energy and food prices due to spillovers from the War in Ukraine. Thereafter, price pressures should moderate, reflecting strong growth prospects and a stable rupee backed by recovering tourist arrivals. However, global economic uncertainty and related second-round effects could lead to further price pressures that could require monetary tightening to help anchor inflation expectations. Close monitoring of the government's planned targeted support for the most vulnerable population to deal with rising prices will be crucial to gauge inflation expectations.

20. **The current account deficit is projected to average 4.7 percent of GDP over the medium-term, as tourism inflows rebound and foreign direct investment (FDI) inflows increase.** Tourist arrivals will continue to rebound, with earnings expected to reach 2019 levels by 2024. Construction related imports are expected to start declining after 2023. FDI inflows to hotels and resorts projects are expected to continue in 2023, although they will not fully cover the current account deficit.

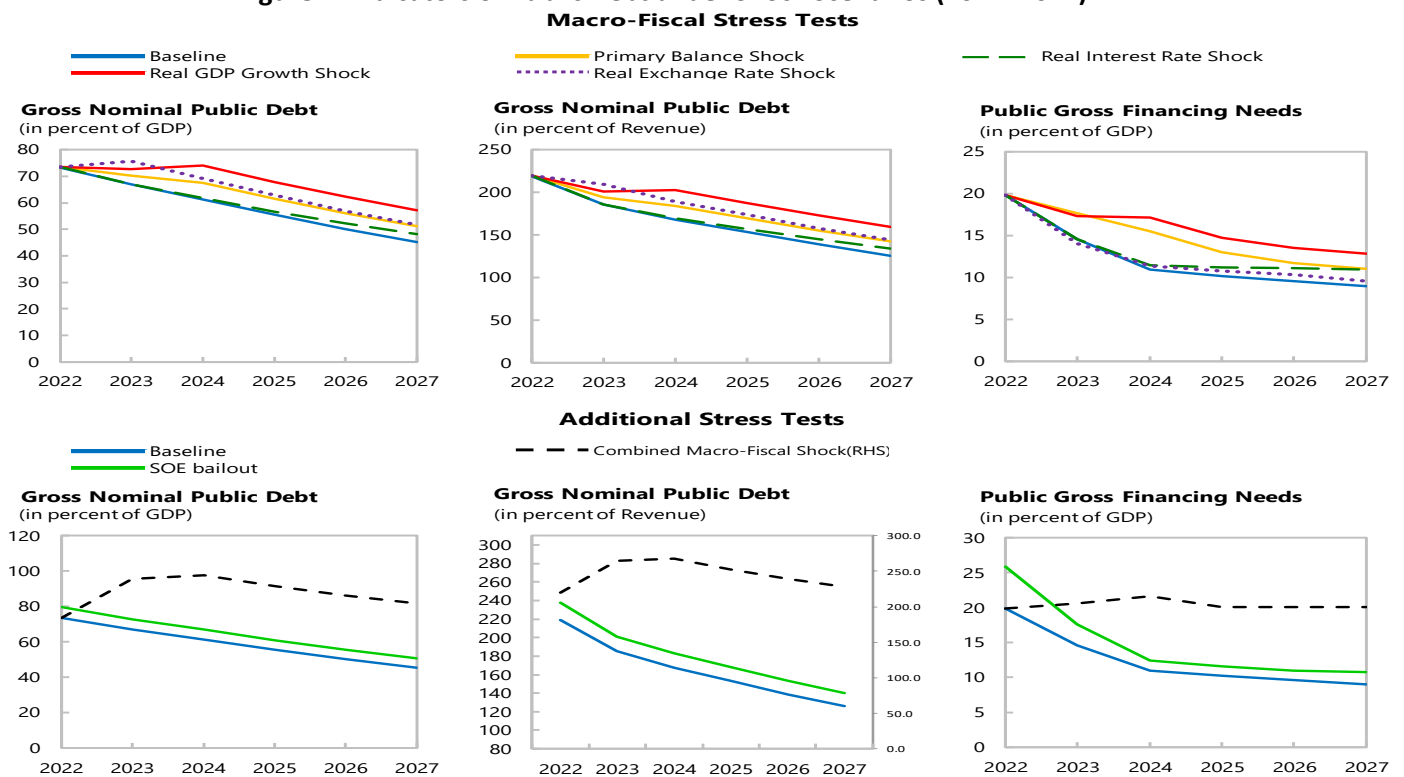
21. **In the medium-term the government intends to continue its fiscal consolidation.** Wages and salaries are projected to remain at around 11 percent of GDP over the medium term, resulting in savings of SCR 500 million equivalent to 1.8 percent of GDP. As part of the reform for sustainability of the pension fund, contributions increased in April 2022, from 6 to 9 percent, and to 10 percent in January 2023. The GoS will continue its efforts to rationalize expenditure on goods and services in the medium-term. Consequently, spending levels are projected to remain flat in nominal terms. Capital expenditure will increase because of some new projects financed by grants (drug rehabilitation center, La Digue hospital). Revenues are projected to remain buoyant, supported by efforts to improve tax administration and compliance, through the Tax Amnesty Program (resulting in the registration of 52 new businesses, submission of 4,637 outstanding returns, and collections of SCR 297.7 million). More educational outreach programs, will make it easy for taxpayers to file and pay on-time, and encourage voluntary compliance.

22. **Seychelles' public debt is expected to continue on a sustainable downward path, given proactive debt management and fiscal consolidation (Figure 1).** The 2022 Debt Sustainability Analysis 2022 concluded that Seychelles' debt is sustainable. In 2022 the public debt to GDP ratio is expected to decline to 67.9 percent due to a stable exchange rate, following an appreciation of the rupee and the continued recovery of tourism. The improved medium-term debt trajectory is predicated on the continued implementation of fiscal saving measures to bring about a primary surplus of 3.5 percent of GDP. The public debt to GDP ratio is projected to decline gradually reaching 44.1 percent of GDP by 2027. Gross financing needs are projected to gradually decline to 9.0 percent of GDP by 2027 (from 45.6 percent in 2020), due to the 2021 liability management operation that lengthened the average maturity of the domestic debt portfolio by 4.8 years compared to the previous maturity of less than 1 year. This lowered debt costs by 125-150 basis points compared to previously issued rates.



23. To keep the debt on a downward trajectory, the GoS has strengthened the debt management functions in the Ministry of Finance and the Central Bank of Seychelles. The government has worked to develop a strategic approach for debt management that replaced the current practice of issuing T-bills to meet weekly cashflow needs. The GoS received IMF technical assistance to: (i) establish a medium-term debt management strategy, implemented through developing an annual borrowing plan; (ii) improve government cash flow forecasting capacity for better debt management; and (iii) set up a market-determined auction mechanism for long-term securities and initiate trading platforms. The medium-term debt management strategy was published with the 2022 Budget. This will ensure that the government’s financing needs and payment obligations, are met at the lowest possible cost over the medium to long run, with a prudent degree of risk. The IMF Extended Finance Facility (EFF) program, approved in 2021 also includes structural benchmarks.

Figure 1. Indicators of Public Debt under Shock Scenarios (2022–2027)



Source: World Bank Debt Sustainability Analysis, 2022.

24. Over the medium-term, as the current account improves and imports associated with FDI subsidies, external debt vulnerabilities will decline (Table 4). The external debt to GDP ratio will be 303.4 percent in 2022 and will decline to around 239 percent in 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 the ratio would decrease steadily to roughly 320 percent by the end of the projection period, compared to about 303.4 percent under the baseline scenario. The risks of external debt vulnerability continue to be mitigated by the maturity profile of the country’s external debt, consisting largely of medium to long-term government borrowing, from official sources and at favorable interest rates and maturities. Overall, multilateral institutions (that is, IMF, World Bank, African Development Bank) account for 67 percent of the debt stock, with the rest comprised of bilateral loans (16 percent) and private loans (13 percent).



Table 4: Seychelles Public Sector Debt Sustainability Analysis - Baseline Scenario
(in percent of GDP unless otherwise indicated)

	Actual			Projections					
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	69.6	88.7	76.2	67.9	64.6	60.3	55.3	50.1	44.1
Of which: guarantees	2.6	3.9	3.3	3.2	2.6	2.0	1.7	1.6	1.4
Public gross financing needs	25.7	45.6	32.0	19.8	14.6	11.0	10.2	9.6	9.0
Net public debt	60.8	86.2	74.1	66.1	65.4	59.7	54.1	48.8	43.9
Real GDP growth (in percent)	4.7	-7.7	7.9	10.6	5.4	4.9	4.0	3.9	3.9
Inflation (GDP deflator, in percent)	3.3	1.8	2.7	2.0	4.2	3.6	3.2	2.9	2.5
Nominal GDP growth (in percent)	8.2	-6.0	10.8	12.6	9.6	8.5	7.2	6.8	6.4
Effective interest rate (in percent) ^{4/}	4.9	5.0	3.9	3.7	4.6	4.3	4.2	4.1	4.4

Source: World Bank Debt Sustainability Analysis (2022), reflects updated data nominal public debt.

25. **Contingent liability risks have been reduced with the restructuring of Air Seychelles' debt (Box 1).** Air Seychelles is now paying interest and transaction costs on the loan taken by the authorities and owed to Etihad. While the debts do not benefit from an explicit government guarantee, in the past these debts have been assumed by the government. In October 2021, Air Seychelles was placed under administration; and the government of Seychelles reached an agreement with Etihad bondholders (see Box 1), in May 2022, reaffirming the GoS' commitment to a sustainable debt path.

26. **Sovereign risk perceptions are positive overall.** On October 22, 2022, Fitch upgraded its outlook and rating on Seychelles' Long-Term Foreign-Currency Issuer Default Rating to Stable and the Issuer Default Rating to 'BB-', making it one of the highest rated countries in Sub-Saharan Africa, behind Botswana (BBB+) and South Africa (BB-) and Cote D'Ivoire (BB-). According to Fitch, the upgrade reflects sustained economic performance, continued commitment to fiscal consolidation and sound debt management policies. The rating suggests that sovereign risk is moderate, and the economic outlook is positive and stable, but it remains vulnerable to adverse changes in economic conditions over time.

27. **Seychelles' macroeconomic framework is sustainable and adequate for development policy financing.** Growth is projected to recover over the medium-term, with reduced inflation and improvements in the fiscal and external balances. The government is appropriately balancing its commitment to return to fiscal sustainability with its efforts to achieve inclusive growth. The GoS has drawn on support from the IMF (approved July 2021); the African Development Bank; and the World Bank to bridge the financing gap created by the COVID-19 crisis. Economic stability is expected in the medium-term, given the rebound in tourism activities and government's continued efforts at fiscal consolidation.

28. **Nonetheless, being a small and open island economy, Seychelles is highly vulnerable to external shocks.** Risks to the medium-term growth outlook include a prolonged COVID-19 outbreak, should new variants of the virus materialize, and the War in Ukraine further escalates. A slowdown of foreign direct investments in large hotels coupled with a large drop in tourists from Europe would significantly slowdown the economic recovery. In turn, the overall fiscal balance could increase by as much as 2 percent, over the next two years (Table 5). Rising global interest rates would add to the cost of debt, and appreciation of the US dollar could lead to double digit inflation, undermining Seychelles' competitiveness. Poverty rates could revert back to between 8 and 9 percent (similar to 2020 levels). This would compromise government's ability to implement permanent



saving measures. Risks to the macroeconomic framework is mitigated by the government’s strong commitment to fiscal consolidation and debt sustainability, supported by this DPF series. Specifically, the DPF series supports government’s ongoing efforts to: (i) increase resilience to shocks through ICT sector reforms that strengthen payments systems and e-banking; (ii) improve tax administration and transfer pricing regulations to harness tourism receipts and mobilize revenues; (iii) make new development and physical infrastructure more resilient to natural hazards that will likely worsen with climate change; (iv) improve fisheries management for greater climate resilience. The IMF EFF program also supports reforms aimed at revenue mobilization, debt management and financial stability. The government is targeting spending on social protection through the World Bank-financed Program for Results for Social Protection (P168993) and has imposed a freeze on recruitment except in key areas. The GoS is also undertaking reforms to develop other growth sources and exports (such as aquaculture), to facilitate a sustained economic recovery. But, materialization of extreme shocks (due largely to a reemergence of the pandemic) would require more concessional financing from international financial institutions and development partners. Raising reserves through increasing special drawing rights (SDR) allocation may provide a buffer against financing risks.

Table 5: A Downside Scenario assumes escalation of the War in Ukraine and resumption of the COVID-19 pandemic that sharply reduces tourism

	FY2022	FY2023	FY2024	FY2025
GDP Growth (percent)	10.6	3.3	3.0	4.2
Difference from baseline	0	-2.1	-0.9	-0.2
Fiscal Balance (percent of GDP)	-3.3	-2.2	-1.0	-0.8
Difference from baseline	0	-0.4	-1.4	-3.0
Current Account (percent of GDP)	-6.7	-5.9	-6.5	-7.0
Difference from baseline	0	-1.0	-2.0	-2.2

Box 1: Air Seychelles

Ensuring the fiscal sustainability of Air Seychelles is a key government priority. Air Seychelles is on a more sustainable financial footing, following the two-thirds reduction in its US\$83.4 million debt, including late interest. The debt was incurred during Air Seychelles’ partnership with Etihad Airways (which previously held 40 percent of shares in the company, with the rest owned by Seychelles). Part of the debt was owed directly to Etihad, with an estimated US\$72 million of loans owed to bondholders of Etihad Airways (EA) Partners. Etihad relinquished its 40 percent shareholding (valued at US\$72.3 million) to the GoS for approximately 16 percent of the value (or US\$11.34 million). To pay down the debt, Air Seychelles received a two-thirds haircut; and initiated a reorganization on October 4, 2021, in response to a petition from Etihad Airways Partners’ bondholders.

The two-thirds debt reduction brought the amount owed down to US\$28 million (33.3 percent of the total owed), with an agreement by government to pay a portion of the initial obligation to Etihad. Seychelles reached an agreement to pay just US\$13 million of the initial obligation to Etihad that it had taken onto its own books (that is, US\$69 million). On May 11, 2022, the Noteholder Committee of the Bondholders withdrew their petition against Air Seychelles, in response to Air Seychelles’ settlement funds of approximately US\$28 million, placed in escrow. In 2022, Seychelles took a US\$13 million loan from the Trade and Development Bank (TDB) and used it to pay the debt Air Seychelles owed to Etihad. Under the arrangement, the total interest and transaction costs or US\$1.3 million is to be paid by Air Seychelles. The authorities have kept the principal amount of US\$13 million on Air Seychelles’ books, with the understanding that there may be negotiations to repay some portion of this amount to government, at a future date.

To sustain the improved financial position and minimize fiscal risks, Air Seychelles is continuing to restructure its operations to cut costs, streamline routes, and ringfence the profitable air handling operations which government views as strategic. Once the new entity is created for ground handling operations, Air Seychelles will be engaged under a management contract to run the new entity. This arrangement will enable Air Seychelles to receive earnings from the management contract while keeping the ground operations protected from the risk of takeover in future due to losses linked to Air Seychelles. The government has indicated that no more funds will be provided to Air Seychelles.



2.3. IMF RELATIONS

29. **The IMF has provided resources to help Seychelles manage the economic impact of the COVID-19 pandemic on the economy.** On October 5, 2022, staff completed a third review of the EFF. The review noted that all quantitative performance and indicative targets have been met, with significant progress on structural issues. The IMF Board approved the US\$107 million, 3-year EFF, 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, National Planning and Trade (MoFNPT) for urgent needs arising from the economic impact and mitigation efforts linked to the COVID-19 pandemic. This helped foreign exchange reserves and financed the fiscal gap, together with World Bank funds. In addition, the SDR allocation of US\$650 billion in 2021 provides scope for US\$31.8 million increase in allocation for Seychelles. The allocation would primarily be used to increase reserves. 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 in June 2022. The World Bank and IMF have also collaborated on the macroeconomic policy framework and the Debt Sustainability Analysis and there is a close working relationship with the IMF, with regular consultation on key policy issues between the two institutions.

3. GOVERNMENT PROGRAM

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

4. PROPOSED OPERATION

31. **The Program Development Objectives of this programmatic series are to (i) strengthen medium-term fiscal sustainability; (ii) build resilience ; and (iii) strengthen policies for inclusive and sustainable growth.** The financing of US\$25 million provided by this proposed operation will address Seychelles' immediate funding needs. The government is making progress towards the achievement of the results indicators. The other results indicators require the implementation of policy actions under DPF 2 and DPF 3 to progress.



4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

32. **The proposed programmatic DPF series supports the government to advance implementation of its National Development Strategy along three core pillars:** DPF Pillar A is aligned with the NDS key pillar on good governance, particularly the goal linked to a performance-based, accountable and transparent public sector with attention to quality service delivery. DPF Pillars B and C are closely aligned to the NDS pillars on economic transformation and environmental sustainability. These reforms will help Seychelles build back better, especially in the tourism, digital, and Blue economies that are central to inclusive growth in Seychelles:

- **Pillar A** aims to strengthen medium-term fiscal sustainability by reducing fiscal risks and improving tax administration, complemented by measures to reduce erosion of the tax base, to restore public debt on a downward trajectory.
- **Pillar B** aims to strengthen physical and financial resilience by making spatial development and building plans more resilient to natural hazards, and increased adaptation to impacts from climate change.
- **Pillar C** aims to strengthen policies to promote an enabling environment for inclusive and sustainable growth through strengthening the legal and regulatory framework for the digital and blue economies for improved productivity, while proactively preserving Seychelles' natural endowments.

33. **The design of the operation builds on key lessons from previous DPF operations in the country.** These include the 2016 Sustaining Reforms for Inclusive Growth Development Policy Loan (P153269), the 2020 Seychelles COVID-19 Crisis Response Emergency Development Policy Financing (P174198), as well as Analytical and Advisory Services (ASAs) on taxing the offshore sector, two Reimbursable Advisory Services (RAS), on results-based management, and financial sector development, and other ASA highlighted in Table 6. The proposed DPF incorporates two key lessons: (i) aside from capacity support, technical assistance helps build ownership, increasing the likelihood of achieving targeted results; and (ii) it is critical to align the ambition of any DPF support with the government's capacity to implement. The DPF design builds on these lessons and champions in Seychelles to advance difficult reforms, while allowing for a gradual process.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

34. **Overall, the policy reforms under the second DPF remain grounded in recent analytical work and extensive policy dialogue, with two key changes to the program.** As shown in Annex 5, out of 6 indicative triggers identified under DPF 1, 4 were converted to prior actions, with adjustments to the language to better capture their legal form. One DPF 2 indicative trigger was moved to DPF 3, to better align with the government's reform timeline. A new prior action was added to deepen the reform governing the handling of financial consumer information and related disputes (that is, the Financial Consumer Protection Act, now DPF 2, prior action #4). This reform is complemented by legislations linked to data protection, credit information, and national payment systems (previously DPF 2 indicative trigger #5, now moved to DPF 3). One DPF 2 indicative trigger was completed but not included as a prior action; instead, a follow-up reform was included as an indicative trigger for DPF 3. Finally, a new prior action supports a Communications Bill and aims to enhance competition and ensure a more equitable playing field for ICT operators. A complementary DPF 3 indicative trigger was added to support institutional reforms needed to implement the Communications Bill, with a focus on establishing an independent regulator. All of these new measures are crucial for Seychelles to build resilience against shocks.



Pillar A: Strengthen Fiscal Sustainability

Reducing Fiscal Risks

DPF 2, Prior Action #1: To strengthen government oversight over public enterprises, the Borrower through its Cabinet of Ministers has submitted to its National Assembly the Public Enterprises Bill, 2022, including implementing provisions, which aims to improve performance monitoring, to ensure appropriate oversight, of public enterprises for better service delivery, transparency, and accountability.

DPF 3, Indicative 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 state owned enterprises (SOE), which ensures adaptation and transition to a low-carbon economy.

35. **Rationale: SOEs are among the largest business entities operating across a wide range of sectors⁷, with limited mechanisms in place for incentivizing and monitoring performance, for effective service delivery and fiscal risk management.** In 2021, 30 SOEs employed an estimated 7,611 workers, roughly 14 percent of the national labor force. At the end of 2021, SOEs recorded a total deficit of SCR 49.4 million (US\$2.9 million), financed by approximately SCR 979 million (3 percent of GDP) of debt, with a moderate 24 percent debt-to-equity ratio. Consistent and more timely SOE financial reporting would significantly improve Public Enterprise Monitoring Commission's (PEMC) performance monitoring of SOEs (including SOE's compliance with corporate governance requirements). Close to half of the SOEs submitted their 2018 financial statements more than two months after the reporting deadline as prescribed in the PEMC Act; and roughly half of the SOEs (in 2019) had submitted timely reports that are International Financial Reporting Standards compliant. Currently, PEMC compiles SOE financial returns on a quarterly basis and analyzes the information to assess economic performance, the financial situation, and fiscal risks. SOEs prepare annual financial statements under International Financial Reporting Standards, which are subject to independent audits. PEMC publishes annual aggregate reports which give a reasonably good sense of the portfolio's economic performance. However, a majority of the SOEs submit their financial reports late, some as late as undermining PEMC's ability to monitor their performance and prepare complete aggregate reports. SOEs also do not publish their annual reports on their website, which limits transparency. The **PEMC Bill submitted to the Attorney General's office (DPF 1, prior action #1)**, aimed to strengthen performance management and government oversight of SOEs. The Bill expanded PEMC's powers, to enable it set performance targets. Following Cabinet approval, the Bill was submitted to the National Assembly in November 2022.

36. **A new bill, namely the Public Enterprises Bill 2022, was Gazetted on November 21, 2022, and replaces the Public Enterprise Monitoring Commission Act, No. 3 of 2013 (DPF 2, prior action #1).** General provisions for a harmonized and coherent framework for the establishment, governance, and operation of all public enterprises are now articulated in the same law, eliminating the need to amend 30-plus separate acts and secondary legislation. The new bill repeals the PEMC Bill and supports the government's development and implementation of performance targets, for both the PEMC as well as all public enterprises. Implementation of performance management targets entails strengthening monitoring and reporting arrangements and establishing a mechanism for reporting that increases transparency. Reforms under the first and second operations have benefitted from World Bank technical assistance to the PEMC, as the oversight body. Specifically, World Bank technical assistance supported (i) streamlining monitoring and enhancing aggregate reporting; (ii) expanding the SOEs' reporting, to cover the service-delivery dimension, including key performance indicators; and (iii) requirements for SOEs to publish their audited financial statements and annual reports on their website. The PEMC currently publishes SOE information, but under

⁷ These sectors include utilities, transport, oil and gas, financial services, trading, and real estate. The whole economy depends on the ability of these SOEs to deliver services reliably and at competitive prices.



the Public Enterprises Bill, SOEs will now take on this responsibility, requiring them to publish these reports on their respective websites.

37. **The third operation would support approval of legislation on climate resilient public investment management and green procurement by SOEs (DPF 3, Indicative Trigger #1).** 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 would mainly be driven by government policy and regulation, to incentivize renewable energy investments, increased energy efficiency across all sectors and green buildings, as well as the use of climate smart materials and technology, amongst others. A shift to green procurement, would also help minimize adverse environmental impacts. Approval of legislation and regulations on SOE climate resilient investment management and green procurement will support government’s approach to adaptation and the transition to a low-carbon economy.

38. **Expected Results:** The Public Enterprises Bill is expected to improve the governance of all SOEs by centralizing the oversight of public enterprises (under the PEMC), enabling PEMC powers to work with ministries and their boards to establish SOE performance targets for more efficiency and revenue. Through ensuring 50 percent of SOEs publish their finances (including full annual financial statements (with notes), and audit report) on the relevant government website, the reform encourages a culture of citizen engagement and demand for accountability on state performance and the use of public resources.

Modernizing International Business Tax Policy

DPF 2, Prior Action #2: To modernize international business tax policy and implementation of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, the Borrower through its Ministry of Finance, National Planning and Trade, has published in the Government Gazette, the Business Tax (Amendment) Bill, 2022, which includes transfer pricing provisions, which regulate the use of the arm’s length principle to control transfer-price manipulation.

DPF 3, Indicative Trigger #2: To improve tax administration, the Seychelles Revenue Commission has issued a press communique providing for the rollout of a digital tax management system integrating the tax system with e-Services, and including case management, debt management, business intelligence, and data warehousing functions.

39. **Rationale: Reforms to limit tax evasion and rationalize incentives could significantly contribute to mobilize revenue, and support countercyclical fiscal policies, for a sustainable economic recovery.** The size and structure of the tourism sector points to its importance for growth, with indications of substantial tax base erosion. Under Seychelles’ current international tax rules, larger companies that are part of multinational groups can readily use international tax planning to evade taxes and reduce their effective tax burdens. Seychelles is also perceived as a tax haven, with ample opportunities for multinational enterprises to engage in base erosion and profit shifting (BEPS) by exploiting the 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. The GoS’ ratification of the multilateral instrument will modernize the definition of permanent enterprises in treaties and fill some policy gaps that allow for tax avoidance, including profit shifting by international businesses. The updated definition of permanent establishments determines whether enterprises have sufficient domestic presence, to help reduce the tax loopholes or abuse of existing rules. With the multilateral instrument ratification and adoption of a legal definition of a permanent establishment that is consistent with the BEPS recommendations, Seychelles has largely addressed this international tax risk. ***Seychelles’ ratification of the multilateral instrument it signed in 2017 (DPF 1, prior***



action #2) has also helped address the problem of treaty shopping. The ratified multilateral instrument entered into force April 1, 2022, and contains anti-abuse provisions that deny treaty benefits in cases of treaty shopping. This now enables Seychelles to modify its bilateral tax treaties to implement measures designed to better address multinational tax avoidance. There have already been requests from some countries with respect to bilateral agreements where amendments are needed.

40. **Seychelles has a basic transfer pricing provision in place but needs to ensure that the arms’ length principle is consistently applied in key legislations and make more detailed provisions in supporting secondary legislation.** By ensuring that transactions are handled the same (regardless of whether the parties are related or not – that is, the arms’ length principle), tax evasion or loopholes can be minimized. The arm’s length principle is already enshrined in Section 54 of the Business Tax Act. Since 2018, taxpayers have been obliged to calculate profits arising from related party transactions in accordance with that principle. The proposed operation supports the practical implementation of the arm’s length principle through more detailed transfer pricing regulations and guidance. This legislative approach will help increase business certainty and tax revenues through for example, legislating a so-called “safe harbor” that specifies the rate of return expected from the routine provision of tourism accommodation. The transfer pricing regulations, supported by this operation, were prepared with World Bank technical support. Recognizing that the Seychelles Revenue Commission needs to develop the operational capacity, Tax Inspectors Without Borders is providing technical assistance on transfer pricing audits. The technical assistance focuses specifically on preventing cross border tax avoidance, developing risk assessments, obtaining information from third parties, identifying transfer pricing transactions, and applying treaty provisions. Developing auditing skills is crucial to implementing the transfer pricing regulations, however this is usually a lengthy process. The Business Tax Amendment Bill 2022 including **transfer pricing provisions (DPF 2 prior action #2)**, was gazetted November 21, 2022, and will help to establish a clear legal framework, as a necessary first step.

41. **The third operation would support the Seychelles Revenue Commission’s (SRC) aim to implement a new tax management system.** Strengthening digital systems will help encourage voluntary compliance, combined with SRC’s ongoing educational outreach programs that make it easier for taxpayers to file and pay online and on time. 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 the risk of non-compliance; including use of information received from financial institutions reporting to Seychelles since 2017, under the ‘Global Forum’s Automatic Exchange of Information’. The GoS acknowledges that increased automation may expose SRC to cyber security threats that could undermine the integrity of information and systems, compromising the confidentiality of information. To mitigate these potential downfalls, the government is enhancing cybersecurity through 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.

42. **Expected Results:** The combination of measures supported by the proposed series are expected to have an important impact on business tax revenue collected by the SRC. These policies are expected to broaden the tax base by (i) preventing erosion of the corporate tax base through international profit shifting and (ii) strengthening the tax commission’s operations. These measures would raise an additional estimated SCR 660 million in business tax revenues, to around SCR 2,118 by 2024.



Pillar B: Build Resilience

Strengthening Hazard and Climate Resilience

DPF 2, Prior Action #3: To foster resilient development, the Borrower, through the Seychelles Planning Authority within the Ministry of Lands and Housing has adopted and published on the website of the Seychelles Planning Authority, Guidelines which serve as a roadmap to integrate hazard and climate risks in land use plans utilized to determine the use of Seychelle’s land area in accordance with the Physical Planning Act, 2021.

DPF 3, Indicative Trigger #3: To improve resilience in spatial development, the Borrower, through the Ministry of Lands and Housing has updated and adopted Land Use Plan Regulations and Building Regulations, to align with the Physical Planning Act which is aimed at incorporating graduated provisions concerning restrictions and conditionalities for any kind of development that is located in climate hazard prone areas, in addition to other hazards prone areas, as well as addressing physical resilience.

43. **Rationale: Ensuring land development and construction is resilient is critical for Seychelles (as a small island developing state with scarce developable land), that is increasingly exposed to multiple hazards, and greatly compounded by increasing impacts from climate change.** The existing building stock, infrastructure, and potential development areas are increasingly exposed to climate related flooding (pluvial, fluvial, and coastal), and landslides: the main settlements are largely along the narrow coastal strip of the three main islands and partly on the lower slopes of the inland mountains. Land for building is generally scarce, leading to a practice of land reclamation. Climate change impacts are already evident. Due to increased sea temperature, dying corals have affected the natural coastal dynamics and lead to increased coastal erosion and severe storm surges. Sea-level rise has also aggravated this situation, further degrading additional land regularly affected by coastal flooding. Climate projections with an increased storm intensity and frequency can also impact critical infrastructure (for example, the airport and Mahe harbour that contribute significantly to the economy). As such, the reforms under this series of DPFs can support government’s development effort to optimize available resilient land, by adapting effectively to climate impacts, while limiting risks.

44. The proposed policy and legislative framework aims to ensure that any new development of land will not increase flood risk and accounts for impacts of sea-level rise and coastal erosion. The GoS took critical steps to address these challenges with the adoption of the Seychelles Coastal Management Plan 2019-2024 (2019) and the adoption of the **Physical Planning Bill (2021) (DPF 1, prior action #3)**, which set into law the integration of hazard and climate risks in land-use planning decisions. Land use planning was previously based on the Town and Country Planning Act that determined administrative procedure and responsibilities of the Seychelles Planning Authority and the Minister for Lands and Housing regarding land planning and permitting. The Town and Country Planning Act established the distribution of powers and duties, but without legally binding land use plans. The new Physical Planning Act introduces provisions for legally binding land use plans and maintains the distribution of powers and duties established under the previous Act. The GoS is preparing updated subordinate regulations, as the legislative basis for implementing the Physical Planning Act.

45. **Currently, developers themselves assess the exposure of proposed sites to non-climate and climate related hazards (especially floods and landslides); these assessments will now be a harmonized shared responsibility with the GoS.** There is no consistent framework to integrate climate related hazards and risk information in planning documents for development, to ensure it is resilient and sustainable in the mid and long term. The Physical Planning Act now provides the administrative planning framework, to lay the foundation for legislation to address hazards with a larger focus on climate risks. This represents a major shift in the planning framework as it paves the ground for legally binding land use plans in addition to strategic planning. Zoning criteria can be linked to climate hazard and risk information to define protected zones and areas for conditional development. The GoS is at the moment revising the subordinate regulations, (especially the Land Use Plan Regulations and the Building Regulations), to ensure the integration of climate risk



information is consistently applied, and establish a standard for hazard prevention, which accounts for climate change induced environmental dynamics through effective adaptation. **Guidelines for integrating hazard and climate risks into land use plans (DPF 2, prior action #3)**, needed to implement the Physical Planning Act 2021, are now in place, with procedures and rules for integrating climate related risks and climate change adaptation action in development plans.

46. **The Guidelines for integrating climate risk into Seychelles planning framework contain the overall planning principles to effectively incorporate natural hazards with a larger focus on climate risks, and adapt to climate change on all planning levels.** The overarching goal of the Guidelines is to ensure that the level of risk associated with such hazards is not increased as a result of inappropriate development within Seychelles and that climate change considerations are incorporated into future planning. To achieve this, the Guidelines outline the key land use planning principles, along with the government’s policy goals. They also lay out the collaboration of public authorities as well as consultation procedures with private stakeholders and the general public to guarantee a transparent and just decision making for zoning classifications in land use plans. The Guidelines will inform how and where development is permitted in Seychelles. They establish that all land being considered for development should be assessed according to infrastructure connectivity and existing hazard exposure, with a detailed climate change induced dynamics to it. They also define criteria for the consideration of climate related risk in zoning decisions in land use plans. The Guidelines provide, thereby, a binding decision-making framework for the Seychelles Planning Authority and the Planning Board, that identifies whether development will be in high, moderate or low risk areas and the subsequent actions to be undertaken as a result. The Guidelines will also inform the public, and in particular potential developers, of basic criteria – especially for the determination of no-development zones – standards and procedures related to the consideration of hazard and the impact on the risk resulting from proposed or planned developments. The Guidelines will be made available to all governmental units involved in land use planning and development permitting as well as to all potential developers and will be monitored through the Planning Board, which meets weekly to evaluate all development applications. The guidelines, will thus, inform all new development in Seychelles, to ensure new development is climate resilient. Building on these Guidelines, DPF 3 would support a further **strengthening of the legislative framework through the revision of existing regulations to align them to the new Act.** This would entail incorporating provisions in the Act, that requires new development to account for increasing hazard risks, and related climate change considerations and vulnerabilities, with the aim of increasing climate resilience.

47. **Expected Results:** The policies covered under the three DPFs are expected to improve physical resilience concerning hazard and climate risk, by informing land use and zoning decisions, including development permits. These policies are expected to increase the percentage of planning decisions informed by publicly led analysis of climate risks as stipulated in the Physical Planning Act by 80 percent. Planning decisions to be monitored include: (i) (strategic) development plans, (ii) zoning decisions, and (iii) development permits. This should ensure the integration of the principles of ‘safe’ locations and ‘climate change resilient’ design in a comprehensive manner. The Guidelines will ensure there is integration of climate risk in land use planning, (which aligns with World Bank core climate indicators for DPFs).

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

<p>DPF 3, Indicative Trigger #4: To assess the country’s anti-money laundering and combatting the financing of terrorism (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 AML/CFT regulatory and supervisory framework.</p>
--



48. **Rationale: Seychelles' offshore financial sector faces challenges in complying with global transparency standards and AML regulations.** The GoS is currently implementing a three-year program to tighten up its beneficial ownership and AML framework and align it with international standards. In February 2020, France blacklisted the territory for insufficient information provision on offshore entities. Seychelles also faced declining correspondent banking relationships through the de-risking efforts of United States and European banks. To restore its reputation and maintain its attractiveness for foreign direct investment, Seychelles **adopted the 2020 Beneficial Ownership Act, (DPF 1, prior action #4)** that provides for the identification and verification of beneficial ownership of legal persons and arrangements, with the support of the COVID-19 Crisis Response Emergency Development Policy Financing (P174198) and the Financial Sector Development RAS (P156528). In July 2021, the centralized Beneficial Ownership database, administered by the Financial Intelligence Unit (FIU), became operational. Data entered to date covers 90 percent of International Business Companies in good standing. The FIU reports bi-annually to the National Anti-Money Laundering and Countering the Financing of Terrorism Committee, on the level of compliance by resident personal and international entities. FIU is working on ways to address challenges around the quality of data entered by identifying alternative data sources for data validation and enforcement of compliance with data provision. Currently, the FIU uses a risk-based approach to monitor compliance on a representative sample of domestic and international concerns. Draft amendments are under consultation with the industry (targeted for publication end-2022), to include the necessary administrative sanctions and penalties for those who fail to comply with the Beneficial Ownership Act provisions.

49. **Alongside establishing the Beneficial Ownership database, on December 14, 2021, the National Assembly approved the Custody, Management and Disposal of Seized, Forfeited or Confiscated Properties Act.** Law enforcement agencies now have the legal powers to trace and identify property that may be subject to confiscation or is suspected of being crime proceeds. The Act enables Seychelles to conform with two key recommendations of the Financial Action Task Force, namely: (i) confiscation and provisional measures; and (ii) mutual legal assistance in confiscating and freezing ill-gotten property. To implement the new law, the Ministry of Finance, National Planning and Trade will set up an Assets Management Unit.

50. **The third DPF will support the approval of an updated AML/CFT national risk assessment (NRA), to identify where the country is compliant and where further actions need to be taken.** This measure is supported by the AML/CFT Act 2021, which provides for the prevention, detection, and combating of money laundering and terrorist financing activities, including preventive measures such as the NRA. The Act states that the NRA 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 the results of the risk assessment shall be disseminated to all stakeholders. Based on the results of the NRA, a Risk-Based Action Plan will be prepared, outlining steps for implementing a risk-based approach to prevent and mitigate the identified AML/CTF risks. Informed by the Action Plan, the AML/CFT Committee may consider allocation of resources through the Minister of Finance, National Planning and Trade for prevention and mitigation of money laundering and financing of terrorist.

51. **Expected Results:** Reforms supported under this section is expected to (i) improve transparency around owners of the International Business Companies in Seychelles by ensuring 80 percent have submitted verifiable ownership data to FIU; and (ii) operationalize a Risk-Based Action Plan Based on the NRA results, for systematic prevention and mitigation identified AML/CTF risks . Increased transparency of International Business Companies will be measured by the percentage of legal entities that have submitted verifiable ownership information to the database held by the FIU.



Pillar C: Strengthening policies for inclusive and sustainable growth

Modernizing the Financial Sector

DPF 2, Prior Action #4: To ensure the privacy of consumer credit information and protect the interests of financial consumers, the Borrower, through its National Assembly has enacted the Financial Consumer Protection Act, 2022, which is aimed at fairly, reasonably, and effectively handling financial consumer disputes to promote development of the financial sector.

DPF 3, Indicative 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.

52. **Rationale: An important element in promoting the development of the financial sector is building consumer confidence through establishing fair treatment and quality services by financial service providers.** Currently, the key legislation needed to guarantee confidentiality and privacy in handling financial consumer data is either outdated or lacking. Enactment of the Financial Consumers Protection Bill has helped strengthen the rights and provide protection to consumers in accessing financial products or services. This will be further complemented by legislations on data protection, a credit information system, and national payments.

53. **The Financial Consumer Protection Act (DPF 2, prior action #4), gazetted April 25, 2022, aims to empower the Central Bank of Seychelles and the Financial Services Authority, with the mandate of market conduct and consumer protection.** In that regard, the Act sets out the roles and responsibilities of the Central Bank of Seychelles and other Financial Services Authorities in promoting financial consumer confidence and regulating financial service providers that fall within its purview. It also outlines the roles and responsibilities of financial service providers in the fair treatment of financial consumers, with a focus on transparency. Additionally, the Central Bank of Seychelles and other Financial Services Authorities are now vested with the role of complaint handling, a function normally undertaken by a financial ombudsman. The Financial Consumer Protection legislation was approved by Parliament on March 23, 2022, and subsequently assented by the President on April 14, 2022. It is expected to catalyze the development of digital financial services, inculcating consumer protection within the governance structure of financial service providers, to promote transparency of service terms and conditions (that is, prices, effective and responsible use of financial services).

54. **The third operation supports a series of legislation that would complement the Financial Consumer Protection Act.** Specifically, these legislations aim to **ensure the privacy of consumer credit information and improve the payment system (DPF 3, trigger #5)** through adoption of the: (i) 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; (ii) Data Protection Act, which is currently nonexistent. This 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) 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, to generate more competition in the marketplace. These reforms are expected to increase the share of the banked population using internet-based banking services to 20 percent by 2024.



55. **Expected Results:** Policy reform in this area is expected to expand financial inclusion and boost uptake of digital financial services by increasing financial consumer confidence. Furthermore, this reform is expected to have long-term and positive market impacts by promoting increased transparency and competition among financial service providers, helping to deepen the financial sector.

Strengthening the legal and regulatory framework for the Digital Economy

DPF 2, Prior Action #5: To enhance competition and ensure an open and non-discriminatory access regime in the information, communication and technology industry (“ICT”), the Borrower, through its Cabinet of Ministers has submitted to the National Assembly the Communications Bill, 2022, which make provisions for the creation of an independent ICT regulator (Seychelles Communications Regulatory Authority) to regulate competition in the ICT industry.

DPF 3, Indicative Trigger #6: To facilitate further digitalization of the government services, the Borrower, through the Department of Information, Communication and Technology has issued a public communique announcing the sequential rollout of digital payments for government services.

DPF 3, Indicative Trigger #7: To ensure expeditious implementation of the Communications Bill and empower the independent ICT regulator, the Borrower, through the newly created Seychelles Communications Regulatory Authority, submits to the Minister of ICT: (1) a corporate plan for the regulator including financial needs and staffing needs; (2) its first annual plan of activities; and (3) an audited statement of accounts for the first financial year of its activity.

56. **Rationale: 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 interactions can expand financial inclusion and boost uptake of digital financial services. This in turn would help strengthen the financial sector by expanding its reach, improving efficiency, mitigating risks, and help to further increase the access of households and businesses to new financial services. To build trust in the digital economy, including data collection, processing, and further data usage, the GoS is working to create a secure and trusted ICT environment by balancing security, privacy, and access. Striking this balance is key to preserving and encouraging innovation. In the wake of COVID-19, there is an added urgency to advance digital financial services technology, for improved efficiency, tailored products, and new services. Seychelles aims to modernize and digitize its financial sector through enabling legal, and regulatory frameworks and Fintech to meet the country’s development needs, supported by the Financial Sector Development RAS (P156528).

57. **In addition to the above reforms, the Communications Bill, submitted to parliament and gazetted July 22, 2022, (DPF 2, prior action #5), is a first step toward establishing a legislative framework for regulating competition and consumer protection in the ICT sector.** The Bill lays the legal foundations for the creation of an independent ICT regulator, which is a key requirement to encourage competition, innovation, and a separation of policymaking and implementation from regulatory functions. The new legislation makes provision for the effective regulation of electronic communications services; electronic communications network services and broadcasting services; and provides for a comprehensive regulatory regime for the ICT sector. Effective regulation of the ICT sector is necessary to promote and maintain fair competition, a level-playing field, and an efficient market structure with the interplay amongst persons engaged in electronic communications and broadcasting and to take appropriate measures to prevent unfair or anti-competitive practices. In addition, the new law aims to keep the country abreast of regulatory developments in the electronic communications and broadcasting industries and to improve Seychelles’ ranking in the



International Telecommunication Union’s Regulatory tracker. This reform is complemented by ***institutional reforms under DPF 3 (trigger #7), to implement the Communications Bill through establishing an independent regulator.***

58. **The third operation also supports the digitization of government payment systems (DPF 3, trigger #6).** 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 both 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 online user interfaces prevents both trips to the bank, needed to complete a transaction, and reduces the manual workload for governments and banks. Establishing national payments systems will facilitate 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, following the onset of the COVID-19 pandemic, facilitating virtual and digital connections between people, as well as exchange and access to information, goods, and services.

59. **Expected Results:** The availability of instant payments will provide financial consumers with efficient and convenient alternatives to cash-based payments and encourage broader participation in the formal financial sector. Operationalizing the SCRA will improve regulation and promote competition among payments instruments at merchants and check-out points.

Strengthening the legal and regulatory framework for the Blue Economy

DPF 2, Prior Action #6: To promote the long-term sustainability of fishing resources in Seychelles, the Borrower through its Ministry of Fisheries and the Blue Economy, has published in the Government Gazette the Fisheries (Mahé Plateau Trap and Line Fishery) Regulations, 2021, to implement the Seychelles Mahé Plateau Trap and Line Fishery Co-management Plan and prescribe measures for the proper climate smart management of fisheries.

DPF 3, Indicative Trigger #8: To ensure sustainability of fishing activities, the Borrower through its Cabinet of Ministers has submitted to Parliament the 2014 Seychelles Fisheries Amendment Act and implementing Fisheries Regulations which organize the sustainable management of the fisheries sector.

60. **Rationale: Climate-related stresses coupled with widespread over-exploitation of fisheries reduces the opportunity for adaptation of most vulnerable coastal populations and increases risks of stock collapse, with commensurate loss of carbon sequestration potential through the role of fish in the ocean’s biological carbon pump.** The ocean is the largest carbon sink on earth through two main “blue carbon” processes, the biological and physical carbon pumps. Both of these ecosystem services are dependent on ocean health, including through healthy fish stocks and increased biomass. By supporting healthy fish stocks, the fisheries reforms to be enacted in Seychelles will contribute to healthier, more resilient marine ecosystems, and therefore help protect oceanic carbon absorption. The biological pump captures carbon through phytoplankton blooms, whereby carbon dioxide is consumed and oxygen is released, with the carbon ultimately sinking to the seafloor. Fish contribute to this “downward flux” of carbon up to 251 milligrams per square meter per day through fecal pellets, as well as vertical migration⁸. Fish stocks also contribute to carbon sequestration through the excretion of prodigious amounts of calcium carbonate⁹. The biological pump is the

⁸ <https://phys.org/news/2012-10-small-fish-big-role-biological.html>

⁹ <https://www.nature.com/articles/news.2009.30>



combination of a number of processes, which overall transfers about 11 gigatonnes of carbon every year, sequestered for thousands of years or longer. An ocean without a biological pump would result in atmospheric carbon dioxide levels about 400 parts per million (ppm) higher than the present day¹⁰. The complex interactions of ecosystems cannot be understated in the balance of the planet's ability to sequester carbon. Seagrass meadows thrive when sharks prey on dugongs and sea turtles, whose unchecked populations would otherwise overgraze and destroy meadows that sequester 10 percent of the ocean's carbon. Emerging literature points to continued underestimation of the importance of fish in marine carbon sequestration, and the importance of protecting fish stocks as a climate mitigation measure¹¹.

61. **The 2019 World Bank report on climate change and fisheries in Africa showed that under RCP 8.5 (Representative Concentration Pathways) and using a Multispecies Size Spectrum Ecological Model, Maximum Catch Potential in the Seychelles Exclusive Economic Zone can be expected to decrease by 21.29 percent by 2050 and 33.51 percent by 2100.** Even under the more optimistic RCP 2.6, the decrease is expected to be 20 percent in 2050 and 15 percent in 2100, resulting in the need for more greenhouse gas emissions as fisherfolk have to travel further to maintain catch size. Conversely, enhancing the health and sustainability of fish stocks reduces emissions by decreasing the time at sea, and commensurately the carbon intensity of the fishing industry. The climate benefits of fisheries reform can thus be categorized between those that increase the resilience of fish stocks and marine ecosystems - by leaving more fish in oceans and by maintaining the structure of marine food webs and associated carbon sequestration; and those that reduce the amount of CO₂ in the atmosphere - through reduced CO₂ emissions by the fishing fleets that are not as pressured by overfishing, and the higher levels of CO₂ sequestration in oceans as a result of fish biomass recovery.

62. **Tourism growth puts additional pressures on fisheries, marine, and coastal systems, leading to overfishing, and an increasing environmental footprint and reduced resilience to climate variability.** Over the past three decades, illegal, unregulated, and unreported fishing has contributed to a decline of more than 60 percent in the targeted stocks, resulting in lost revenue and livelihoods. The impacts of climate change (increased sea surface temperature and acidification) are therefore evident at three levels: impact on fish stocks; the deterioration of critical marine and coastal ecosystems on which they depend; and fishing communities exposed to more frequent extreme weather events. According to the Intergovernmental Panel on Climate Change, climate change is altering ocean conditions, particularly water temperature and various aspects of ocean biogeochemistry, which could have large impacts on fisheries productivity, in the medium- to long-term, especially in low altitudes. Rising sea temperatures and ocean acidification are changing aquatic ecosystems too, and affecting productivity. These effects are compounded by Seychelles' current open-access fishing, with no existing technical management measures. Climate smart management of aquaculture must therefore be improved and diversified, to decrease fishing pressure on coastal stocks, which can lead to high carbon footprints and reduced adaptation measures for coastal population. Also, climate change related stresses on fish or shellfish used in aquaculture production cause physiological effects that can stunt their growth and development, further increasing susceptibility to diseases and infections. The **Fisheries (Aquaculture) Regulations (DPF 1, prior action #5)**, adopted in December 2020, 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 South-West Indian Ocean Fisheries Governance and Shared Growth Project (P155642) project which uses proceeds of the Blue Bond. The Fisheries (Aquaculture) Regulation promotes innovation and adoption of new technologies, in an effort to maintain healthy fish stocks and look after the marine environment. This is helping to promote food security

¹⁰ https://en.wikipedia.org/wiki/Biological_pump.

¹¹ <https://www.frontiersin.org/articles/10.3389/fmars.2022.788339/full>.



and high value products. Climate change effects are addressed through provisions that stipulate that aquaculture development zones conduct a comprehensive assessment of potential climatic, environmental, and social impacts. Licensees must also record and report the use of antibiotics and therapeutic agents, on an annual basis; notify authorities of any fish disease, escaped fish, pollution incident, or natural disaster impacting the aquaculture sector. Licensees cannot hold animals in any cage, tank, or pond at a stocking density that would cause visible signs of stress. This, therefore, defines a new framework for new aquaculture operations, to help minimize the effects of climate change on fisheries.

63. **The above reforms are complemented by regulations adopted on September 13, 2021, to implement the Mahé Plateau Trap and Line Fishery Co-management Plan or the Mahé Plateau Plan (DPF 2, prior action #6).** The Mahé Plateau Plan supports improvements in the management of coastal demersal fisheries that are critically important for local food security and sustainable economic development. The plan introduces innovation through co-management, which allows the full participation of fishers and other stakeholders. The plan was officially launched on October 2, 2021 and establishes a framework to strengthen management measures of fisheries. Through the new regulations, a number of management measures will be implemented to avoid overexploitation and strengthen sustainability, including minimum size and bag limits for some key species. The Mahe Plateau Plan implementing regulations will contribute to healthier fish stocks, thereby increasing their resilience to climate change. First, by directly reducing fishing effort, these measures help disperse the carbon footprint, simply because less boats means less fishing, and over lower distances. But, more importantly, any and all measures designed to enhance fisheries sustainability, and therefore fish stock health, ensure that fishermen exert less effort in fishing, which reduces their carbon footprint, and in turn contributes to higher catches and revenue, even as costs go down. This in turn improves resilience of the fishstock to climate change.

64. **The third operation supports the Seychelles Fisheries Amendment Act and implementing Fisheries Regulations, with the aim of creating a robust and modern legal framework in Seychelles' fisheries.** The Fisheries Act of 2014 will be updated to further strengthen it through incorporating specific provisions for areas where legal gaps and loopholes exist. This includes provisions that will complement regulations to better manage fishing effort. Gaps include inadequate provisions for the licensing of vessels and gears, weak enforcement mechanisms and a missing 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 related management plans. In addition to the required amendments to the Act, the main piece of secondary legislation, namely the Fisheries Regulations 1987, are product of the Fisheries Act 1987 and are in need of urgent modernization.

65. **Expected Results:** Climate smart development of the aquaculture sector in Seychelles will help bring increased volumes and diversify the supply of seafood products available to the value chains. The Fisheries Act will ensure that the ocean economy is sustainably developed and that diversification and growth in the sector is not at the expense of ocean protection and conservation. These will contribute to increased resilience of Seychelles' Blue Economy against climate change, with better managed and preserved stocks and ecosystems. As a result, the number of aquaculture businesses licensed is expected to increase while the percent of infractions to the Mahe Plateau Regulations is expected to decrease to 20 percent. In addition, a Gender Assessment will be completed and used to incorporate gender considerations in implementation to promote inclusive growth of the industry.



Table 6: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar A: Strengthen Fiscal Sustainability	
<p>Prior action #1: To strengthen government oversight over public enterprises, the Borrower through its Cabinet of Ministers has submitted to its National Assembly the Public Enterprises Bill, 2022, including implementing provisions, which aims to improve performance monitoring, to ensure appropriate oversight, of public enterprises for better service delivery, transparency, and accountability.</p>	<p>Maximizing Results Based Management (P168554) and Assessment of SOE Governance in Seychelles (2020) recommend institutional changes to strengthen SOE monitoring by legal changes with a focus on service delivery and capacity building for public enterprises to report on their finances, and improve transparency.</p>
<p>Prior action #2: To modernize international business tax policy and implementation of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, the Borrower through its Ministry of Finance, National Planning and Trade, has published in the Government Gazette, the Business Tax (Amendment) Bill, 2022, which includes transfer pricing Regulations provisions, _____, which regulate the use of the arm’s length principle to control transfer-price manipulation.</p>	<p>Seychelles Tax and Offshore Sector Advisory (P152882) notes that there are significant gaps in 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.</p>
Pillar B: Build Resilience	
<p>Prior action #3: To foster resilient development, the Borrower, through the Seychelles Planning Authority within the Ministry of Lands and Housing has adopted [and published on the website of the Seychelles Planning Authority,] Guidelines which serve as a roadmap to enable implementation of the administrative framework of the Physical Planning Act, 2021 and integrate hazard and climate risks in land use plans utilized to determine the use of Seychelle’s land area in accordance with the Physical Planning Act, 2021.</p>	<p>Disaster Risk Management Development Policy Loan with Catastrophe-Deferred Drawdown Operation CAT DDO (P148861) identify priorities for climate adaptation, mitigation, and disaster prevention, focusing on economic, social, and environmental impacts of natural and environmental hazards, in high density coastal zones, including waste management (Assessing climate risks and behavior associated with waste management in Seychelles (P169875)), and complemented by analysis in the Seychelles Coastal Management Plan 2019 – 2024.</p>
Pillar C: Strengthening policies for inclusive and sustainable growth	
<p>Prior action #4: To ensure the privacy of consumer credit information and protect the interests of financial consumers, the Borrower, through its National Assembly has enacted the Financial Consumer Protection Act, 2022, which is aimed at fairly, reasonably, and effectively handling financial consumer disputes to promote development of the financial sector.</p>	<p>Financial Sector Development RAS (P156528) notes that although digital payment channels are increasingly used in Seychelles, it is still a cash-based economy and concludes that payments infrastructure and systems require new financial services that incorporates all aspects of a modern financial infrastructure, and amendment of existing legal and regulatory framework for digital financial services.</p>
<p>Prior action #5: To enhance competition and ensure an open and non-discriminatory access regime in the information, communication and technology industry (“ICT”), the Borrower, through its Cabinet of Ministers has submitted to the National Assembly the Communications Bill, 2022, which make provisions for the creation of an independent ICT regulator (Seychelles Communications Regulatory Authority) to regulate competition in the ICT industry</p>	<p>The Seychelles Digital Economy and Assessment (DE4A) indicates that a key constraint to high- speed internet development in Seychelles is the regulatory environment. The GoS should separate out the DICT’s current regulatory function from the government. Once the legislation is in place, government should set up an independent Board of Directors that represents user interests, without being beholden to the private sector.</p>
<p>Prior action #6: To promote the long-term sustainability of fishing resources in Seychelles, the Borrower through its Ministry of Fisheries and the Blue Economy, has published in the Government Gazette the Fisheries (Mahé Plateau Trap and Line Fishery) Regulations, 2021, to implement the Seychelles Mahé Plateau Trap and Line Fishery Co-management Plan and prescribe measures for the proper management of fisheries.</p>	<p>Under the Third South West Indian Ocean Fisheries Governance and Shared Growth Project (P155642), the Bank is supporting the management and conservation of marine areas and strengthening seafood value chains in the Seychelles.</p>



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

66. **The operation is aligned to the World Bank Group’s GCRF “Navigating Multiple Crisis”, underpinned by the Green, Resilient, and Inclusive Development (GRID) 2021 approach.** Selected pillars supported by the DPF series are aligned with the Systematic Country Diagnostic (2017) and Country Partnership Framework priorities, including macroeconomic and fiscal stability, debt management, financial sector stability, climate change and the development of a digital economy. Specifically, prior actions #1 and #2 (supporting reduced SOE fiscal risks, and revenue mobilization through transfer pricing legislation) are aligned to the GCRF pillar on strengthening resilience through macroeconomic stability. Prior actions #3 and #5 (covering measures that reduce risks from climate change induced hazards in land use plans, and strengthen competition in ICT through improved regulation) are aligned to strengthening policies, institutions and investments for rebuilding better. Prior action #4 (to strengthen the consumer credit collection system for financial sector stability) is aligned to the GCRF pillar on Protecting People and Preserving Jobs; and prior action #6 (on increasing resilience of fisheries to climate change) is aligned to GCRF pillar on strengthening resilience to the effects of climate change. Overall, supported reforms are strengthening the enabling environment for inclusive and sustainable growth.

67. **The proposed operation also builds upon a suite of previous and ongoing World Bank Group ASAs, and lessons from key financing operations** (Table 6). In addition to the operations included in Table 6, the COVID-19 Crisis Response Emergency Development Policy Financing (P174198), supports urgent and targeted programs to mitigate the effects of the pandemic, and complements the medium- to long-term reforms to support resilience and a sustainable economic recovery. Strengthening Coastal Resilience in Seychelles (TF0B1706) complements the suite of technical support summarized in Table 6 for preparing Guidelines to implement Physical Building Plans. The proposed operation is also directly aligned with the Digital Economy for Africa initiative that recognizes the digital economy can help Seychelles to achieve the United Nations Sustainable Development Goals and the World Bank Group twin goals. The World Bank has also provided technical assistance to government to develop and implement the Coastal Management Plan (2019), with a focus on coastal infrastructure, ecosystem restoration and land planning to tackle erosion issues and secure a resilient coastal zone, including nature-based to protect and restore coral reefs, build coastal resilience, and reduce coastal erosion for improved land planning. The World Bank is working with the GoS to enhance their early warning systems, emergency preparedness, and response capacities, to reduce the impacts of hazards on lives and livelihoods.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

68. **The program’s design benefited from the World Bank consultation and coordination with various stakeholders in Seychelles’ government and private sector, as well as development partners.** Consultations took place with the key government representatives from the various ministries, including 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 its policy on transparency and accountability, the GoS also led consultations with the public and private sectors, and other interest groups, including the business community, who are in agreement with the government’s overall policy directions, especially the emphasis on expanding and enhancing the role of the private sector while reducing the role of SOEs that can seem to crowd out the private sector. Recommendations arising from the consultations also called for a focus on improved governance, 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. Consultations also took place in the context of specific technical assistance work, particularly prior action 2 (transfer pricing regulations), prepared in close collaboration with the Seychelles Revenue Commission, and with consultation of relevant stakeholders. For prior action 3, through previous work on Disaster Risk Management, the team consulted extensively on climate change risk adaptation issues, including with District Administrators, Regional Council members, Non-governmental Organizations, development partners and private sector representatives. Development Partner consultations were held with the IMF on macroeconomic stability. To leverage complementarities and avoid duplicative efforts, the World Bank Group also collaborates with the African Development Bank and is working with development partners on targeted investments in disaster risk and public financial management.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

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

70. **Prior Actions #1 and #2 are expected to foster inclusive growth and poverty reduction in the medium to long term through improvement in fiscal management.** Prior Action #1 is expected to improve the governance of SOEs by making PEMC the only authority to oversee public enterprises. This is expected to affect poverty through two potential benefit streams. First by improving SOE efficiency and productivity, households whose income depend on these SOEs are shielded from losing their wage employment. This is very important in Seychelles since wage employment is a key source of poverty reduction and SOEs are the largest employer, employing about 14 percent of the workforce. Second, by becoming more productive, SOEs are expected to generate more revenue for the government, which should allow government to better support poverty related expenditures, including service delivery, social protection, and public investment targeted to the poor and vulnerable in the medium-term. There is considerable scope to improve targeting and increase coverage of the main poverty targeted program in the country, the social welfare assistance program. Coverage is low, payments are much lower as compared to other programs and in 2018 about 63 percent of social welfare assistance spending was received by the non-poor. The ongoing World Bank-financed Social Protection Program for Results is supporting a revision of the targeting mechanism that will enable more of the poor to benefit from the program. Prior action #2, improvements in the mobilization of tax by reducing 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 is likely to indiscriminately benefit the poor and vulnerable.



71. **Prior Action #3 aimed at strengthening climate resilience, under Pillar B 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 else¹². This is because low-income communities tend to live in 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 the 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 future climate change induced events on the country's poor.

72. **Prior Action #4, strengthening financial consumer protection through the introduction of legislation to ensure fair and responsible treatment of financial consumers in their purchase and use of financial products and services will have a positive impact on reducing poverty.** Markets for financial services are growing rapidly and being transformed by digital technologies and platforms. With the growth of consumer financial services come concerns about protecting consumers from being exploited due to imperfect information and contracting as well as from their own decision-making limitations. The development of quality and secure eco-system can foster the emergence of young entrepreneurs in modern service sectors, including in personal services, trade and so on. The consumer protection Act will help to reduce the underlying sources of potential harm from high and hidden prices, over indebtedness, post-contract exploitation, fraud, and discrimination and could potentially encourage the poor and vulnerable to increase their participation in financial services. Broader improvements in consumer confidence in financial services is also reinforced by the recent establishment of a Beneficial Ownership Registry. This is expected to increase market integration and investments in cross-border financial intermediation, helping to support economic growth. Complementary measures (such as payments system modernization plan, the Fintech strategy, and the government's digital economy agenda will help promote financial inclusion.

73. **Prior Action #5, legislation to regulate and manage competition in the ICT industry and support the creation of an independent regulator will have a neutral effect on poverty reduction.** Enhancing competitiveness in the ICT sector creates the potential for indirect poverty-reducing effects that may arise from improving telecommunication services. Improving the regulatory environment while allowing for greater competition and increasing private sector participation in the sector can be expected to improve service delivery for households and businesses. Addressing the current inefficiencies, as proposed in the DPF, should ensure that there is progress towards growth and job creation that is led by the private sector. Enhancing the competitiveness of the sector will have medium-run impacts on poverty and inequality through the channels of prices, wages of the employed, and job creation.

74. **Prior Action #6, regulations of the fisheries sector is 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 fisheries sector are expected to boost the health, productivity, and diversity of fish resources to restore and

¹² World Bank. 2017. Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters. <https://openknowledge.worldbank.org/handle/10986/25335>.



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 both fishermen and the government.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

75. **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; and so on. 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. The function of the Environmental Appraisal Committee 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, 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 second DPF has recommended a participatory policymaking process, and that the subsequent actions from the DPF do not lead to any weakening or disregard of the environmental and social due diligence process.

76. **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.** The assessment shows that the Prior Actions #3 and #6 are likely to have a positive impact on the country's environment, forests, and natural resources. In addition, Prior Action #1 will also lead to a positive impact if the Public Enterprise Monitoring Bill supported under the first DPF includes environmental, health safety, climate change management performance indicators. SOEs should play an instrumental role in assisting the government to meet climate change commitments by taking appropriate impactful actions to prevent adverse climate change and environmental damage.

77. **Prior Action #3 on facilitating the implementation of the administrative framework of the Physical Planning Bill, is expected to be an instrument for Sustainable land management.** This framework will include ecosystem services and aim at sustainability, balancing social, economic and environmental needs; stakeholder engagement; spatial orientation. However, it could also likely lead to more physical investments, which may contribute to negative environmental impacts due to an increase in demand on land resources. In Seychelles, the 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. Subsequent land use plans shall consider environmental issues in a more comprehensive and systemic manner through strategic environmental assessments. Environment Protection Act 2016 (No. 18 of 2016), defines Strategic Environmental Assessment. However, there are no regulations or guidelines available setting out the procedures, roles and responsibilities



for Strategic Environmental Assessment in the Seychelles. To bridge this gap, the Borrower will approve Amendments to the Environmental Assessment Regulations, to clarify the type of environmental assessment required of all plan, policy and programme types.

78. **Prior Actions #4 and #5 are likely to lead to more future investments, which may contribute to negative environmental impacts due to an increase in demand on natural resources.** Measures to ensure the privacy of consumer credit information and protect the interests of financial consumers is expected to promote development of the financial sector, leading to higher investments. This complements measures to enhance competition including implementing safeguards that require improvements in key digital infrastructure. However, Environmental Impact Assessment regulations in Seychelles do not require an environmental authorization for ICT project and activities. To bridge this gap, the Borrower will approve Amendments to Schedule 1 of the Environmental Protection (Impact Assessment) Regulations, to clarify the type of environmental assessment required of all project types and categories.

79. **Prior Action #6, on imposing limitations on the fishing of specific species of fish including minimum size and bag limits for some key species will contribute to rebuild targeted fish populations and avoid over-exploitation.** However, this could slash the number of days commercial fishers can operate and needs stakeholder engagement activities and management measures that protect habitat and reproduction capabilities in the ecosystem. Reduced days of operation can help limit the adverse climatic impacts of over-fishing.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

80. **Seychelles has substantially improved its Public Financial Management (PFM) system that will be used to support the proposed operation.** The Public Expenditure and Financial Accountability (PEFA) 2016 notes 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 Program Performance Based Budgeting to improve allocative efficiency, operational efficiency and accountability of the achieved results; revised chart of accounts to incorporate functional and programmatic classification; comprehensive cash-flow forecasting tools; revised Financial Instructions and Accounting Manual 1997; an improved Finance and Public Accounts committee and adoption of public sector accounting standards. Budget information is transparent and freely available to the public on a timely basis and posted on the website of the Ministry of Finance, National Planning and Trade. Government is also implementing reforms to address PFM weaknesses identified in the 2016 PEFA report related to improving the efficiency of Public Investment Management (PIM); asset registry includes buildings and land, commitment controls, internal controls, and public access to procurement information. The Auditor-General has regularly reported weaknesses in the adequacy and adherence to internal controls in the annual reports. Based on recent reforms, the public can now access procurement related information on the Procurement Oversight Unit and National Tender Board websites.

81. **The 2021 IMF Safeguards Assessment of the CBS reports the external audit arrangements to be robust and financial reporting practices broadly adhere to international standards.** Steps have been taken to improve internal audit functions. The Assessment recommends featuring CBS' accountability mechanisms more prominently in its annual report and website to support CBS's reputation as a well-governed autonomous institution and facilitate the continued development of the internal audit and risk management functions.. The Auditor General has issued an unqualified audit report for financial statements (prepared using



an externally contracted independent firm, based on international financial reporting standards), for the year ending December 31, 2021: the statements are published on the CBS website.

82. **Public procurement is guided by the Public Procurement Act (PPA) of 2008, enacted in December 2008, and regulated by the Public Procurement Regulations, 2013, which contains most elements of a modern legal and regulatory framework.** Implementation of the Act falls on three result areas, namely *the procuring entities* that lead the process through procurement officers in the ministries, *a supervisory body* (the National Tender Board) and the *Procurement Oversight Unit (POU)* as a regulator. The law also compares favorably with the World Bank's New Procurement Framework, governed by most of the same core principles: transparency, economy, efficiency and fairness. *The key strengths are:* (i) *Procuring entities in the Program are all subject to procurement planning requirements included in the Public Procurement Regulation, 2013.* Procuring entities prepare their annual procurement plan based on the purpose of their annual objective and are required to publish these. The procurement unit ensures there are sufficient funds to launch a bid or seek interest, including assignment of budget for each early of a multi-year contract. Bidding and other documents are available to the public through the POU website, but do not include the issuing date. The 2016 PEFA raised challenges around the inefficiency of document filing and archiving. Public access to information has been addressed through the widely used POU and National Tender Board websites. (ii) *Procurement performance and efficiency along the procurement cycle is generally acceptable, including quality of bidding documents:* (a) contracts tend to be open tender (competitive basis). (b) For a national tender, the bidding document is paid for but is free for open competition at the international level;(c) Opening bids are transparent, widely accepted by all bidders and takes place at the National Tender Board; (d) Contractors are paid on a timely basis, generally within 30 days as per the Procurement Act; (e) Procurement entities are required to nominate a contract manager, to monitor the performance of contractors. (iii) *the Seychelles system has provisions for debarred firms*, but the list is not yet available neither in the POU Website nor in the National Tender Board website. *Challenges are:* reviewers or bidders do not know the exact duration of advertisements because advertising templates have no date; pre-tender meetings are mandatory, which limits access to information for international candidates; bidding documents are available for a limited period, which may limit the number of bids; the PEFA 2016 noted 54.9 percent of contracts use direct selection for awarding contracts, while the Procurement Act recommends the open method. Establishing a contract monitoring dashboard is needed to monitor contract implementation.

83. **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 using the prevailing exchange rate on the date the funds are credited to the Treasury Single Account. The Treasury Single Account – 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.

84. **The government, through the office of the Comptroller General at the MoFNPT, 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.

85. **The accounting and auditing of the loan proceeds will be the responsibility of the Comptroller General at the MoFNPT 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

86. **The MoFNPT 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 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 MoFNPT. MoFNPT will coordinate program monitoring of progress against the operation's objectives and results framework. MoFNPT will liaise with focal points in the sector ministries leading the implementation of relevant prior actions, to ensure they provide the needed 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.

87. **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 Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. 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 Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.



6. SUMMARY OF RISKS AND MITIGATION

88. **The overall risk to this DPF is moderate.** Risks associated with the macroeconomic context and institutional capacity to implement, as well as other risks related to the uncertainty surrounding COVID-19 are rated substantial (Table 7). All other risks are rated moderate.

89. **The macroeconomic risk for the operation is rated substantial.** The possibility of new COVID-19 strains coupled with an escalation of the War in Ukraine could derail the recent economic recovery and worsen poverty. Lower growth would compromise targeted DPL results through the adverse effects on taxes and a slower pace of reform implementation, especially if the health system is overwhelmed. A sizable shock that disrupts global travel and increases the need for social and health transfers would significantly increase spending needs. Also, SOE contingent liabilities could increase, (for example, a collapse in global travel could compromise Air Seychelles earnings again), and potentially undermine fiscal and debt sustainability. This would lead to higher debt service costs. Furthermore, escalation of the War in Ukraine could significantly reduce tourist arrivals and the supply of foreign exchange and depreciate the rupee. The rise in global interest rates would place additional depreciation pressures on the rupee, further raising the cost of debt servicing. An appreciation of the US dollar would exacerbate these trends, raising inflation, and undermining Seychelles' competitiveness and efforts to diversify the economy and build resilience. Mitigating factors against the risk of a reemergence of the pandemic, are the strong political resolve of the GoS, ongoing 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. Risks to the growth outlook are mitigated by government efforts (including through reforms supported under this DPF), to diversify the economy in a manner that accounts for climate risks, and builds resilience for sustainable growth. This DPL 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. Financing over 2021 to 2023 from the World Bank and other international financial institutions will help address external financing risks. Financing from these sources 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 a US\$31.8 million increase in allocation 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.

90. **Risks associated with the institutional capacity for implementation and sustainability risk are rated substantial.** Implementation capacity risk is further heightened by the uncertainty around new COVID-19 strains that could rapidly increase infections and deepen existing shocks to the health system. The World Bank and other international organizations are currently working with Seychelles to mitigate these risks through budget support operations and technical assistance provided to the MoFNPT and the CBS. Policies supported by this DPL will help mitigate the adverse effects of environmental and climate related shocks that could slow growth and heighten fiscal pressures. The implementation of the reforms supported by this DPF requires strong collaboration among a number of implementing agencies and strong coordination by MoFNPT 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 strong dialogue with government, as well as implementation support, in close coordination with international development partners.

91. **Other risks of possible new COVID-19 outbreaks and are rated Substantial.** New infection waves and the possible ineffectiveness of existing vaccines (despite an 83 percent vaccination rate, as of July 2022) can



impact Seychelles’ main tourist markets, should these bring about stricter travel restrictions. This is an ongoing risk to the already low capacity of the health system. 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 term. This risk is partially mitigated by the ongoing vaccination campaigns.

Table 7: 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 Indicative Triggers			Results		
Prior Actions under DPF 1	Prior Actions for DPF 2	Triggers for DPF 3	Indicator Name	Baseline (2021)	Target (2024)
<i>Pillar A—Strengthen Fiscal Sustainability</i>					
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.	Prior Action #1: To strengthen government oversight over public enterprises, the Borrower through its Cabinet of Ministers has submitted to its National Assembly the Public Enterprises Bill, 2022, including implementing provisions, which aims to improve performance monitoring, to ensure appropriate oversight, of public enterprises for better service delivery, transparency, and accountability.	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: Percent of SOEs that have published their annual reports including full annual financial statements (with notes), and audit report Results Indicator #2: Percent of SOEs using climate smart PIM	0 0	50 percent 50 percent
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.	Prior Action #2: To modernize international business tax policy and implementation of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, the Borrower through its Ministry of Finance, National Planning and Trade, has published in the Government Gazette, the Business Tax (Amendment) Bill, 2022, which includes transfer pricing provisions, ____, which	Trigger #2: To improve tax administration, the Seychelles Revenue Commission has issued a public communique providing for the rollout a digital tax management system integrating the tax system with e-Services, and including case management, debt management, business intelligence, and data warehousing functions.	Results Indicator #3: Increase in Business Tax Revenue (SCR Millions)	1,457	2,118



Prior actions and Indicative Triggers			Results		
Prior Actions under DPF 1	Prior Actions for DPF 2	Triggers for DPF 3	Indicator Name	Baseline (2021)	Target (2024)
	regulate the use of the arm's length principle to control transfer-price manipulation.				
Pillar B: Build Resilience					
Prior Action #3: To enhance legal certainty 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.	Prior Action #3: To foster resilient development, the Borrower, through the Seychelles Planning Authority within the Ministry of Lands and Housing has adopted [and published on the website of the Seychelles Planning Authority,] Guidelines which serve as a roadmap to enable implementation of the administrative framework of the Physical Planning Act, 2021 and integrate hazard and climate risks in land use plans utilized to determine the use of Seychelle's land area in accordance with the Physical Planning Act, 2021.	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, and Development and Subdivision of Parcels Regulations, to align with the 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 #4: Percent of decisions in development planning, zoning and development permitting informed by relevant data and maps of hazard and climate risks as stipulated in the Physical Planning Act and subordinate regulations	0	80 percent
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		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	Results Indicator #5: Percent of legal entities that have submitted verifiable ownership data to the FIU Results Indicator #6: Risk-Based Action Plan Based on the national risk assessment	0 No Risk-Based	80 percent Risk-Based Action



Prior actions and Indicative Triggers			Results		
Prior Actions under DPF 1	Prior Actions for DPF 2	Triggers for DPF 3	Indicator Name	Baseline (2021)	Target (2024)
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 Official Gazette dated March 5, 2021, and FIU's circular number 5 of 2021 dated June 2, 2021.		supervisory framework.	results is developed outlining steps for implementing a risk-based approach to prevent and mitigate the identified AML/CTF risks.	Action Plan in place	Plan completed
<i>Pillar C: Strengthening policies for inclusive and sustainable growth</i>					
	Prior Action #4: To ensure the privacy of consumer credit information and protect the interests of financial consumers, the Borrower, through its National Assembly has enacted the Financial Consumer Protection Act, 2022, which is aimed at fairly, reasonably, and effectively handling financial consumer disputes to promote development of the financial sector.	<p>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: (a) Data Protection Act; (b) Credit Information System Act and (c) National Payment System Act, which are aimed at governing the treatment of personal data, and regulating national payment systems, respectively.</p> <p>Trigger #6: To facilitate further digitalization of the government services, the Borrower, through the Department of Information, Communication and Technology has</p>	Results Indicator #7: Share of banked population that use electronic/internet banking	8 percent	20 percent



Prior actions and Indicative Triggers			Results		
Prior Actions under DPF 1	Prior Actions for DPF 2	Triggers for DPF 3	Indicator Name	Baseline (2021)	Target (2024)
		issued a public communique for the sequential rollout of digital payments for government services.			
	Prior Action #5: To enhance competition and ensure an open and non-discriminatory access regime in the information, communication and technology industry (“ICT”), the Borrower, through its Cabinet of Ministers has submitted to the National Assembly the Communications Bill, 2022, which make provisions for the creation of an independent ICT regulator (Seychelles Communications Regulatory Authority) to regulate competition in the ICT industry.	Trigger #7: To ensure expeditious implementation of the Communications Bill and empower the independent ICT regulator, the Borrower, through the newly created Seychelles Communications Regulatory Authority, submits to the Minister of ICT: (1) a corporate plan for the regulator including financial needs and staffing needs; (2) its first annual plan of activities; and (3) an audited statement of accounts for the first financial year of its activity.	Results Indicator #8: SCRA is made operational	No SCRA in place	SCRA operationalized organigram published, including its Board composition, Organizational Structure, and approved Corporate Plan
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	Prior Action #6: To promote the long-term sustainability of fishing resources in Seychelles, the Borrower through its Ministry of Fisheries and the Blue Economy, has published in the Government Gazette the Fisheries (Mahé Plateau Trap and Line Fishery) Regulations, 2021, to implement the Seychelles Mahé Plateau Trap and Line Fishery Co-management Plan and prescribe	Trigger #8: To ensure sustainability of fishing activities, the Borrower through its Cabinet of Ministers has submitted to Parliament the 2014 Seychelles Fisheries Amendment Act and implementing Fisheries Regulations which organize the sustainable management of the fisheries sector.	Results Indicator #9: Number of Aquaculture Businesses registered or licensed Results Indicator #10: Percent of infractions to the Mahé Plateau Regulations during controls Results Indicator #11: Number of patrols to monitor compliance with	0 No regulations in place No regulations in place	4 Annual infractions reduced to 20% Data to be taken from the Monitoring



Prior actions and Indicative Triggers			Results		
Prior Actions under DPF 1	Prior Actions for DPF 2	Triggers for DPF 3	Indicator Name	Baseline (2021)	Target (2024)
Borrowers' official gazette No 108 dated December 21, 2020.	measures for the proper management of fisheries.		the Mahé Plateau Regulations Results Indicator # 12: Gender assessment in the fisheries sector conducted	No	Control and Surveillance Plan Yes



ANNEX 2: FUND RELATIONS ANNEX

IMF Staff Reaches Staff-Level Agreement on the Third Review Under the Extended Fund Facility (EFF) with Seychelles

October 5, 2022

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- The strong recovery of the Seychellois economy has continued in 2022. However, there are downside risks to the outlook due to the uncertainty around the global environment.
- The government made significant progress in implementing policies under the EFF and restoring macroeconomic balance, meeting all quantitative performance and indicative targets for the 3rd review under the program and making significant progress on structural issues.
- As a small island state vulnerable to external shocks and climate change, it remains critical for the Seychelles to maintain the buildup of buffers against shocks while protecting the most vulnerable people.

Washington, DC: An International Monetary Fund (IMF) mission led by Calixte Ahokpossi, Mission Chief for Seychelles, visited Victoria during September 22- October 5, 2022, to conduct discussions for the third review of Seychelles' economic and financial program supported by the Extended Fund Facility (EFF) Arrangement.

At the end of the mission, Mr. Ahokpossi issued the following statement:

"The Seychellois economy has continued its strong recovery in 2022, as tourism activity accelerated its rebound notwithstanding a challenging global environment. Real GDP growth is projected at 10.6 percent, based largely on the tourism rebound, before moderating to 5.4 percent in 2023. This outlook is subject to downside risks given the challenging international environment.

"Inflation moderated to 2.8 percent (year-on-year) at end-August and is projected to average 3.0 percent in 2022, against 9.8 percent in 2021. The lagged effect of appreciation of the rupee in 2021 helped absorb the pressures that emanated from higher international prices in 2022. Inflation is projected to average 4.5 percent in 2023.

"The primary fiscal deficit is expected to be contained at 1.1 percent of GDP at end-2022, declining from 3 percent in 2021 and 14.7 percent in 2020. The targeted deficit in 2022 overperforms the initial program



projection of 1.4 percent of GDP, due to lower current and capital spending. The primary fiscal balance is projected to reach a surplus of 1.1 percent of GDP in 2023.

“A welcome set of temporary support measures is being implemented that, along with other social protection programs, should help cushion the effects of commodity price surges on the most vulnerable.

“Debt vulnerabilities have been substantially reduced, helped by the strong rebound in tourism, successful implementation of the Liability Management Operation in 2021, rupee appreciation, and the ambitious fiscal consolidation. The debt-to-GDP ratio is expected to decline to around 68 percent of GDP in 2022 from 76 percent of GDP in 2021 and 89 percent of GDP in 2020. Contingent liabilities from Air Seychelles have been reduced significantly since the company went under administration and its debt was restructured with a significant haircut.”

“The government has made significant progress in implementing the IMF-supported program and restoring macroeconomic balances. All end-June 2022 quantitative performance and indicative targets under the program were met. The broader structural reform agenda is proceeding at a good pace.

“The government is committed to bolstering governance and fighting corruption. In this regard, the authorities are making efforts to improve the transparency of the beneficial ownership database and to ensure the accuracy of the collected information.”

“The Central Bank of Seychelles (CBS) has maintained an appropriately accommodative monetary policy. The CBS stands ready to act if inflationary pressures materialize. The CBS will continue its efforts to strengthen Seychelles’ monetary policy framework and closely monitor financial sector soundness to reinforce banks’ ability to support the recovery.”

“As a small island state, Seychelles’ open economy remains highly vulnerable to external shocks and climate change. Maintaining the buildup of buffers against shocks, while protecting the most vulnerable portion of the population remains critical in the current global environment. Such a strategy requires the continuation of prudent macroeconomic policies and the safeguarding of international reserves.”

“The team would like to thank the Seychellois authorities for the open dialogue and their close collaboration.”

The IMF team met with President Ramkalawan, Minister for Finance, National Planning and Trade Hassan, Governor of the Central Bank of Seychelles Abel, the leader of the opposition Pillay, and other senior government officials as well as representatives of the private sector. **IMF Communications Department**

MEDIA RELATIONS

PRESS OFFICER: TATIANA MOSSOT

PHONE: +1 202 623-7100

EMAIL: MEDIA@IMF.ORG

[@IMFSpokesperson](#)



ANNEX 3: LETTER OF DEVELOPMENT POLICY



The Minister

11th November, 2022

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 improved policies to create an enabling environment for inclusive and sustainable growth that will enable Seychelles' economy to return to pre-COVID levels through a USD 25 million budget support facility. The ongoing global challenges 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 continue tackling the constraints Seychelles is faced with, the Government is continuing its work to finalize its new National Development Strategy which will cover six priority areas: (i) accountability of the Modern Public Service; (ii) The Transformative Economic Agenda with specific focus on the following sectors i.e., tourism, agriculture, fisheries and blue economy, digital economy and financial sector; (iii) A Modern and Efficient Health System; (iv) Promotion of Law and Order; (v) A Modern Education System aligned with Future needs; and (vi) Environmental sustainability and climate change resilience. The NDS will also incorporate global and continental commitments, namely, the United Nations (UN) Agenda 2030, the Sustainable Development Goals (SDGs), and the African Union's Agenda 2053. These priority areas are key to the much sought after synergy between the medium-term budget framework and the various portfolio plans.

Ministry of Finance, National Planning and Trade
Liberty House | Victoria | Mahé | Republic of Seychelles
Tel: (+248) 4 33 21 20 | Email: minister@finance.gov.sc



2. The strong recovery of the Seychellois economy has continued in 2022. However, there are downside risks to the outlook due to the uncertainty around the global environment. The government made significant progress in implementing policies under its economic reform program and restoring macroeconomic balance. As a small island state vulnerable to external shocks and climate change, it remains critical for the Seychelles to maintain the buildup of buffers against shocks while protecting the most vulnerable people.

II. Economic Performance

Real GDP growth

3. Economic performance to date has been favourable, supported by a strong recovery of the tourism sector, as tourist arrivals gradually strengthened, and in the third quarter attained a level close to the record level of 2019. For the year as a whole, it is now expected that arrivals may attain 330,000 or 15 percent below the 2019 level. Construction activity remain constant and is supported by the building of some new hotels. This could lead to a GDP growth of 10.6 percent in 2022, significantly higher than the 7.2 percent growth forecasted in the 2022 budget, with forecasted growth of 5.2 percent for 2023.

Fiscal position

4. The primary fiscal deficit is expected to be contained at 1.1 percent of GDP at end-2022, declining from 3 percent in 2021 and 14.7 percent in 2020. The targeted deficit in 2022 over performs the initial projection of 1.4 percent of GDP, due to lower current and capital spending. The primary fiscal balance is projected to reach a surplus of 1.1 percent of GDP in 2023.

Public debt

5. The Government continues to pursue its objective of reducing public debt to 50 percent of GDP by 2026. As at end September 2022, public debt stood at to SCR 17.6 billion or 63 percent of GDP. It is expected that by end-December, public debt will stand at 67.9 percent of GDP. To better support planning of debt management operations, the Government has been formulating a quarterly borrowing plan on a recurring basis, which was approved by the National Debt Committee. The Government has also published its revised 2022 Annual Borrowing Plan following the mid-year review. The Medium-Term Debt Management Strategy (MTDS) will be published following finalization of 2023-2025 Budget numbers by end-2022. The Government continues to rely on the regular issuance of long-term bonds through the auction mechanism. The issuance calendar for bonds is done on a quarterly basis and going forward the issuance of bonds will be supported through the initiation of trading reforms in government securities and development of repo market.



Monetary and external sectors

6. Monetary policy is to remain accommodative throughout 2022 to continue supporting the domestic economy as it recovers from the abating effects of the pandemic and the downside risks emanating from the war in Ukraine. Gross International Reserves (GIR) reached USD640 million as of September 2022, while NIR stood at USD489 million, comfortably above the NIR target of USD423 million. The Central Bank of Seychelles has allowed the currency to act as a shock absorber and has not conducted any foreign exchange auctions since February 2022.
7. For 2022, the current account shortfall is forecasted at 6.7 percent of GDP, primarily due to projected growth of 80 percent in tourism earnings to reach US\$967 million. Inflationary pressures are starting to pick up as the upsurge in international fuel and commodity prices inevitably passes through domestic prices given the country's heavy reliance on imports. The 12-month average and year-on-year inflation rate for August 2022 was 4.8 percent and 2.8 percent, respectively. The forecast for December 2022 is a 12-month inflation rate of 3 percent while the year-on-year change in consumer prices is projected at 3.8 percent.

III. The Reform Agenda

8. The keystone of our reform program remains attainment of sustainable fiscal surpluses over the medium term with the aim to strengthen public debt sustainability. The ambitious fiscal consolidation of the Government together with the sharp recovery in the exchange rate in April 2021 and robust GDP growth, contributed to the strong reduction in the ratio of public debt to GDP in 2021 and further reduction in 2022. Given Seychelles vulnerabilities to external shocks the Government remains committed to achieving its pre-COVID objective of reducing debt to 50 percent of GDP by 2026. Furthermore, following the invasion of Ukraine and the observed spike in international commodity and energy prices, the Government implemented a series of measures to alleviate the potential impact on the most vulnerable groups of society.
9. The reforms that underpin the MTF 2022-2024 cut across several areas but keeps with the aim of reinforcing governance and economic management in the public sector including state-owned enterprises so as to sustain inclusive growth momentum. 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

10. 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 will continue to focus on digitalization initiatives, stronger compliance monitoring and enhancement of the ASYCUDA customs system.
11. Progress is being made to empower and enable taxpayers to timely meet their obligations through innovative and transparent processes by improving and diversifying online services. A modern tax system includes more automation, more digital solutions, and less manual work. The new taxation management system is currently being developed with the aim to complete the project in 2023. A modern Tax Management System will result in increased revenue collection, increased use of digital service to lower compliance costs for taxpayers and subsequently improve voluntary compliance, increase the taxpayer registrations, and offer additional opportunities for taxpayer education.
12. SRC has acquired a system for Automatic Exchange of Information to be more efficient in exchanging tax information and in meeting OECD standards. The development stage for Common Reporting Standards (CRS) and Country By Country reporting (CBCr) has been completed and the modules have been deployed. The two modules will be tested and go live in October 2022. Another system that has been developed is a case management system for tracking the exchange of information cases received. The system has been tested and staff in the International Tax Unit have started recording their cases in the new system since October 2022.
13. Recognizing the challenges of transfer pricing, the SCR is currently receiving technical assistance from Tax Inspectors Without Borders (TIWB) for Transfer Pricing. The TIWB initiative has the objective of enabling the transfer of tax audit knowledge and skills to tax administrations in developing countries through a real time, “learning by doing” approach. This will help SRC to effectively engage in international efforts to address the emerging gaps in international norms. The Cabinet of Ministers has also approved the *Transfer Pricing Regulations*, which regulate the use of the arm’s length principle to control transfer-price manipulation.
14. Another aspect of the reform program aims to enhance accountability and transparency in the public sector. This includes further strengthening the management of state-owned enterprises and reduce transfers from the budget. The Cabinet of Ministers has submitted to its National Assembly the Public Enterprises Bill, 2022, including implementing provisions, which aims to improve performance monitoring, to ensure appropriate oversight, of public enterprises for better service delivery, transparency, and accountability. The Public Enterprises Monitoring Commission (PEMC) will publish a Public Enterprises' Annual Report in accordance with the new legislation to ensure more transparency in the fiscal affairs of the enterprises. The annual report will present the overall financial performance of the Public Enterprises based on their audited financial statement and will publish this, six months after the closing of the financial year.



15. To make the level of public debt sustainable, and better support planning of debt management operations, the Government has been formulating a quarterly borrowing plan on a recurring basis, which was approved by the National Debt Committee. The authority has also published its revised 2022 Annual Borrowing Plan following the mid-year review. The Medium-Term Debt Management Strategy (MTDS) will be published following finalization of 2023-2025 Budget numbers by end-2022.
16. The Government continues to rely on the regular issuance of long-term bonds through the auction mechanism. Since the beginning of 2022, government has issued three sets of Treasury bonds, in March, May and August. Additionally, government guaranteed the issuance of two bonds on behalf of the Development Bank of Seychelles (DBS), one in March and the other in April. The Government continues with its quarterly publication of the issuance calendar for bonds on the Ministry of Finance website. The issuance of bonds will be supported through the initiation of trading reforms in government securities and development of the repo market.

Fostering Climate Change and Environmental Resilience

17. The Government remains committed to implementing priority climate change adaptation investments that have been identified in critical infrastructure, tourism and coastal management, food security, biodiversity, water security, and the blue economy. Furthermore, there are planned projects under the umbrella of disaster risk reduction management, such as establishing early warning systems and improving coastal resilience that are worth considering. The Government plans to mainstream climate adaptation in Seychelles' recovery post-pandemic plan. Also, a prioritization exercise of climate change related projects is being undertaken which will help the government prioritizes its spending. Seychelles is recognized—and receives the support of other countries and international organizations—for its program of adaptation to climate change and the management of the challenges associated with it. Severe erosion, waves crashing on coastal roads, and inundations during the annual rainy seasons have shown that our environment, our economic resources, and even our social life, remain vulnerable, and there is an urgent need to seriously address these challenges.
18. For Seychelles, a small state with limited developable land, and exposed to multiple hazards, it is imperative to have risk-informed development planning to optimize the use of the land. The Government has taken critical steps towards achieving this through the adoption of the Physical Planning Act (2021) and now, the adoption of Guidelines for integrating hazard and climate risks into the planning framework, which has Ministerial endorsement. These Guidelines provide the groundwork for updating the Land-Use Plan regulations and Building regulations, and therefore will inform how and where development is permitted in Seychelles. They establish that all land being considered for development should be assessed by infrastructure connectivity and hazard exposure. They also define criteria for the consideration of hazard and risk in zoning decisions in land use plans.

Ministry of Finance, National Planning and Trade
Liberty House | Victoria | Mahé | Republic of Seychelles
Tel: (+248) 4 38 21 20 | Email: minister@finance.gov.sc



They provide thereby a binding decision-making framework for the Seychelles Planning Authority and the Planning Board, that identifies whether development will be in high, moderate or low risk areas and the subsequent actions to be undertaken as a result. The Guidelines will also inform the public, and in particular potential developers, on basic criteria – especially for the determination of no-development zones – standards and procedures related to the consideration of hazard and the impact on the risk resulting from proposed or planned developments.

19. The overarching goal of the Guidelines is to ensure that the level of risk associated with hazards is not increased as a result of inappropriate development within Seychelles. To achieve, this the Guidelines outline the key land use planning principles, along with the government’s policy goals. They also lay out the collaboration of public authorities as well as consultation procedures with private stakeholders and the general public to guarantee a transparent and just decision making for zoning classifications in land use plans. The Guidelines will be made available to all governmental units involved in land use planning and development permitting as well as to all potential developers and will be monitored through the Planning Board, who meets weekly to evaluate all development applications. The guidelines, will thus, inform all new development in Seychelles.

Financial Consumer Protection

20. The National Assembly recently approved the Financial Consumer Protection Act, 2022 which seeks to protect the interests of the financial consumers to fairly, reasonably, and effectively, handle financial consumer disputes, and to promote the development of financial sector. Financial consumer protection encompasses the laws, regulations, and institutional arrangements that safeguard consumers in the financial marketplace. The newly approved Act also provides for regulation by the competent authorities, role of the competent authorities, fees, compliance with the provisions of the Act, reporting duties of the financial services providers, information to the competent authorities, examination, records to be maintained by the financial service provider, enforcement action by the competent authorities, right to submit written representation and oral submissions and publication by the competent authorities, while it also provides for the duties of the financial services providers, their general obligation, and transparency and advertising matters.
21. It also caters for abusive practices such as prohibited acts and conducts, abusive collection and debt recovery practices, default interest, exercise of rights against the principal debtor and guarantor and bundling and tying of products, and also for protection of consumer data and confidentiality of non-public consumer data, collection of non-public consumer data, storage of non-public consumer data and disclosure of non-public consumer data, while internal policies and procedures relating to sale of services or products and sales personnel remuneration policy are also absorbed within the Act.



Digital Economy

22. The effects of COVID-19 pandemic have further reinforced the need to embrace the digital economy agenda going forward. 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. These pillars include a robust regulatory framework, efficient and reliable digital infrastructures as well as enhanced digital skills and literacy. Government has provided funds of around 0.5 percent of GDP for the years 2023 to 2025 in the budget for projects supporting the digital economy. The digital action plan for the medium term has been adopted and amongst others will focus on improving the relevant legislative framework. A new Communications Bill which aims to address anti-competitive practices and provide a better legal framework for the telecom sector was recently approved by the Parliament. This Bill also provides for the creation of an independent ICT regulator. In addition, a new legislation which aims to address the protection of individuals with regards to the processing of personal data (Data Protection) is expected to be enacted early 2023.

Fisheries Sector

23. Fish processing and aquaculture remains two key sectors as part of the Transformative Economy Agenda of the Government. Previously focus was put on the exploitation of our maritime resources and the need to assist fish processing projects in the fisheries sector that encourages the sustainable development of our ocean and develops new sectors in the economy. As the landscape for the growth of these categories is being improved, and taking into account the investment requirement, Government will introduce a special business tax regime of 15 percent to help boost these sectors and encourage new entrants. In addition, the Government will invest in additional infrastructure needed to support the development of the sector as part of the 2022 and 2023 budget amounting to 0.2 percent of GDP. In order to promote the long-term sustainability of fishing resources in Seychelles, the Government has published the Fisheries (Mahé Plateau Trap and Line Fishery) Regulations. The objective of these Regulations is to implement the Seychelles Mahé Plateau Trap and Line Fishery Co-management Plan, and pursuant to the Fisheries Act, 2014 which permits the Authority to enter into co-management arrangements for the management of a fishery and which empowers the Minister to make regulations prescribing measures for the proper management of a fishery. Improved management of the fish stock will promote increased supply and resilience against the vagaries of climate change. In turn, increased supply and resilience of fish stock will help reduce the number of fishing vessels and the distances traveled thereby reducing fishing effort, and the carbon footprint.



IV. Conclusion

24. 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, the Ukraine war and to enable the country to build the necessary resilience so as to attain a sustainable fiscal surplus over the medium term and further strengthen debt sustainability.

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 A: Fiscal Sustainability		
<p>Prior action #1: To strengthen government oversight over public enterprises, the Borrower through its Cabinet of Ministers has submitted to its National Assembly the Public Enterprises Bill, 2022, including implementing provisions, which aims to improve performance monitoring, to ensure appropriate oversight, of public enterprises for better service delivery, transparency, and accountability.</p>	<p>Positive. If key performance indicators include environmental management indicators. Managing and reporting on environmental performance can significantly benefit both SOE/businesses and the environment.</p>	<p>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.</p>
<p>Prior action #2: To modernize international business tax policy and implementation of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, the Borrower through its Ministry of Finance, National Planning and Trade, has published in the Government Gazette, the Business Tax (Amendment) Bill, 2022, which includes Ttransfer pPricing Regulationsprovisions, _____, which regulate the use of the arm’s length principle to control transfer-price manipulation.</p>	<p>Neutral.</p>	<p>Negligible impact on the poor. Tax administration measures reduce the cost of compliance for withholding taxpayers, encouraging formalization.</p>
Operation Pillar B: Strengthening Resilience		
<p>Prior action #3: To foster resilient development, the Borrower, through the Seychelles Planning Authority within the Ministry of Lands and Housing has adopted [and published on the website of the Seychelles Planning Authority,] Guidelines which serve as a roadmap to enable implementation of the administrative framework of the Physical Planning Act, 2021 and integrate hazard and climate risks in land use plans utilized to determine the use of Seychelle’s land area in accordance with the Physical Planning Act, 2021 in order.</p>	<p>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.</p>	<p>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.</p>
Operation Pillar C: Strengthening policies to create an enabling environment for inclusive and sustainable growth		
<p>Prior action #4: To ensure the privacy of consumer credit information and protect the interests of financial consumers, the Borrower, through its National Assembly has enacted the Financial Consumer Protection Act, 2022, which is aimed at fairly,</p>	<p>Negative.</p>	<p>Positive.</p>



Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
reasonably, and effectively handling financial consumer disputes to promote development of the financial sector.		
Prior action #5: To enhance competition and ensure an open and non-discriminatory access regime in the information, communication and technology industry (“ICT”), the Borrower, through its Cabinet of Ministers has submitted to the National Assembly the Communications Bill, 2022, which make provisions for the creation of an independent ICT regulator (Seychelles Communications Regulatory Authority) to regulate competition in the ICT industry.	Negative.	Neutral.
Prior action #6: To promote the long-term sustainability of fishing resources in Seychelles, the Borrower through its Ministry of Fisheries and the Blue Economy, has published in the Government Gazette the Fisheries (Mahé Plateau Trap and Line Fishery) Regulations,2021, to implement the Seychelles Mahé Plateau Trap and Line Fishery Co-management Plan and prescribe measures for the proper management of fisheries.	Positive. This prior action supports imposing limitations on the fishing of specific species of fish including minimum size and bag limits for some key species will contribute to rebuild targeted fish populations and avoid over-exploitation.	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.



ANNEX 5: COMPARISON OF THE DPF 2 INDICATIVE TRIGGERS AND THE DPF 2 PRIOR ACTION

Indicative Triggers for DPF 2 (as formulated in DPF 1 program)	Prior Actions for DPF 2	Explanation for Change
<p>DPF 2, Trigger #1: To meet its commitments and targets included in the PEMC Act, the Borrower through its Ministry of Finance and National 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.</p>	<p>DPF 2, Prior Action #1: To strengthen government oversight over public enterprises, the Borrower through its Cabinet of Ministers has submitted to its National Assembly the Public Enterprises Bill, 2022, including implementing provisions, which aims to improve performance monitoring, to ensure appropriate oversight, of public enterprises for better service delivery, transparency, and accountability.</p>	<p>Reworded with no material change to the substance of the policy action.</p>
<p>DPF 2, 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.</p>	<p>DPF 2, Prior Action #2: To modernize international business tax policy and implementation of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, the Borrower through its Ministry of Finance, National Planning and Trade, has published in the Government Gazette, the Business Tax (Amendment) Bill, 2022, which includes transfer pricing Regulations provisions, _____, which regulate the use of the arm’s length principle to control transfer-price manipulation.</p>	<p>Reworded with no material change to the substance of the policy action.</p>
<p>DPF 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) research for zoning decisions, (2) suitability for building zones based on the exposure to climate and natural hazards, and (3) determining hazard and climate risk information which should be displayed in land use plans.</p>	<p>DPF 2, Prior Action #3: To foster resilient development, the Borrower, through the Seychelles Planning Authority within the Ministry of Lands and Housing has adopted and published on the website of the Seychelles Planning Authority, Guidelines which serve as a roadmap to integrate hazard and climate risks in land use plans utilized to determine the use of Seychelle’s land area in accordance with the Physical Planning Act, 2021.</p>	<p>Reworded with no material change to simplify framing while capturing the core aim of the action. The program document provides more explanation on the Guideline content.</p>
<p>DPF 2, 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.</p>	<p>DPF 2, Prior Action #4: Dropped.</p>	<p>The action was achieved in December 9, 2021, with progress to date recorded in the program document and the letter of development policy. The action was dropped and the indicative trigger for DPF3 was updated to include a follow up action in the reform agenda.</p>



<p>DPF 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.</p>	<p>DPF2, Prior Action #4: To ensure the privacy of consumer credit information and protect the interests of financial consumers, the Borrower, through its National Assembly has enacted the Financial Consumer Protection Act, 2022, which is aimed at fairly, reasonably, and effectively handling financial consumer disputes to promote development of the financial sector.</p>	<p>The Financial Consumer Protection Act is a key legislation supporting development of the credit reporting system. It replaces the previous Acts (outlined in DPF 2, trigger #5). The first draft of the Data Protection Act is currently undergoing stakeholder consultations. The first draft of the Credit Reporting Bill was completed by the Office of the Attorney General and is currently being reviewed by the Central Bank of Seychelles. For the National Payment System Act, a policy paper is currently being prepared to be submitted to Cabinet. Given the delays, these legislations will not be completed until Q1 2023.</p>
	<p>DPF 2, Prior Action #5: To enhance competition and ensure an open and non-discriminatory access regime in the information, communication and technology industry (“ICT”), the Borrower, through its Cabinet of Ministers has submitted to the National Assembly the Communications Bill, 2022, which make provisions for the creation of an independent ICT regulator (Seychelles Communications Regulatory Authority) to regulate competition in the ICT industry.</p>	<p>New action added to deepen and further strengthen competition in the ICT sector a related DPF 3 trigger will supports establishment of the ICT regulator.</p>
<p>DPF 2, 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.</p>	<p>DPF2, Prior Action #6: To promote the long-term sustainability of fishing in Seychelles, the Borrower through its Ministry of Fisheries, has published in the Government Gazette the Mahe Plateau Regulations, which sets up specific fisheries management measures for specific species of fish.</p>	<p>Reworded with no material change to the substance of the policy action.</p>