



SEYCHELLES GOVERNMENT BUDGET

For the Fiscal Year 2020

Theme: “Equitable Outcomes-Shared Prosperity”

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Budget Speech Outline for Fiscal Year 2020

1. INTRODUCTION

Mr. Speaker,
Honorable Leader of the Opposition,
Honorable Leader of Government Business,
Honorable Members of the National Assembly,
The People of Seychelles.

Good Morning

Mr. Speaker, on the 5th of August 2019, Government launched the Vision 2033-aspiring to transform Seychelles to “A resilient, responsible and prosperous nation of healthy, educated and empowered Seychellois living together in harmony with nature and engaged with the wider world.” The launching of the long term Vision highlighted the need to look beyond the medium term and ascertain what we want to achieve as a nation over the next 15 years.

The Vision 2033 was done in partnership with the Government, civil society, private sector, the international community and the different groups within our society. Thus, it is of collective responsibility to ensure that Vision 2033 is translated into reality.

Our country remains vulnerable to external shocks especially at this crucial point in time where the steady pace of expansion in the global economy masks an increase in downside risks that could potentially exacerbate development challenges in many parts of the world. Thus, we need to continue to work together to ensure we are resilient and find a common solution for our challenges.

Mr. Speaker, the 2020 budget is designed around the six thematic pillars of the NDS. In light of this, the theme chosen for the 2020 budget is “Equitable Outcome-Shared Prosperity”. For the 2020 budget, following consultation with the National Assembly, we will only provide electronic copies of the budget.

2. OVERVIEW OF THE ECONOMY IN 2019 AND MEDIUM TERM

2.1. Overview

As per the October 2019 World Economic Outlook, the global economy is in synchronized slowdown and growth has been downgraded once again to 3 percent in 2019, and is expected to pick up to 3.4 percent in 2020.

2.2. 2019 in Context

Mr. Speaker, in the context of Seychelles, Real GDP growth for 2019 has been revised upwards to 3.9 per cent compared to the initial estimate of 3.5 per cent at the time of budget preparation. This upward revision follows stronger performance during the first half of 2019 than initially anticipated. The main driver behind this more favorable outlook is the ‘Manufacturing of beverages and tobacco’ sector. By the end of the second quarter of 2019, the production of ‘stout

and beer’, stood at 21 and 12 per cent respectively. Increase in tourism activities, the main economic pillar for Seychelles, is also contributing towards the upward revision with visitor arrivals growth at 5 per cent year on year by the 20th of October 2019. The ‘tourism’ sector anticipates to grow by 5 per cent in 2019, compared to the initial 4 per cent forecasted. Continuous increase in data usage and demand for internet services is driving growth in the ‘Information and telecommunication’ sector with the overall forecast at 7 per cent. This sector has been resilient over the past 5 years and outlook is anticipated to remain strong in the medium term with the installation of a second submarine cable. Finally, the ‘construction’ sector is resurgent in 2019 given several Government housing projects, the expansion of La Gogue Dam, the renovation of Ste. Anne Resort, as well as other ongoing projects spilling over from 2018. This has led to an increase in manufacturing of ‘concrete and rock products’, and thus, a positive outlook for this sector also. Such increases in economic activities naturally necessitate increased demand for ‘electricity and water supply’ as evidenced by year to date growth of 8 per cent on average.

2.3. 2020 Projection and the Medium Term

For 2020, growth remains positive at 3.5 per cent, driven by continuous activities in the ‘information and telecommunication’ sector with a growth of 5 per cent. Tourism, the main contributor to overall GDP, will help sustain growth with an estimated growth of 5 per cent as a whole. Tourist arrivals is anticipated to be strong following the announcement by Air France, to recommence its flights to Seychelles, and the increased flight frequency by Qatar Airways to 14 flights per week as of end March 2020. Furthermore, Air Seychelles will start flying to Tel Aviv, and this may help to further boost arrivals. Activities in the ‘construction’ sector will continue into 2020 thus supporting growth.

With a lower than initially forecasted inflation estimate on a twelve month average, from 2.2 to 2.0 per cent, and with more favourable exchange rate against the Euro and the US Dollar than initially anticipated, the Nominal GDP growth assumption has been revised downwards by 0.3 percentage point compared to the March 2019 revision. This has slightly lowered Nominal GDP forecast to reach SR 24.4 billion.

In the medium term, growth is forecasted at an average of 4 per cent. The main drivers of growth remains tourism, information and telecommunication as well as the financial and insurance sector.

3. 2019 BUDGET PERFORMANCE

Mr. Speaker, Government is forecasting to end 2019 with a primary balance of SR 583.9 million or 2.5% of GDP. Tax revenue is expected to be in line with the initial budget with only SR 5.9 million higher, with a shortfall in business tax offset by higher personal income tax receipts. However, the non-tax revenue is SR 50.3 million below the original budget. The total grants expected to be collected in 2019 will be SR 64.2 million below the initial budget.

In regards to the expenditure, Government proposed a supplementary budget during October 2019 with a net savings of SR 125.6 million or 0.5% of GDP. Thus, expenditure has been forecasted

downward. The main savings has been under wages and salaries amounting to SR 52.0 million and goods and services at SR 26.8 million.

Mr. Speaker, there were a number of discussions in regards to budget freeze that was done during the mid-year review exercise. Section 26 of the Public Finance Management Act, 2012 give the Minister responsible for Finance the power to;

1. Set restrictions for the use of an appropriation by an accounting officer;
2. Limit the use of an appropriation if it is justified by economic or fiscal conditions or the purpose for which the appropriation was authorized is no longer applicable.

4. PROJECTIONS FOR FISCAL YEAR 2020

4.1 Primary Objectives

Mr. Speaker, Government remains committed towards achieving its fiscal balance of 2.5% of GDP for the year 2020. This target will allow us to meet our debt reduction target of 50% of GDP by 2021. However, the latest projection indicates that the debt to GDP will be at 51.7% in 2021 because of the additional Air Seychelles guarantee amounting to US\$ 30 million. Nevertheless, we will work further during 2020 to ensure that the debt target remain on target of 50%.

4.2 Revenue

Mr. Speaker, for the year 2020, we are projecting total revenue including grants to increase from SR 8.8 billion in the revised 2019 budget to SR 9.9 billion in 2020. Of this, SR 7.73 billion will be tax revenue, which represents 78.4% of the total revenue collection. A total of SR 1.48 billion is forecasted for non-tax revenue and SR 647 million as grant receipts.

4.3 Government Expenditure

For the year 2020, the Government is proposing an appropriation bill of SR 9.29 billion which is being financed 88.9% from domestic resources, 4.1% loan financing and 7.0% as grant financing.

Mr. Speaker the education and health sector remains the priority sectors with the largest share of the budget allocation at a total of SR 1.18 billion and SR 1.12 billion respectively which the total of the two sectors represent 24.7% of the total appropriation bill. Mr. Speaker, these two sectors, have contributed immensely towards an excellent human capital index for Seychelles.

Mr. Speaker, the tender process for the integrated Health Information System has completed and is currently entering the contract negotiation phase. We expect the contract to be signed by the end of this year. By establishing an integrated Health Information System, the Government is making the necessary commitment that is expected to ensure improvements in health care quality, efficiency of delivery and access, while also moving the health care system closer to harmonization with relevant international standards. Central to this is the implementation of an integrated Electronic Medical Record solution that will cover 100% of the citizen population of Seychelles. The secondary purpose of the project is to link the Health Information System to the various national E-Government systems (e.g. birth and death registry) to improve health related regulatory enforcement and overall Government strategic decision-making nationally for planning purposes

Major setbacks are being encountered in the implementation of capital projects for various line ministries and implementing agencies. Government has quite an ambitious infrastructure development plan as well as a vast number of aging infrastructure that requires significant attention. As a temporary measure, Government has recruited foreign project staff to assist with the implementation. The ability to recruit local expertise remains very challenging, as Government cannot compete with the private sector which remains a more attractive option. In addition, it would be necessary to ensure that project officers dedicate their full effort on Government projects which is quite demanding, and as a result they would not be allowed to carry out private works. We have seen that this affect the service delivery and as such, this measure is required to ensure that Government attains its targets accordingly.

4.4 Wages and Salaries

Mr. Speaker, a sum of SR 3.0 billion equivalent to 12.3% of GDP has been allocated to Wages and Salaries. This represents an increase of SR 382.6 million or 15% compare to the revised 2019 budget.

Mr. Speaker, a total budget of SR 81.4 million has been allocated under wages and salaries for the revision of schemes of service in 2020 and the full impact of the 2019 scheme of service implementation during the year.

The following scheme of service will be revised effective January 2020;

- Seychelles Land Transport Agency; Asphalt Workers
- All project officers in Ministries/Departments/Agencies
- Attorney General – Public Prosecutors
- Ministry of Education and Human Resources Development – Head teacher and Deputy Head teachers, Library Cadre
- Department of Immigration and Civil Status
- Department of Foreign Affairs; Diplomatic Cadre for Seychelles Diplomatic Missions Abroad and Protocol Chauffeur
- The Legislature; Parliamentary Unit and Secretariat
- Department of Risk and Disaster Management: Disaster & Risk Management Cadre

Scheme of service for the Ministry of Environment, Energy and Climate Change will be revised effective March 2020 and scheme of service for Judiciary will be revised effective April 2020. In addition, the Seychelles Bureau of Standards scheme will be implemented from July 2020.

The scheme of service for nurses was revised in 2018 when Government introduced a retention allowance of SR 3,000 per month and a revision in the way we calculate the nurses gratuity. Therefore, during 2020, we will work to review the basic salary of nurses with the aim of 2021 implementation.

In addition, Government aims to review the common support cadre in 2021. These are the Human Resource, Administration and secretarial cadres. Although these schemes were revised in 2018, there is a need to re-consider these scheme of service to attract and retain quality support structures

in the various organisations, which is crucial to ensure that all Government organisations operates effectively and efficiently.

Mr. Speaker, for the year 2019, there is a provision in the budget to implement the five percent salary increase from April 2019. In 2020, the full year implication for the implementation of the five percent salary increase will be SR 74.4 million. In addition, we started the implementation of the long service allowance from July 2019. This will have a full year implication amounting to SR 103.8 million in the 2020 budget. Furthermore, as per the announcement made by the President in October 2019, the Long Service Allowance Scheme for Government employees which was introduced in July 2019, will now be applicable for employees on Public Service Commission and Agency contracts from 1st January 2020. This will costs SR 18.9 million in the 2020 budget. In addition, the long service allowance for housekeepers working with the Cleaner's Corporative and the security officers working for the VVIP unit will be entitled to their long service allowance from the day they joined the Government. It is to be noted Mr. Speaker, that the long service allowance is exempted from income tax.

Mr Speaker, the ability of Government to retain its workforce and attract other suitably qualified person to join the public service has been one of our main priority since the 2008 reform. A diagnostic report that focused on a review of the public service and performance management in Seychelles was carried out early this year, by the World Bank. In general it was observed that the Seychelles public service operates relatively well, continuing as a whole along familiar, but mostly traditional paradigm lines. It was also highlighted however, that our public service requires substantial strengthening to make it more performing.

The public service was perceived to be not appropriately sized for its mandates, as in many areas, existing staff and their skills are not employed effectively. The wage bill as a share to GDP is continuously increasing. This will lead to less space for pay and grading reform. In addition, the 2013 data shows a 20% overall wage premium over the private sector, although senior management, professionals and technician position in the private sector are relatively higher. Human Resource function of Government and the mandate, roles and responsibilities of DPA are perceived to be in need of reform, including the existing system of pay and benefits. In regards to pay policy, the paper acknowledge the 2013 restructuring of the salary scales as an improvement on what existed before. However, it stressed on the multiple number of allowances that are determined by scheme of service, which although convenient in the short run, will risk rendering pay non-transparent, reduce the share that should be performance related, and encourage a culture of entitlement that will not be in favour of result base management if we continue with this method. It is to be noted that there are currently 216 schemes of service in Government. It also stressed on the need to move away from a traditional human resources management administration to a result based oriented, public service and public sector reform. Existing delegation of authority to MDAs was seen to be sufficient for the moment, but could be increased further as the Result Based Management is developed.

In regards to pay policy, a revision in our model of adopting schemes of service needs to be carried out, that stresses on competencies and performance. In addition, a new model of career progression could be developed that is less reliant on promotion, but place greater emphasis on work life skills

and training, varied experience and mobility. Government will therefore be analyzing these recommendations and will present policy options for the way forward.

5. EXPENDITURE IN THE SIX THEMATIC PILLARS OF THE NDS 2019-2023

Mr. Speaker, the National Development Strategy 2019-2023, which is the first step towards the implementation of Vision 2033 is designed around six thematic pillars. I will therefore give an indication of the budget allocation around the six thematic pillars.

5.1. Good Governance

Mr. Speaker, good governance is essential for ensuring a sound foundation for peace and prosperity, which in turn paves the way for sustainable development. In the 2020 budget a total of SR 221.8 million has been allocated with the different independent institutions as follows;

- The Judiciary SR 102.0 million
- The Legislature SR 43.0 million
- Office of the Auditor General SR 21.3 million
- Office of the Ombudsman SR 3.8 million
- Constitutional Appointments Authority SR 2.1 million
- Electoral Commission SR 8.9 million
- Anti-Corruption Commission SR 19.0 million
- Truth, Reconciliation and National Unity Commission SR 12.1 million
- Public Officers' Ethics Commission SR 3.0 million
- Seychelles Human Rights Commission SR 6.7 million

This is the cost to ensuring democracy. I know the request was much more from the institutions however we have managed to allocate the funding I have just mentioned. This represents an increase of SR 26.6 million or 13.6 % compared to the 2019 revised budget.

Mr. Speaker, in addition we have allocated SR 15 million for the expenses related to the executions of the Presidential election in 2020.

5.2. People at the Centre of Development

Mr. Speaker, as Seychelles engages with the wider world, the country requires a pool of highly-skilled, creative workers who can increase labour productivity and stimulate economic growth. The Agency of National Human Resources Development which has been allocated with a budget of SR 205.2 million will play a key role in achieving this strategy. The agency will be working closely with the Ministry of Education and Human Resources Development and the Department of Employment to ensure that the education sector provide the required skills that are needed in the labour market.

During 2019, we have had 95 students graduated from overseas universities and 104 from the University of Seychelles. This number will increase in 2020, as we expect 238 graduates. In addition, based on the 2020 budget, the Agency of National Human Resources Development is expected to offer 358 scholarships in the different fields of study.

As mentioned by the President in his 2018 State of the Nation address “there is a necessity to better prepare our youth from a young age for them to gain the knowledge and competence to better integrate into the economic sector”. To overcome these challenges and better equip Seychellois youth to benefit from the country’s economic growth, and to lay the foundation for future economic and social development, it is crucial for the Government to adopt a system-wide approach and at the same time be strategic and innovative in the education and training reform endeavors. The Government has embarked on an establishment of a new Technical and Vocational School.

The proposed National Technical School, under the present conceptual plan, is intended to take in students from the existing ‘General and Skills’ pathway that runs concurrently with the ‘Academic and Technical’ pathway in all secondary schools at S4 and S5 levels. This mixing of two pathways in the same school has proven to be difficult to manage for schools, creating diversion of critical resources and mixed missions. Hence the new National Technical School is intended to address this by bringing half of these students into a specialized school. The aim is for the new school at Ile Soleil to be operational by 2022.

Mr. Speaker, the new Seychelles Business Studies Academy and Seychelles Institute of Art and Design will be constructed at Ile Aurore. The project will go on tender in 2020. A provision of SR 27.9 million has been allocated in the 2020 budget.

Mr. Speaker we have allocated another SR 10 million for the Unemployment Relief Scheme and SR 3.1 million for the employment reskilling programme.

Mr. Speaker, the opportunities are there for our youth to study, the sky is the limit for them and they need to take these opportunities and use them in their development to take the highly skilled jobs that are being created in the country and be prepared for the jobs of tomorrow.

5.3 Social Cohesion

Mr. Speaker, forty-two percent of the total appropriation bill is for the education, health and family affairs portfolio which represents 16.0% of GDP. A lot has been said about the Benefits and Approved Programmes of the Agency of Social Protection in the past few weeks. In the 2020 budget this will amount to SR 1.49 billion which represents an increase of SR 100.5 million or 7% compared to the 2019 revised budget. Mr. Speaker, SR 1.28 billion or 88 percent of the total allocation of SR 1.49 billion is for retirement benefits, invalidity benefits, disability benefits and home carers scheme. Thus there is little room for savings taking into account our ageing population. However, we are working towards rationalizing the functions and programs in the area of social services, with the aim of increasing efficiency in service delivery and achieve savings.

5.3.1. Land and Housing Sector

Mr. Speaker, land and housing remains a priority for the Government. Based on the availability of resources, we have been able to give 188 families the keys to their new homes from January to end of October 2019. We expect that another 152 families will receive their keys before the end of December 2019. Furthermore during 2020, we expect another 209 families to receive their keys. With regards to land allocation we have allocated 175 plots during 2019 and we expect to complete infrastructure to serve around 286 plots during 2020.

Mr. Speaker, in 2020 a total budget of SR 97.1 million has been allocated under the Ministry of Habitat, Infrastructure and Land Transport for the development of the housing and land projects. However, this will not be enough, Government through Property Management Corporation will have to finance another SR 200 million worth of projects. This will be through a bond that we expect Property Management Corporation will issue in January 2020 for 5 years at 5% interest rate. The repayment will be through the budget. Government will use SR 40 million from that SR 200 million to purchase the Ile Perseverance housing project from Seychelles Pension Fund. The project consists of 24 two bedrooms apartments and 18 one bedroom apartments at a purchasing price at SR 68.5 million. This project is expected to be completed by end of November 2019. The balance of the funds will be financed through loans by the individual graduate at a price of SR 1.2 million per unit. The 18 one bedroom apartments will be used by Property Management Corporation to rent out to graduates at a reasonable rate at SR 6,000 per month in the interim while they wait for either a Condominium or plot of land from Government.

The new bond of SR 200 million will also be used to finance the replacement of roofing tiles project by Property Management Corporation.

5.3.2. Community

Mr. Speaker, during the year 2019, the Department of Local Government is expected to complete 210 small community projects worth of SR 27.4 million. Another SR 30 million has been allocated in 2020 for the small community projects. In addition, SR 9.2 million has been allocated in 2020 for minor emergency works.

By end 2019 budget, the following day care centers would have been completed;

- Anse Aux Pins Day Care
- Glacis Day Care
- Takamaka Day Care
- Grand Anse Praslin Day Care

In addition, we will use the financing through the Small Development Project Grants under Indian Government financing to construct, the following day care centers in the following districts;

- Cascade
- English River
- Grand Anse Mahe
- Ile Perseverance
- Les Mamelles
- Roche Caiman

These will be new business opportunities for Seychellois operators.

5.3.3. Arts, Culture and Heritage

Mr. Speaker, the different departments and entities under arts, culture and heritage sector have received a total allocation of SR 153.7 million. In addition, Government has provided SR 0.5 million and SR 1 million under the Seychelles Heritage scheme and Culture and Arts Trust Fund respectively.

Effective January 2020, a National Arts Council grants policy will be introduced. The new Seychelles National Cultural Policy emphasizes on the importance to encourage artistic creativity to further enrich the Seychellois Culture and promote Seychellois cultural goods and services abroad. The Grants Policy seeks to support and nurture creativity and encourage cultural activity to encourage greater social cohesion and economic development.

A sum of SR 1 million has been allocated to the National Arts Council, to nurture the capacity of the arts sector in Seychelles. The National Arts Council Grant will provide support to artists and Arts Associations in bringing the arts to communities, to engage, inspire and create shared experiences for people to connect with one another.

Funding will be provided to projects that will promote, develop and preserve arts in Seychelles especially projects that:

- Development of all Art forms;
- Build capacity within arts;
- Promote the visibility of the arts;
- Create opportunities through the arts;
- Promote meaningful changes and interventions within the communities.

In 2020, we will commemorate the 250th anniversary since the first settlers arrived in Seychelles. The National Preparatory Committee for the 250th anniversary of Seychelles will organise a number of activities at national level and in all districts with a provision of SR 5 million allocated in the budget 2020.

5.3.4. Youth and Sports

The Department of Youth and Sports and National Sports Council have received SR 9.2 million and SR 77.7 million respectively. Mr. Speaker, we have seen the success of our athletes during the 2019 Indian Ocean Island Game. We need to continue to allocate resources to upgrade the current sports facilities and train our athletes to enable them to compete at the international level. In the 2020 budget, we have made provision for our athlete to prepare and participate in the 2020 Tokyo Olympic Games and to host the “Zwe Lespar” in 2020.

The Seychelles National Youth Council has received an allocation of SR 28.2 million for the Council to continue to discharge and play its role in the country.

5.4. Economic Transformation

Mr. Speaker, as we look at the economy over the medium term, we need to ensure that we transform our economy for sustainable growth and shared prosperity. Some of the key sectors which will enable that transformation Includes;

5.4.1 Transport Sector

For the 2020 budget we have allocated SR 85.2 million under Seychelles Land Transport Agency for the different road infrastructure projects. The Seychelles Land Transport Agency will continue to implement the Victoria Traffic Management master plan in phases to improve the circulation of

traffic within and around greater Victoria. As present, the third lane along Fifth June Avenue is being implemented and with its completion by end of 2019, we expect to see a reduction in traffic congestion especially around the Independence House roundabout and adjoining roads. The recently completed roundabout and connecting roads at Bois De Rose is functioning well and the project will continue up to Roche Caiman. The road from Eden Island towards Providence Industrial Estate will be widened to allow more traffic to flow. Other important projects that form part of the Victoria Master Plan that the Seychelles Land Transport Agency will implement are, overhead pedestrian bridges to segregate pedestrians and vehicular traffic to allow smoother flow of traffic and improve safety of pedestrians. In addition, the project for the dual carriageway from Perseverance to Ile Du Port and Inter Island Quay is part of the medium term plan.

Mr. Speaker, the rehabilitation and extension of the Victoria Commercial Port is currently at the design stage and we expect that the project will be on tender by January 2020 with an indicative start date for construction of June 2020. The Seychelles Port Authority considers the investment in seaports infrastructure facilities and equipment as one of the most important element of its long term strategy to become competitive and to remain self-sustainable. During the year 2020, Seychelles Port Authority will maintain its strategy to invest in port infrastructure and equipment, and it is for this reason that an allocation of SR 109.2 million, mainly for the following projects;

- Relocation of Container opening Yard at Ex Coast Guard
- Eve Island Passenger Terminal Building and Infrastructure
- Realignment of seawall La Digue Jetty by 150 metres
- Purchase of 40 Ton BP Tug
- Purchase of a pilot boat
- Improvement in the Port Management System

Seychelles Civil Aviation Authority (SCAA) will be in the fifth and final year of implementation of its five-year investment plan. SCAA has thus far been able to use its retained profit to achieve its capital projects to an actual sum of SR 237.7 million, of which SR 59.8 million was incurred in 2019. During 2020 SCAA is forecasting to invest an amount of SR 103 million in capital investment.

Focus will be mainly on infrastructure projects such as SCAA's new office block, Terminal concourse refurbishment and road restructuring for improved traffic flow. In addition SCAA will continue with the airside infrastructure projects amounting to SR 17.7 million, that is maneuvering areas repairs and extension, improvement in northern-end drains and reclamation of land for RESA and piling works for pontoon for securing rescue boats.

SCAA will also invest in the replacement of the Air Traffic Management software amounting to SR 26 million to cater for surveillance and other key services in our airspace, which is critical. Furthermore, SCAA will invest SR 16.3 million in its Information, Communication and Technology network infrastructure.

5.4.2 Energy Sector

Mr. Speaker, PUC will be undertaking SR 348.9 million worth of projects to be financed either by PUC or Government development grant.

The power outages that the residents of La Digue experienced during August and September was finally resolved late September. As a Government we need to provide the infrastructure to ensure that these interruptions do not re-occur. PUC has provided standby generator system for La Digue costing SR 21.7 million. In addition, Government is finalizing the agreement with Abu Dhabi Fund for the loan amounting to US\$ 10 million equivalent to SR 143 million to install a third cable so as to ensure continuity of services in the event of a breakdown/failure.

PUC has also started the noise reduction and ventilation improvement at the Baie Ste Anne Power station costing SR 47.2 million. This project will be completed in 2020.

PUC has begun installing pre-paid electricity metres at selected homes at Ile Perseverance. There are 190 vulnerable families across Mahé, Praslin and La Digue, benefiting from social welfare assistance towards payment of their electricity bills from the Agency for Social Protection. They are the first ones benefiting from such service.

5.4.3 Agriculture, Fisheries and the Blue Economy Sector

Mr. Speaker, after one year, the Agriculture Comprehensive Plan can be seen as progressing well. 380 hectares of agricultural land has been surveyed which has been divided into 564 plot of land of which 436 plot of land has already been allocated to the farmers. The Government has also put in place the mechanism to allow registered farmers and fishermen to be eligible for VAT refund on locally purchased goods/equipment solely for use in their business.

In the 2020 budget, the Government has allocated SR 30.8 million and SR 41.1 million to the National Biosecurity Agency and Seychelles Agricultural Agency respectively. During the 2020 budget, the Seychelles Agricultural Agency will continue to invest in new farm roads and irrigation projects in the different districts.

In regards to the Fisheries sector, on the 22 October 2019, Government and the European Union concluded negotiations for a new Sustainable Fishing Partnership Agreement and a new Protocol that will strengthen their cooperation in the fisheries field for the next six years. The agreement marks a new important milestone of the long-standing bilateral cooperation between the Government and the European Union in fisheries and of their commitment in promoting the sustainable use of marine resources. Based on a reference tonnage of 50 000 tonnes, the EU will provide the Seychelles with an annual financial contribution of Euro 5.3 million equivalent to SR 89.5 million. A significant part of this contribution, Euro 2.8 million equivalent to SR 47.3 million per year, is specifically earmarked to promote the sustainable management of fisheries in Seychelles, as well as to support the development of small-scale fisheries. For the whole duration of the protocol, the total estimated value, including the EU ship-owners contribution, amounts to Euro 58.2 million or SR 982.4 million, equivalent to Euro 9.7 million or SR 163.7 million per year. For the first time, EU ship-owners payments will also include a specific contribution to a dedicated Fund that Seychelles will put in place to improve environmental management and the observations of marine ecosystems in our waters.

Mr. Speaker, we anticipate to complete the phase one of Ile Du Port Infrastructure during first quarter of 2020 and this will cost SR 29.6 million . We are working on the second phase of the Ile Du Port Infrastructure which will costs SR 87.5 million in total, mainly for road works, drainage and electrical works. The tender process will start during 2020.

Mr. Speaker, the Blue Bond proceeds will continue to finance several projects under the Blue Grant Fund under SEYCATT and Blue Investment Fund under DBS. During the year 2019, SEYCATT has financed several grant under the Blue Grant Fund as follows;

- 7 Small and Medium projects amounting to SR 0.7 million
- 4 Large projects amounting to SR 2.4 million

And 12 large projects amounting to SR 10.6 million are being evaluated.

The same process will be followed during 2020 since US\$ 0.5 million and US\$ 2 million will be available through SEYCATT and DBS respectively.

5.5. Innovative Economy

Mr. Speaker, science, technology and innovation are important drivers of economic development. We need to find new ways of doing business to ensure we remain resilient and sustain our development.

Mr. Speaker, in 2019 the World Bank undertook two diagnostic surveys; one on Digital Government and the other on the Digital Economy in Seychelles. Recommendations emanating from these will help inform improvements required so that the Department can better deliver its mandate. The focus for 2020 will be on the rolling out of fully interactional digital services (or e-services) similar to what has been achieved for the Planning Authority and also on the implementation of the National Cybersecurity Strategy. The implementation of the recommendations in these reports and some decisions already taken by Government, also imply that there will need to be changes in the structure and work practices of the Department. This includes the setting up of an independent regulator for the broadcasting and electronic communications sector. Work is on-going on the new legislation, which will replace the Broadcasting and Telecommunications Act, 2000. The new legislation will separate the functions of state from that of regulatory activities.

The Department of ICT (DICT) has also undertaken new spectrum planning to accommodate 5G and has assigned radio frequency spectrum to two mobile operators for the deployment of 5G network, and it is expected that provision of 5G services will commence sometime in 2020. Note that 5G is the fifth generation cellular network technology and it allows for the transportation of huge amount of data much faster, reliably connecting extremely large number of devices and processing very high volumes of data with minimal delay. 5G is expected to connect people, things, data, applications, transport systems and used in the Internet of Things in smart networked communication environments. Therefore, 5G should deliver significantly increased operational performance, as well as superior user experience. On top of mobile broadband, 5G is also expected to be used to provide fixed broadband access and this will assist in improving the fixed broadband

penetration in Seychelles; since 5G, being a wireless system, will be able to reach areas that are currently inaccessible by copper and fibre networks.

The second submarine cable project is in its full implementation process with the marine survey expected in the first half of 2020 and the coming into operation of the PEACE system in mid-2021. The Cable Landing Station of this system will be located on Perseverance. The Government has also recently approved the project for the installation and operation of a third submarine cable system by a local operator to provide international connectivity. It is therefore expected that in the near future, Seychelles will be connected, not by 2 but by 3 submarine cables.

Mr. Speaker, with the new developments, particularly in the mobile sector and submarine cable systems, which will increase connectivity and bandwidth availability, there should be better and more competitive prices for services, particularly for mobile voice and data, which is still considered as expensive, compared to prices for similar services on fixed networks.

5.6. Environmental Sustainability and Resilience

Seychelles has been a champion in conservation, preservation and protection of our natural environment, while we also continue to develop as a nation. Diversifying our energy sources is also paramount to maintaining our resilience as we are currently almost entirely reliant on imported fossil fuel for electricity.

Mr. Speaker, as a Government we need to set the example. From now on, Government will only procure hybrid or electric vehicles. This will also be part of the Government replacement plan of the current conventional vehicle.

Mr. Speaker, we still remain on track to be amongst the first floating utility scale Photovoltaic plant on marine in the World. Government is currently evaluating the technical proposals of the six bidders. This will be followed by opening of financial bids and subsequent evaluation of the same. Government expect to announce the successful bidder before the end of the year and we expect construction to start in the first quarter of 2020 and the commissioning is scheduled towards the end of 2020.

In addition, the two Photovoltaic projects being undertaken by PUC on Ile De Romainville are in advanced stages and are expected to be commissioned in the first half of 2020. One is for a five Megga-Watt capacity being co-financed by Abu Dhabi Fund for Development and PUC costing US\$ 3.43 million equivalent to SR 49.0 million and the other one is a one Megga-Watt capacity financed by a component of the Grant from the Republic of India which include 944 KW of distributed roof tops PV (about 150 units) which have been installed on premises of families in the low income group, and on Government buildings.

The renewable energy development plan, climate change mitigation and adaptation remains high on the Government agenda. Mr. Speaker, the Government with the assistance of one of its development partners has developed a Coastal Management Plan 2019 to 2023 which aims to help maintain and protect the coastal zone to reduce coastal risk, support healthy ecosystems, and enable sustainable coastal economic development. The plan has been costed at US\$ 15.8 million or SR

225.9 million. The Government is currently in discussion with its development partners to work on a financing strategy for the Coastal Management Plan.

The new National Waste Policy was approved in December 2018. The purpose of this policy is to provide a framework to facilitate the involvement of the Government, private sector and the general public in the waste management sector and encourage the efficient use of resources by helping the public to make better informed decisions on how to manage and dispose of their waste. The objective of the policy is to minimize the amount of waste from being landfilled by promoting waste minimization through the 3Rs (reduce, re-use, recycle) and build capacity among state and non-state institution to manage waste.

There are a number of other related initiatives currently underway, with our international partners, including

- A World Bank project in the Seychelles is documenting the solid waste management infrastructure to understand the impact of disaster on coastal solid waste management and infrastructure. It aims to provide a diagnostic designed to define potential interventions for policy reform, alternative options for mitigating the forecasted climate and weather related risks and strengthened institutional capacity for managing the risk. The study is employing a multi-sectoral integrated and holistic approach to stimulate informed decision making and targeted stakeholder engagement.
- In parallel, the European Union is supporting the Government in preparing a Solid Waste Master Plan that will ensure that the management of solid waste in an integrated manner through the right policy, infrastructure, and capacity (financing and human resources) to implement advanced, solid waste management programs that will respond to the needs of the country for the forthcoming 25 years.

6. 2020 BUDGET FOR SOCIAL PROGRAMS

In the 2020 budget, Government will maintain its commitment to finance Social Programs targeting the most vulnerable people in our society. The budget for the various programs are as follows:

- SR 47.8 million for Social Safety Net by the Agency for Social Protection (ASP),
- SR 5 million for Home Improvement/Re-roofing Scheme for Pensioners through HFC,
- SR 10 million for Vulnerable Home Repair Scheme through ASP,
- SR 28 million for the SPTC travel concessions for the Elderly, students and disable through ASP
- SR 18 million for Housing finance Subsidy Scheme,
- SR 4.2 million for dedicated funds for Schools
- SR 6.7 million for Daycare Scheme, and
- SR 3.2 million for Foster Care Scheme
- Inner Islands Transport scheme for students, medical referrals, and pensioner totaling to SR 5.7 million
- SR 1.5 million for Emergency Housing Assistance scheme
- SR 292 million for Home Carers which include their 13th Month pay.

7. CONTINGENCY

Mr. Speaker, for the year 2020, we have allocated SR 45 million under contingency. From that amount, SR 37.5 million is for the compensation of the La Misere water pollution cases. We will start to pay the first batch of individuals who were paid previously as follows;

- a) Adult resident & children above 7 years SR 50, 000
- b) Children aged 7 years & below SR 15, 000
- c) La Misere school students SR 25, 000
- d) Seychelles Tourism Academy students and Staff SR 25, 000

Mr. Speaker the rate mentioned above will be prorated based on the SR 37.5 million available in 2020 and the balance will be paid in 2021. If budget permit a further payment will be done during the mid-year review exercise. In regards to the second batch of individuals, work is ongoing to finalize the list. A timeline has been set by Government by March 2020. In addition, the payment will be done for the individuals affected by the diesel pollution during the first quarter of 2020.

Another compensation which is under contingency is for the Petit Paris Asphalt Plant. This will be finalized during the first six months of 2020 and payment will be process once completed. There is currently a total of 34 claimants.

Mr. Speaker, the other group that is waiting for compensation is the Baie Ste Anne Praslin Residents that has been affected from the Power Stations. This has been another case since 2017. We will aim to resolve the matter during the first six months of 2020.

8. NEW POLICES FROM THE 2020 BUDGET

8.1 Increase in Minimum Wage

As per announcement made by the President on Labour day, the minimum wage will increase by SR 500 per month effective 1st of January 2020. This will be equivalent as follows:

- From SR 34.97 to SR 38.27 per hour for all workers other than casual. This means, work based on 35 hours a week, the salary will increase from SR 5,303.70 to SR 5,804 per month from January 2020.
- The rate for casual workers will be raised from SR 40.30 to SR 44.10 per hour.

The impact of the minimum wage will increase the salary for full time Home Carers from SR 6,060.60 to SR 6,633.47 as of 1st of January 2020. The salary of the Home Carers on part time basis will be increased from SR 3,787.35 to SR 4,145.92. This will also mean an increase in pension contribution payment made by Government on behalf of the Home Carers. This increase alone will cost SR 24 million to fund.

8.2. Increase in Benefits and Approved Programs of Agency and Social Protection

Mr. Speaker, the following benefits will be increased as follows:

- Retirement Benefits for the elderly from SR 5,250 to SR 5,750
- Invalidity and Disability Benefits from SR 5,250 to SR 5,750

8.3 Minimum Pensions of SR 1,000

Mr. Speaker, there is a category of workers receiving less than SR 1,000 a month through Seychelles Pension Fund. From January 2020, Government will implement a policy so that their pension increases by SR 1,000 a month. Therefore, Government will introduce a minimum Pensions of SR 1,000 through Seychelles Pension Fund. This will costs the budget SR 4.8 million in 2020.

8.4.Special category of Pensions of SR 500 to a group of retirees

Mr. Speaker, as the President announced on Labour Day this year, there were other generations of workers that knew deplorable, difficult, and unjust working conditions. They are the ones who made the foundation from which workers today can continue to build upon, and they are the ones who have enabled us to be where we are today. This category of workers took their retirement many years ago, and today they live only on their social security retirement benefits. This category of pensioners took their retirement before the Seychelles Pension Fund was established.

They do not get any other pension that exists today aside from social security retirement benefits. Government has decided to give them an additional support. They will get an additional SR 500 a month from January 2020. This sum that has been budgeted in the 2020 Budget is SR 12 million and will be administered by the Agency for Social Protection.

8.5.Day Care and Child Minding Assistance

Mr. Speaker, the assistance that parents are eligible to receive from the Government for Day Care and Child Minding will be increased from SR 500 to SR 750 from January 2020.

8.6.Proposal for Allowance for expectant mothers residing on Inner Islands giving birth on Mahe

In 2018, Seychelles recorded 1,650 live births. Out 66 births registered for Grand Anse Praslin, 40 births and 45 out of 69 births recorded for Baie Ste Anne were at the Seychelles Hospital. La Digue recorded 45 births out of which 36 was on Mahe. Expectant mothers on Praslin and La Digue, upon reaching 34 weeks gestational age, have to be transferred to the ante natal ward at the Seychelles Hospital until delivery. Expectant mothers therefore had to seek alternative accommodation until delivery. Following the parenting programme held on Praslin, the expectant mothers have expressed concern in regards to the cost for accommodation as this puts an extra burden on them to find the money to contribute for lodging whilst on Mahe. This puts them at a disadvantage compared to their peers on Mahe given that this period could last up to six weeks until the time of delivery.

A flat allowance of SR 1,500 will be given to support expectant mothers from inner islands coming to Mahe to give birth and required to seek alternative accommodation. This will be done through the Agency of Social Protection.

8.7.Annual Leave

Mr. Speaker, another measure that was announced by the President on the Labour Day is in regards to annual leave. As you all know, all workers get 21 days as annual leave. Government has decided that from January 2020, annual leave will be 24 days.

8.8.Flexible Working Hours in Government

Mr. Speaker, Government need to empower our public service to be more efficient as well as more accountable. During the first quarter of 2020, Government will put a framework in place to cater for flexible working hours. In the current climate we are all starting to work at 8.a.m and finish at 4.p.m. In this modern world and to further encourage productivity we need to ensure we put place a conducive working environment to ensure that the working parents have time for their children, professionals continue to study through distance learning, a healthy lifestyle through proper exercise and balanced diet.

The flexible working hours could allow employees to start work any time between 7a.m. to 5p.m. and in certain circumstances to work at home during a particular period of time. However the total working hours will not change. It is to be noted that the flexible working hours would depend on the nature of the job, the need of the department during certain time of the year and the impact on the other stakeholders. This practice is being done in some of the Government organization currently like the Anti-Corruption Commission, National Institute of Technology, Science and Innovation, and Central Bank of Seychelles. Mr. Speaker a framework will be put in place and ensure all Government employees follow a process for the flexible working hours.

8.9.Review of Housing Subsidy Scheme

Mr. Speaker, the Housing Subsidy Scheme was launched in 2014. The scheme was set up to improve access to affordable construction and ownership of dwelling by the targeted sector of the population. In order to qualify for the loan, applicants must be an employed or self-employed Seychellois citizen earning a fixed income. The applicant should also be a first time home owner. The subsidy amount helps to add on to the housing loan applied for and which does not have to be repaid by the applicant. Over the years, there has been significant changes in the costs of construction and other factors which prevents the maximum number of Seychellois from benefitting from it. As such, there has been a need to review the scheme.

8.9.1 To review the rate per square meter for the three main islands

Since its inception, a rate of SR 7, 500 per square meter is being used to calculate the subsidy entitlement. The current rate per square meter is applicable to Mahe, Praslin and La Digue. Having a flat rate for all three islands does not take into consideration the higher cost of construction for Praslin and La Digue, compared to Mahe.

The rates will be revised as follows:

Mahe: From **SR7, 500** /sq. meter to **SR 8, 500** /sq. m

Praslin: From **SR7, 500**/sq. meter to **SR9, 500**/sq. meter

La Digue: From **SR7, 500**/sq. m to **SR12, 500**/sq. meter

8.9.2. To Include reconstruction of houses under the application for housing subsidy

At present, subsidies are not applicable to the reconstruction of houses but only to first time and second housing constructions. In this respect, applicants will qualify for subsidies in reconstruction cases, whereby there has been an unforeseen disaster such as a fire or, in terms of

first time homeowners having to put down the old house of their parents to allow for the construction of their own.

However, to ensure the losses resulting from natural disasters and fires are reduced, Government strongly encourages homeowners to ensure their houses are insured and premium payments paid.

8.9.3. To include the purchase of land with property in the criteria to qualify for housing subsidy

Mr. Speaker, currently, subsidies are not applicable for purchase of built houses with land but various applicants have appealed for approval. The revised policy will formally include the purchase of built houses on land as a criteria for qualifying for subsidy.

8.9.4. To review the income brackets for the qualification of the housing subsidy

Mr. Speaker, in the current policy, individuals with income of up to SR 5,999.00, benefits the maximum of SR 200,000 from the subsidy. In order to tie-in the benefits of this scheme with the low income earners within the Progressive Income Tax, the salary of SR 8,555 will now be eligible to receive the maximum subsidy of SR 200,000.

8.10. Vehicle Personalized Number Plate

Mr. Speaker from January 2020, Government will introduce a Personalized Plate Number system for vehicles in Seychelles. The new system should not compromise traffic enforcement or other legal processes. For this reason, some specific characters and sequencing of characters will not be permitted in the interest of readability. A maximum of 6 characters will be used and the capital ‘S’ prefix currently in use would no longer be mandatory for the private number plate. The font style, character size, spacing, overall plate characteristics would be also mandated by law. The character color and background plate color remain same as per the current system. All characters would be in uppercase. The fee will be as follows:

- Category 1: Only alpha characters at SR 60,000
- Category 2: Combination of alpha and numerical characters at SR 40,000
- Category 3: Combination of alpha and numerical characters at SR 20,000
- Category 4: Embellished bordering at SR 10,000

The following categories of motor vehicles will not be eligible to display a Personalized Plate Number:

- Vehicles owned by Government and State Owned Enterprises;
- Vehicles used by Diplomatic Missions/Consular Posts or delegates of International Institutions.

8.11. New Category of Gainful Occupation Permit

Mr. Speaker, currently the Gainful Occupation Permit is at SR 500 per month per non-Seychellois employee. There are 4,733 non-Seychellois employees that have been in the country for more than six years. With the aim of encouraging a proper understudy programme for Seychellois to take over those posts, Government will be introducing another two categories of Gainful Occupation Permit fee;

1. For non-Seychellois employees who are in the country for more than six years, the fee will be increase from SR 500 to SR 1,000 per month

2. For non-Seychellois employees who are in the country for more than ten years, the fee will be increase from SR 500 to SR 5,000 per month

The new fee will be applicable from 1st of January 2020.

Mr. Speaker, the Government has introduced tax incentives during 2018 as follows to encourage the private sector to provide the necessary training;

- Total amount of deduction allowable under the business tax act for training costs incur is 150% of the training costs.
- Training costs incurred by a business is exempt under the income and non-monetary benefits tax act.

8.12. Exempt Private Retirement Pensions under the second schedule of the Income and Non-Monetary Benefits Tax Act

Mr. Speaker, a number of private sector employers are investing in private pensions and on retirement the individuals receive an additional pension. We will amend the second schedule of the Income and Non-Monetary Benefit Tax Act in order for private retirement pension to be exempted from income tax.

8.13. Review of the Non-Monetary Benefits under fourth schedule of the Income and Non-Monetary Benefits Tax Act

The fourth schedule of the Income and Non-Monetary Benefit Tax Act contains a number of non-monetary benefits that can be provided to an employed person in respect of the person's employment or to an associate of an employed person in relation to the performance of the work. An employer is liable to pay tax at the rate of 20% of the value of the non-monetary benefits provided to the employees to the Seychelles Revenue commission.

The Act stipulates that the non-monetary benefits should be taxed at the fair market value and also impose certain taxable value on certain benefits, namely accommodation, meals, motor vehicles and entertainment allowance. These taxable value is now too low and do not reflect current market conditions in relation to the benefit being incurred. Effective 2020, a revision in the rates will be implemented so as to align the taxable value to a more reasonable rate as well as apply the market rates where appropriate.

In addition, Government will as from 2020, exempt medical fees incurred in regards to medical tests carried out in relation to employing local and foreign workers. This is in view that, this should not be regarded as a benefit, since the employer has not yet recruited the staff. It is a requirement to carry out a medical test to see if the worker is medically fit to perform the job and work in Seychelles, and will therefore not be taxed.

Furthermore, tax on the cost incurred for the insurance benefit provided to employees will also be exempted as from 2020. This aim to encourage employers to insure the house, motor vehicles and other personal content of their employees in case of burglary or fire disasters.

8.14. Immovable Property Tax

Mr, Speaker, the Immovable Property Tax Bill is under public consultation and will be ready for gazetting during November 2019.

The rate will still be at 0.25% of the market value of any immovable property liable to be taxed. The tax will be due and payable to the Commissioner General on or before 31 December of each year. Mr. Speaker the following immovable property will be exempted from the Immovable Property Tax;

- a) used for residential purposes that is owned by one taxpayer, who is married to a Seychellois, and whose marriage is still subsisting or, whose spouse has since died after owning the immovable property; or
- b) considered to be commercial land or industrial land.

After the coming into operation of this Act, a non-Seychellois, who is for the first time an owner of immovable property used for residential purposes, may apply in writing to the Commissioner General for exemption from tax. The exemption for Immovable Property Tax will only apply in the year of purchase, the subsequent year the non-Seychellois will pay in view that they pay stamp duty during the first year.

8.15. Revision in the Postage and Courier Tax Free Personal Allowance.

Mr. Speaker, currently an import of goods arriving by air or sea, through postal or courier services into Seychelles has a tax free personal allowance of SR 3,000. Nevertheless, there is no limitation on the number of times that an individual can make use of this allowance or any requirement to produce a Bill of Entry. As there are shortcomings in the ability to effectively monitor these activities, it is perceived that this has opened a door for abuse and loss of revenue which has been very difficult to control. Also it is not fair on businesses which are paying rent, taxes, and provides employment opportunities compare to the individual using these shortcoming to order online and only to re-sell on facebook or through other sources.

Therefore from January 2020, Postage and Courier Tax Free Personal Allowance will be reduced from SR 3,000 to SR 1,500 and there will be an introduction of a Customs processing fee of SR 50 to be applicable.

8.16. Revised Vehicle Levy

Mr. Speaker, multiple studies have found that electric vehicles are more efficient, and therefore responsible for less greenhouse gas and other emissions than vehicles powered solely by internal combustion engines. As per the current tax legislations there is only VAT on the electric vehicles.

Mr. Speaker, with the aim of encouraging the use of more electric vehicles, Government has decided from January 2020 to revise the current levy on vehicle as follows;

1. Increase of the levy on commercial vehicles to be on par with that which is applicable on private motor vehicles;
2. Increase the current levy on conventional motor vehicles by SCR 25,000.
3. Review of excise tax and levy applicable on all types of hybrid motor vehicles above 1600cc, to align to that which is applicable on its similar conventional counterpart;

Mr. Speaker, we are also working with SEYPEC to put solar panel and electric charger on some of the Petroleum depot so that electric vehicle owner could charge their vehicle direct from the station itself.

8.17. Ozone amendment to the Environment Protection (Ozone) regulations 2010

As of 1st January 2020 the following Amendments to the existing Environment Protection (Ozone) Regulations 2010 to cater for the Ratification of the Kigali Amendment to the Montreal Protocol, will come into force. The Government will impose the following levies on imported refrigerant equipment and refrigerant gases as follows:

- a) No Environment levy on gas/equipment with less than 100 Global Warming Potential (GWP) to encourage importers to import ozone and climate friendly equipment to make it more cheaper on the local market.
- b) 5% 100-2000 GWP
- c) 8% 2000-3000 GWP
- d) 10% 3000 & Above.

The percentage on GWP will be calculated by the Ozone Unit of the Ministry of Environment, Energy and Climate Change and the collection point for levy will be at custom.

Moreover, there will be no VAT on refrigerant equipment and refrigerant gases with less than 100 GWP.

8.18. Change in Tax Structure for Alcohol Beverages

As part of Government's policy to mitigate the effect of alcohol on the health of our nation, Government announced changes to the way alcoholic drinks are currently being taxed. Given that these changes would be extensive and include a complete overhaul of the excise tax regime, Government is in the process of bringing in a consultant to ensure that our systems in place can cater for such. As this will be a comprehensive exercise, it will take at least a year before it is implemented. Given the length of time that exercise will take, and to ensure that some policies are in place to reduce abuse of alcohol, as of the 1st January 2020, the excise tax on alcoholic beverages will be increase by 10% across the board. Further, to that, we have identified a loop hole in the system whereby some local manufacturers were classifying their locally produced rums under "alcopops" as it attracted a lower tax rate. As of 1st January 2020, the description of "alcopops" will only allow flavoured alcoholic drinks of an alcoholic volume of 8% and below to be classified as such.

8.19. Business Tax Reform

Mr. Speaker, during the 2019 budget, several amendments in regards to the Base Erosion Profit Shifting projects came into forced from 1st of January 2019. However, based on the European Union requirement, we have to make further amendments of the business tax section governing the manufacturing activities under the International Trade Zone regime. We intend to apply a grandfathering period for this regime with the amendments, which will not extend beyond 31st December 2022.

The European Union has also highlighted some concern regarding the current Seychelles territorial tax systems mainly from the assumption that they can facilitate double non-taxation. They have highlighted that there could be income that is not taxed anywhere. We are working to finalise these two amendments before the 31st of December 2019 to ensure that we will be in full compliance with the European Union methodology.

Mr. Speaker, in January 2020, we will amend the Business Tax Act for a reduction of business tax on residential dwelling from 15% to 3%. Mr, Speaker, we urge the private sector to pass on some of the benefit to the people renting accommodation. The Government is doing its part on the reduction in taxation but the private sector need to do its part as well.

Mr Speaker, the Pay As You Go specified business that certain businesses were liable to deduct 5% of their income at source, this will no longer exist as from January 2020. These businesses are Building Contractor, Maintenance Contractor, Mechanic, Hirer or Operator of Plant and Equipment, Hirer of Omnibus.

Mr. Speaker, as announced in my budget address last year, Government initiated a business tax review this year with the aim of keeping it simple. The aim of this comprehensive tax policy review was to see to the possibility of enhancing the country's business tax system to provide an independent, in-depth and comparative assessment of our business tax system and thereby provide a set of tailored policy recommendation.

A series business tax consultation was therefore initiated in July with the assistance of the Organisation for Economic Corporation and Development (OECD). Several stakeholder dialogues were held with representatives from different associations, organisations, ministries, government agencies and the business community in general. In September 2019, a follow up mission was also carried out to discuss preliminary findings and initiate policy proposals with the Ministry of Finance as well as with the various stakeholders.

In context, our Tax-to-GDP forecast shows a slight decline from 32.1% in 2018 to 32.3% in 2019 and to 31.6% in 2020. As highlighted by the OECD, this is the highest ratio across all of the African countries covered by the OECD Global Revenue Statistics Database and highest in comparison to other small and highly tourism-dependent island economies. On the other hand, with the graduation of the Seychelles to a high income country, we now face many challenges in obtaining development assistance aid. We therefore need to improve and enhance our own domestic resources mobilisation capacity, as well as venture into innovative financing to compensate for this funding gap. The climate change, disaster risk reduction, infrastructure development gap, along with our ageing population, are crucial agendas that requires considerable attention and funding to ensure that the country remains resilient to shocks and ensure our stability, growth and development into the future. Strengthening our tax system will be very important as the scope to use other sources of financing is relatively limited.

This means that any changes to our tax system need to be carefully assessed to ensure that these do not affect growth or create more unfairness in our regime, as well as create significant revenue loss to government that will affect funding requirement on the budget. In view of these challenges the Government has to consider a business tax reform that takes into consideration these factors and implement a regime that will simplify our corporate income tax regime, reduce tax planning and improve tax compliance.

Primarily, a major policy change, will be to address issues at source rather than indirectly through the tax system. Mr. Speaker, for many years the tax system has been used as a means to address challenges in a particular sector. This has been in terms of preferential rates, exemptions or

incentives that in the end only distorts the tax base. Incentives were also provided in the past to encourage foreign direct investment and attempt to stimulate certain sectors. This has served its purpose very well. However, it is now important that these are also reviewed to determine whether the same investment climate and challenges exist today.

The preliminary OECD report, confirms that the biggest issue with our business tax system lies in its imbalance. That is, some sectors and businesses contribute a lot, whilst most pay little because of the preferential tax rates and generous deductions they receive. From the 2017 data for instance, only 39% of companies under the Business Tax had a positive tax liability.

In addition, only 10% of companies accounted for 96% of the total business tax or alternatively only 30 companies accounted for 80% of total business tax paid. About half of total companies, that is 717 companies, reported a zero tax liability. This is because of the large tax deductions which reduces taxable income to negative values, which result in tax losses that can be carried forward.

Wholesale and retail trade as well as accommodation and food services are two sectors with the highest percentages of companies reporting losses. For 2017, 77% of companies in wholesale and retail trade reported losses, whilst 66% in accommodation and food services.

The report also confirms that the accommodation and food service activities, which account for 15% of value added and 41% of VAT collected, only account for 7% of total business tax revenues. This largely results from the tax preferences that the sector has received, as well as from tax avoidance practices by the largest operators in the tourism sector. For instance, 44 companies in the tourism sector reported depreciation deductions that exceed 50% of turnover and a zero tax liability. In addition, many companies in this sector report disproportionately high amounts of other operating expenses relative to their turnover levels.

This is in view that the Business Tax Act allows an accelerated depreciation rate on capital investment other than buildings that sums up to 145% in five years, to tourism related businesses as well as agriculture and fisheries, compared to other sectors. In addition, hotels enjoys a 20% depreciation rate in the first tax year and 10% in each subsequent tax year.

Secondly, the informal sector is also a challenge. As a result, addressing the informality and broadening the net of taxpayers should be a priority in order to avoid overburdening the formal sector operators and prevent unfair competition. It is imperative that the formal sectors should not be subject to further increase in tax rates so as to raise revenues. Instead, there is a need to broaden our tax base by capturing the informal sector, while maintaining the tax burden on the formal sector at a reasonable level.

Mr. Speaker, government is therefore considering rebalancing the business tax burden. As recommended by the OECD, this can be achieved by lowering the tax burden on many operators, but increasing tax levels on those that currently contribute insufficiently to the collection of revenue.

1. In the short term the following measures will be introduced:

- Introduce international corporate tax base protection measures, including transfer pricing rules, interest limitations rules and controlled foreign company (CFC) rules.
- Facilitate tax compliance and strengthen the tax administration's verification capacity, in particular by:
 - a. Encouraging and facilitating electronic tax filing
 - b. Maintain the Presumptive tax, as a simplified tax for micro, small and medium enterprises and require businesses that report under the presumptive tax to provide a minimum amount of information (on salaries, fuel use, etc.) so that the tax administration can verify whether businesses under-report their turnover
 - c. Ensuring adequate staffing of the tax administration
 - d. Introducing an automated risk-based auditing system
- Set up a multi-stakeholder group with representatives of different ministries, public bodies and representatives of the private sector with a view to adopting a strategy to address informality that exist particular in some sectors such as tourism.
- Better target enhanced tax depreciation allowances by restricting their use to investments in specified productive assets and energy-efficient capital. For other assets, maintain accelerated depreciation but only up to 100% of the cost of the investment.
- Remove or at least scale back the remaining fuel tax exemptions (except for accommodation services providers that are not connected to the PUC grid)
- Introducing a fixed lump-sum annual fee for certain activities such as for fishermen and artists. That is, for employed persons in these two sectors instead of paying income tax, the workers will be liable to a flat annual fee. This will improve administration and compliance and facilitate payment from these particular sectors

2. In the Medium-term priorities:

- Start the process of renegotiating the 28 double tax treaties (DTAs) that insufficiently prevent base erosion
- Harmonise and lower business tax rates by introducing a new business tax rate schedule that applies to all businesses. This will also include all the businesses currently taxed under the regular business tax rates, such as the tourism sector, fisheries, CSPs; but excluding the "high-end" sector, which would remain taxed under existing rates, initially. The high end sector comprise of the Telecommunications service providers, banks, insurance companies, alcohol and tobacco manufacturers. Once the legislations are in place that allows us to broaden our tax base better, these category would also be aligned.

The new harmonised business tax rates could for instance be as follows e.g.: 15% up to profits of SR 1 million; and 25% on profits above SR 1 million. The setting of new business tax rates should also take into account international tax developments.

Mr. Speaker, to introduce a flat 15% business tax rate would represent a significant revenue loss to government. This would represent a loss of revenues of approximately 1.7% of our GDP or 0.8% revenue loss in terms of GDP if the high end sector are excluded.

The analysis carried out therefore suggests complementing the 15% tax rate with a rate in the order of 25% levied on profits above R 1 million threshold, which the reform would be more or less revenue neutral if implemented comprehensively.

The progressive rates also allows for businesses already paying 15% to not reduce their investment. In addition, it would entail a significant business tax rate reduction for many businesses and therefore create an incentive for investment. It would significantly reduce the tax rate on small businesses, which are currently taxed at a high rate when they are taxed under the normal regime.

- Extend the cash accounting limit for business tax purposes to SR 2 million, instead of the current SR 1 million threshold. That is, allow businesses with revenues up to SR 2 million with the option of reporting on a cash basis, which is a simplified manner to account on a business performance.
- Consider tax on capital income if the business tax rates are reduced and aligned so as to prevent distortion and reduce unfairness. This is in view as individual capital income is more lightly taxed than labour income.
- Make the Tourism Marketing Tax (TMT) and the Corporate Social Responsibility Tax (CSRT) creditable against business tax and then gradually phase these taxes out
- Improve the design of the Progressive Income Tax rate schedule
- Involve digital platforms in the collection of VAT on tourism-related services and in the collection of information related to the transactions they facilitate

Mr. Speaker, Government will continue to engage with the relevant stakeholders and aims to finalise this important reform next year. These reforms need to be phased in gradually with a comprehensive approach, as significant planning and preparation is required in implementing these major reforms.

9. OTHER REFORMS AND OPPORTUNITIES IN KEY SECTORS

9.1. Financial Sector Development

Mr. Speaker, the Government remains committed to improving the jurisdiction's Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework. A National AML/CFT Committee has been appointed in order to improve national coordination and ensure that the deficiencies as noted in the National Risk Assessment and Mutual Evaluation Report are addressed in a timely manner. To this effect a draft AML bill has been prepared and circulated to all stakeholders ahead of the public consultation. It is expected that the bill will be gazetted by end November 2019. This law will make provision for the implementation of a risk-based approach to AML/ CFT supervision. It will further ensure that the necessary measures under the Financial Action Task Force (FATF) standards are encased in the regulatory framework. In addition, the Committee is reviewing the Proceeds of Crime Act and the Prevention of Terrorism Act in line with the Government's intention of presenting further amendments to these two legislations in the first half of 2020 to further strengthen our AML/ CFT legislative framework.

Mr. Speaker, corporate vehicles such as companies, trusts, foundations, partnerships and other types of legal persons and arrangements conduct a wide variety of commercial and entrepreneurial activities. However, despite the essential and legitimate role that corporate vehicles play in the global economy, under certain conditions, they are liable to be misused for illicit purposes. To

deter and detect these illicit activities, it is critical to promote transparency in relation to beneficial ownership of legal persons and arrangements. Increasingly international bodies, such as the G8, G20, FATF and OECD, are taking concrete actions to promote transparency as it relates to beneficial ownership of legal persons and arrangements. Transparency of beneficial ownership information and access by the relevant authorities are important means of preventing fraud, money-laundering, terrorist financing, tax evasion, bribery, corruption and other serious crimes. Mr. Speaker, in this context we are in the process of drafting a Beneficial Ownership bill which shall be subject to public consultation with all relevant partners prior to due legislative process. This new legislation will provide for the identification and verification of beneficial ownership of all legal entities and legal arrangements established and registered in Seychelles, as well as the establishment of a central database to record all registrable particulars of beneficial owners of legal entities and legal arrangements formed in Seychelles, in order to promote transparency with regards to beneficial ownership.

Government has allocated additional resources in the 2020 budget for law enforcement and regulatory authorities to strengthen the country's capacity in its fight against Money Laundering and Terrorism and ensure that it has a robust and effective AML/CFT framework which is aligned with the National AML/CFT Strategic Plan.

The Central Bank continues to pursue its endeavour to modernise the national payment system to achieve more efficient, convenient, reliable and affordable innovative payment facilities. Being a core pillar of the Financial Sector Development Implementation Plan, an efficient and effective national payment system is a critical contributor in serving a reliable foundation for the growth of FinTech, expanding the exploitation gaps for small- and medium-sized enterprises (SMEs) to foster and building public confidence in the financial system. It also serves in bringing about the growth of affordable innovative payments not only from an end user perspective but also that of other parties in the value chain, i.e., merchants thereby ensuring financial inclusion in all its aspects.

It is in this context that the Central Bank continues to engage with the relevant stakeholders to implement a payment infrastructure that would be responsive to the needs and challenges of the country ensuring that no one is left behind. Subsequent to diagnostic studies that were instrumental in shaping the national payment system modernisation concept, the CBS in close collaboration with its key partners is now in the process of finalising the technical requirements for the implementation of the necessary technological infrastructure and enabling environment that would pave the way to the digitalisation of the economy. Whilst the modernisation project is comprehensive and long term in nature in view of the need for legislative amendments, ongoing digital financial literacy and awareness, the implementation of the necessary technological infrastructure is expected to be completed by the end of 2022.

9.2.Private Sector Development

Mr. Speaker for 2020, Government will continue to support to the various business schemes as follows;

- SR 3 million for the Agriculture Development Fund through DBS
- SR 5 million for Youth Employment Scheme (*My First Job Scheme*),
- SR 1 million for the Youth Entrepreneurship Scheme (*YES*)

- SR 25 million for the Small Medium Enterprises Scheme (*SMEs Scheme*)

Mr. Speaker, Foreign Direct Investment for the year 2019 is forecasted to hit USD 327.9 million, the highest since 2015. The Seychelles Investment Board as at September 2019 processed SR 10.7 billion worth of investment from January to September 2019. Mr. Speaker, Seychelles has slipped from 96 to 100 on the 2020 Doing Business report. This is not acceptable. The aim is for Seychelles to be amongst the top 50 in the next three years. An action plan detailing the necessary measures to be undertaken for the period 2020-2022 will be developed by December 2019. Its implementation will be monitored by a High-Level Ease of Doing Business Committee including private sector representatives. The investment framework of the country is also being reviewed by UNCTAD which is providing the necessary technical assistance to review the investment policy.

Mr. Speaker, with large national projects identified to be implemented through Public-Private Partnership, the Government will submit by mid-November 2019 the Public-Private Partnership Bill for approval by National Assembly. The process of project initial screening which include the feasibility study and the procurement process have been detailed in the Public-Private Partnership bill. In addition, the management of the public-private partnership agreement to protect both the investor and the Government has also been detailed in the Public-Private Partnership bill. Once Government received the National Assembly approval, we hope that the private sector take the opportunity of this new framework to participate in the large Government project.

Mr. Speaker, the first project that Government will tender in the first half of 2020 using this framework, will be the reclamation of the 18 hectares of land at Ile Aurore. The investor will be invited to participate in the bid for the Development of a tourism project at Ile Aurore. The investor will have to pay an initial capital for the lease of the land. The advance payment from the investor will be used to reclaim the land and put the necessary infrastructure at Ile Aurore to facilitate the construction of the other social infrastructures. The advantage of the Ile Aurore tourism development project is that it will complement the 1,000 seat conference centre facility which will be built in the medium term and finance through an Indian Government grant. This will open opportunities for large conference to take place in Seychelles and thus open opportunities for the private sector.

In line with the development concept approved by cabinet as part of recouping Societe Seychelloise d'Investissement Limited (SSI) Investment; SSI in consultation with different stakeholders has started the development concept for the Beau Vallon properties well known as Regatta site. The Bazar labrin will be a daily event effective from June 2020. A budget of SR 1.5 million has been incorporated in 2019 for the construction of the kiosks. The kiosks which will be designed to blend with the other proposed buildings and lease to the vendors of Bazar Labrin by Enterprise Seychelles Agency. A multi-purpose sport complex is also part of the development which will be financed through sponsorship. The SSI commercial building which will open late 2020 will reflect the Seychelles architecture and house a food court, police office, dancing studio, offices, different banks, shops, cafes museum/art gallery and other services. It is to be noted Regatta and any other national events will not be affected by this development.

Mr. Speaker, the Industrial Estate Authority has been allocated with a budget of SR 12.2 million. However, the pipeline of projects for implementation is as follows;

- Zone 6 SR 32.9 million
- Zone 20 SR 64.0 million
- Eve Island SR 30 million

We will be working with the Industrial Estate Authority in 2020 to become an autonomous state owned enterprises in the second half of 2020 to ensure the new entity is able to raise finance for the infrastructure requirement. All the land on the industrial estate will be transferred to the new entity so that the land value can be used as collateral. This will be another financing opportunities for the banks.

Mr. Speaker, as previously mentioned in previous years, Government is finalizing the amendments of the Public Procurement act. During the consultation process with stakeholders, the private sector have reiterated the need to protect and encourage more local participation especially in large infrastructure projects. As part of the amendments, the procurement oversight unit will work on a preference or reservation policy to clearly define;

- a) the target group and eligibility requirements;
- b) the percentage of preferences or reservations, where applicable;
- c) the period for the operation of a scheme; and
- d) the objectives of the preferences or reservations, and the means of measuring their effectiveness in achieving their objectives.

This will allow more local participation and create more opportunities for the private sector in the large infrastructure projects.

Mr. Speaker, I must admit that we still have complaints from contractors and service providers that they are not receiving their payment on time. Currently we have an expenditure and payment policy in place which states the timeframe that Government is required to effect the payment. As per the policy;

- i. For commercial transactions (procurement of goods and services) invoices should be settled within 10 working days (or 14 calendar days).
- ii. For relatively small capital projects must not exceed 10 working days (or calendar 14 days). This will allow sufficient time for inspection of projects by the implementing agency.
- iii. For large infrastructure projects must not exceed 15 working days (or 21 calendar days).

Any payment that is not effected within the payment timeframe will be subjected to an interest of 0.05 percent per day of the total invoice amount. Mr. Speaker, more awareness program needs to be in place within Government to ensure the checklist are properly abide to before sending any payments to accounts and limit the number of queries that may exist pertaining to an invoice.

With the increase in size of the budget, Treasury is processing on average 300 to 400 vouchers per day, and around 500 to 600 during end of month, with December on average processing approximately 900 vouchers in the days nearing end of year closure.

Payment settlement usually passes through three stages. Stage one is the time taken by a ministry or agency to process a transaction from the procurement process, to authorizing the payment internally. Stage two is the time taken once a ministry or agency submit its payment to Treasury for settlement. Stage three will be the time taken by the Central Bank to transfer the funds into the commercial bank account of the vendor. Mr. Speaker most time is taken in stage one where a Ministry/Department/Agency processes its invoices. Upon receiving an invoice, Treasury as per the Expenditure and Payments Policy has 3 days to a process payment. However, in practice, Treasury settles a payment within the next day of receiving a voucher, whilst the Central Bank can settle a payment file instantly to a commercial bank.

Mr. Speaker, Government recognize that many small contractors and businesses in Seychelles face liquidity challenges. Ideally in order to be able to engage in a business, an entrepreneur needs to ensure it has sufficient financing. However, this is not the case for many micro, small and medium enterprises as they face many difficulties to secure financing from commercial banks, if they are not able to provide adequate guarantees and in view of their size working capital financing might prove to be costly for them. This therefore poses a huge burden for Government, as suppliers would usually put pressure to be paid immediately despite having a payment policy in place, which ensure that the proper internal processes have been followed before any payments are settled.

Therefore, in an attempt to assist small contractors with their liquidity challenges which usually affects the delivery of relatively small capital projects, Government will be introducing a 'Mobilization Advance Payment' (MAP) for Class III and IV contractors for projects up to SR750,000.00. MAP will be a monetary payment introduced made by the client ministry to the contractor for initial expenditure in respect of site mobilization, and a fair proportion of job overhead or preliminaries. The MAP will be extended to Class III and IV contractors with good track record and will require the approval of the Finance Department to be provided this facility. The advance will be provided with no requirement for a bond guarantee, it will constitute a twenty percent payment of the initial contract price and paid to the contractor before any physical works are executed. This interest free facility aim to motivate the small contractors by enhancing their working capital, allow some positive impact on their cash flow and allow them to better mobilise better resources and motivate the contractor to complete the project on time and with good quality. This new procedure will be guided in a new framework.

For the other class of contractors and for projects above the SR750,000 threshold, they can still be provided the normal advance payment as will be negotiated in their contract, with a requirement for a bond guarantee.

10. INNER ISLANDS PROJECTS

Mr. Speaker, the following specific projects has been allocated in the 2020 budget for the Inner Islands;

- Reconstruction of La Digue Police station SR 6.7 million
- Reconstruction of La Digue Hospital SR 5.7 million
- Reconstruction of La Digue school SR 4.7 million
- Reconstruction of Baie Ste Anne Police station SR 3 million
- Upgrading of Praslin Playing field SR 2.0 million
- Road projects through Seychelles Land Transport Agency
 - Upgrading works St Sauver Praslin SR 1.5 million
 - Pavement work Cote D'Or Praslin SR 1 million

- Koko Ibrid La Digue SR 2.5 million
- Pension Michel La Digue SR 1 million
- Road Widening Salazie Baie Ste Anne SR 2 million
- Vanilla Road La Digue SR 1 million
- Continuation of Pasquere road Praslin SR 4.5 million
- Concrete Road surfacing on La Digue SR 4 million which include Boule De Neige Road Phase two

11. PUBLIC ENTERPRISES

Mr. Speaker, the Government has allocated SR 159 million in the 2020 budget for the subvention to public enterprises. This include US\$ 6 million for Air Seychelles which will be the yearly transfers for the next five years starting from 2019 until 2023. Government will provide a guarantee to enable the issuance of a bank guarantee of the US\$ 30 million worth of Preference shares in favor of Etihad shareholder based on the current liabilities that Air Seychelles owe Etihad during the past years. This will increase the debt-GDP ratio by 2%.

We have made a provision of SR 50 million and SR 21.7 million under subventions to public enterprises and development grants respectively to SPTC. Mr. Speaker, the Government in partnership with the World Bank will be working on a project from 2020 to medium term, for the following elements;

1. Development of Government Policy and a 5-year framework for provision of Public Transport in Seychelles ;
2. Review of the route network currently operated by SPTC, including capacity, service levels and product differentiation;
3. Strengthen the Structure of SPTC, including its capacity and processes, to deliver the revised network within the agreed framework;
4. Assess the feasibility of options for participation of private sector operators in public transport services in Seychelles, including identification of potential entry points and support measures for the transition.

12. POPULATION AND HOUSING CENSUS 2020

Mr. Speaker, during 2020 there will be the Population and Housing Census by the National Bureau of Statistics. This exercise will contribute to the availability of a reliable time series of demographic and socio-economic basic data required for formulation, monitoring and evaluation of socio-economic development plans and programmes. The immediate objectives of the project will be organised around the census period, which would cover a period of seven days during late August to early September 2020.

The total costs of the 2020 Population and Housing Census is expected to cost SR 13.1 million as the survey will be digitalized for the first time. Thus, the National Bureau of Statistics is expected to purchase around 700 tablets to undertake such exercise. There is currently around SR 6.2 million

in the 2020 budget for the Population and Housing Census. The balance will be financed through COMESA fund and support from the telecommunication companies.

13. CONCLUSION

Mr. Speaker, this budget that the Government is proposing for the National Assembly consideration will allow the Seychellois to take the opportunities so that together we build this country towards long term sustainable growth.

I know that unfortunately we have not been able to include everything that have been requested during the different consultations since our resources are not unlimited. But I am convinced that what we have provided in the 2020 budget will allow for future growth opportunities in the different sectors whilst we remain resilient as a country.

I would like to thank everyone who has contributed toward the preparation of this budget.

First, I thank the President of the Republic for his support and guidance in supporting my Ministry to push our policies and reform agenda forward.

I would also like to thank my colleague ministers and their respective teams.

I thank my hardworking staff in the Ministry of Finance, Trade, Investment and Economic Planning for their continued professionalism, dedication and sacrifices for the betterment of the country's success.

On that note, I also thank the Governor of the Central Bank and her staff for the close collaboration between fiscal and monetary policies during the year 2019 and the preparation of the 2020 budget.

My appreciation also goes to all private sector operators, civil society organisations, international organisations and all other stakeholders for their support in formulating policies for the future of the country.

In addition, Mr. Speaker, I thank you, all the members of the National Assembly and all staff for the collaboration and support throughout the year.

I would like to thank the people of Seychelles for their courage and for their continuing support they give to the Government in bringing our country forward.

I now commend the Appropriation Bill 2020 amounting to Nine Billion two hundred and ninety-two million, eighty eight thousand, and two hundred and sixty two rupees (SR 9,292, 088,262) for the approval of the National Assembly.

I thank you, Mr. Speaker.