

AFRICAN DEVELOPMENT BANK GROUP



REPUBLIC OF SEYCHELLES

COUNTRY STRATEGY PAPER 2021-2025

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TABLE OF CONTENTS

CURRENCY EQUIVALENTS	i
WEIGHTS AND MEASURES.....	i
ACRONYMS AND ABBREVIATIONS	ii
MAP OF THE REPUBLIC OF SEYCHELLES.....	iv
EXECUTIVE SUMMARY	v
1. INTRODUCTION	1
2. COUNTRY CONTEXT AND PROSPECTS	1
2.1 Political Context and Prospects.....	1
2.2 Economic Context and Prospects.....	2
2.3 Sector Context.....	6
2.4 Social Context and Cross-Cutting Themes.....	9
2.5 Country Strategic Framework.....	11
2.6 Aid Coordination Mechanisms, Bank Positioning and Comparative Advantage	11
2.7 Strengths and Opportunities, Weaknesses and Challenges.....	12
3. KEY FINDINGS OF COUNTRY PORTFOLIO PERFORMANCE REVIEW	12
4. LESSONS LEARNT	13
5. BANK GROUP STRATEGY	14
5.1 Strategy Rationale, Objective and Priority Area for Bank Support	14
5.2 Strategy and Expected Results	15
5.3 Indicative lending / non-lending Program	19
5.4 Dialogue.....	20
5.5 Financing the Strategy	20
5.6 Implementation Arrangements, Monitoring and Evaluation	20
5.7 Risks and Mitigation Measures.....	21
6. CONCLUSION AND RECOMMENDATIONS	21

ANNEXES

A.1 Seychelles' 2021-2025 CSP Results-Measurement Framework
A.1.1 Strategic Alignment Matrix
A.1.2 Performance Matrix
A.2 Seychelles' Indicative Lending/Non-Lending Program and contribution to the High-5s
A.2.1 Indicative Lending/Indicative Non-Lending Program
A.2.2 Bank Group's Seychelles' Indicative Lending/Non-Lending Program by Sector and High 5s (matrix and charts)
A.3 Seychelles' Lessons Learned
A.3.1 Key findings of the CSP Completion Report
A.4.1 CODE Comments on CSP Completion Report
A.4.2 Findings of EDs Country Visi
A.5 Seychelles' Findings of Stakeholder Consultations
A.6 Seychelles' Portfolio Performance Review
A.6.1 Ongoing Portfolio
A.6.2 Portfolio Performance
A.6.3 Seychelles' 2020 Country Portfolio Improvement Plan
A.7 Seychelles' Donor Mapping
A.8 Seychelles' Comparative Socio-Economic Indicators
A.9 Seychelles' Macroeconomic Indicators
A.9-1 Selected Macroeconomic Indicators, 2010-2020

A.9-2	Sector Contributions to Nominal GDP at Basic Price (%) - 2001 to 2020
A.9.3	Contributions to Real GDP (constant 2010 price US\$)
A.9-4	Contributions to GDP Growth by Sector Value Added - 2001 to 2020
A.10	Arrangement with the IMF
A.11(a)	Seychelles' Progress Towards Achieving the Sustainable Development Goals
A.11(b)	Progress Towards Achieving the Sustainable Development Goals (Contn'd)
A.12	Seychelles' Fragility Assessment
A.13	Seychelles' Fiduciary Risk Assessment
A.14	Risks and Mitigation Measures
A.15(a)	Blue Economy and Fisheries Sector
A.15(b)	Agriculture Sector
A.15(c)	Transport
A.16	Seychelles Country Climate Fact Sheet
A.17	Seychelles CSP Selectivity Criteria
A.18	Seychelles Country Financing Parameters

CHARTS & BOXES

Chart 1: Seychelles' Ibrahim Index of African Governance	1
Chart 2: Sectoral Contributions to Nominal GDP at Basic Prices (%)	2
Chart 3: Real GDP Growth Rate (%)	2
Chart 4: Contribution to GDP Growth by Sectoral Value Added (%)	3
Chart 5: Budget Balance (% GDP)	3
Chart 6: Inflation (CPI, %)	4
Chart 7: Current Account Balance (% GDP)	4
Box 1: Seychelles: Strengths and Opportunities and Weaknesses and Challenges	12

CURRENCY EQUIVALENTS

December 2020

1 UA	=	United States Dollar (US\$)	1.43009
1 UA	=	Seychelles Rupee (SCR)	26.82773
1 US\$	=	Seychelles Rupee (SCR)	18.75947

Fiscal Year

1 January – 31 December

WEIGHTS AND MEASURES

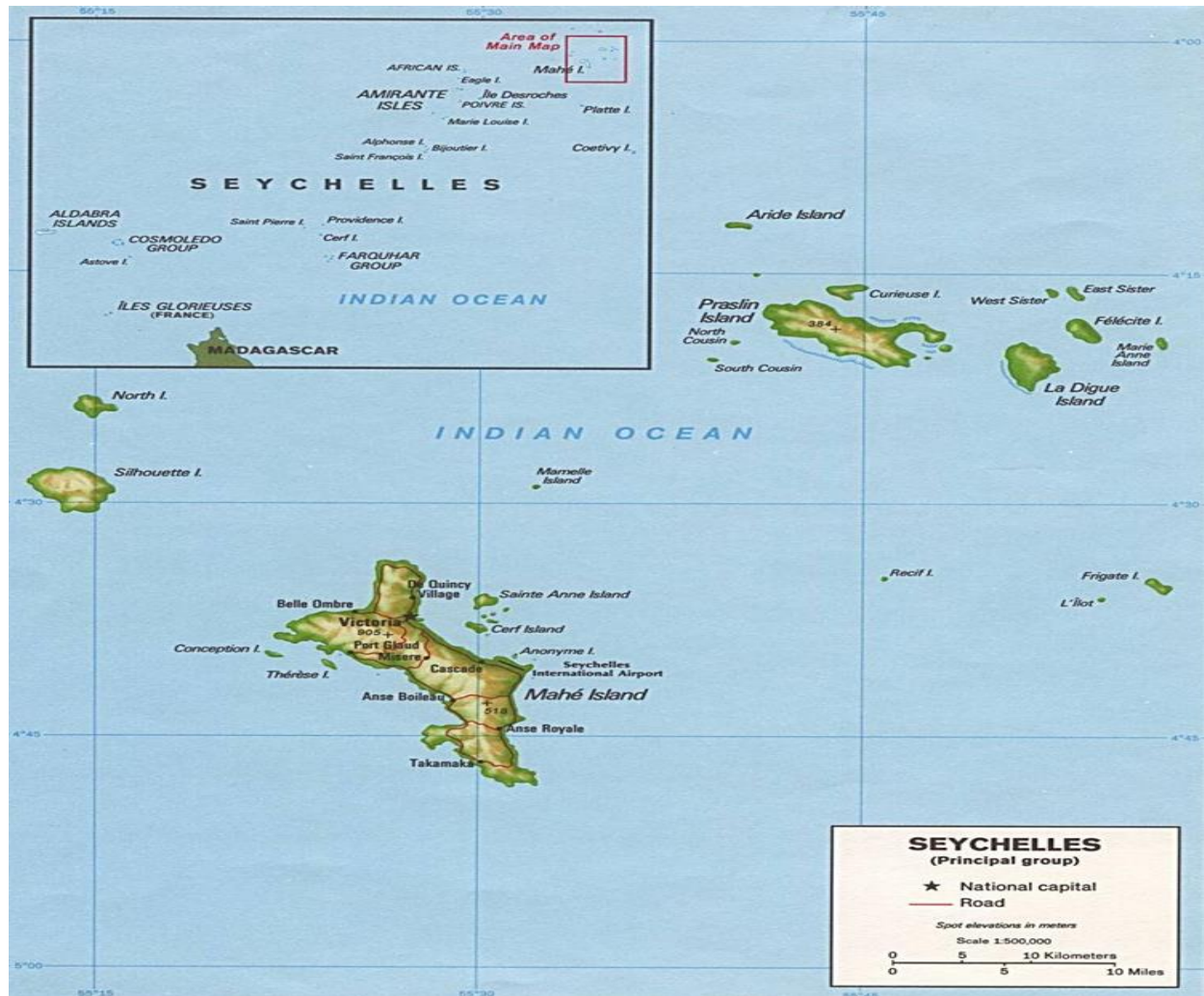
1 metric ton	=	2,204 pounds (lbs)
1 kilogram (kg)	=	2.205 pounds (lbs)
1 meter (m)	=	3.28 feet (ft)
1 millimeter (mm)	=	0.03937 inch (“)
1 kilometer (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
AfCFTA	African Continental Free Trade Area
AML/CFT	Anti-Money Laundering/ Countering the Financing of Terrorism
CBS	Central Bank of Seychelles
CDN	Country Diagnostic Note
CODE	Committee on Operations and Development Effectiveness
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Policy and Institutional Assessment
CPIP	Country Portfolio Improvement Plan
CPPR	Country Portfolio Performance Review
CRBS	COVID-19 Crisis Response Budget Support Review
CSP	Country Strategy Paper
DBR	World Bank’s Doing Business Report
DPs	Development Partners
FAPA	Fund for African Private Sector Assistance
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
GoS	Government of Seychelles
HDI	Human Development Index
ICT	Information Communication Technology
ILP	Indicative Lending Program
IMF	International Monetary Fund
LNG	Liquefied Natural Gas
M&E	Monitoring and Evaluation
MDI	Multidimensional Poverty Index
MIC TAF	Middle-Income Countries Technical Assistance Fund
MoFTI&EP	Ministry of Finance, Trade, Investment and Economic Planning
MPI	Multidimensional Poverty Index
MSMEs	Micro, Small, and Medium Enterprises
MTR	Mid-Term Review
MW	Megawatts
NDS	National Development Strategy
NSO	Non-Sovereign Operations
OCL	Operational Country Limit
PBO	Program Based Operation
PFM	Public Financial Management
PPPs	Public-Private Partnerships
PUC	Public Utility Corporation
RDGE	East Africa Regional Development and Business Delivery Office
SADC	Southern African Development Community
SDG	Sustainable Development Goal

SEFA	Sustainable Energy for All
SFA	Seychelles Fishing Authority
TA	Technical Assistance
TYS	Ten Year Strategy
UA	Unit of Account
US\$	United States Dollar
WDI	World Development Indicators

MAP OF THE REPUBLIC OF SEYCHELLES



EXECUTIVE SUMMARY

1. Seychelles is an archipelago of 115 islands in the Indian Ocean with a population of less than 100,000, a small land mass (455 sq. km) and a vast exclusive economic zone (1,374,000 sq. km). The country became a high-income economy in 2015, and its GNI per capita reached US\$ 15,600 in 2018, and continues to enjoy a stable political environment. Moreover, the country witnessed recent robust economic growth averaging 4.2% during 2016-2019 and recorded significant progress on social front with a low Multidimensional Poverty Index (*MPI*) estimated at 0.04 (2019). Despite this positive evolution, the country still faces development challenges. . , This Country Strategy Paper (CSP) 2021-25 for Seychelles was prepared at a time when the country was seriously impacted by the COVID-19 global pandemic and is aligned both with the Seychelles' new Vision 2033 and National Development Strategy (NDS) 2019-2023, and the Bank's strategic and operational priorities. . **Owing to the victory of the opposition in the presidential elections of 24 October 2020, any changes in the strategic direction of the country will be reflected in the CSP 2021-2025.**

2. Economic growth and fiscal situation have been robust over the last decade but are now threatened by COVID-19 pandemic. Real GDP growth in 2016-2019 averaged 4.2% supported by strong performance in the tourism and communication sectors. Tourism, which is the mainstay of Seychelles' economy, has been the hardest hit sector by the COVID 19 pandemic. Consequently, real GDP growth is projected to contract by 11.6% in 2020, far below the original growth projection of 3.3% due to a major contraction in accommodation, food and beverages activities. Over the 2016-2019 period, the Government maintained fiscal discipline with an overall fiscal surplus of between 0.2% and 0.9% of GDP. Because of the COVID-19 pandemic the overall fiscal deficit is projected at 15.2% of GDP in 2020. Going forward the main sectoral drivers for growth will remain tourism, fisheries, financial services, and information and communication services.

3. Seychelles' social indicators are strong; it has one of the highest Human Development Index (HDI) rankings in Africa and is on track to achieve the Sustainable Development Goals (SDGs). Its ratio of female to male labour force participation is about 90%, everybody has access to education at primary and secondary levels. Seychelles has attained almost universal access to electricity (99.5%), basic education, and portable water (93%). Poverty is low, at 0.04 (2019) as defined by the Seychelles' Multidimensional Poverty Index (MPI), and the degree of income inequality is relatively low with a Gini index of 28% in 2017/2018. Despite Seychelles' strong health system, the 2019 Global Health Security Index points to major weaknesses in the system's capability to address biological threats such as the COVID-19.

4. Among the key findings of the Seychelles' Country Diagnostic Note (CDN)¹ is that the country has so far achieved little structural transformation due to economic dependence on natural resource endowment. The service sector – of which tourism contributes about 25% of GDP – dominates the economy, with the value added in the sector having increased by an annual average of 4.5% over the 2010-2019 period while those of the agriculture and industrial sectors increased by an average of only 0.1% and 0.3%, respectively. The nominal GDP share of services stood at 83.9% in 2019, while the shares for agriculture and industry remained very low at 2.8% and 13.3%, respectively during the same period. The NDS 2019-2023 aims to enhance value addition and contribution of financial and ICT related services to GDP, improve competitiveness. Cognizant of the mismatch between supply of, and demand for, locally specialized skills as one key constraint to further success on these areas, the NDS also prioritises skills development.

5. Seychelles’ overarching development challenge today is to achieve structural transformation as a pathway to sustain growth and foster economic resilience and to overcome its vulnerability to climate change. The country has considerable opportunities but also faces various challenges including low structural transformation, high degree of vulnerability to external shocks and infrastructure bottlenecks, mainly in energy, sewerage, and solid waste management systems. As a small island state Seychelles is highly vulnerable to climate change, notably marine degradation and extreme weather conditions. The country has a narrow economic structure that depends on tourism and fisheries and markets in Europe and the Middle East. Other challenges include a small domestic market, low value addition and productivity in manufacturing, institutional constraints, geographical remoteness and ageing/inadequate infrastructure. The country, however, is richly endowed with natural beauty that drives tourism activities and is endowed in expansive marine resources, which if effectively exploited, can transform the lives of Seychellois. Enhancing structural transformation, achieving economic and environmental sustainability and climate resilience, and deepening private sector participation are paramount to sustaining economic and climate resilience and creating good jobs for the youth.

6. To address Seychelles’ main development challenges in a selective manner, the strategic thrust and main objective/theme of the Bank’s new CSP 2021-2025 is to enhance the country’s economic resilience in support of its structural transformation agenda. In line with CODE’s recommendation, the CSP is anchored on a single Priority Area: **“Fostering Resilience to Promote Economic and Environmental Sustainability”**, and is selective in the areas of intervention and taking into account the Bank’s comparative advantages. Under this unique Priority Area, the Bank will support interventions that will address Seychelles infrastructure deficit in areas of energy, sanitation, and solid waste management to help unlock the potential for business growth and address environmental risks. Through complementary budget support operations, technical assistance, and advisory services, the Bank will support Seychelles deepen private sector growth, enhance productivity and linkages into the global value chains in key sectors including tourism, fisheries, and high-tech manufacturing and to explore and develop strategies on how best to engage in regional trade. The choice of the one Priority Area draws on consultations with country level stakeholders and lessons learned during implementation of the previous CSP 2016-2020. The preparation of the CSP has also benefited from the findings of the Seychelles’ CDN.

7. At a strategic level, the interventions under the unique Priority Area of the CSP are aligned with Seychelles’ NDS 2019-2023’s pillars 4 and 5 which are innovative economy and economic transformation, respectively. They also support Seychelles to make progress towards achieving the SDGs Goal 7, 9, 13 on Affordable and Clean Energy, Industry Innovation and Infrastructure, and Climate Action, respectively. They are **aligned with the Bank’s Ten-Year Strategy 2013-2022’s Operational Priorities** of infrastructural development, and private sector development and will support Seychelles to make gradual transition to green growth, promote inclusive growth, and better position the country to seize the opportunities offered by its regional integration and trade initiatives. Further, they are **supportive of the Bank’s High 5 priorities:** Light up and Power Africa; Industrialize Africa; and Improve the Quality of Life for the People of Africa. Finally, they are in line with the Bank’s Strategy for Addressing Fragility and Building Resilience. The Bank will continue to undertake operationally relevant analytical work, high-level policy dialogue and advisory services, and capacity building to improve portfolio quality and deliver impactful development outcomes. The ongoing Bank interventions of the previous CSP 2016-2020 also fit in well in the proposed unique Priority Area.

8. In the backdrop of low borrowing capacity of the Government, the Bank will intensify efforts to explore opportunities for leveraging its own resources with private sector funding. The Bank will also use of innovative approaches, including: (i) tapping non-sovereign guarantee loans; (ii) leveraging public-private partnerships (PPPs), especially for infrastructure energy projects; (iii) environmental and climate finance; and (iv) co-financing.

9. The Indicative Operations Program (IOP) for the new CSP consists of a total of seven (7) operations that have been carefully selected to enable the Bank to scale up its support to Seychelles' agenda of economic and environmental resilience in support of structural transformation. The selected operations take up a total resource envelope of UA 51.5 million, of which UA 48 million is allocated for lending operations and the remaining balance of UA 3.5 million is allocated for the non-lending operations. The latter comprise of two technical assistance projects that are uniquely selected to strengthen the Bank's policy dialogue in Seychelles.

10. Management hereby requests the Boards of Directors to consider and approve the Seychelles' Country Strategy Paper covering the period 2021-2025.

1. INTRODUCTION

1.1 **This Country Strategy Paper (CSP) 2021-25 for Seychelles was prepared at a time when the country was seriously impacted by the COVID19 global pandemic.** Growth was robust over the last decade and as a result, the country achieved a high-income status in 2015. Its GNI per capita stood at US\$ 15,600 in 2018 up from US\$ 11,130 in 2008. Economic performance continued to be robust and real per capita GDP growth averaged 3.5% over the 2016-2019 period. The country's social indicators remained strong; it has one of the highest Human Development Index (HDI) rankings in Africa and is on track to achieve the Sustainable Development Goals (SDGs). Continued political stability and good governance has been key to this success story. However, tourism sector, the mainstay of Seychelles' economy, is the hardest hit by the COVID 19 pandemic. Consequently, growth for 2020 has been revised downwards from 3.5% to a contraction of about 10%.

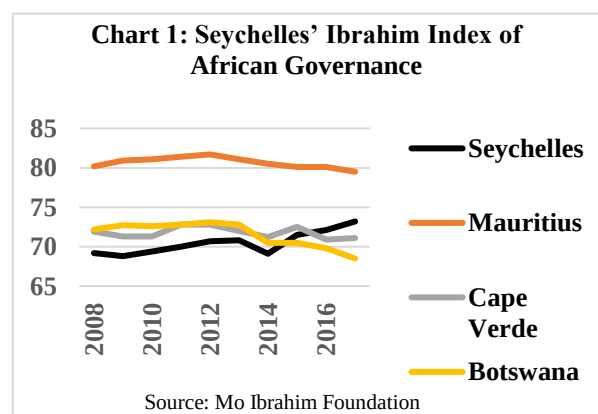
1.2 **Despite the robust pre-COVID 19 development performance, Seychelles continues to face several developmental challenges, primarily slow economic transformation and vulnerability to climate and external economic shocks.** Seychelles has a narrow economic structure that depends on tourism and fisheries and relies heavily on trade with a few markets in Europe and the Middle East. Other underlying challenges include a small domestic market due to low population, low value addition and productivity across key sectors of tourism, fisheries and manufacturing, institutional constraints and geographical remoteness. It also faces ageing and inadequate infrastructure, and vulnerability to climate change adverse impacts, notably cyclones and floods as a small island state. The Bank's new CSP 2021-2025 addresses these challenges and is timely. While supporting Seychelles to overcome the immediate challenges posed by COVID-19 pandemic, it also supports the country to meet its development aspirations as articulated in Vision 2033 and National Development Strategy (NDS) 2019-2023, mainly need for economic transformation and achieving environmental sustainability.

1.3 **To ensure that the Bank's interventions are inclusive and respond to the needs of Seychelles, the new CSP is informed by broad based consultations with representatives of various stakeholder groups** including the Government, civil society organizations, private sector, and development partners. The new CSP priorities and selectivity of Bank Group operations is also informed key findings from the CSP 2016-2020 Completion Report and 2020 Country Portfolio Performance Review (CPPR) and the Seychelles Country Diagnostic Note (CDN). The rest of this report is organized as follows: Chapter 2 presents country context and prospects; Chapter 3 outlines the key findings of the 2020 CPPR; Chapter 4 summarizes the lessons learnt; Chapter 5 presents the Bank Group's strategy for Seychelles; and Chapter 6 draws the conclusions and makes recommendations.

2. COUNTRY CONTEXT AND PROSPECTS²

2.1 Political Context and Prospects

2.1.1. **Seychelles continues to enjoy a stable political environment.** After attaining independence in 1976, Seychelles held the first multiparty presidential elections in 1993 when it adopted a new Constitution. The presidential elections of December 2015 were highly contested with the incumbent, President James Michel winning narrowly for a 3rd and last term. However, his mandate turned out to be short lived as parliamentary elections held in September 2016 were won by the opposition coalition consisting of four parties, the '*Linyon Demokratik Seselwa* (LDS), which secured 19 of the 33 seats in the National Assembly. As a result, the President resigned a few weeks later and his vice-president, Danny Faure, took power for the remainder of the term. The last presidential elections took place from 22 to 24 October 2020 and were won with a score of 54.9 percent of valid votes cast, by the opposition candidate, **Wavel Ramkalawan** who was running for the presidency for the sixth time.

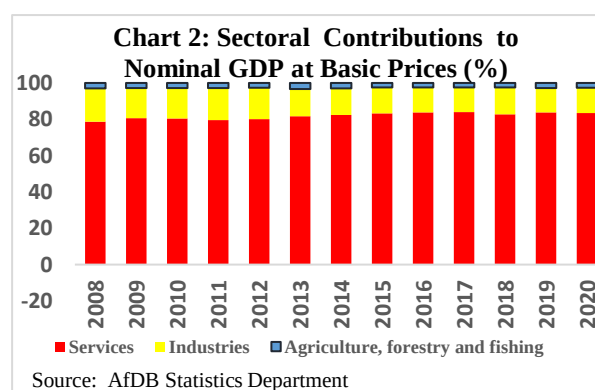


Nevertheless, the political outlook is expected to remain stable in view of the peaceful and cordial transfer of power that has taken place.

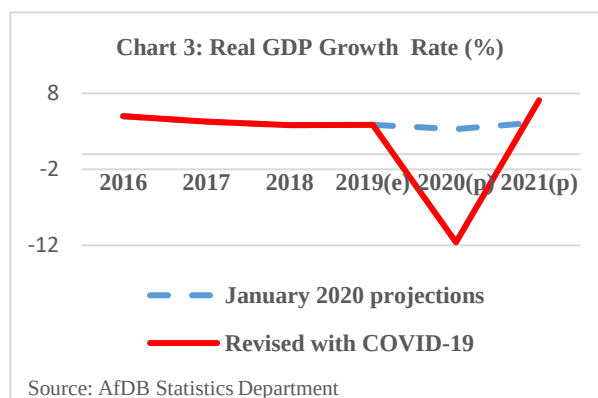
2.1.2 Seychelles’ rule of law and governance frameworks remain strong. The country is ranked 1st in sub-Saharan Africa on the 2018 Transparency International’s Corruption Perceptions Index (TI-CPI) at position 28/180 countries, compared to 36/180 in 2017. It was ranked 2nd out of 54 countries in the 2018 Mo Ibrahim Index of African Governance with an overall score of 73.2 in 2017 compared to 72.1, and 71.5 in 2016 and 2015, respectively (Chart 1). In this regard, Seychelles had high scores in areas of ‘Human Development’ and ‘Safety and Rule of Law’ but scored weakly on ‘Independence and Transparency of the Judicial Process’. In the cluster of governance, the Bank’s Country Policy and Institutional Assessment (CPIA) ratings for Seychelles continuously increased from an average score of 3.66 in 2013 to 3.88 in 2018, with above average score of 3.17 on public sector transparency, accountability, and corruption.

2.2 Economic Context and Prospects

2.2.1 *Economic structure:* Seychelles’ economic transformation is insufficient and remains vulnerable to external shocks. The Bank’s CDN finds that a persistent challenge the country is facing is slow economic transformation, with the economy having evolved from its primary agricultural base (plantations) before the international airport was opened in 1971, to a service-based economy that is dominated by tourism as the main foreign exchange earner. By 2001, the nominal GDP shares of services, agriculture and industry stood at 71.6%, 2.5%, and 25.8%, respectively, while manufacturing comprised 16.1% of GDP (Annex A.9-3). The continued economic dependence on natural resource endowment (fisheries and pristine beaches and natural beauty, that drive tourism activities) with little attention given to the development of manufacturing and agriculture sectors has led to minimal structural transformation over the past decades. By 2010, while the nominal GDP share of services sector increased to 80.4%, those for industrial sector dropped to 16.8% because of a significant decline in manufacturing to 9.7% of GDP and agriculture remained static at about 2.7%. The services sector continued to dominate with its nominal GDP share averaging 82.2% over the 2010-2019 period, while those of the agriculture and industrial sectors averaged only 2.7% and 15.1%, respectively (Chart 2 and Annex A.9-3). As regards total employment shares, the services sector accounted for about 77% in 2017/2018 (out of which about 19% was in tourism), while employment in manufacturing and agriculture remained low at about 8% and 1%, respectively during the same period. The NDS 2021-2025 aims to enhance value addition and contribution of financial and IT related services to GDP and encourage Artificial Intelligence (AI) with some success so far. Cognizant of the mismatch between supply of, and demand for, locally specialized skills as one key constraint to further success on these areas, the NDS also clearly prioritises skills development.



By 2010, while the nominal GDP share of services sector increased to 80.4%, those for industrial sector dropped to 16.8% because of a significant decline in manufacturing to 9.7% of GDP and agriculture remained static at about 2.7%. The services sector continued to dominate with its nominal GDP share averaging 82.2% over the 2010-2019 period, while those of the agriculture and industrial sectors averaged only 2.7% and 15.1%, respectively (Chart 2 and Annex A.9-3). As regards total employment shares, the services sector accounted for about 77% in 2017/2018 (out of which about 19% was in tourism), while employment in manufacturing and agriculture remained low at about 8% and 1%, respectively during the same period. The NDS 2021-2025 aims to enhance value addition and contribution of financial and IT related services to GDP and encourage Artificial Intelligence (AI) with some success so far. Cognizant of the mismatch between supply of, and demand for, locally specialized skills as one key constraint to further success on these areas, the NDS also clearly prioritises skills development.

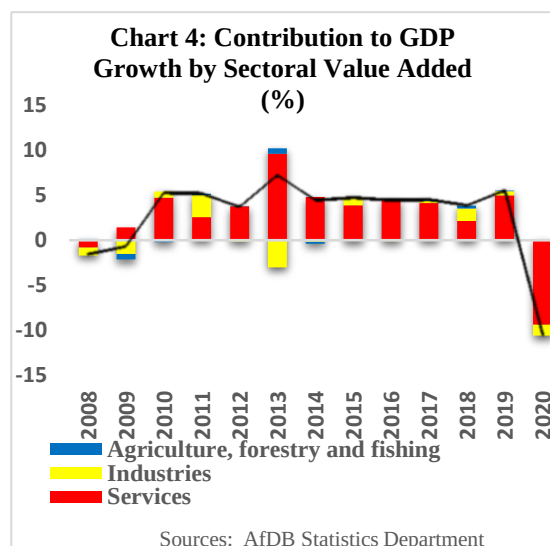


2.2.2. *Growth performance:* Seychelles’ real GDP growth over the 2016-2019 period averaged 4.2% (Chart 3) After the 2008/2009 global economic and financial crises that led to debt default, Seychelles implemented broad economic reforms that enabled it to recover quickly. Real GDP growth reached 5.9% in 2010 but moderated to 3.9% in 2019 due to economic uncertainties in its main export market in the eurozone and a moratorium, since 2018 on the construction of large hotels (Annex A.9.3).

Over the 2004-2017 period the number of tourist arrivals rose significantly, and tourism receipts remained robust averaging 38.3% of total exports. Going forward the main sectoral drivers for growth will remain tourism, fisheries, financial services, and information and communication services. There are also, over the medium term, growth opportunities for high tech manufacturing and knowledge intensive services including digital financial sector once appropriate policy measures are put in place to increase productivity and value addition in fisheries activities. On the demand side, growth drivers comprise of household consumption that accounted for 56%-57% of GDP over 2017-2019 and a relatively high level of investments which averaged around 30% of GDP during the same period of which, private investments comprised about 22% of GDP in 2018/2019.

2.2.3. On the supply-side, GDP growth is driven by the services sector that contribute the lion's share to growth in every year since 2010 (Chart 4 and Annex A.9-4).

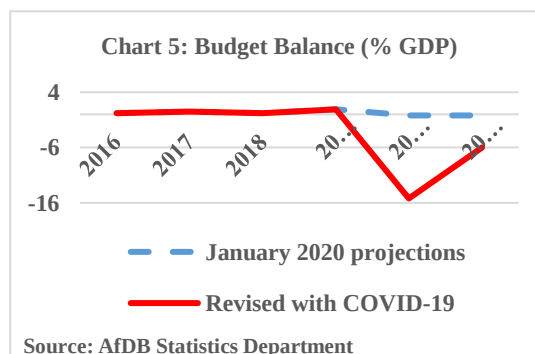
Only in 2011 has the industry sector's contribution to economic growth equalled the service sector's, with both contributing about 2.5% of GDP. On the downside, the -10.5% contraction of aggregate output projected for 2020 is almost exclusively attributable to the service sector (-9.4%), which reflects its predominance in the economy. Tourism which is a key component of the services sector has minimal linkages to the other sectors of the economy because of its highly vertical integration in the global hotel chains. On the other hand, merchandise exports are highly concentrated in canned tuna production with the contribution of manufacturing to GDP growth increasing by only 0.4% between 2010 and 2019. In the fisheries sector, there is low local processing of fish, as about 60% of the catch is directly exported raw to markets in Europe. Equally, high investment levels have driven the high growth rates over the recent decade while total factor productivity across sectors has remained low and the economy continue to over rely on foreign labour and underdeveloped tertiary education.



2.2.4. *Short-term growth outlook:* Seychelles' medium-term growth outlook remains positive but, in the short-term is adversely impacted by COVID-19 pandemic. The main transmission channels through which the COVID-19 pandemic is affecting Seychelles' economy are a decline in tourism activity, exports, and foreign direct investments. It is projected that there will be a 64% drop in tourist arrivals in 2020 and this will adversely impact the economy, since about 25% of Seychelles' GDP directly relate to tourism sector. Under the most recent updated scenario, GDP is projected to sharply contract by 11.6% in 2020, far below an earlier projection of +3.3%, but recover to +7.1% in 2021.

2.2.5. *Fiscal policy:* Seychelles maintained fiscal discipline over the 2016-2019 period by achieving an overall fiscal surplus of between 0.2% and 0.9% of GDP (Chart 5).

From 2016 to 2019 total revenues (including grants) and total expenditure (net of lending), as a percentage of GDP, averaged 37.2% and 36.8%, and reached 37.5% and 36.6%, respectively. Because of the COVID-19 pandemic, the 2020 projections point to an overall fiscal deficit of -15.2% of GDP compared to initial projection of -0.2% of GDP. In response to

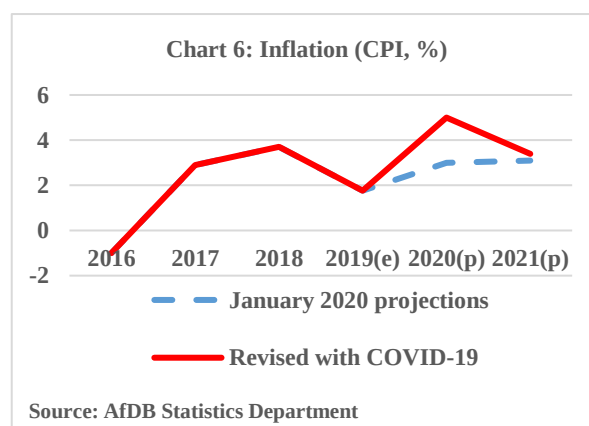


COVID-19 pandemic the Government, issued a revised 2020 budget amendment bill on 7 April 2020, showing a primary fiscal deficit of -14% which will lead to an increase in the public debt (see 2.2.6., below). This is because tax collections are projected to decline by 24% leading to a tax-to-GDP ratio of 27%, compared to an average of 32% over the past five years. The Government has committed approximately US\$ 70m to guarantee salary payment of all employees until June 2020, as extended to

December 2020 for Seychellois employees only. In addition, corporate social responsibility tax, tourism marketing tax, and business tax due for April, May and June have been postponed to September 2020. Including the health costs of the COVID-19 pandemic, public spending is projected to rise to 48.5% of GDP in 2020, from the original 2020 budget estimate of 40.2%.

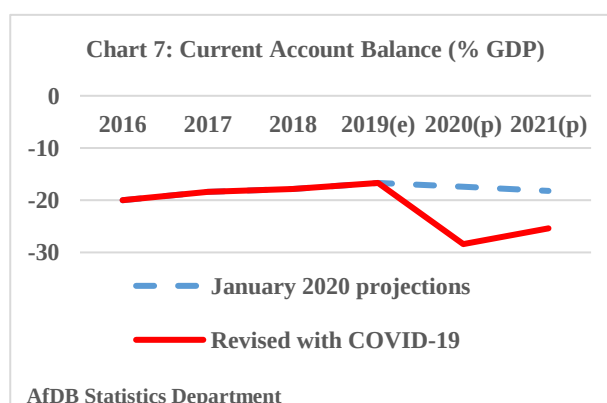
2.2.6. *Public debt:* Since 2009, Seychelles had planned to reduce its total public debt to below 50% of GDP by 2018 through good public financial management practices and fiscal discipline but recently pushed the target date to 2021. Public domestic debt decreased from 36.8% of GDP to 25.5% between 2016 and 2019, while over the 2010-2019 period external debt decreased from 171% to 107.3%. On the other hand, the debt service to exports ratio decreased to 4% from 8.5% in 2016 and is projected to slightly rise to 4.5% in 2020. A joint IMF/WB Debt Sustainability Analyses (DSA) of December 2019 shows that the net present value of Seychelles' public debt stood at 60% of GDP at end-2018, compared to 70% in July 2015, but was projected to decline to below 50% of GDP by end-2021 if the authorities continued to maintain annual primary fiscal surpluses at 2.5% of GDP. These plans, however, were suspended through the April 2020 budget amendment that opened the fiscal space to support borrowing to mitigate the adverse effects of COVID-19 pandemic. Measures introduced in the budget amendment include issuance of a domestic bond and drawing from crisis response budget support facilities of the African Development Bank, the World Bank, and the International Monetary Fund (IMF). As a result, the Government has revised its end-2020 debt-to-GDP ratio target to 85.1% indicating an emerging debt sustainability challenge that will further narrow down the Government's fiscal space.

2.2.7. *Monetary policy:* The Central Bank of Seychelles (CBS) has maintained a tight monetary policy that has helped to keep inflationary pressures under check. To achieve its key objective of domestic price stability, the CBS maintained inflation within an inner bound of the monetary policy consultation clause (MPCC)³. The tight monetary policy stance has maintained inflation at between 1.8% and 3.7% during the 2017-2019 period (Chart 6). However, the inflation rate in 2020 is expected to rise to close to 5% before moderating to around 3.2% in 2021 because of an expected depreciation of the Seychelles Rupee (SCR) and supply side disruptions emanating from the COVID-19 pandemic. These risks, however, will be mitigated by lower oil prices. To support businesses and individuals struggling with the adverse impact of the coronavirus pandemic, the CBS in March 2020 launched a credit facility of about US\$ 36 million to assist commercial banks with emergency relief and reduced the Monetary Policy Rate (MPR) by 100 bps to 4% and further to 3% in June 2020.



2.2.8. *Exchange rate policy:* Exchange rate stability has been a key policy objective for the CBS under the country's floating exchange rate regime. The CBS uses foreign exchange auctions for the purchase and sale of foreign currency to ensure availability of foreign exchange and enhance liquidity management. As a result, the SCR has remained stable, with annual average SCR/US\$ exchange rate falling between 13.3 and 13.9 over the 2016-2019 period. Because of the adverse impact of COVID-19, the SCR/US\$ exchange rate is projected to average SCR 14.2 per US\$ in 2020.

2.2.9. *External sector:* As a Small Island Developing State, Seychelles current account continues to register large deficits, implying high vulnerability to external shocks (Chart 7). The



current account deficit stood at -20% of GDP in 2016 and -16.7% in 2019 as tourism receipts performance improved, but because of the impact of COVID pandemic, is projected to further deteriorate to between -27.3% and -28.4% in 2020 compared to earlier projection of -17.4%. Over the 2010-2019 period, the trade deficit averaged -39.2% of GDP, and stood at -37.3% and -39.4% of GDP in 2016 and 2019, respectively. This was offset by a net surplus in the services account that averaged 27.2% of GDP over the 2010-2019 period and increased from 27.1% to 29.9% in 2016 and 2019, respectively. The current accounts deficits have been financed by net FDI (mainly resources for new hotel developments), which declined from US\$ 211 million in 2010 to US\$ 155 million in 2016 and further to US\$ 124 million in 2018 because of a moratorium on the construction large hotel facilities. Diaspora remittances, which exceeded US\$ 22.7 million in 2018 (about 1.4% of GDP) were an important part of the foreign exchange inflow, which has supporting increased household consumption. Gross international reserves stood at 3.8 months and 3.7 months of imports in 2017 and 2018, respectively. Amid the COVID-19 pandemic the CBS announced that its foreign exchange reserves will only be used to procure three items – fuel, basic food commodities and medicines. These stood at US\$ 591 million in early April 2020 of which US\$ 439 million was available for the basic imports for a period of about 18 months. The reduction in tourism revenues due to the COVID-19 pandemic is expected to lead to a decrease in foreign exchange reserves, which stood at US\$ 448 million at end-July 2020, and a downward pressure on the SCR/US\$ exchange rate.

2.2.10. *Economic and financial governance:* Over the last few years, the Government pursued several reforms to improve Public Financial Management (PFM). In this regard, the authorities have implemented several reforms, including procurement reforms that eliminated the duplication of services provided by different agencies, the issuance of a new Code of Governance for State Owned Enterprises, and strengthening the financial sector by enhancing anti-money laundering and combating the financing of terrorism (AML/CFT) frameworks. As a result, the Bank's CPIA ratings for Seychelles have continued to improve, from an average score of 3.49 in 2013 to 3.86 in 2018 although the country was weighed down by a weakening debt situation. Seychelles' score and ranking on the 2017 Ibrahim Index of African Governance (IIAG) were weak in some areas such as 'access to public & legislative information', 'provision of public services online', 'tax and revenue mobilization', and 'efficiency of customs procedures. The Bank's 2020 Country Fiduciary Risk Assessment concluded that the country's residual fiduciary risk was "Moderate", and that Seychelles PFM Systems are adequate to implement Bank-financed operations (Annex A.13). Some of the areas where risks were assessed as substantial include: (i) inadequate institutionalization of the planning functions across Ministries, Departments and Agencies (MDAs) (ii) lack of an integrated system to capture projects being implemented by line ministries and agencies which affects project monitoring; and (iii) limited internal audit coverage of the control systems, risk management strategies and governance frameworks of the MDAs. To mitigate these risks there is need to automate the accounting for donor funded projects' transactions, and accompanying reporting systems, enhance the IT skills of accounting staff, and increase the pool of Certified Internal/Information Systems Auditors and Certified Public Accountants. The 2017 Public Expenditure and Financial Accountability (PEFA) assessment indicated that the performance of the Government has been improving since the previous evaluation in 2011. To further enhance the PFM systems, the Government, in August 2020 launched Seychelles' National Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Strategy whose measures it aims to fully implement by the end of 2022. The country has also targeted to implement a series of additional reforms to address public sector governance, including: (i) the alignment of institutions with policy and service delivery mandates, (ii) the completeness and transparency of budget execution and procurement, (iii) the reduction of the number of parastatals and improving their monitoring/management, and (iv) redefining the accountability structure between the government agencies responsible for service delivery.

2.2.11 *Private sector:* Seychelles' private sector significantly contributes to GDP and employment but is constrained by a weak business environment that impedes its further growth and competitiveness. In 2018, the sector accounted for about 60% of GDP and employed about 65%

of formal labour, an increase of 6.5% over the preceding year. The tourism sector accounts for the largest share of total employment at 19%, followed by the construction sector at 12%. Broadly, Seychelles private sector comprises of activities in tourism, fishing, farming, oil drilling, manufacturing, financial services, and information and communications technology (ICT). The ICT sector in Seychelles is relatively small but competitive with four operators in the market and has opportunities for rapid growth in digitalized products and services. In the energy sector, independent power producers (IPPs) are permitted to engage in generating renewable energy, but their presence is limited to a recently awarded contract for development of a 4 MW floating solar farm and a few roof top solar power providers. Seychelles' NDS 2019-2023 places reliance on strengthening import substitution strategy although no clear focus on this is in place. Through the new public-private partnerships (PPPs) regulatory framework that was developed with the technical assistance support by the Bank, the Government is looking into deepening the private sector's role in accelerating industrial development in partnership with the public sector. Evidence from business surveys by the World Economic Forum as contained in the Global Competitiveness Report 2015-2016, support the view that businesses in Seychelles face significant constraints including access to financing, poor labour work ethics, inadequately educated workforce, supply of infrastructure, and inefficient government bureaucracy. Private sector credit-to-GDP ratio remained almost constant at 30%-31% in 2017 and 2018, far below that of Mauritius and Cape Verde that were 78% and 60%, respectively. Addressing the key business environment constraints through improved access to finance, skills development and access to affordable and reliable infrastructure services will help unleash the full potential of the private sector through improved productivity and enhance its participation in emerging sectors such as the Blue Economy.

2.2.12 *Financial sector:* The Seychelles' National Development Strategy (NDS) 2019-2023 prioritizes the financial services sector as a key pillar for growth. The authorities are seeking to modernize the financial services sector to place it in a better position to provide more innovative and diversified products and to create new growth opportunities. According to NDS 2019-2023 Seychelles 'aspires to become a potential financial technology (FinTech) hub that will spur growth in FinTech start-ups, and in line with this, regulatory frameworks are being developed. Seychelles' financial sector is reasonably well developed and capitalized, thanks to past technical assistance (TA) support by the Bank, the World Bank, and other partners. Asset quality as measured by non-performing loans to gross loans and provisions for non-performing loans have declined substantially over time reaching 3.5% and 19.2% respectively in 2018. In total, Seychelles has nine commercial banks and five nonbank financial institutions with the banking sector being highly concentrated, as the country's three largest banks hold approximately 80% of the sector assets, deposits, and loans. Since the 1990's Seychelles registered over 180,000 International Business Companies (IBCs) but because of weak regulations and oversight, some of those corporations have been implicated in international scandals, leading to international banks withdrawing their correspondent banking relationship as a measure to "de-risk". To address this situation, actions are being taken by the CBS and Financial Services Authority including enhancing jurisdiction credibility and reinforcing risk-based approach to banking supervision under a new AML/CFT strategy. In addition, there are issues relating to limited access to finance by MSMEs. Due to COVID-19 pandemic the Government issued a moratorium of six months on the repayment of principal and interest on loans by businesses and the CBS was mandated by Parliament to extend maturity of credit to commercial banks to 3 years.

2.3 Sector Context

2.3.1. *Water and sanitation:* The country has made good progress towards achieving universal and equitable access to safe drinking water and basic sanitation services in line with its 2012-2020 Sustainable Development Strategy (SSDS)⁴. Between 1994 and 2010, the percentage of households with access to portable water increased from 83% to 93% and further to 96.2% by 2017. Thanks to the Bank's financing, construction works are ongoing to increase water storage capacity at La Gogue dam on the island of Mahé by 60% from the current capacity of 1 million m³. Although these actions are positive, the country needs to create incentives that will ensure that users conserve

water resources through efficient utilization and safe reuse. In this regard, there is need to review the existing financing and tariff regime to encourage users to invest in water conservation and wastewater recycling practices. As regards basic sanitation services, coverage reached 100% of the population in 2017 with about 85% of household wastewater being treated in localized septic tanks as only 15% of Seychelles wastewater is treated to tertiary (advanced) level. In this regard, the percentage of population connected to the formal sewer system recorded lacklustre growth from 12% in 2012 to 19% in 2019. Currently, there are only four sewage plants in Mahé while two other wastewater treatment facilities are under construction, one in each of the islands of Praslin and La Digue. The Government, since 2015, planned to increase sewerage coverage through public sector investment to a target of over 22%. In this regard, and through the African Water Facility support, the Government, pursuant to the Seychelles' 2010-2025 master plan for water and sanitation, commissioned the Comprehensive and Integrated Sanitation Master Plan (CISMP) in 2019 which proposed priority investments of about Euro 100 million. The CISMP identified various options the country will need to consider in-order to raise the percentage of treated wastewater to about 35% by 2025 from the current 15% including a centralized sewerage facility for the three reclaimed islands on the north-east of Mahe, namely Ile Du Port, Perseverance and Aurore with a sewerage treatment plant at the Providence —the Ponte Larue Sewerage Treatment Plant.

2.3.2. Energy: Seychelles has almost universal access to electricity (99.54 %), but ageing and unreliable energy infrastructure is reducing energy efficiency. The country is heavily dependent on imported fuel for power generation which continues to make Seychelles extremely vulnerable to fluctuations in global fuel prices. Seychelles' power generation installed capacity is currently about 129 Megawatts (MW), mostly by the Public Utilities Corporation (PUC). The power generators in place mainly use imported HFO (Heavy Fuel Oil) and are nearing the end of their lifespan. Largely due to ageing generators in use, out of 129 MW installed power generation capacity, actual generation capacity is only 66 MW (52%). In Mahé, the PUC has two diesel power plants (Victoria of 28MW, and Roche Caiman of 76MW) and a 6MW wind farm. In Praslin, there is one diesel power plant (Baie Ste Anne Power of 16.4MW) with excess capacity of around 8MW, which is covering the demand in La Digue through two undersea cables. To replace Seychelles' ageing power generators as well as to overcome its reliance on heavy fuel to generate electricity, the Government is planning to build its first Liquefied Natural Gas (LNG) power station in the medium term using natural gas imports from Mozambique which recently discovered the world's third-largest gas reserves. To realize this project, however, the PUC will need to undertake a feasibility study to see how to proceed with the LNG project as well to identify short to medium term power generation options for the country.

2.3.3. Although, within the main islands, Seychelles has a well-established power distribution network with over 1,500 km of low voltage distribution lines, the two undersea cables that transmit electricity from Praslin to La Digue have insufficient capacity to transfer all the electricity demand of La Digue. Crucially, the failure rates on the two La Digue cables have been rising over the last two years leading to load shedding that has adverse consequences on tourism activities and household consumption. On the other hand, the country's energy policy (2015) sets targets for renewable energy at 5% by 2020 and 15% by 2030. In 2019, only 2.3% of Seychelles energy was generated from renewable sources including the wind farm (6MW) and roof top solar photovoltaic (PV) systems (around 3MW). Recently the PUC awarded an IPP contract for the development of a 4MW floating solar farm at the Lagoon le Roche. The country will need to overcome several barriers that undermine its ability to expedite transition to clean energy sources. These include lack of national legislation and supportive infrastructure on clean technology transfers, weak enabling environment for private sector participation, for example, under the Public-Private-Partnerships (PPPs) arrangements, and weak internal capacity to help tackle barriers to innovation to renewable energy project financing, generation, and operations.

2.3.4 **Information Communications Technology:** The Seychelles' CDN found that in the context of Vision 2033 and NDS 2019-2023, the country aims to adopt a forward-looking growth model that will enhance the contribution of the ICT sector to GDP. The new growth paradigm focuses on

enhancing sectoral competitiveness and productivity by encouraging artificial intelligence to leapfrog the fourth industrial revolution. Although there are some successes in this regard, progress is slower due to limited availability of appropriately specialized local skilled labour force thus increased reliance on imported labour. Further, another constrain is the small domestic market that curtail efficiencies from scale economies. Seychelles' mobile phone subscribers per capita stood at 1.7 in 2017 and its 4G LTE penetration was 98%, with the number of mobile phone accounts increasing by 17% from 644,220 in 2015 to 752,585 in 2019⁵. The cost of purchasing a gigabyte (GB) of internet data fell from US\$ 62 in 2011 to US\$ 16 by 2015, with the number of internet connections increasing significantly from 127,942 accounts in 2015 to 424,962 in 2019. Bank has supported the country's ICT sector through TA support and investment project financing.

2.3.5 *Regional integration and trade:* Since 21 March 2018 Seychelles is a signatory to the African Continental Free Trade Area (AfCFTA) but has not ratified the agreement. The Government however, approved the AfCFTA draft initial offer for Seychelles under the Protocol for Trade in Services on 15 July 2020. The country is also member of free trade zones in the Common Market of East and South Africa (COMESA) (1994), the Southern African Development Community (SADC) (2015) and joined the World Trade Organization (WTO) in 2015. The 2020 African Regional Integration Index (ARII)⁶ ranks Seychelles as an average performer with a score of 0.393 with strong performance in clusters of regional infrastructure and free movement of people. In the area of trade integration, Seychelles' score of 0.22 is low showing that goods do not flow seamlessly across its borders and the rest of the Continent. This is because of its location as an island state and its limited export basket. The Euro Zone (EU), led by United Kingdom, France, Spain and Italy, is the country's largest trading partner for both imports and exports, followed by the Middle East (notably the UAE). In 2018, the main EU trading partners for Seychelles received about 40% of its exports, down from more than 50% in 2016, reflecting the country's vulnerability to economic uncertainty and performance in Europe. Export to the United Arab Emirates also went down to less than 2 percent in 2018, down from 16 percent in 2015 and 5 percent in 2016. Imports from the main EU trading partners stood at 35 percent in 2018, up from 17 percent in 2016, thereby widening the country's trade deficit with the Euro Zone. The only African country that appears as among the top five import origin is South Africa which in 2018 contributed to 6.4 percent of Seychelles' total imports, slightly up from 5.7 percent in 2016. In terms of commodity mix, the main exports from Seychelles are: processed fish, non-frozen fish, aircrafts related items, ships and boats related items and refined petroleum that account for a combined share of 87 percent of the country's exports in 2018; while the main imported items into Seychelles are: non-frozen fish, ships and boats, machinery, refined petroleum, electricals and articles of iron/steel that account for a combined share of 87 around 60 percent of total imports in 2018. With the types of main export items from Seychelles, and the rise of middle-income population in the mainland Africa, there are potential untapped regional markets for Seychelles' exports and Tourism. With the recent strengthening of African ties, increased opportunities in Africa for Seychellois fish exports are being pursued. However, as high transport cost (due to its remoteness), the small market size and thus the limited potential for economies of scale will continue to pose challenges for Seychelles to compete globally through low prices, it needs to focus on specialized and high value-added quality products that it can sell on regional and global markets. As its main trading partners are outside the Continent, deepening private sector development will help diversify Seychelles' export basket and in so doing position the country in a better situation to tap the benefits of regional integration and trade, including those offered by the AfCFTA. Although Seychelles does not impose major barriers to trade, its customs duties on fisheries products are relatively high and having inadequate infrastructure constrain international trade. To mitigate against the economic impacts of its isolation the Government has invested in two submarine cables with the support of the Bank and is sustaining the operations of Air Seychelles despite the financial headwinds the airline it is facing.

2.3.6 *Blue Economy and Fisheries Sector, Agriculture, and Transport:* Annex 15 presents comprehensive sector briefs covering the following sectors: Blue Economy and Fisheries; Transport; and Agriculture.

2.4 Social Context and Cross-Cutting Themes

2.4.1. *Poverty, inequality, and social sector issues:* **Seychelles has achieved four of the Sustainable Development Goals (SDGs) and is on track to achieve the remaining 13 SDGs.** The Seychelles' 2019 baseline assessment report⁷ shows that the country has already achieved the following SDGs: Goal 1 - End poverty; Goal 3 - Good health and wellbeing; Goal 4 - Quality education; and Goal 13 - Climate change. Extreme poverty, defined as people living with less than US\$ 1.90 (Purchase Power Parity) per day, is low at 1.1% (2019). Acknowledging that poverty is a multifaceted phenomenon that goes beyond a simple income measure, the MPI Report of May 2020 shows an index of 0.04 in the third quarter of 2019⁸. Further, the report highlighted that poverty incidence is higher for female-headed households at 12.9%, compared to male-headed households at 10.4%. As regards spatial distribution, the island of Mahé has a higher poverty incidence with an MPI of 0.041 with other islands having a lower MPI of 0.022. Top contributors to the MPI include youth not in education, employment or training and informality. The 2019 United Nations Development Programme' HDI, ranked Seychelles at position 62 out of 189 countries with a HDI of 0.801 in 2018. The degree of income inequality is relatively low in Seychelles at a Gini index of 28 in 2017/2018 according to a Poverty Profile Survey. Seychelles tops African countries on the Human Capital Index and ranks 43 out of 157 countries globally, with education for students being free and compulsory from ages 5 to 16 in primary and secondary schools. Education gaps, however, exist in Science, Technology, Engineering and Mathematics (STEM), as well at the tertiary level. Seychelles' health systems remain strong and as part of COVID-19 response, the authorities acted decisively through health policy responses backed up by additional allocation of health spending of a half-percent of GDP. Finally, the country has close to 15 social welfare and social protection programs for households and youth and social security benefits for the elderly (over 63 years). Sustainability of these schemes remains vulnerable amidst threats of COVID-19 pandemic and an aging population.

2.4.2. *Skills for employability:* **Seychelles' total unemployment rate dropped from 10.4% in 1994 to 3.5% and 2.7% in 2018 and 2019 respectively, but youth unemployment remained high, reaching 11.6% in 2019.** In the fourth quarter of 2019, female unemployment rate was lower at 1.7% compared to males at 2.8%, with total unemployment rate standing at 2.3%. In the same quarter, the unemployment rate was higher among the youth (15-24 years) at 7.4%. Surprisingly, the higher youth unemployment rates co-exist in an economy that relies on foreign workforce across many sectors. The majority of foreign labour is in the construction sector (38.6%) and accommodation and food services (38.4%). Contributing factors to this include a tertiary education system that does not fully respond to the needs of the labour market and a high rate of about 19.8% of youth who are not in employment, education, or other forms of train. The Bank in 2018 supported the development of the National Human Resource Development Policy and Strategy (2018-2022) whose vision is a workforce, especially youth, who are empowered with the necessary skills, attitudes, competencies and work ethics to sustain the country's development. Skills mismatch, poor work ethics and substance abuse are among the main challenges for skills development in Seychelles and in response, the recently released NDS 2019-2023 puts people at the centre of the country's developmental agenda.

2.4.3. *Climate Change:* **As an island state, Seychelles is vulnerable to the adverse impacts of climate change.** Seychelles is ranked first in the Sub-Saharan region and 38th out of 180 countries in the Environmental Performance Index (June 2020) that tracks 32 performance indicators across on environmental health and ecosystem vitality. As regards global warming, historical observations show that the Seychelles warmed by 0.33°C between 1977 and 2007 while annual rainfall anomaly remained on an increasing trajectory by 13.7 mm per year in the island of Mahé over the 1972-2006 period⁹. Individual General Circulation Model projections show a maximum increase in rainfall of 5.9 % (19 mm), 9.3 % (25.4 mm), 12.4 % (38.6 mm), for the years 2025, 2050, and 2100, respectively¹⁰. Given

the observed and projected climatic changes, the main impacts are: (i) changes in rainfall patterns leading to flooding, landslides and extended periods of drought; (ii) increase in sea temperatures resulting in coral bleaching; (iii) changes in acidity and damage to marine ecosystems; (iv) increase in storms and storm surges; and (v) sea level rise. Seychelles generates about 80,000 tons per year of solid waste at a growth rate of 6% per year. With the country's high economic growth performance in recent decades, its per capita municipal solid waste (MSW) generation is about 2.45 kg/day, far higher than the global average and is a large source of methane, a powerful GHG that is particularly harmful. Seychelles Municipal Solid Waste (MSW) management infrastructure in place, notably the landfill at Providence whose lifespan is until 2024, is inadequate and in the context of increase in rainfall, sea level rise, and storm surges is poised to over spill debris and leachate into the ocean and the surrounding land. This is because like other small islands states Seychelles' waste management infrastructure is constrained by unavailability of land for landfills despite that, for the island of Mahé, waste stands at 2.4kg per person which is relatively high compared to a global average of 1.2kg per person¹¹. Also, being a small island developing state there is no centralized storage facility that can receive and safely store hazardous waste. Currently hazardous waste is sent to the municipal landfill which poses significant challenges for the country. To address these climate change related challenges, the Government in 2009 developed the National Climate Change Strategy (NCCS), and the Nationally Determined Contribution (NDC). These strategies outline priority investments that will enable Seychelles transition to a low-carbon economy while meeting its target of 15% energy from renewable sources by 2030. Seychelles' Public-Sector Investment Program lists several climate change mitigation and adaptation projects costing about US\$ 60 million or about 40% of 2018 GDP. Further, the Government is seeking to improve the existing waste management system, by implementing waste reduction and recovery strategies, constructing new infrastructure, and upgrading waste frameworks in line with best practices and the country's National Waste Policy 2018-2023 and Solid Waste Master Plan 2020-2035. The country is also putting in place measures to adapt, build resilience and minimize vulnerability to the impacts of climate change by strengthening its capacity to better forecast extreme weather events and implement appropriate measures. Further, Seychelles is leading calls for a more inclusive global development agenda which emphasizes the economic potential of the seas while protecting maritime resources and has demonstrated its commitment to the Blue Economy growth agenda by initiating the implementation of the FAO Global Blue Growth Initiative. The country is also looking to reinforce its capacity to maximize the use of ocean and fisheries resources and is fully committed to sustainable development of its marine resources by maintaining the highest standards of environmental protection (see Annexes A.15 and A.16 for a full discussion on Fisheries, Blue Economy and related climate change issues).

2.4.4. Through its NDC, Seychelles commits to reduce gross economy wide greenhouse gas (GHG) emissions by 122.5 ktCO₂e by 2015 and 188 ktCO₂e by 2030. The country also outlines actions that are required to reduce the GHG emissions in the energy and waste sectors, including switching to renewable energy, improving energy efficiency, bringing in electric cars, improved solid waste management and the implementation of waste-to-energy programs. Already, the Seychelles is investing in a floating utility scale Photovoltaic power plant with 4 MW capacity. Further, amendments to the Environment Protection (Ozone) Regulations (in force since 1 January 2020) imposes levies on imported refrigerant gas/equipment that exceed 100 Global Warming Potential. Proposed adaptation measures include construction of the Grand Anse Dam, implementation of the Coastal Management Plan 2019, and enhancing climate change and risk forecasting. However, many of the adaptation and mitigation measures are yet to be implemented due to lack of resources, and the country is looking to international partners and agencies for funding.

2.4.5. *Gender*: Seychelles has made good progress towards achieving gender equality. The country ranks 5th out of 54 African countries according to the 2018 Africa Gender Equality Index with an overall score of 0.738. While the country scores are high on the social dimension (1.071), and economic dimension (0.832) of the index, it scores relatively poorly on the empowerment and representation dimension (0.451). The country's National Gender Policy (2016), which enshrines

gender equality and equity in all laws and practices, aims to enable women and girls to have the skills, confidence, and agency to claim their political, economic and social rights and mandates the Government to develop national budgets that are gender responsive. Although Seychelles' ratio of female to male labour force participation is high at 0.9, the recent Bank's Country Gender Profile report, highlighted the distinctly different roles played by men and women in the economy, with a marked segmentation along gender lines. This is apparent in the informal sector which employs 15.9% of the total labour force, of which 72% are males. Most informal workers are engaged in agriculture, manufacturing, and construction –the workforce in these sectors are predominantly men. In the formal sector, women are well represented throughout in the public and the services sectors. Despite the good progress in education and health, adolescent fertility rate (births per 1,000 women aged 15-19) appear high at 56.9 (2015-2020), which can potentially lead to lesser human capital formation for females. Finally, as 58% of the households are headed by females, women's access to employment and income is likely to be hampered by lack of flexible working hours and time-based work arrangements across all sectors.

2.5 Country Strategic Framework

2.5.1. Launched in 2019, the Seychelles' NDS 2019-2023 under the new Vision 2033 became the blueprint that will kick-start the process to transform the country's economy. The NDS 2019-2023 was prepared through a broad-based consultative process with diverse cross section of Seychellois society and is based on six pillars, namely: (i) Good governance, transparency and accountability; (ii) People at the Centre of development; (iii) Social cohesion; (iv) Innovative economy; (v) Economic transformation; and (vi) Environmental sustainability and resilience. The NDS 2019-2023 incorporates global and continental commitments such as the United Nations (UN) Agenda 2030, the SDGs, the Paris Declaration of Aid Effectiveness, and the African Union's Agenda 2063. It aims to help Seychelles to overcome several challenges, including upgrading infrastructure for sustainable social-economic development, transforming education system to embrace science and technology, improve productivity and innovation, and overcoming barriers to structural economic transformation and climate resilience.

2.6 Aid Coordination Mechanisms, Bank Positioning and Comparative Advantage

2.6.1. The Government has requested that all development interventions supported by development partners be aligned with its NDS 2019-2023. The Bank, the World Bank and the IMF have overwhelmingly used budget support instruments to deliver support to Seychelles, while bilateral partners have provided mainly technical assistance (TA) and grants. The main areas of support by the Bank and other partners include enhancing financial and economic governance, infrastructure development, social sector projects, and providing TA (see Annex A.7). Aid coordination is, however, hampered as key development partners reside outside the country¹².

2.6.2. The Bank has remained Seychelles' main development partners since the country joined the Bank in the 1970s. During the implementation of its operations, the Bank continue to bring to bear its cumulative experience and mutual trust with authorities. For example, in 2008 when Seychelles defaulted on its international debt payments, it approached the Bank, which then played a key role in the country's debt restructuring process over the 2009-2013 period. This involved the Bank issuing a policy Based Partial Credit Guarantee that enabled the country to achieve major debt rescheduling objectives and put its debt on a sustainability trajectory thus ensuring the continuity of development assistance to a valued partner in a time of need. The Bank has and continue to create trust with the authorities by supporting Seychelles' economic reforms as recently evidenced by the COVID-19 budget support operation. The Bank has also successfully supported investment and technical assistance operations in area where it has ample experience and comparative advantages such as in water and sanitation sector, capacity building in the areas of MSMEs, Blue Economy and climate resilience, human resources development strategy, ICT and the financial sector. Through past investment and technical assistance operations the Bank has built mutual trust with the authorities and will continue to build on this trust by engaging in policy dialogue through policy-based operations as complemented

by key investment and technical assistance operations and policy advisory work in coordination with other development partners.

2.7 Strengths and Opportunities, Weaknesses and Challenges

2.7.1. As the context analysis in preceding sections has shown, Seychelles enjoys many strengths and opportunities, but at the same time faces a certain number of weaknesses and challenges that prevent it from further progressing to a higher level of development. Seychelles' overarching development challenge today is to achieve structural transformation as a pathway to sustain growth and foster economic resilience and to overcome its vulnerability to climate change. This overarching development challenge is compounded by several underlying 'second-tier' development challenges such as inadequate infrastructure (notably energy, sewerage, and waste management systems), low productivity and value addition in key sectors, high costs of doing business, dependence on a few foreign markets, and extreme weather conditions in the context of rising vulnerability to environmental and climate change risks. Box 1 summarizes Seychelles strengths, opportunities, challenges and weaknesses.

Box 1: Seychelles: Strengths and Opportunities and Weaknesses and Challenges

<u>Strengths and Opportunities</u>	<u>Weaknesses and Challenges</u>
• Political stability over the past decades and good governance are supportive for successful socio-economic development. • Tourism sector remains the mainstay of the Seychelles economy and there is potential for expanding higher value-added niche activities. • With a large fishing area and abundant fisheries resources, Seychelles is seizing the opportunity to develop its Blue Economy. • A Strong ICT sector and new higher-capacity ICT broadband offers opportunities to develop high tech industries and ICT-based services. • Government committed to private sector growth and is undertaking critical reforms including recently issued PPPs frameworks with the support of the Bank. • A vast regional market —Seychelles is a member of AfCFTA, COMESA and SADC— offer great opportunities to expand regional trade.	• Slow economic transformation leading to vulnerabilities to external shocks. • Youth unemployment. Seychelles suffers from skills gap, characterized by a mismatch between labour demand and supply. • Vulnerability to climate change notably through rising sea levels, marine degradation, and extreme weather. • Infrastructure bottlenecks mainly in energy, sewerage, and waste management systems. • Inadequate access to finance that remains a major impediment to MSMEs sector growth. • Geographical remoteness and small population size increase costs of imports and exports and imposes a hidden tariff on trade. • Dependence on a few foreign markets — mainly in Europe— leaves the economy exposed to adverse external shocks. • High cost of doing business remains a major bottleneck to private sector growth. • Rising level of public debt mainly due to the adverse impact of COVID-19 crisis.

3. KEY FINDINGS OF COUNTRY PORTFOLIO PERFORMANCE REVIEW

3.1.1. Overview of Bank Group Portfolio: **As of end November 2020, the Bank's approved and ongoing portfolio in Seychelles comprised of five operations with a total commitment of UA 36.71 million.** Of these, four operations are in the public sector with a commitment of UA 31.47 million and one is a non-sovereign operation with a commitment of UA 5.24 million. As a high-income country, Seychelles can only borrow from the ADB window. The country planning cap was hardly utilized because of the Government's tight fiscal and debt policies. Over the CSP 2016-20 period, only two projects —Loan to Seychelles Cable System Company¹³ and COVID-19 Crisis Response Budget Support¹⁴— were approved for a total of UA 12.51 million. The Bank's ongoing operations in Seychelles are financed from ADB (95%), the Middle-Income Country Technical Assistance Fund (MIC-TAF) (3%) and Fund for African Private Sector Assistance (FAPA) (2%). In terms of sectoral distribution, the largest allocation of 46% is in water supply and sanitation sector followed by multi-sector at 40%, and communication at 14%. The three projects in the multi-sector includes the Covid-19 Crisis Response Programme, Policy Based Partial Credit Guarantee Programme¹⁵ and a TA on Support to Blue Economy MSMEs. The portfolio contributes to the Bank's High-5s as follows: Integrate Africa (10%), Feed Africa (12%), Industrialize Africa (32%), and Improve the Quality of Life for the People of Africa (46%) (See Annex A6.1)

3.1.2. ***Portfolio Performance: The last CPPR was undertaken in June 2020.*** Key performance indicators show that portfolio performance in Seychelles has improved over the years since the last CPPR in 2018 (see Table A6.2 on Annex A6.1). As of June 2020, the performance of the portfolio was assessed as satisfactory, with an average score of 3.1 (on a scale of 1-4). The cumulative disbursement ratio increased from 20% in 2018 (when the last CPPR was conducted) to 45.41%¹ as of 30 November 2020. There were no projects at risk nor red-flagged projects. Nonetheless, the average age of projects in the portfolio was 3.52 years up from 1.7 in 2015. This is mainly because of start-up delays that were experienced in the implementation of the Mahé Sustainable Water Augmentation Project whose average age was 5.2 years in June 2020.

3.1.3. ***Country Portfolio Improvement Plan (CPIP): Since the 2018 CPPR a few challenges continue to slow down project implementation.*** These include: (i) weak project financial management capacity at the executing agencies; (ii) delays in submission of annual audit reports and implementation of related recommendations; (iii) delays in justification of overdue special account balances; and (iv) delays in preparation of quarterly reports. To address these challenges, the Bank and the Government agreed on a set of measures to that will address these challenges as outlined in the 2020 CPIP (see A.6.3).

4. LESSONS LEARNT

4.1. **Important lessons were drawn from the CSP 2016-2020 Completion Report and 2020 CPPR.** Strategically, although the Bank's Seychelles' CSP 2016-2020 was well designed to address the developmental challenges that were facing the county, the envisaged results were, however, not fully realized due to the Government's limited fiscal space for borrowing. Seychelles' development challenges including slow economic transformation, and low innovation, value addition, and productivity in key sector have continued since the last CSP was approved in 2016. This calls for sustained Bank's support for Seychelles' structural transformation agenda (see Annex A.3).

4.2. **Operationally, the Bank will continue to engage the Government on alternative funding modalities such as guarantee instruments and non-sovereign operations considering the country's limited fiscal space for public sector borrowing.** In addition, strengthening institutional capacity by embedding technical assistance in investment projects is a good practice as observed in the ongoing Mahé Sustainable Water Augmentation Project. The Bank will continue providing fiduciary clinics, such as the one conducted in 2019, as these have proved useful in improving capacity of staff of the executing agencies. Further, to ensure enhanced portfolio performance, close monitoring of implementation progress is necessary, and to avoid start-up delays all relevant stakeholders should be engaged and dedicated project teams with clearly defined responsibilities identified early during project preparation.

4.3. **Extensive consultations were undertaken in Seychelles with the Government, the private sector, civil society organizations, academia, and development partners that have informed this CSP.** These consultations that commenced in March 2020 as part of the preparation of the CSP 2016-2020 Completion Report aimed to draw lessons to inform the Bank's new CSP 2021-2025 and propose its strategic orientation. Also, the new CSP's lending program is based on further virtual consultations with the authorities on their planned operational and investment programmes while taking into account Seychelles' NDS 2019-2023 priorities and the Bank's operational policies and strategies. To ensure that the Bank's interventions in the next five years are inclusive and respond to the needs of Seychelles and its people, virtual consultations were held during the month of September 2020 with representatives of the Government, civil society organizations, and the private sector who provided feedback on the new CSP priorities and selectivity of Bank Group operations. Finally, virtual discussions were also held the development partners to seek areas of collaboration and opportunities (see A.5). Stakeholders consulted confirmed the appropriateness of the Priority Area identified under

¹ The Policy Based Partial Credit Guarantee (PBPCG) Programme is not likely to be called and may therefore not be disbursed. Excluding this amount from the calculation of the disbursement ratio will result in an increase to 56.72%

this CSP and noted that: (i) economic transformation is key to sustaining growth going forward; (ii) to maintain environment resilience, there is need for the country to address vulnerability to climate change; (iii) investment in key energy, sanitation, and waste management infrastructure are crucial in enhancing productivity and securing environmental sustainability; (iv) implementing economic reforms are essential to improving the country's business competitiveness; (v) support to private sector development, including increased use of PPPs frameworks, is key to unlocking Seychelles' growth potential; and (vi) strengthening institutional capabilities is essential to sustain growth momentum.

4.4. The recommendations guidance provided by CODE during the consideration of the completion report of the Seychelles' CSP 2013-2019 have informed the design of this CSP. While noting that the overall performance of the portfolio of the Bank in Seychelles is assessed as satisfactory, and the significant progress that the country has made on the socio-economic front, CODE underscored the following challenges that the country need to overcome to accelerate structural transformation: (i) high dependence on tourism, and (ii) high vulnerability to climate change. Further, CODE recommended that the proposed two priority areas be consolidated into one priority area, considering, (i) selectivity, and (ii) comparative advantages of the Bank (Annex A.4.1). Finally, recommendations from the Executive Director's Seychelles visit highlight the need for the Bank to sustain its support to the country to address challenges relating to slow structural transformation, climate change resilience, and institutional capacity. As regards the latter, the key recommendation is that the Bank should embed technical assistance as part of investment projects and support the improvement of skills of staff at the executing agencies (Annex A.4.2).

5. BANK GROUP STRATEGY

5.1 Strategy Rationale, Objective and Priority Area for Bank Support

5.1.1. Seychelles' overarching development challenge today is to achieve structural transformation as a pathway to sustain growth and foster economic resilience and to overcome its vulnerability to climate change. Despite being a high-income country with high HDI, Seychelles' economy has over the past decades recorded low structural transformation with the share of services sector – mainly tourism – dominating and increasing over time. In addition, being a small island economy, underlying challenges include inadequate infrastructure (notably energy, sewerage, and waste management systems), low productivity and value addition in key sectors, high costs of doing business, dependence on a few foreign markets, and vulnerability to environmental and climate change risks.

5.1.2. Tackling Seychelles' development challenges in a selective manner is paramount to maximize the effectiveness of Bank support. Drawing on lessons learnt and recommendations from CODE, the Bank's support in the next five years will be thematically selective by aiming to enhance economic transformation and foster environmental and climate change resilience which are crucial for a small island economy such as Seychelles'. This support that will be organized under one Priority Area — fostering resilience for economic and environmental sustainability — will also consider the Bank's comparative advantages. Indeed, the Bank has demonstrable leadership and comparative advantages in its past and ongoing interventions in sectors such as water and sanitation and support to economic reforms. There is, therefore, a need for greater engagement going forward in these areas. This will deepen complementarity with Bank's ongoing operations and with the support provided by other development partners and create potential opportunities for more partnerships going forward. Further, based on the Bank's comparative advantages and its prior engagements and continued dialogue with the authorities and other country level stakeholders, the Bank's support to Seychelles has been narrowed down to a few strategic areas and initiatives which will maximize value. These include overcoming infrastructure bottlenecks in energy and sanitation sectors only, improving productivity, value chains, and innovation in key sectors through knowledge work, supporting the country's reform agenda to enhance financial and private sector development through budget support operations, and overcoming environment and climate resilience through infrastructure investments and technical assistance projects. The sectors of intervention (energy and sanitation) and instruments (e.g. budget support operations and use of bilateral and climate funds) have been uniquely selected because

they present opportunities for reinforcing collaboration and partnership with development partners in terms of co-financing opportunities. The set of selectivity criteria that have been applied in deriving this CSP's main objective/theme and identify the strategy's unique Priority Area for the Bank's support are outlined in Annex 17.

5.1.3. At strategic level, Bank interventions aims to support Seychelles' NDS 2019-2023 pillars 2, 4, 5, and 6 which are people at the centre of development, innovative economy, economic transformation, and environmental sustainability and resilience, respectively. The proposed interventions are aligned with the **Bank's Ten-Year Strategy 2013-2022's Operational Priorities** of Infrastructural Development, Private Sector Development, Governance and Accountability, and Skills and Technology. They are also **supportive of all the Bank's High 5 priorities**: Light up and Power Africa; Feed Africa; Industrialize Africa; Integrate Africa; and Improve the Quality of Life for the People of Africa (see Annex A.2.2).

5.2 Strategy and Expected Results

5.2.1. To achieve the 2021-2025 CSP's objectives and envisaged results, and to deliver its support under the single Priority Area, the Bank will deploy a combination of instruments involving sovereign and non-sovereign operations and analytical works. These include budget support interventions, investment and technical assistance projects, and complementary advisory services. Special emphasis will be put on private sector operations and the use of Public-Private Partnership (PPP) framework for infrastructure projects. Other priorities for the Bank will be to explore co-financing through collaboration with other development partners to crowd in least cost investment opportunities, seeking opportunities for leveraging the Bank's own resources with private sector funding, and using innovative approaches, including tapping on non-sovereign guarantee loans and environmental and climate finances from international partners.

Single Priority Area: "Fostering Resilience to Promote Economic and Environmental Sustainability"

5.2.2. The main objective of Bank support under the unique Priority Area is to support Seychelles to achieve economic transformation that will spur higher value addition in key economic sectors and foster climate resilience. To achieve this objective, the Bank's intervention in the energy sector will comprise of the construction of a 3rd undersea 22kV transmission line that stabilize the transmission of electricity from the inland of Praslin to the island of La Digue that experience power outages when electricity demand is at its peak. In the sanitation and solid waste sub-sectors, the Bank aims to support the constructions of a waste treatment plant, a centralized hazardous waste facility, and a third sanitary landfill while enhancing the frameworks and regulations over hazardous waste management. The Bank will also support Seychelles' reforms that aim to improve business regulatory and administrative environment to deepen private and financial sector development through policy and institutional reforms by leveraging on its policy-based budget support lending. The Bank is also looking forward to collaborating with the Global Environment Facility (GEF) to reinforce Seychelles' climate change adaptation systems and practices. To complement these interventions, the Bank Group aims to provide an array of technical assistance and knowledge work in multiple themes and across sectors.

Main Outcome 1 – More affordable and sustainable energy supply to boost private sector activity and enhance productivity across sectors

5.2.3. Seychelles has achieved almost universal access to the electricity, but continued delivery of efficient energy services is constrained by ageing infrastructure. Seychelles is seeking to overcome the challenge relating to its ageing heavy fuel generators by transitioning power production to liquefied natural gas in a deal with Mozambique. This investment, however, will take time to materialize as first, studies will need to be conducted to explore the options on how to proceed with the project and identify short, medium and long-term electricity generation options for the country. Of immediate priority, however, is the need to increase the capacity of the electricity transfer from Praslin to La Digue by building the third 8 km undersea 22 kV power transmission line. In addition to

complementing the existing two undersea cables between the two islands, the new transmission line will increase the country's capacity to meet the peak electricity demand of La Digue, overcome the recurrent power transfer failure rates on the existing two cables and enhance the country's capacity to evacuate increased power that will be generated from new renewable and clean energy sources. The proportion of renewable energy in Seychelles' overall energy mix is expected to rise to 5.6% by the end of 2020, against the Government's objective of achieving a 15% target by 2030. Cognizant of the need for environment friendly and sustainable, the country has recently been discussing with few Development Financial Institutions (DFIs) notably the AfDB (including the African Legal Support Facility (ALSF)) for support through investment in Energy infrastructure and technical assistance for PPPs in the sector, and with the International Finance Corporation for the assessment of the country's potential in liquefied natural gas (LNG) as a source of power.

5.2.4. The proposed Bank's energy sector interventions will lead to reduced cost of power transmission and in the longer-term increased clean power supply. This is because it will focus on providing technical assistance that will enable the country to increase power generation from renewable sources while in the short-term strengthen the reliability of power transmission networks. The Bank support in this area will contribute to structural transformation as more businesses will find it attractive to invest in emerging sectors such as blue economy and high-tech activities such as digital financial services. This will lead to creation of better paying jobs (including for the youth and women), and rising productivity and competitiveness due to scale economies. Importantly, the business environment is bound to be more attractive due to increased reliability of power supply and decrease of cost of power transmission which will result in significant drop of electricity tariffs.

5.2.5. To unlock renewable energy investments in Seychelles will require concerted efforts to strengthen the capacities of the energy regulator — the Seychelles Energy Commission — and the Public Utilities Company (PUC) that is the sole generator, transmitter and distributor of electric energy in Seychelles. The main capacity gaps that exist relate to energy planning (demand and forecast analysis, financial analysis, and least-cost power development planning), design and integration of the renewable energy generation technologies particularly of Solar PV and wind systems in the electricity supply network, and legal and regulatory frameworks capacity — e.g. tariffs setting, licensing and enforcement, contracting and negotiation, monitoring, inspection and supervision, etc. — at all levels of management and technical staff. The Bank's efforts in this area aim to complement the investments that it is supporting in the energy sector through technical assistance that will conduct a study to (i) identify short, medium and long-term electricity generation options and assess the existing regulatory framework, including tariff setting and design, and (ii) recommend improvements for creation of conducive environment for private sector involvement in the development of renewable energy resources. The outcome of the study will be used to sensitize policy decision makers in the country on ways to invest more in renewable energy sources as a pathway for the country to reduce energy related GHG emissions and achieve its mitigation commitments as provided in the NDC. Eventually, the implementation of the outcomes on the energy sector TA will foster an increase in renewable energy generation capacity and use in Seychelles and help the country to combat its GHG emissions.

5.2.6. The Bank interventions in this area are aligned with Seychelles' NDS 2019-2023 pillars 4 (innovative economy), 5 (economic transformation), and 6 (environmental sustainability and resilience). These interventions will also support Seychelles to make progress towards achieving the SDGs Goal 7, 9, 13 on Affordable and Clean Energy, Industry Innovation and Infrastructure, and Climate Action, respectively, and NDC targets. The interventions are **aligned with the Bank's Ten-Year Strategy 2013-2022's Operational Priorities** of Infrastructural development and will support Seychelles to make gradual transition to green and inclusive growth. Finally, the interventions are **supportive of the Bank's High 5 priorities:** Light up and Power Africa; Industrialize Africa; and Improve the Quality of Life for the People of Africa. The **specific expected outcomes** are: (i) reduced costly power outages in La Digue by 20%; and (ii) reduced GHG emissions (ktCO₂e) by 20%

Main Outcome 2 – Improved sanitation infrastructure and management to strengthen environmental and ecological resilience and reduce health risks

5.2.7. Seychelles sewerage and solid waste management systems are inadequate thus presenting the country with major environmental, ecological and health risks that are worsened by extreme climate events, principally intense rainfall, and flooding. Sewerage systems coverage in Seychelles is expected to stand at only 19% of the population in 2020, as only 15% of wastewater is treated to tertiary (advanced) level, with the rest flowing in septic tanks. On the other hand, while Seychelles' solid waste is growing at 6% per year the sanitary landfill in Mahé that was commissioned in 2014 will reach the end-of-life in 2024. Furthermore, the country has no centralized storage facility for hazardous waste. Efficient waste management systems that reduces adverse environmental impacts and promote a healthy natural environment are crucial for achieving sustainable development in the country. Improvements in wastewater and MSW infrastructures will improve attractiveness of the Seychelles' tourism activities, and broadly its business environment which in turn will increase revenues and benefits to the country, especially if Seychelles is perceived to be a more developed destination with less aquatic pollution.

5.2.8. To address sanitation infrastructure constraints in the country, the Bank aims to support Seychelles to develop a proposed Ponte Larue Sewerage Treatment Plant, which is a centralized sewerage facility for three reclaimed islands on the north-east of Mahe, namely Ile Du Port, Perseverance and Aurore. This area is fast growing and is now home to the Supreme Court, the National Assembly, about 1,000 housing units, two schools, and several commercial buildings. Furthermore, the Seychelles Fishing Authority (SFA) is planning to develop a significant part of the reclaimed islands to cater for fish processing activities. The proposed intervention entails the construction of a sewerage treatment plant of a capacity of 3,000 m³ per day with the target of meeting the wastewater treatment needs of about 90% of the residential population at the Providence of 37,620 people. By reducing untreated wastewater being discharged into the marine environment, this intervention will contribute to Seychelles' endeavours of achieving environmental sustainability.

5.2.9. The Government, with the support of the European Commission has developed a Solid Waste Master Plan 2020-2035 that identifies priority interventions that aim to enhance MSW management in the three main islands of Mahé, Praslin and La Digue. To move this initiative forward, the Government has approached the Bank for support to construct a third sanitary landfill and a centralize hazardous waste facility and to provide technical assistance for the development of an Extended Producer Responsibility Framework. In this effort, the Bank will also seek to deepen its partnership with the GEF who are already supporting Seychelles to develop a National Framework for the management of hazardous waste and a feasibility study for a hazardous waste facility. The country is also seeking support to enhance its recycling schemes and strengthen its capacity to prevent, monitor and manage hazardous wastes and finance the design and construction of an interim hazardous waste facility.

5.2.10. The Bank's interventions in this area are aligned with the NDS 2019-2023's pillar 6, namely, environmental sustainability and resilience. These actions support Seychelles to make progress towards meeting targets on SDG 6 (Clean Water and Sanitation), 12 (Responsible Consumption and Production), and 14 (Life Below Water) and are aligned to the Bank's **Ten-Year Strategy 2013-2022 Operational Priority** in the area of Infrastructural Development and will support the country to make gradual transition to green and inclusive growth. Finally, they advance the Bank's **High 5 priorities** relating to Industrialize Africa and Improve the Quality of Life for the People of Africa. The *specific expected outcomes are*: (i) a population of 35,870 covered by improved sewerage network; (ii) increase in sanitation coverage rate from 19% to 22%; (iii) increase in wastewater treatment capacity by 8,650 m³/day; (iv) municipal solid waste reduced or recycled by 50% and a population of 77,000 with access to improved sanitary landfill.

Main Outcome 3 – Strengthened public service delivery capacity to foster higher productivity and accelerate structural transformation.

5.2.11. Enhanced state performance and effective people participation in key economic sectors) are essential to Seychelles' pursuit of higher productivity and structural transformation of its economy. The Global Competitiveness Report 2015-2016 highlight that the business environment in Seychelles is challenging due to limited access to finance and inefficient regulatory procedures. The Bank's intervention in this area will aim to support, through a PBO, Seychelles' reform agenda that strengthens overall private sector competitiveness, while enhancing the investment climate in green energy technology, sanitation, and fostering emerging, yet complementary sectors related to the digital and knowledge intensive. , .

5.2.12. The proposed Bank's interventions support Seychelles' NDS 2019-2023's pillar 1 (Good governance, transparency, and accountability), pillar 2 (People at the centre of development) and pillar 5 (Economic transformation). They also move forward Seychelles aspirations of achieving the following SDGs: Goal 8 (Decent Work and Economic Growth), and Goal 9 (Industry Innovation and Infrastructure). These interventions are **aligned to the Bank's Ten-Year Strategy 2013-2022 Operational Priorities** in key areas of Private Sector Development, Governance and Accountability, and Skills and Technology. Further, they **advance the Bank's High 5 priorities** in areas of Feed Africa, Industrialize Africa, Integrate Africa, and Improve the Quality of Life for the People of Africa. The **specific expected outcomes** in this area include: (i) reduction in time it takes to enforce contracts from 915 days to 500 days; (ii) reduction in the time it takes to start a business from 32 days to 5 days; (iii) increased adult coverage of credit registry from 76.6% to 100%; (iv) reduction in time it takes comply with exports documentation from 44 hours to 10 hours; and (v) reduction in the time it takes to comply with exports border controls from 82 hours to 25 hours; (vi) reduction in cost of electricity to businesses, particularly SMEs, thereby improving their competitiveness; and (vii) reduced environmental hazards.

Cross-cutting themes mainstreamed into the CSP

5.2.13. These themes are not additional focus sectors of the CSP, but areas of emphasis within the CSP focus sectors (energy and water/sanitation). In other words, the Bank's operations in energy and water/sanitation will mainstream these themes into their design through specific components. These themes include (i) skills development, (ii) gender; (iii) climate change; and (iv) private sector development.

5.2.14 Skills Development and Employability. Youth unemployment, a high dependence on foreign labour and limited economic streams remain key constraints to the development of Seychelles. In addition, the MPI has shown that the top drivers for poverty include the low levels of education attainment. To advance the goals of the Bank's Jobs for Youth Strategy, and the Industrialization Strategy, the Bank's support in this strategy will emphasize on improving employment opportunities to address youth unemployment in Seychelles through support to the implementation of the national Human Resources Development Strategy, skills development in new areas demanded by the private sector to address the current skills mismatch, and on-the-job skills development to enhance income generation from jobs. All Bank investment operations under this CSP will aim to have a component of skills development, with at least 50% of these positions reserved for women. Further, through integrated programming, the investment operations, where appropriate, will aim to strengthen technical skills and innovation to advance youth entrepreneurship through linkages with industry. Further, there will be a greater focus on direct job creation opportunities during the construction and operation of new infrastructure projects both in the energy and sanitation sectors, with at least 30% of such job being reserved for women. The **expected results** of these interventions include contribution to reduction in youth unemployment (by gender) from 11.6% in 2020 to about 5% by 2025.

5.2.15. Other cross-cutting themes. To deliver impactful outcomes, all projects will undergo fragility lens application, gender marker exercise and job creation initiatives will be mainstreamed. Further, relevant, and timely gender disaggregated data will be collected that will underpin effective Monitoring and Evaluation (M&E), while to strengthen inclusiveness, gender and youth empowerment interventions will be supported. In addition, to reinforce implementation, the Bank projects will

integrate capacity building initiatives as part of their design. Economic governance issues will be addressed through policy dialogue to strengthening transparency and accountability. Efforts will also be directed towards improving PPP frameworks implementation and enhancing legislation, regulatory, and administrative procedures to improve the environment for doing business as well to deepen private sector participation. Climate change and green growth issues will be mainstreamed to ensure sustainability of all Bank interventions. The Bank will continue engaging the authorities on how best to tackle the multifaceted issues arising from COVID-19 pandemic and in this regard, and in collaboration with the other development partners has initiated in 2020 an assessment of COVID-19 economic impacts in Seychelles. This assessment is funded through the Bank's Policy Reform Dialogue Matrix (PRDM). Its outcomes that will be available in 2021 will inform the Bank's policy dialogue and support Government's evidence-based policy decisions throughout the CSP period.

5.2.16. Overall, Bank support under the CSP's single Priority Area will support Seychelles' to achieve economic transformation and environmental sustainability. Investments in reliable energy infrastructure services will unlock the potential for business start-ups to thrive and grow. Further, efficient wastewater and solid waste management systems will reduce risks associated with adverse environmental impacts. This support will enable Seychelles to achieve economic sustainability while spurring higher value addition in key economic sectors and fostering resilience to external economic shock. Complementary advisory and technical assistance support on private sector development will help Seychelles' businesses to be more competitive, while deepening productivity and linkages into the global value chains in key productive sectors.

5.3 Indicative Lending/Non-Lending Program

5.3.1. A detailed Indicative Operations Program (IOP) for the CSP cycle (2021-2025) lending and non-lending program is shown in Annex A.2.1. These operations have been carefully selected to enable the Bank to scale up its support to Seychelles' agenda of structural transformation and environmental sustainability. The IOP was also informed by consultations with country's authorities on the operations required to support the priorities in Seychelles' NDS 2019-2023 and to contribute to the achievement of Bank's High 5s priorities. The operations, both lending and non-lending, for the unique Priority Area take up a resource envelope of UA 51.5 million.

5.3.2. As regards the **lending operations**, a resource envelope of UA 48 million is distributed as follows: UA 38 million (79%) relate to sovereign operations and UA 10 million (21%) to non-sovereign operations. Opportunities for co-financing will be explored during the implementation of these operations. Ongoing projects under the CSP 2016-2020 (see Annex A.6.1) will be carried over into the new CSP cycle with close monitoring to avoid implementation slippages. Among these projects is the recently approved COVID-19 Crisis Response Budget Support Program which is supporting the authorities to respond to the emergency needs of the pandemic. Other recently approved operations include a grant that is supporting the development of Seychelles' Blue Economy MSMEs sector, and an investment project in the ICT sector. These recently approved operations have the potential, over the timeframe of the new CSP, to play a crucial role in creating employment opportunities for the youth through skills development and capacitated MSMEs that promote economic value chains and increase job creation in line with the priorities of the Bank's Jobs for Youth Strategy and the Industrialization Strategy. The IOP will be revisited during the new CSP's Mid-Term Review to ensure continued alignment with the country's emerging developmental priorities.

5.3.3. The **non-lending operations**, for a resource envelope of UA 3.5 million, comprises of two technical assistance projects that are uniquely selected to strengthen the Bank's policy dialogue in Seychelles. One grant aims to help Seychelles to explore short to medium term electricity generation options, another will support the country to strengthen its solid waste management systems and frameworks.. Further, new studies and areas of policy dialogue and advisory services will be mutually agreed upon with the Government on a continuous basis to reflect evolving national priorities. Notably, focus will be in areas of the development of Seychelles' emerging sector of Blue Economy and supporting Seychelles explore and develop strategies on how best to engage in regional trade within

the AfCFTA, SADC, and COMESA. The Bank will explore opportunities for providing technical assistance that will enhance human and institutional capacity through trainings to Government and private sector players on targeted areas (climate finance, innovative and digital financial services, vocational trainings, trainings in artificial intelligence and hi-tech manufacturing) that support Seychelles' transition towards a truly innovation and technology driven economy. These will support instilling needed skills for the youth to establish new businesses in emerging sectors of Blue Economy, and digitization and for the country to close the skills gaps and reduce dependence on foreign workforce while improving business competitiveness. The Bank is also working on a regional operation that will focus on supporting institutional capacity and blue economy trade corridors, through co-financing and business development towards facilitating the implementation of the AfCFTA through SADC, Indian Ocean Commission and COMESA. The regional operation will cover the blue economy and fisheries in the member countries of these Regional Economic Communities, with a strong Non-Sovereign Operations (NSO) component that will be pursued. Seychelles will be one of the target countries, building on the on-going SMEs initiatives in the country's Blue Economy.

5.4 Dialogue

5.4.1. The Bank has been engaged in close dialogue with the Government and other stakeholders on an on-going basis. Initial discussions on the potential strategic orientation of the new CSP 2021-2025 took place during the 9-13 March 2020 Bank mission to Seychelles and more recently, virtually in September 2020. Looking ahead, the Bank will undertake continued dialogue with the authorities and a wide range of country level stakeholders during the implementation of the new CSP. In this regard, the Bank will step up its economic and sector work and policy advisory services at all levels of Government. Key areas of reforms for Bank dialogue are in line with the Bank's PRDM for Seychelles. These areas include: (i) emerging issues related to the impact of COVID-19 pandemic (including debt sustainability challenges); (ii) broad issues of macroeconomic surveillance; (iii) private sector development to support investment in CSP sectors of focus and key productive sectors; (iv) climate change mitigation and resilience and clean/green energy generation; (v) inclusive growth and youth employability and skills development in emerging sectors; and (vi) portfolio management issues (see Annex A.6.3).

5.5 Financing the Strategy

5.5.1. The Government is constrained by its debt policy and the recent substantial borrowing to address the negative impact of the COVID 19 pandemic. It is, therefore, important for the Bank to intensify efforts to increase financing for private sector operations. The proposed lending programme the new CSP is estimated at around UA 48 million. Resources from trust funds, administrative budget, and staff time will potentially contribute an estimated UA 4 million over the period of the new CSP towards financing non-lending operations and advisory services. With the amount of the indicative programme being relatively low the Bank will deploy ADB sovereign or non-sovereign financing as necessary and explore opportunities for the use of innovative approaches including non-sovereign guarantee loans and leveraging on PPPs transactions (e.g. in solid waste management with a financing envelop of UA 18 million) and the Bank's latest financing instrument the results-based financing co-finance projects with development partners, including the World Bank. To enhance the impact of its operations, the Bank will continue to proactively engage a wide range of stakeholders including development partners and civil society and the private sector.

5.6 Implementation Arrangements, Monitoring and Evaluation

5.6.1. Seychelles' CSP 2021-2025 performance will be monitored and assessed at both mid-term and completion using the new results tools consisting of alignment and performance matrices (Annex A.1). Internal arrangement for the implementation of the CSP will follow the 'One Bank' approach. RDGE, supported by in-house sector experts/procurement and financial specialists, will have overall responsibility for delivery of the new CSP's interventions and will undertake project design and implementation, as well as monitoring and follow-up activities in order to identify potential early

warning signs on emerging portfolio management issues. On the Government's side, the Ministry of Finance, Trade, Investment and Economic Planning, will be the key counterpart while concerned Ministries, Departments and Agencies of the Government, and the private sector will have the responsibility for project identification, implementation, and continuous monitoring and evaluation.

5.7 Risks and Mitigation Measures

5.7.1. The risks in the successful implementation of the new CSP include a slippage and stop-go approach in the Government's commitment to reforms due to potential social impacts of the COVID-19 pandemic, capacity constraints (both human and institutional) to continue the reform process, and external shocks including climate change related disasters. These potential risks will be mitigated through high-level policy dialogue and advisory services and technical assistance (see Annex A.14).

6. CONCLUSION AND RECOMMENDATIONS

6.1. **Conclusion:** Seychelles has considerable opportunities but also faces various challenges including low structural transformation, infrastructure bottlenecks and as a small island state and high vulnerability to climate change. The country, however, is richly endowed with natural beauty that drives tourism activities and expansive marine resources, which if effectively exploited, can transform the lives of Seychellois. It is in this context that the Bank proposes the one Priority Area —**Fostering Resilience for Economic and Environmental Sustainability** for intervention in the new CSP in order to support Government's efforts in confronting the country's challenges and harness the opportunities. The interventions are appropriate to deliver on the overall objective of the CSP 2021-2025 namely to enhance the country's economic resilience in support of its structural transformation agenda, are consistent with Seychelles' developmental agenda as articulated in Vision 2030 and NDS 2019-2023 and are aligned with the Bank's Ten-Year Strategy and High-5s Operational Priorities.

6.2. **Recommendation:** Management hereby requests CODE to consider and endorse Seychelles 2021-2025 CSP for Boards approval on LOTB.

ANNEXES

A.1 Seychelles' 2021-2025 CSP Results-Measurement Framework

A.1.1 Strategic Alignment Matrix

A. Strategic Alignment Matrix: This matrix demonstrates alignment of the CSP's Priority Areas with both the Government's National Development Plan and the Bank's own priorities. It is not intended

PRIORITY AREA: FOSTERING RESILIENCE FOR ECONOMIC AND ENVIRONMENTAL SUSTAINABILITY			
National Development Plan		Corporate Policies	
Seychelles’ Vision 2033 and National Development Strategy 2019-23: Pillar 1 (Good Governance), Pillar 2 (People at the Centre of Development), Pillar 4 (Innovative Economy), Pillar 5 (Economic Transformation), and Pillar 6 (Environmental Sustainability and Resilience). Sustainable Development Goals: Goal 6 (Clean Water and Sanitation), Goal 7 (Affordable and Clean Energy), Goal 8 (Decent Work and Economic Growth), Goal 9 (Industry Innovation and Infrastructure), and Goal 12 (Responsible Consumption and Production), Goal 13 (Climate Action), and Goal 14 (Life Below Water).		Ten-Year Strategy 2013-2022: Infrastructural development, Private sector development, Governance and Accountability and Skills and Technology are the four Operational Priorities that will support inclusive growth and the gradual transition to green growth. High 5 priorities: (i) Light up and Power Africa; (ii) Industrialize Africa; and (iii) Improve the Quality of Life for the People of Africa.	
Country Sector/Thematic Strategy		Bank Sector/Thematic Strategy	
Seychelles’ Energy Policy 2010-2030. Seychelles’ Integrated and Comprehensive Sanitation Master Plan (2014). National Waste Policy 2018-2023 and Solid Waste Master Plan 2020-2035. National Climate Change Strategy, 2009 and Nationally Determined Contribution (NDC), 2015. Seychelles’ Financial Sector Development Implementation Plan (FSDIP). Financial Technology (FinTech) National Strategy (being developed). Seychelles’ Blue Economy Strategic Policy Framework & Road Map (2018-2030). Seychelles’ Human Resource Development Strategy (SHRDS), 2018-2022.		Bank Group Strategy for the New Deal on Energy for Africa. Policy for Integrated Water Resources Management. Bank Private Sector Development Strategy. Financial Sector Development Policy and Strategy 2014-2019. Bank Group’s Industrialization Strategy for Africa 2016–2025. Bank Human Capital Strategy 2014-2018 (to be extended to 2022). Bank Group Strategy for Jobs for Youth in Africa (2016- 2025).	
Country Development Results/Indicators			
Indicator	Baseline (2020)*	Target (2025)	
UNIQUE PRIORITY AREA: FOSTERING RESILIENCE FOR ECONOMIC AND ENVIRONMENTAL SUSTAINABILITY			
Energy Infrastructure:			
Proportion of renewable energy (% of locally generated renewable energy)	5.6	10	
Power losses in La Digue transmission (%)	6.7	5.5	
Water and Sanitation Infrastructure:			
Wastewater treated to tertiary level (% of total wastewater)	15	35	
Municipal waste per capita (kg/capita/day)	2.4	1.5	
Cross-cutting themes			
Access to credit for private sector (% of GDP)	34.5		
Youth unemployment rate (%)	11.6	60 5	

to assess performance of the Bank's support

A.1.2 Performance Matrix

B. Performance Matrix: The performance matrix measures a wide range of results that should be regularly tracked during CSP period. This does not only include operational results that will be delivered by the projects approved in the previous period, but also other essential elements of the CSP including cross-cutting issues, financial leveraging, harmonization, portfolio performance, etc.

Performance areas	Monitoring indicators	Baseline (2020)	Target (2025)	Source of Verification
Operational results: Outcomes (including some carried over projects from CSP 2016-2020)	UNIQUE PRIORITY AREA: FOSTERING RESILIENCE FOR ECONOMIC AND ENVIRONMENTAL SUSTAINABILITY			
	Energy: Reduce costly power outages in La Digue (%) from its level in 2019 Reduce GHG emissions (ktCO ₂ e) from its level in 2019	8.5 583	4.0 460	Energy Projects' IPRs/PCRs/ CSP Completion Report (CSP-CR)
	Water and Sanitation: Increase in water storage capacity (millions of m ³) from level in 2019 Increase in water production capacity (m ³ /day) Additional People with access to improved water services (number) Reduction in number of days with water restriction (number) Population covered by improved sewerage network (number) Sanitation coverage rate (% Resident Population Connected to Sewer System / Total Resident Population) Increase in wastewater treatment capacity (reduction in untreated waste water being discharged into the marine environment) (m ³ /day) Municipal solid waste reduced or recycled (tons per year) Additional number of people with access to improved sanitary landfill	824 24,750 0 90 15,000 19 12,300 80,000 13,500	1,430 29,150 77,000 50 35,870 22 8,650 40,000 77,000	Mahé Sustainable Water Augmentation Project (MSWAP) & Sanitation and Solid Waste Projects' /IPRs/PCRs/CSP-CR
	Private Sector Development: Enforcing contracts (days) Starting a business (days) Credit registry coverage (% of adults) Exports documentary compliance (hours) Exports border compliance (hours)	915 32 76.6 44 82	500 5 100 10 25	PBO IPRs/PCRs/CSP-CR Seychelles National Budget Statement to Parliament (Annual)
	Skills Development and Job Creation: Creation of MSMEs in marine biotechnology (number, at least 50% women owned) Strengthened staff capacity of PUC and the Seychelles Energy Commission (number, at least 50% being women)	0 0	20 12	Support to Blue Economy MSMEs PCR/CSP-CR./IPR/CSP-CR Energy and Sanitation Projects' IPRs/PCRs/CSP-CR
Operational results: Outputs (including some carried over projects from CSP 2016-2020)	UNIQUE PRIORITY AREA: FOSTERING RESILIENCE FOR ECONOMIC AND ENVIRONMENTAL SUSTAINABILITY			
	Energy: Construction La Digue 3 rd undersea 22kV transmission line (km)	0	8	PBO CR , Energy Projects' IPRs/PCRs/CSP-CR
	Water and Sanitation: Constructed fresh water reservoir (number) Constructed waste treatment plant (number) Constructed centralize hazardous waste facility (number) Constructed third sanitary landfill (number) Extended Producer Responsibility Framework approved by Cabinet (Yes/No)	0 0 0 0 No	1 1 1 1 Yes	MSWAP/Sanitation and Solid Waste Projects' IPRs/PCRs/CSP-CR
	Private Sector Development: Reforms to improve business regulatory and administrative environment implemented including in smart and green/renewable energy sources (number)	0	5	PBO on policy reforms to boost private sector development, including in green energy and sanitation sectors. IPR/PCR/CSP-CR/Seychelles National Budget Statement to Parliament (Annual)
	Skills development in Blue Economy Training of entrepreneurs on business development in marine biotechnology sector conducted (number, at least 50% women) Marine biotechnology sector strategy developed (number) Youth trained in entrepreneurship in marine biotechnology sector (number, of whom 50% are women)	0 0 0	100 1 100	Support to Blue Economy MSMEs PCR/CSP-CR

	Institutional/Skills Development and Job Creation: Reinforced systems and practices at national weather and climate change agency approved (No/Yes) Youth seconded to Bank projects to acquire skills (number, at least 50% women)	No 0	Yes 6	Assessment report from the GEF Grant (Climate Information Services)/IPR/CSP-CR
	Knowledge Generation: Study to identify of short to medium term electricity generation options completed and disseminated	No	Yes	Publication of Study on the Energy Sector power generation
Other Cross-Cutting Issues				
Job created	Jobs created through Bank projects (number, direct, indirect, induced, at least 50% women) ¹⁶	0	5,000	IPRs/PCRs/CSP-CR/Assessment Study to be Commissioned
Climate Change & Green Growth	Climate-proof projects (% of lending operations) Climate finance allocation (% Bank Portfolio)	50 0	60 5	IPCC and Seychelles' NDC Climate Reports/ IPRs/PCRs/CSP-CR
Governance	Implement fiscal consolidation measures to maintain annual primary fiscal surpluses post COVID-19 crisis (fiscal surplus, % of GDP)	-13.8	+2	PBO IPRs/PCRs/CSP-CR/ MoFTIEP, Bank & IMF Staff Reports
Gender	Women equipped with entrepreneurship skills through Bank projects (number)	0	100	9IPRs/PCRs/CSP
Financial Leveraging	Amount of co-financing (UA million) Green Climate Funds (UA million) PPP transactions (number)	0 0 0	18 1.1 2	Appraisal Reports/IPRs/PCRs/CSP-CR
Portfolio Performance	Projects flagged for implementation challenges (%) Overall portfolio performance rating (1 to 4) Timely PCRs posting (average % of projects) Time from approval to signature (months) Time from approval to first disbursement (months)	0 3.1 0 6.5 9	0 3.5 100 3 6	AfDB Regional Dashboard/IPRs/CPPR
Sustainability and Capacity Building	Allocation by PUC for infrastructure maintenance (US\$ million)	4.5	5.7	PUC Annual Reports (Energy/Sanitation Projects are managed by PUC which has a healthy balance sheet)
Knowledge Work/Policy Advice	ESW produced (number) Policy Dialogue Notes prepared (number)	0 0	1 5	ESW Publications/ Country Dialogue Notes
Development Harmonization	Consultations per year with Development Partners (number) Joint donor missions per year (number)	4 0	6 5	BTORs/ IPRs/PCRs/ CSP-CR

A.2 Seychelles' Indicative Lending/Non-Lending Program and contribution to the High-5s

A.2.1 Indicative Lending/Indicative Non-Lending Program

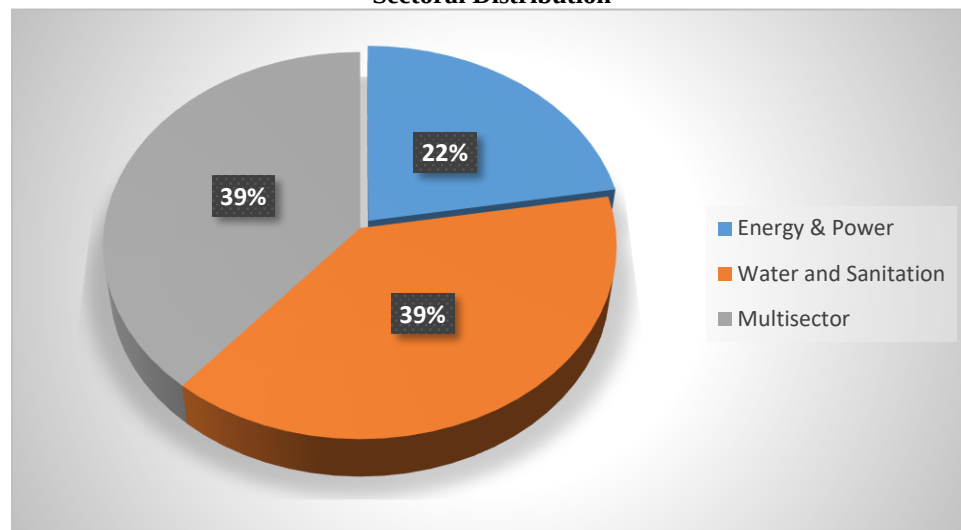
Project Title	Window	Amount (UA Million)
Corporate Loan for construction the third 8 km undersea 22kV power transmission line between Praslin and La Digue	ADB (NSO)	10
Energy Sector TA - Identification of short to medium term electricity generation options	ADB (MIC/Bilateral Grant)	1.5
PBO on on policy reforms to boost private sector development, including in green energy and sanitation sectors.	ADB (Sovereign)	20
East Coast Sewerage Project (Pointe Larue)	ADB (Sovereign)	15
Solid Waste Management Project (Construction of Third Sanitary Landfill & Centralize Hazardous Waste Facility)	ADB (Sovereign)	3
Solid Waste TA - Strengthening capacity for solid waste management, including recycling procedures/systems and the development of an Extended Producer Responsibility Framework.	GEF Grant/ADB (Bilateral) Grant/Climate Funds	2
Total		51.5

A.2.2 Bank Group's Seychelles' Indicative Lending/Non-Lending Program by Sector and High 5s (matrix)

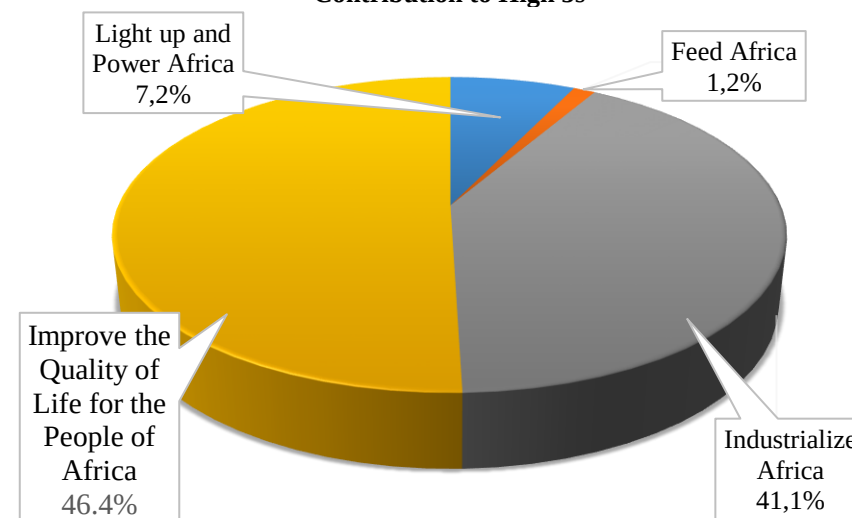
Project Title	Sector	Amount (UA Million)	Light up and Power Africa	Feed Africa	Industrialize Africa	Improve the Quality of Life for the People of Africa
Corporate Loan for construction the third 8 km undersea 22kV power transmission line between Praslin and La Digue	Energy	10	√		√	√
Energy Sector TA - Identification of short to medium term electricity generation options	Energy	1.5	√		√	√
PBO on policy reforms to boost private sector development, (including in green energy sector)	Multisector	20			√	√
East Coast Sewerage Project (Pointe Larue)	Sanitation	15			√	√
Solid Waste Management Project (Construction of Third Sanitary Landfill & Centralize Hazardous Waste Facility).	Sanitation	3				√
Solid Waste TA - Strengthening capacity for solid waste management, including recycling procedures/systems and the development of an Extended Producer Responsibility Framework.	Sanitation	2				√
Total		51.5				

A.2.2 Bank Group's Seychelles' Indicative Lending/Non-Lending program by Sector and High 5s.(charts)

Sectoral Distribution



Contribution to High 5s



A.3 Seychelles' Lessons Learned

A.3.1 Key findings of the CSP Completion Report

This section presents the lessons learned as documented in the CSP 2016-20 Completion Report and 2020 CPPR (ADB/BD/WP/2020/173), which was considered by CODE on 24 July 2020.

1. At the strategic level, the Bank's Seychelles CSP 2016-20 was well designed to address the critical constraint of low economic diversification and slow economic transformation, and made notable input as presented in Section 3. The envisaged results were, however, not fully realized due to the Government's limited fiscal space for borrowing under the Bank's public sector window. Seychelles' development challenges including low economic diversification, slow economic transformation, low value addition and productivity have remained unchanged since the CSP was approved in 2016. This calls for sustained support by the Bank to help Seychelles achieve economic transformation.

2. The Bank: Operationally, several lessons were identified. The Bank will continue to engage the Government on alternative funding modalities such as guarantee instruments and non-sovereign operations considering the limited fiscal space for borrowing under the Bank's public sector window. Also, strengthening institutional capacity by embedding technical assistance in investment projects is a good practice as observed in the ongoing water project. Fiduciary clinics such as the one conducted in 2019 have also proved useful in improving capacity of staff of the executing agencies and thus shall continue with undertaking the fiduciary clinics. Further, to ensure enhanced portfolio performance, close monitoring and follow up of implementation progress is necessary. Moreover, to minimize start-up delays all relevant stakeholders should be engaged and dedicated project teams with clearly defined responsibilities identified at project preparation and appraisal.

3. The Government of Seychelles: There is need to enhance project monitoring and evaluation, and financial management. With regards to financial management, the Government needs to provide timely justifications (and refunds where necessary) of special account funds. Advances to the special account should be based on a realistic and implementable six-month work plan and budget. Timely preparation of financial statements will enable the Office of the Auditor General ensure submission of the audit reports to the Bank by the due date of 30 June. To address capacity constraints, the Government needs to review the education and human development strategies and institutional arrangements to facilitate skills development that strikes the balance between emerging high-tech areas and TVET.

4. Development Partners: Given the Government's limited fiscal space to borrow, there is need to create strategic partnership at country level through intensification of dialogue with private sector actors, civil society and external partners to explore opportunities for forging partnerships that could result in co-financing options as well as knowledge sharing.

A.4 Engagement with CODE

A.4.1 CODE Comments on CSP 2016-2025 Completion Report and proposed priority areas for the new CSP 2021-2025

VIRTUAL CODE MEETING ON SEYCHELLES CSP 2016-20 COMPLETION REPORT AND 2020 CPPR, JULY 24th, 2020

CONCLUSION AND RECOMMENDATIONS FROM THE REPORT OF THE MEETING	ACTION TAKEN
1 – The Committee considered the Seychelles Country Strategy Paper 2016-2020 Completion Report Combined with Country Portfolio Performance Review (CPPR) 2020 and noted that overall, the portfolio performance remained satisfactory. The Committee noted that the country has experienced good performance of its economy although it faces some key challenges linked to its reliance on tourism, a minimal structural transformation and vulnerability to climate change as well as its reliance on foreign funding for investment. The Committee noted the two proposed Priority Areas for 2021-2025 CSP	Noted.
The Committee recommended Management should: a) review these two pillars and consolidate them into a potentially single pillar	This recommendation has been taken into account. The new CSP rests on one Priority Area: (Fostering Resilience for Economic and Environmental Sustainability)
b) exercise more selectivity and leverage the country's comparative advantage in key areas such as Blue economy.	This recommendation has been taken up. The new CSP is built on selectivity and the country's comparative advantage. Blue economy is part of the Focus Sub-Areas 2

SUMMARY OF CODE DISCUSSION BY CODE CHAIR (FROM THE NOTES OF THE TEAM)	ACTION TAKEN
1 – CODE considered Seychelles CSP 2016-2020 Completion Report and 2020 CPPR and welcomed the document.	Noted.
2 – CODE also noted that the overall performance of the portfolio of the Bank is assessed as satisfactory.	Noted.
3 – CODE appreciated significant progress made by the country on the socio-economic front and noted the following challenges that require to accelerate structural transformation: (i) high dependence on tourism, and (ii) high vulnerability to climate change.	The new CSP has responded to the challenges through the unique Priority Area: (Fostering Resilience for Economic and Environmental Sustainability) that will contribute to accelerate structural transformation
4 – CODE discussed the proposed two priority areas and recommended to revisit them and consolidate them into one priority area, taking into account (i) selectivity, and (ii) comparative advantages	The recommendation has been taken up. The new CSP has only one unique Priority Area as noted above, and is built on selectivity and the comparative advantages
5 – CODE encouraged the Team to prepare the new CSP 2021-2025 in light of the above recommendation and to submit it to CODE after the Board recess.	Noted and actioned accordingly.

A.4.2 VIRTUAL CODE MEETING ON SEYCHELLES NEW CSP 2021-2025, DECEMBER 1st

CONCLUSION AND MAIN RECOMMENDATIONS	ACTION TAKEN
Overall, the Committee welcomed the proposed CSP that takes into account the Committee's guidance provided on July 24 th , 2020	Noted
The Committee recommended Management should	
i) further demonstrate the sector selectivity of the proposed CSP	Adjustments made in the IOP, the section 5.2 on Strategy and Expected Results, and the results matrix further confirm the sector selectivity of the proposed CSP that rests on two (2) sectors: energy and water/sanitation. More specifically, it has been clarified in paragraph 5.2.13 that cross-cutting themes (skills development, gender, climate change; and private sector development) are not additional focus sectors of the CSP, but areas of emphasis within the CSP focus sectors (energy and water/sanitation). In other words, the Bank's operations in energy and water/sanitation will mainstream these themes into their design through specific components.
ii) update targets of some results indicators in the Results matrix	Done !
iii) update some portfolio figures	Done !

A.4.3 Findings of EDs Country Visit

A. Introduction

The latest visit to Seychelles by the African Development Bank Executive Director and his team took place from the 27th of March to the 31st of March 2018, at which the current Executive Director for Seychelles also participated as the then Senior Advisor. During the visit, the mission members met and held discussions with senior officials in the country including with H.E. President Danny Faure, Vice President of Seychelles, H.E. Vincent Meriton the Minister Finance, Trade and Economic Planning, Dr. Peter Larose, the Minister of Investment, Industry and Entrepreneurship Development (MIIED), Mr. Wallace Cosgro, the Principal Secretary for the Department of Economic Planning at the Ministry of Finance, Trade and Economic Planning Ms. Elizabeth Agathine and team, First Deputy Governor of the Central Bank of Seychelles, Mr. Christophe Edmond and his tea, as well as a number of other ministries and departments. The team also visited the Bank financed La Gogue Dam. Based on the discussions held, several opportunities and challenges were identified and recommendations for the way forward were proposed by both the visiting team and the Government counterparts including the President.

B. Opportunities

The Board members noted from the various discussions that Bank support is highly appreciated and that operations such as the Partial Guarantee operation that supported debt restructuring of the Seychelles, the support to the MSMEs capacity building TA, the Mahe sustainable water and sanitation project, and the ICT undersea cable NSO investment, among others, have made a significant impact in addressing Seychelles key development challenges. The GoS team also acknowledged the importance of Bank financed TA towards the development and strengthening of Financial Market in the country, an operation that was successfully been completed in December 2017. On the way forward, the Government of Seychelles (GOS) indicated that , following the meeting with the major private sector actors by the President of the country, it was found out that access to finance at affordable terms is among the most important impediment and therefore the Bank's continued support in this area remains key. The private sector actors stressed their need for 'low and affordable' cost borrowing to be attracted to infrastructure investment and investment in other areas as well. The President in this regard requested the Bank to support through its NSO window including funds for onward lending to the private sector including leveraging finance for 'huge and transformative infrastructure development.

Another area that the GoS, through the President of the country and the Minister of Finance, stressed where Bank can play a pivotal role in is 'Capacity Building' and support to strengthening government institutions and knowledge sharing, including training to the public sector and knowledge sharing are key to his country's future. It is important to note here that the President also pointed out that the main focus of his administration will be support to the productive sector and the Blue Economy in particular. In this respect he indicated that he sees a lot of opportunity in to scale up, with sustainability at the center, activities such as those of the Indian Ocean Tuna (IOT), which is one of the largest in the World. He also indicated that his vision includes 'infrastructure development to unlock economic activities and the potential of the productive sector. The GoS also confirmed that Macroeconomic stability is and will remain their focus along with ensuring inclusive and sustainable growth in the country. As a result, growth has been registered at more than 4% over the last two years before the ED's team visit, and inflation has been very low owing mainly to the tight monetary stance and all these are additional opportunities for the country to sustain growth. All these consultation agreements and identified opportunities have clearly been considered during the preparation of the new CSP.

C. Challenges

The Board members also observed from the discussions that low level of economic diversification due to the country's overdependence on Tourism and fisheries, low access to finance for the private sector and low capacity of public institutions are key challenges to the Seychelles' development aspirations. It was also agreed that environmental challenges and the need for climate change resilience are additional key challenges that exacerbate the country's vulnerability to external shocks.

D. Board Members recommendations

Based, on the consultations made with the stakeholders, the Board members recommended several measures for implementation to unleash the opportunities and address the key challenges including the following:

- i. Bank needs to continue its support to enhance macroeconomic stability, economic diversification and debt sustainability through reforms, technical advice and capacity building to relevant institutions.
- ii. Development of the private sector should be further strengthened through enhanced financial sector efficiency, improved access to energy and other infrastructure services including ICT. In this regard, opportunities for enhanced investment operations through Bank's NSO window need to be explored including IPPs (including the need to scale up Bank's support in the preparation of the country's PPP policy paper).
- iii. Both the Bank and the Government will continue to focus on the macroeconomic and debt issues in the country, and Board members reaffirmed the commitment and readiness by the Bank to continue supporting Seychelles' path towards diversification and inclusive growth.
- iv. The Bank will identify capacity gaps in collaboration with the GoS and support in closing these capacity gaps in relevant public sector institutions, while ensuring that capacity building activities are demand-driven'
- v. Bank will expedite, in collaboration with the Office of the Vice President, the Department of the Blue Economy, and the Ministry of Finance, the preparation of the planned TA for the Blue Economy MSMEs value chains development.
- vi. Bank will continue its close engagement with the GoS to identify the changing needs of the country through the (then) upcoming Midterm review of the CSP 2016-20 and preparation of other strategic documents.

A.5 Seychelles' Findings of Stakeholder Consultations

Background: With a view to address Seychelles' main development challenges, the main objective/theme of the Bank's new CSP 2021-2025 is supporting Seychelles to enhance resilience to address its overarching development challenges and enhance structural transformation as articulated in the country's NDS 2019-2023 and vision 2033. The strategy, importantly, is anchored on one Priority Area: *Fostering Resilience to Ensure Economic and Environmental Sustainability*. This strategic thrust will be achieved through two mutually reinforcing Focus Sub-Areas: (i) Achieving Economic Sustainability; and (ii) Achieving Environmental Sustainability and Climate Resilience.

The Seychelles CSP preparation team has undertaken several consultations with stakeholders including public officials, private sector representatives, civil society organizations (CSOs) and Development Partners (DPs) on the contents of the new CSP 2021-2025 during the consultation and dialogue missions, and during preparation of the 2016-2020 CSP Completion Report (CR) combined with the Country Portfolio Performance Review (CPPR), as well as the virtual consultation meetings for the CSP 2021-2025 preparation during the months of August and September 2020.

The following are among the key issues raised during these stakeholder consultations:

a.) Strategic Alignment of the selected Priority Areas: The discussions undertaken with the stakeholders indicates generally that the identified overarching objective of the CSP and its priority areas are well aligned with and complement interventions by other DPs and the Government's development aspirations. Virtual meetings with and written information received from the DPs working on Seychelles have confirmed that the strategic thrust and areas of interventions of the CSP are complementary to their own strategic approaches to support Seychelles. This provides opportunities among the DPs to collaborate and leverage additional resources to enhance impact on the ground. The virtual consultation meetings with the national stakeholders (subsequent to the Bank's mission of March 2020 visit to Seychelles) also confirmed that the strategy is well aligned with the Vision 2033 and the NDS 2019-2023. The consultations with other stakeholders in the country (the private sector agents, represented by the Seychelles Chamber of Commerce and the CSOs also confirm that the CSP strategic thrust and its focus areas are supportive of their activities and engagements, though they would like to see more support targeting them as institutions. It was agreed with most of the DPs and stakeholders that the two focus areas are very relevant and timely as they address the country's vulnerability to shocks in general and to COVID 19 pandemic in particular. The team also has also invited relevant GoS agencies to provide priority operations in their sectors that need financing as per their medium-term plans. The team subsequently also undertaken follow up discussions on the planned indicative operational programs with relevant stakeholders to ensure that the operations are current priorities and consider emerging sectoral and national development issues. In this regard, a set of selectivity criteria was prepared by the team and was explained to them to let them understand that not all operations they proposed may be included in the Bank's pipeline for the CSP period.

b) Policy Dialogue: Consultations with the stakeholders confirmed that the policy dialogue areas should include enhancing structural transformation in the country through improved economic diversification, improved productivity, digital economy and skills development to address skills mismatch in the economy and aspirations of a highly innovative economy. In doing so, it was also observed that institutional capacity challenges in terms of policy implementation of cross cutting issues such as climate change and Gender empowerment should be discussed as well. This is well aligned with the Government's medium term plan and its COVID 19 response plan – thus will help address the increasing unemployment problem particularly among the youth. The stakeholders also recommended that continuous dialogue including virtual meetings should continue as a way of encouraging exchange of updates about emerging challenges and finding opportunities for collaboration.

c.) Knowledge works and capacity development in Seychelles: Consistent with the strategic thrust of the new CSP and Bank's prior experience, it was agreed that support to enhance capacity of local institutions and their staff is critical to enhance effectiveness of project implementation. This will be done through demand driven knowledge generation and dissemination in partnership with the relevant local institutions, support to the Government in priority key areas such as climate change resilience and the Blue

Economy (including fisheries) through Technical Assistance. The need for continued support to knowledge work and institutional capacity has been voiced by all the stakeholders including the Government and the private sector.

d) Donor Coordination: The Bank team has undertaken consultations with several DPs despite a non-existent formal coordination platform as many do not have physical presence in the country. In this regard, it was agreed that there is a need for a more coordinated approach to consultations and exchange of updates on a timely basis, and joint missions so as to unleash opportunities for strategic partnerships, including possible co-financing of operations to improve impact on the ground of development assistance.

A.6 Seychelles' Portfolio Performance Review

A.6.1 Ongoing Portfolio

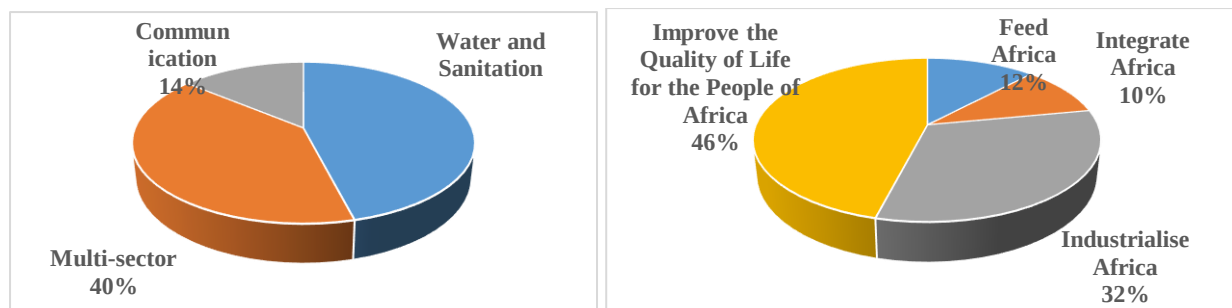
As at end November 2020, the Bank's approved and ongoing portfolio in Seychelles comprised of five operations with a total commitment of UA 36.71 (US\$ 50.54) million, of which four are in the public sector with a commitment of UA 31.47 million and one is a non-sovereign operation with a commitment of UA 5.24 million (Table A6.1). As a high-income country, Seychelles can only borrow from the ADB window. However, the country's headroom has hardly been utilized due to the Government's tight fiscal and debt policies. Within the CSP 2016-20 period, only two projects – Loan to Seychelles Cable System Company¹⁷ and COVID-19 Crisis Response Budget Support - were approved under the ADB window, for a total of UA 12.51 million. The five operations are mainly financed from ADB (95%), MIC-TAF (3%) and FAPA (2%). In terms of sectoral distribution, the largest allocation of 46% is in water supply and sanitation sector followed by multi-sector at 40%, and communication at 14%. The three projects in the multi-sector includes the Covid-19 crisis response programme, Policy Based Partial Credit Guarantee Programme and a TA on Support to Blue Economy MSMEs. The portfolio contributes to the Bank's High-5s as follows: Integrate Africa (10%), Feed Africa (12%), Industrialize Africa (32%), and Improve the Quality of Life for the People of Africa (46%).

Table A6.1: Bank Group's Seychelles Portfolio of Ongoing Operations as at end November 2020

Sector	Project Name	Window	Approval Date	Final Disb. Date	Loan/Grant (UA m)	Disb. (UA m)	Disb. (%)	Age (yrs)
Multi-Sector	Policy Based Partial Credit Guarantee (PBPCG) Programme	ADB	2-Dec-09	31-Dec-30	7.32	-	-	
	COVID-19 Crisis Response Budget Support Program	ADB	22-Jun-20		7.27	7.27	100	0.4
	Support to Blue Economy MSMEs	FAPA	12-Sept-19	31-Dec-23	0.59	-	-	1.2
Water Supply & Sanitation	Mahé Sustainable Water Augmentation Project: Loan Grant	ADB	1-Apr-15	31-Oct-21	15.09	8.54	56.61	5.7
		MIC	1-Apr-15	31-Oct-21	1.2	0.86	71.27	5.7
ICT	Corporate Loan to Seychelles Cable System Company	ADB	21-Nov-19	31-Dec-27	5.24	-	-	1
(Total /Average Including PBPCG)					36.71	16.67	45.41	
(Total/Average Excluding PBPCG)					29.39	16.67	56.72	2.8

Note: A Technical Assistance to the MoFTIEP (UA 0.25m) with financing from MIC TAF is scheduled for approval in December 2020.

Distribution of Bank Group's Seychelles Portfolio by Sector and High 5s



On **Industrialize Africa**, the PBPCG programme is fostering the creation of an enabling environment for private sector growth through a stable macroeconomic environment. Further by building infrastructure for improved water management, the Mahé Sustainable Water Augmentation project, will eventually contribute to encouraging the private sector to invest in agriculture and agro processing manufacturing with possibilities for high value addition. The Corporate Loan to Seychelles Cable System Company will contribute to **Industrialize and Integrate Africa** through improved ICT and internet infrastructure. All operations are contributing to the achievement of **Quality of Life for the People of Africa**. In particular, the water project that aims to ensure improved water accessibility for 99,000 Mahé inhabitants by 2030, will lead to better health outcomes. Further, the FAPA Blue Economy TA will advance the goals of the Jobs for Youth Strategy by providing the youth with the skills for gainful employment in the blue economy sector. Through the COVID-19 program, the poor and vulnerable whose livelihoods have been affected by the pandemic will directly benefit through strengthened livelihoods and expanded social protection coverage. Employees in the private sector will also benefit through the government's salary guarantee scheme. Maintained macroeconomic stability supported by the program will directly benefit households, the private sector and financial sector actors through faster and more inclusive economic recovery on the back of more resilient businesses and workforce. As regards to **Feed Africa**, enhanced water infrastructure management will eventually contribute to increase in agriculture productivity in the country. Also, the FAPA TA will advance the Feed Africa flagship initiative in the Blue Economy sector.

A.6.2 Portfolio Performance

The last CPPR was undertaken in June 2020. Key performance indicators show that portfolio performance in Seychelles has improved over the years since the last CPPR in 2018 (**Table A6.2**). As of June 2020, the performance of the portfolio was assessed as satisfactory, with an average score of 3.1 (on a scale of 1-4). The cumulative disbursement ratio increased from 20% in 2018 (when the last CPPR was conducted) to 45.51% as of 30 November 2020. There were no projects at risk nor red-flagged projects in the Bank's Dashboard. However, the average age of projects in the portfolio was 3.52 years up from 1.7 in 2015. This was partly attributed to the MSME Development project that had an average age of 6 years. The project was thus classified as ageing as it was a TA with more 5 years. The project has since been completed following the processing of all payments and justification of special account balances. The project's audit report is being prepared and is due for submission in December 2020. Moreover, the increase in the age of projects was attributed to the *Mahé Sustainable Water Augmentation Project* whose average age was 5.2 years in June 2020. This project had experienced start up delays due to stalemates brought about by the Pick-Up, Plant & Truck Hire association that demanded to be subcontracted to provide transport services, but these issues were resolved and implementation is back on course. There were no project approvals over the 2016-2018 timeframe of the CSP. The FAPA Support to Blue Economy MSMEs and Corporate loan to Seychelles Cable Systems Company Ltd were approved in September, and November 2019, respectively. The FAPA TA is signed and effective but the COVID-19 pandemic has slowed down activities leading to delay in first disbursement. A virtual launching of the project was conducted on 27-28 May 2020.

Following the COVID-19 outbreak, the sponsors of the Corporate Loan to Seychelles Cable Systems Company Ltd requested the Bank to put the loan on hold. The COVID-19 Crisis Response Budget Support Program was approved on 22 June 2020 and has fully disbursed.

Table A6.2: Trends in Portfolio Key Performance Indicators

Indicator / Years of Assessment ¹⁸	2015	2017	2018	June 2020
Number of Projects	10	7	3	6
Commitment (UA m)	34.3	26.3	24.3	37.4
Number of Ageing Projects ¹	0	0	0	1
Average Age in Years ¹	1.7	3.0	3.7	3.52
Overall Disbursement Rate ¹	22.1	17.6	20	29.5
Projects at Risk (%)	0	0	0	0
Avg. Approval to Signature (months) ²	4.3	N/A	N/A	6
Avg. Approval to 1st Disbursement (months Elapsed) ²	26.4	N/A	N/A	6.5
Overall Rating Score ¹	2.8	3.0	3.1	3.1
Implementation Performance (IP) Rating	3.0	3.0	3.0	3.0
Development Objective (DO) Rating	3.0	3.0	3.0	3.0
Proportion of Flagged Projects (%) ¹⁹	8	22	57.1	0

Note 1: The PBPCG programme is excluded from these ratings.

Note 2: There were no project approvals in 2017 and 2018.

Portfolio Challenges

There are a few challenges related to Seychelles' portfolio implementation. There is weak project financial management capacity at the executing agencies as manifested by weak compliance with Bank rules and procedures, delays in submission of annual audit reports and delays in justification of overdue special account balances. Further, on the procurement side, there are delays in preparation of terms of references, bidding documents, and procurement plans as well as weak contract management practices. Also, there are delays in preparation of quarterly reports which points to weak monitoring and evaluation practices. The Bank continues to implement measures to address these challenges including facilitating training of project staff through dedicated fiduciary clinics and during project launching and supervision, closer scrutiny in monitoring project implementation progress to ensure timely resolution of issues, and seeking opportunity to strengthen project team internal capacity. The Country Portfolio Improvement Plan (CPIP) adopted during the dialogue mission will be used to monitor the remaining challenges (see Annex A.6.3).

A.6.3 Seychelles' 2020 Country Portfolio Improvement Plan

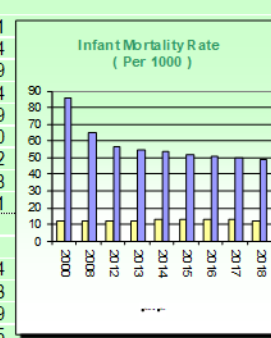
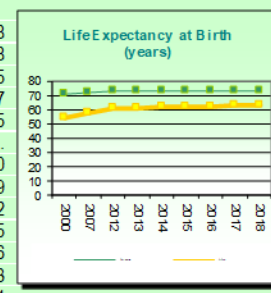
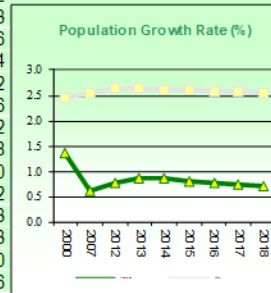
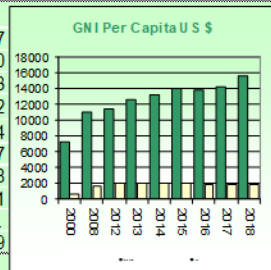
Issue/Challenge	Required Action to resolve the issue/problem	Implementing Authority	Measurable Indicator	Baseline (March 2020)	Target	Time frame
Project implementation capacity may continue to need strengthening with new project approvals.	Continued training project staff on Bank's rules and procedures, and other related project management skills, e.g. contract management, public-private partnerships (PPPs), etc., as new operations are approved by the Bank.	AfDB & GoS	- Number project staff trained. - Percentage of new public operations with skills development component	30 100%	- Annually (1); and at each project preparation/launch/supervision 100%	Continuous
Delayed Annual Audit Reports	Early engagement of auditors.	EAs	Percentage of projects submitted audit reports on time	Nil	90%	December 2020
Delays in Justifications of Overdue Special Account Balances	Government to submit justification or refund what cannot be justified	EAs	Percentage of projects with timely submission of justifications/refund unjustified amounts	0%	100%	December 2020 and then continuous
Inadequate engagement with key stakeholders during project preparation (concerned Government Agencies and Departments, private sector, civil society, etc.)	Broad based consultation of all key stakeholders during identification, preparation and appraisal of projects.	AfDB & GoS	Number of meetings with wide range of stakeholders (incl. civil society) during project preparation.	0%	At least 1 meeting	December 2020 and then continuous

A.7 Seychelles' Donor Mapping

	SECTORS																
Development partner	Macro economic framework	Private sector/ Financial sectors	Infrastructure / Transport/ Energy	Trade	Agriculture/ Rural Development & food Security	Health	Education	Environment	Tourism	Water& Sanitation	Petroleum	Public Sector/ Governance	Judicial& Legal Reform	Capacity/Inst Building (Inc M&E)	Security& Stability	Fisheries/blue economy	
AfDB	✓		✓							✓						✓	
Australia																	
BADEA			✓			✓	✓			✓				✓			
OFID			✓			✓	✓										
IMF	✓																
European Commission				✓			✓	✓				✓		✓		✓	
France																	
Commonwealth Secretariat																	
FED(EC)																	
IFAD					✓												
UK																	
France																	
India			✓			✓	✓										
Italy																	
Japan														✓		✓	
Portugal																	
Spain																	
Taiwan, China			✓				✓										
UAE			✓				✓		✓								
UNDP							✓	✓						✓			
UNEP																	
UNICEF																	
United States																	
WFP																	
WHO						✓											
World Bank	✓											✓		✓		✓	
EIB			✓														
AFD			✓														
Kuwait Fund							✓										
Saudi Fund			✓														
IMO			✓														

A.8 Seychelles' Comparative Socio-Economic Indicators

	Year	Seychelles	East Africa	Africa	Developing Countries
Basic Indicators					
Area ('000 Km ²)	2019	0.5	6,232	30,067	94,797
Total Population (millions)	2019	0.1	365.8	1,306.3	6,384.0
Urban Population (% of Total)	2019	55.9	27.7	43.3	50.3
Population Density (per Km ²)	2019	212.5	62.7	44.5	69.2
GNI per Capita (US \$)	2018	15 600	975	1 783	4 844
Labor Force Participation *- Total (%)	2019	...	73.2	63.2	60.7
Labor Force Participation **- Female (%)	2019	...	66.5	54.6	45.8
Sex Ratio (per 100 female)	2019	105.5	99.3	99.8	107.1
Human Develop. Index (Rank among 189 countries)	2018	62	...	...	...
Popul. Living Below \$ 1.90 a Day (% of Population)	2007-18	1.1	34.2	35.6	11.9
Demographic Indicators					
Population Growth Rate - Total (%)	2019	0.7	2.7	2.7	1.2
Population Growth Rate - Urban (%)	2019	1.3	4.6	3.6	2.3
Population < 15 years (%)	2019	23.7	41.9	40.6	27.6
Population 15-24 years (%)	2019	13.2	20.7	19.3	16.4
Population ≥ 65 years (%)	2019	7.8	3.0	3.5	7.2
Dependency Ratio (%)	2019	46.1	81.3	78.7	54.6
Female Population 15-49 years (% of total population)	2019	23.8	24.4	24.2	25.2
Life Expectancy at Birth - Total (years)	2019	73.4	65.2	63.5	70.8
Life Expectancy at Birth - Female (years)	2019	77.4	67.1	65.3	73.0
Crude Birth Rate (per 1,000)	2019	16.3	33.4	33.0	20.2
Crude Death Rate (per 1,000)	2019	7.9	6.6	8.0	7.3
Infant Mortality Rate (per 1,000)	2018	12.4	39.7	48.7	31.3
Child Mortality Rate (per 1,000)	2018	14.5	56.4	70.2	42.0
Total Fertility Rate (per woman)	2019	2.4	4.4	4.4	2.6
Maternal Mortality Rate (per 100,000)	2017	53.0	433.9	432.3	230.0
Women Using Contraception (%)	2019	...	41.5	39.1	61.7
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2010-18	212.1	11.3	33.4	121.8
Nurses and midwives (per 100,000 people)	2010-18	807.7	82.7	107.8	240.8
Births attended by Trained Health Personnel (%)	2010-17	99.0	55.4	61.7	78.5
Peop. Using at least basic drinking water services (% of Pop.)	2017	96.2	51.3	66.3	87.7
Peop. Using at least basic sanitation services (% of Popul.)	2017	100.0	23.9	40.3	68.5
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2018	...	2.7	3.4	...
Incidence of Tuberculosis (per 100,000)	2018	18.0	183.4	202.3	154.0
Child Immunization Against Tuberculosis (%)	2018	97.0	86.7	81.4	84.9
Child Immunization Against Measles (%)	2018	96.0	78.9	76.1	85.2
Underweight Children (% of children under 5 years)	2010-17	3.6	20.1	17.5	14.5
Prevalence of stunting	2010-17	7.9	35.1	34.0	23.6
Prevalence of undernourishment (% of pop.)	2017	...	27.2	18.5	12.3
Current health expenditure (% of GDP)	2016	3.9	4.9	5.3	5.4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-19	100.4	98.0	100.1	104.1
Primary School - Female	2010-19	103.3	96.1	98.0	104.4
Secondary School - Total	2010-19	81.4	35.8	52.6	71.9
Secondary School - Female	2010-19	84.2	35.8	50.4	71.4
Primary School Female Teaching Staff (% of Total)	2010-18	88.9	44.4	48.6	62.9
Adult literacy Rate - Total (%)	2010-18	95.9	65.7	66.9	84.0
Adult literacy Rate - Male (%)	2010-18	64.8	74.5	70.8	88.2
Adult literacy Rate - Female (%)	2010-18	96.4	60.2	60.0	79.8
Gouvernement expenditure on Education (% of GDP)	2010-17	4.4	3.3	4.3	4.1
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2016	0.3	13.2	8.0	11.4
Agricultural Land (as % of land area)	2016	3.4	50.7	38.2	38.3
Forest (As % of Land Area)	2016	88.4	21.2	13.2	31.9
Per Capita CO ₂ Emissions (metric tons)	2014	5.4	0.2	1.2	3.5



Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;

last update :

April 2020

UNAIDS; UNSD; WHO; UNICEF; UNDP; Country Reports.

Note : n.a. : Not Applicable; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)

** Labor force participation rate, female (% of female population ages 15+)

A.9 Seychelles' Macroeconomic Indicators

A.9-1 Selected Macroeconomic Indicators, 2010-2020

Indicators	Unit	2010	2015	2016 [▼]	2017 [▼]	2018	2019 (e)	2020 (p)
National Accounts								
GNI at Current Prices	Million US \$	930	1,332	1,324	1,371	1,515	...	...
GNI per Capita	US\$	10,190	14,020	13,830	14,220	15,600	...	...
GDP at Current Prices	Million US \$	970	1,377	1,427	1,525	1,586	1,903	1,896
GDP at 2010 Constant prices	Million US \$	970	1,232	1,294	1,349	1,400	1,454	1,301
Real GDP Growth Rate	%	5.9	4.9	5.0	4.3	3.8	3.9	-10.5
Real per Capita GDP Growth Rate	%	5.4	4.1	4.2	3.5	3.0	3.2	-11.1
Gross Domestic Investment	% GDP	35.4	35.1	35.9	32.5	28.8	28.4	28.0
Public Investment	% GDP	26.8	5.2	6.0	7.4	6.5	6.4	6.6
Private Investment	% GDP	8.6	29.9	29.8	25.1	22.3	22.0	21.4
Gross National Savings	% GDP	17.2	15.2	12.0	14.3	15.4	17.1	23.0
Prices and Money								
Inflation (CPI)	%	-2.4	4.0	-1.0	2.9	3.7	1.8	4.5
Exchange Rate (Annual Average)	local currency/US\$	12.1	13.3	13.3	13.6	13.9	14.0	14.2
Monetary Growth (M2)	%	14.6	-0.6	12.7	10.5	4.1	...	...
Money and Quasi Money as % of GDP	%	78.5	72.6	79.0	79.7	78.3	...	...
Government Finance								
Total Revenue and Grants	% GDP	33.2	34.2	37.9	35.9	37.5	37.5	28.0
Total Expenditure and Net Lending	% GDP	30.9	32.4	37.7	35.4	37.3	36.6	41.8
Overall Deficit (-) / Surplus (+)	% GDP	2.3	1.9	0.2	0.5	0.2	0.9	-13.8
External Sector								
Exports Volume Growth (Goods)	%	-16.4	0.0	11.7	9.7	-5.3	5.0	10.4
Imports Volume Growth (Goods)	%	-5.8	-0.6	14.4	10.8	-0.1	6.3	5.2
Terms of Trade Growth	%	0.3	-2.9	-2.6	1.1	3.6	-0.7	-0.9
Current Account Balance	Million US \$	-186	-255	-286	-280	-283	-318	-518
Current Account Balance	% GDP	-19.1	-18.5	-20.0	-18.4	-17.9	-16.7	-27.3
External Reserves	months of imports	2.9	4.5	4.2	3.8	3.7	...	...
Debt and Financial Flows								
Debt Service	% exports	8.5	6.1	8.5	2.1	4.1	4.1	4.6
External Debt	% GDP	171.0	100.8	105.5	107.5	110.7	107.3	126.6
Net Total Financial Flows	Million US \$	210	-109	46	144	...	...	...
Net Official Development Assistance	Million US \$	54	7	6	19	...	...	...
Net Foreign Direct Investment	Million US \$	211	195	155	192	124	...	...

Real GDP Growth Rate, 2008-2020

Inflation (CPI), 2008-2020

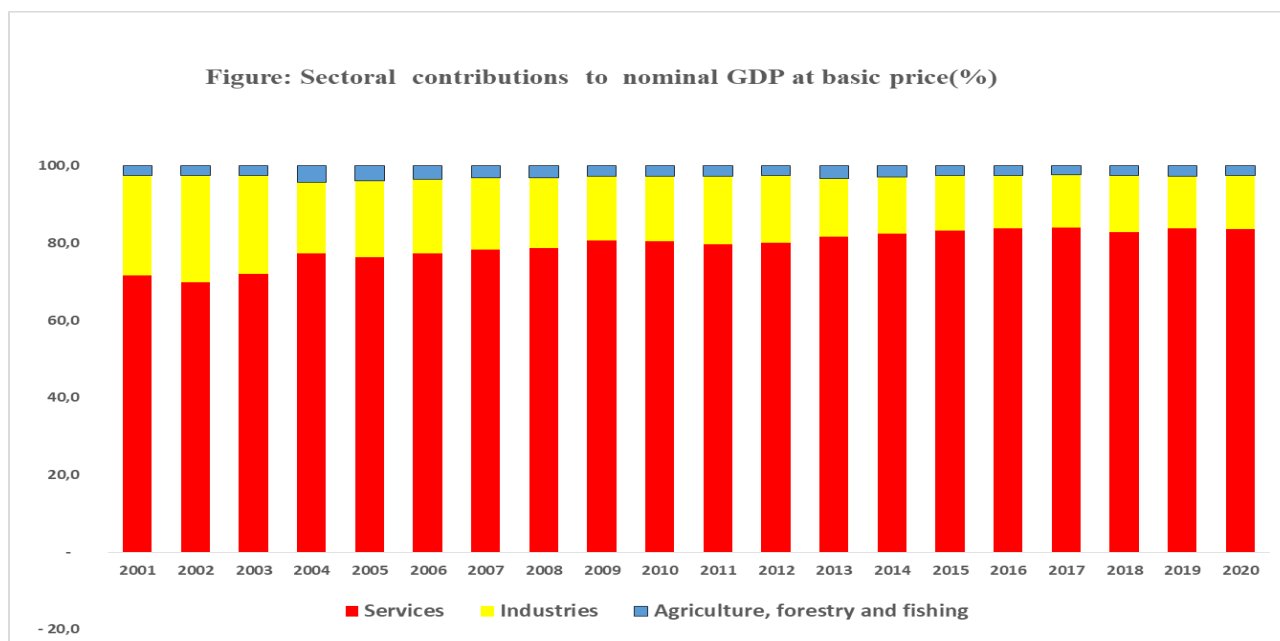
Current Account Balance as % of GDP, 2008-2020

Source : AfDB Statistics Department: African; IMF: World Economic Outlook, April 2020 and International Financial Statistics, April 2020; AfDB Statistics Department: Development Data Portal Database, April 2020. United Nations: OECD, Reporting System Division.

Notes: ... Data Not Available (e) Estimations (p) Projections

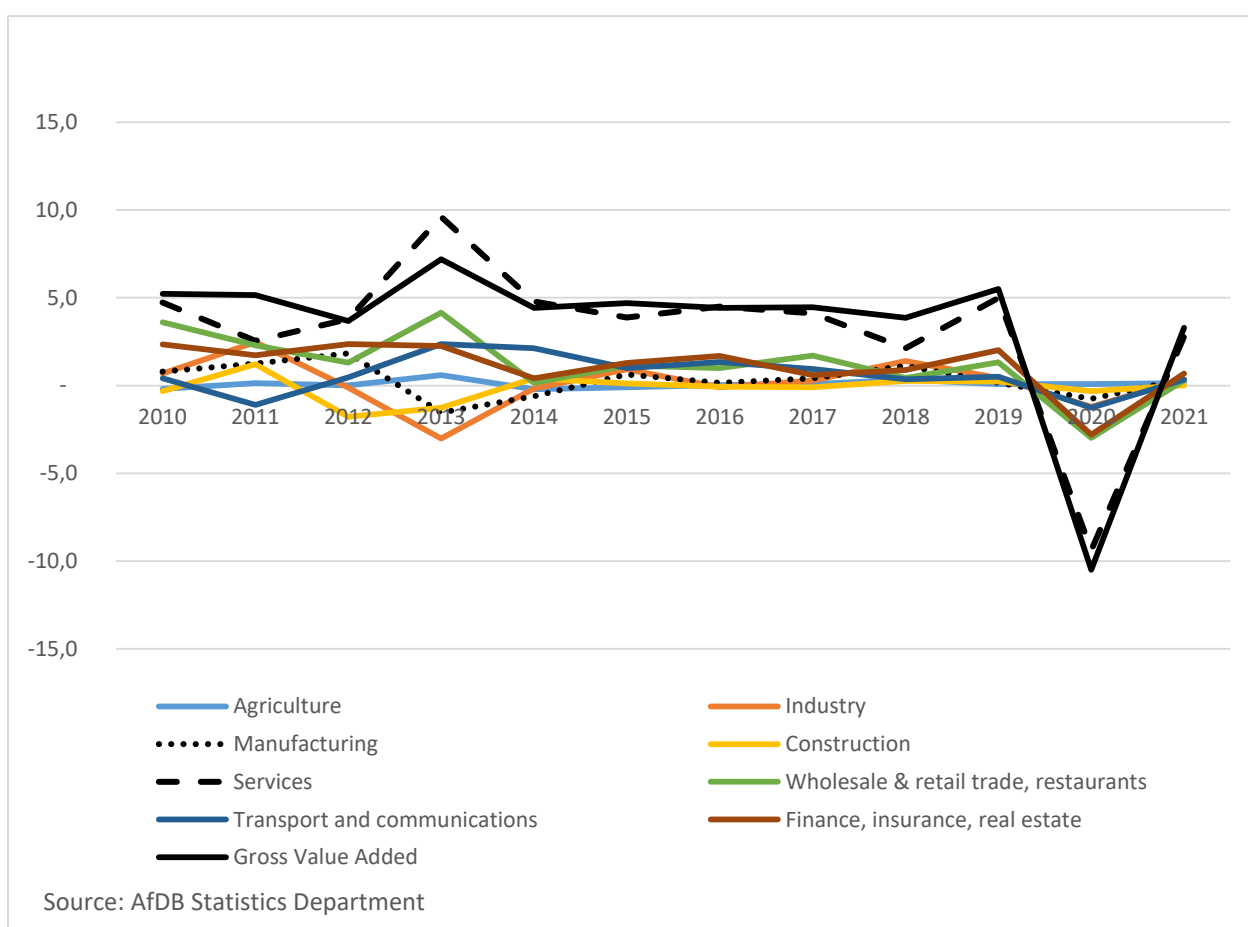
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A.9-2 Sector Contributions to Nominal GDP at Basic Price (%) - 2001 to 2020

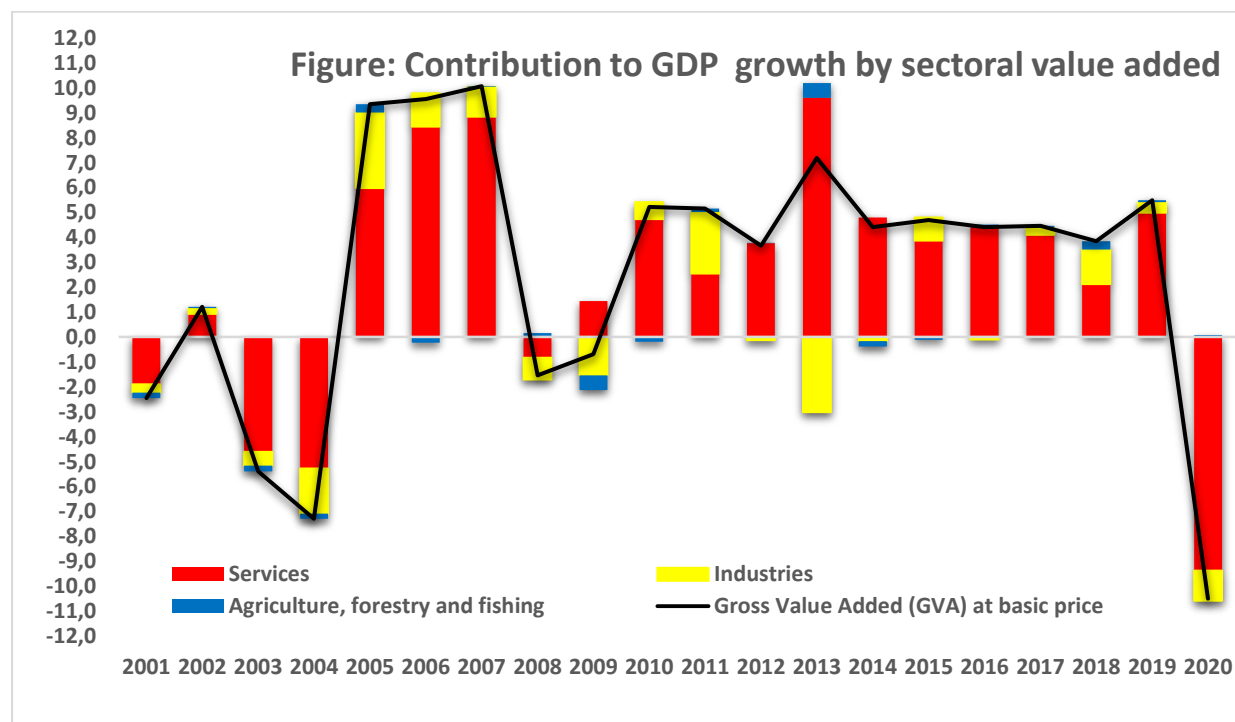


Source: Department of Statistics, AfDB

A.9.3 Contributions to Real GDP (constant 2010 price US\$)



A.9-4 Contributions to GDP Growth by Sector Value Added - 2001 to 2020



Source: Department of Statistics, AfDB

A.10 Arrangement with the IMF

Introduction: Seychelles became a member of the International Monetary Fund (IMF) on June 30, 1977 and since then had three arrangements. Seychelles particularly has benefitted from a series of programs with the IMF since the 2008 debt crisis when the country defaulted on its debt that amounted to about 150 percent of its GDP and had to go through a strict debt restructuring and management strategy along with other complementary reforms. The Authorities have remained committed in implementing sound macroeconomic policies and comprehensive structural reforms since then, notably in recent years under the last Extended Fund Facility (EFF) that ended in December 2017. On December 2017, the country became the first IMF member to have entered into a new 3-year IMF arrangement under the Policy Coordination Instrument (PCI) based on a non-financing Fund instrument that supports countries seeking assistance to develop and help monitor progress in a reform agenda.

The Policy Coordination Instrument (PCI): The PCI arrangement that the country now has entered into since December 2017 is available to all members that do not need Fund financial resources at the time of approval, and is designed for countries seeking to demonstrate commitment to a reform agenda or to unlock and coordinate financing from other official creditors or private investors. A series of IMF staff reviews of performance under the PCI Arrangement had consistently concluded that implementation of the Seychelles' economic program is largely on track; while macroeconomic performance continued to be strong, resulting into robust economic growth reflecting buoyant tourism earnings, helped by prudent monetary and exchange rate policies. The most recent review of the PCI was concluded in December 2019, and it further confirmed its earlier assessments that growth continued to be robust with economic growth for 2019 estimated to reach about 4 percent, reflecting strong output in the tourism and communication sectors. The review further stated that the near-to-medium-term economic outlook continues to be favourable, provided that the authorities maintain their prudent policies under the Policy Coordination Instrument.

However, in March 2020, things changed as the global COVID-19 pandemic reached Seychelles. As a tourism dependent economy, with low economic transformation, the country is expected to severely be impacted by the pandemic which put the hitherto economic gains at the risk of being eroded. The authorities reacted swiftly by taking immediate measures of containment, including border closures, strengthening health policy responses and supporting households and firms. Some of the policy measures undertaken to reduce the socio-economic impact of COVID-19 include the following: On 11 April, the President assented to the Appropriation Act 2020 of the Revised 2020 Budget which is SCR 1.2 billion higher than the earlier approved budget, taking into consideration planned responses such as an allocation of SCR 1,090 million to cover 3-6 months' salary guarantee for 37,409 private sector employees; about SCR30 million in the budget for the Social Protection Agency to assist vulnerable individuals and workers in the informal sector; an additional sum of SCR 10 million for the Unemployment Relief Scheme; a special allowance for all health workers on the frontline of the pandemic and staff in immigration and customs at the port and airport.

IMF emergency financial assistance under the Rapid Financing Instrument (RFI) responding to the request for support from the Government, the IMF concluded that the near-term economic fallout of the COVID-19 pandemic on Seychelles is expected to be severe. As travel restrictions and the subsequent loss of tourism receipts reduce economic activities thereby weakening the fiscal and external positions and creating large additional financing needs. Accordingly, on May 8, 2020 the IMF approved Seychelles' request for emergency financial assistance under the Rapid Financing Instrument (RFI) equivalent to SDR 22.9 million (about US\$ 31.2 million, or 100 percent of quota) to support the country meet its urgent balance of

payment needs stemming from the COVID-19 pandemic and soften the resulting impact on the budget.

Under this financing, the Fund has indicated that the authorities are committed to transparency and good governance in the use of the emergency financing by i) providing monthly reports of pandemic-related expenditure to the National Assembly and ii) undertaking an independent audit of such spending and procurement and publishing the results. Once the pandemic dissipates and confidence is restored, the authorities are committed to return to a fiscal stance that stabilizes debt. The IMF indicated that it will continue to monitor Seychelles' situation closely and remain in close dialogue with the authorities.

A.11(a) Seychelles' Progress Towards Achieving the Sustainable Development Goals

	2000 ¹	2010 ²	2019 ³	
Goal 1: End poverty in all its forms everywhere				Prevalence of undernourishment (%)
Proportion of population living below the international poverty line of US\$ 1.90 (PPP) per day	...	...	1.1	
Proportion of population living below the national poverty line (%)	...	...	39.3	
Proportion of employed population below the international poverty line of US\$1.90 per day, aged 15-24 (%)	...	...	...	
Proportion of employed population below the international poverty line of US\$1.90 per day, aged 15 and over (%)	...	...	...	
Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture				Total official flows to the agriculture sector (Millions of constant US\$)
Prevalence of undernourishment (%)	...	...	...	
Prevalence of stunting among children under 5 years of age	...	...	7.9	
Agriculture orientation index for government expenditures (Unit)	...	0.7	1.3	
Total official flows (official development assistance plus other official flows) to the agriculture sector (Millions of constant US\$)	2	4	5	
Goal 3: Ensure healthy lives and promote well-being for all at all ages				Under-five mortality rate, (per 1000 live births)
Under-five mortality rate (per 1 000)	14	14	15	
Maternal mortality ratio (per 100 000)	...	...	...	
Total net official development assistance to medical research and basic health sectors (Millions of constant US\$)	...	...	0	
Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all				Total official development assistance flows for scholarships (Constant US\$ Millions)
Proportion of children and young people at the end of primary achieving at least a minimum proficiency level in: Reading (%)	89.7	88.3	88.0	
Proportion of children and young people at the end of primary achieving at least a minimum proficiency level in: Maths (%)	77.6	82.2	...	
Gender parity index of teachers in primary education who are trained	1.2	...	1.0	
Total official development assistance flows for scholarships (Constant US\$ Millions)	...	0	2	
Goal 5: Achieve gender equality and empower all women and girls				Proportion of seats held by women in national parliaments (%)
Proportion of women aged 20-24 years who were married or in a union before aged 18 years	...	...	...	
Proportion of girls and women aged 15-49 years who have undergone female genital mutilation/cutting	...	...	...	
Proportion of seats held by women in national parliaments (%)	29.4	23.5	21.2	
Goal 6: Ensure availability and sustainable management of water and sanitation for all				Incidence of tuberculosis (per 100,000 people)
Proportion of population using safely managed drinking water services (%)	...	...	...	
Proportion of population using safely managed drinking water services (%)	...	...	...	
Level of water stress: freshwater withdrawal as a proportion of available freshwater resources	0.5	0.0	0.0	
Total official flows for water supply and sanitation (Constant US\$ Millions)	0.24	0.59	0.19	
Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all				Population using safely managed drinking water services (%)
Proportion of population with access to electricity (%)	95.7	97.0	100.0	
Proportion of population with primary reliance on clean fuels and technology (%)	95.0	95.0	95.0	
Renewable energy share in the total final energy consumption (%)	0.4	0.6	1.2	
Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all				Total official flows disbursed for Aid for Trades (Millions of constant US\$)
Unemployment rate, (aged 15 over) (%)	5.5	...	3.5	
Unemployment rate, (aged 15-24) (%)	20.3	...	11.6	
Proportion of children aged 5-17 years engaged in child labour	...	...	...	
Growth rate of real GDP per employed person (%)	...	...	...	
Total official flows disbursed for Aid for Trades (Millions of constant US\$)	2.87	1.26	6.88	

Sources : ADB Statistics Department Database;

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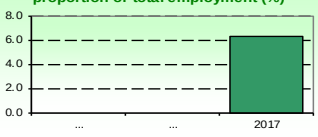
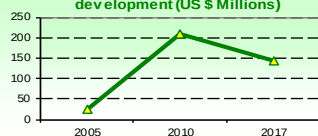
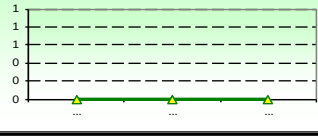
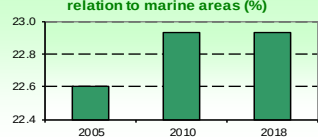
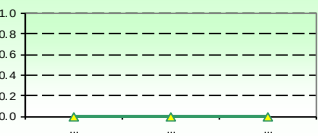
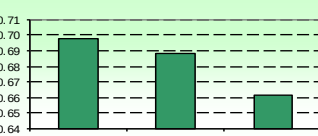
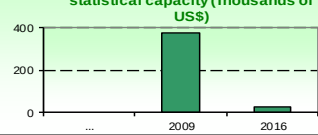
June, 2020

United Nations Statistical Division, Online Database on Sustainable Development Goals (<https://unstats.un.org/sdgs/>).

Note : n.a. : Not Applicable ; ... : Data Not Available.

¹ Latest year available in the period 2000-2005; ² Latest year available in the period 2006-2010; ³ Latest year available in the period 2011-2019

A.11(b) Progress Towards Achieving the Sustainable Development Goals (Contn'd)

Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	2000¹	2010²	2019³	Manufacturing employment as a proportion of total employment (%)
Manufacturing value added per capita (Constant 2010 US \$)	886	852	1,021	
Manufacturing employment as a proportion of total employment (%)	...	...	5.4	
Research and development expenditure as a proportion of GDP	0.35	0.30	0.22	
Total official international support to infrastructure (Millions of Constant US\$)	0	5	10.84	
Goal 10: Reduce inequality within and among countries				Total resource flows for development (US \$ Millions)
Labour share of GDP, comprising wages and social protection transfers (%)	...	...	...	
Total resource flows for development (US \$ Millions)	9	210	144	
Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable				Proportion of urban population living in slums (%)
Proportion of urban population living in slums (%)	...	...	...	
Annual mean levels of fine particulate matter (PM2.5) in cities, population weighted, 2014 (%)	...	...	18.7	
Goal 12: Ensure sustainable consumption and production patterns				Material footprint per capita (Tonnes per capita)
Total material footprint (Thousands of metrics tons)	...	...	...	
Material footprint per capita (Tonnes per capita)	...	...	...	
Total domestic material consumption (Thousands of metrics tons)	...	...	...	
Goal 13: Take urgent action to combat climate change and its impacts				Coverage of protected areas in relation to marine areas (%)
				
Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development				Proportion of important sites for terrestrial biodiversity that are covered by protected areas (%)
Coverage of protected areas in relation to marine areas (%)	22.6	22.9	15.6	
Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss				Red List Index
Coverage by protected areas of important sites for mountain biodiversity (%)	0.0	0.0	0.0	
Proportion of important sites for terrestrial biodiversity that are covered by protected areas (%)	...	...	...	
Red List Index	0.70	0.69	0.69	
Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels				Total amount of all resources made available to strengthen statistical capacity (Thousands of US\$)
Proportion of children under 5 years of age whose births have been registered with a civil authority	...	...	...	
Unsentenced detainees as a proportion of overall prison population (%)	...	8.1	16.8	
Goal 17: Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development				
Volume of remittances (in United States dollars) as a proportion of total GDP (%)	0.8	1.8	1.4	
Debt service as a proportion of exports of goods and services (%)	...	...	...	
Total amount of all resources made available to strengthen statistical capacity (Thousands of US\$)	...	376	277	
Proportion of individuals using the Internet (%)	24.3	41.0	58.8	

Sources : ADB Statistics Department Database;

last update :

June , 2020

United Nations Statistical Division, Online Database on Sustainable Development Goals (<https://unstats.un.org/sdgs/>).

Note : n.a. : Not Applicable ; ... : Data Not Available.

¹ Latest year available in the period 2000-2005; ² Latest year available in the period 2006-2010; ³ Latest year available in the period 2011-2019

A.12 Seychelles' Fragility Assessment

1. GENERAL OVERVIEW

By virtue of its state structure, the Republic of Seychelles is a presidential republic in which the President, who is both Head of State and Head of Government, is elected every five years through a direct universal suffrage. He appoints a government after approval by Parliament. He also appoints the justices of the Supreme Court and the Court of Appeals. He may not run for more than three terms. There is only one chamber, the National Assembly, with 34 representatives for a five-year term. 25 seats are allocated by universal suffrage, of which 9 are allocated on a proportional basis (for parties receiving at least 10 per cent of the vote). The legal system is based on English common law, the French Civil Code, and case law.

The archipelago is composed of 115 islands with about 97,000 inhabitants, three quarters of whom live on the main island of Mahé. Located in the middle of the Indian Ocean, in the northeast of Madagascar, the Republic of Seychelles has one of the highest Gross National Income (GNI), Gross Domestic Product (GDP) per capita and Human Development Index (HDI) in Africa.

Beyond its exposition to natural disasters and climate change, the Republic of Seychelles faces various shocks inherent in the size of its economy, but also of its population and remoteness. Other challenges facing the country include aging and migration, marked by a slowdown in population growth coupled with an increase in the dependency rate. Although not really constituting a major lever for the economic development of the Seychelles, there are many offshore companies that have been created in the Seychelles. In this regard, as economic models based on secrecy and tax arbitrage are increasingly coming under scrutiny, Seychelles' economy could be affected by global efforts to combat illicit financial flows and tax evasion, as well as the current move towards taxation at source.

2. OVERVIEW OF THE COUNTRY RESILIENCE AND FRAGILITY ASSESSMENT (CRFA)

The CFRA for Seychelles indicates that the country generally has low pressures for fragility, but out of the 7 criteria used in the assessment, there are at least two /criteria where such a pressure needs to be given attention: social cohesion and Externalities/Regional spillover effects. In terms of inclusive politics, capacity for political representation and participation is very high. Multiparty politics began in 1993 and impressive political pluralism has reduced friction among key political actors, and a generally open political environment leaves the country under very low pressure for political instability. In terms of security, security institutions' capacity is moderate. Pressures around security are also moderate. Prevalence of violent crime, such as intentional homicide is low, as is presence of refugees and internally displaced persons. In terms of Justice, the effectiveness of judicial institutions is strong and abuses of power by senior officials are very limited, curtailed in part by President Faure's signature of an Access to Information Act in 2018 that gives citizens the right to seek information about public officials and government institutions. In terms of Economic and Social Inclusiveness, Seychelles' economic policies and management perform at the moderate level and the country scores very highly when it comes to access to services. However, despite very limited pressures around poverty, economic prosperity in this island nation is not widespread and inclusive. As indicated at the outset, the country needs attention in terms of social cohesion criteria where it ranks relatively low owing to concerns around gender inequality, especially with regards to domestic violence. To help address the issue, the country opened its first and only domestic violence shelter in late 2018. It also scores relatively low in terms of Externalities/Regional Spillover Effects. With a diversification indicator score of 6 out 100 and an economy that relies on tourism and fisheries, Seychelles lacks the capacity to withstand economic shocks. The country is particularly vulnerable to uncertainty over the Eurozone, which is one of its principal sources of tourism. Finally, in terms of Climate/Environmental Impacts, as the country is situated in the middle of the Indian Ocean, it is vulnerable to food insecurity (72% of food is imported) and climate change could affect its long-term development. However, very strong environmental policies targeting the efficient use of natural resources, coupled with preparations for ecological and humanitarian emergencies, keep pressures associated with natural disasters at the low-to-medium level.

3. KEY DEVELOPMENT CHALLENGES

As one of the few countries boasting a high-income status on the continent, Seychelles has its shares of development challenges that could undermine this progress. As noted above, Seychelles' geography presents some inherent challenges the country must continuously mitigate to ensure a sustainable development. Climate vulnerability related to rising sea level and the adverse effects of global warming pose a threat to the natural environment and conservation efforts. The fragile island ecosystem is threatened by the bleaching of coral reef and overfishing that could deplete its marine resources. Furthermore, changes in rain pattern coupled with the severe lack of arable land exposes the small island nation to food insecurity. Seychelles relies on only 0.32609 % of arable land for agricultural production which includes cash crops such as copra, cinnamon and vanilla. As a result, the country imports 72% of its food and relies on foreign sources for all of its domestic energy supply in oil and gas. A shock to its supply system could have far-reaching consequences for vulnerable households and the entire economy.

Seychelles has consistently shown stronger performances across many sectors of the economy. This performance is primarily driven by a well-regulated market and a prudent monetary policy that laid the foundation for economic stability and fiscal sustainability. Despite these accomplishments, there remain some structural and systemic factors which continue to widen the gap between the rich and the poor. Increasing economic inequality characterized by wealth concentration within the top tier of the population continues to impact negatively some key development indicators. While absolute poverty levels remain low, inequality continues to be a major driver of economic vulnerability for the country.

An important development challenge confronting Seychelles is Economic Diversification. With an economy largely reliant on tourism, the sector represents a primary source of government revenue, employment, and hard currency to the island inhabitants. The number of international arrivals in Seychelles since the end of the 2008 financial crisis increased exponentially in 2018 while travel and tourism contributed altogether 67.1% to the country's GDP within the same period. However, the sector remains vulnerable to external shocks such as a global pandemic and financial markets collapse. The 2020 novel COVID-19 pandemic and its ensuing travel restrictions tested the island's economy with a predicted contraction of about 10% and the laying-off of thousands in the hospitality industry. The over-reliance on imports and the economic downturn have also led to the depreciation of the Seychelles rupee against the US dollar during the global shutdown. The weak economic diversification is undoubtedly the Achilles's heel of the vibrant Seychellois economy.

Illegal fishing and maritime piracy in the Indian Ocean represent another development challenge for the island nation. The violation of its territorial water by foreign fishing trawlers could endanger and deplete the fish stocks. The security threats posed by pirates to shipping routes and cargoes constitutes a significant pressure when it comes to patrolling and the monitoring the 1.4 million square kilometres of Seychelles' vast exclusive economic zone of the Indian Ocean. According to the government's estimates, the combined effects of illegal fishing and piracy account for tens of millions in lost revenue for the country. The regional spill over effects of maritime insecurity perpetrated by Somali pirates is the single most pressing national security issue requiring sustained government's efforts and resources as well as international cooperation to combat.

4. CONCLUSION AND RECOMMENDATIONS

As one of the most resilient and thriving economies in Africa, Seychelles' development prowess is anchored on sound and bold economic reforms which development model can serve as a blueprint to many countries on the continent. While these reforms helped propel Seychelles into a high-income country category, they did not come without sacrifices. The country continues to innovate and adapt its policy toolkits to containing the damage caused by the coronavirus pandemic to livelihoods and to the economy. Based on the above development challenges, the choice of intervention pillars for the 2021-2025 CSP will need to:

- a. Promote economic diversification that shields the country against external shocks by attracting foreign direct investment, diversifying government portfolios through targeted economic policies with the potential to develop value chains, stimulate growth through the promotion of a service based and green economy that support local fisheries and food production, manufacturing, conservation, and investment in alternative energy sources to reduce carbon footprint and the over-reliance on imported fossil fuel;
- b. Pro-poor socioeconomic reforms targeting the most vulnerable that provide incentives for job creation, labor force participation. It is important these policies target gender-based violence, exclusions and economic inequalities for a broad-based and inclusive economic development for a shared prosperity;
- c. Revitalize the economic sectors hard-hit by the COVID-19 pandemic through a series of mitigating measures including return to work incentives, government grants, loan forgiveness schemes, budgetary support to medium and small scale enterprises as well as to the major sectors driving the economic recovery with an emphasis on the tourism and hospitality industries
- d. As noted above, piracy and illegal fishing constitute not only a security challenge but also an economic threat to the development of Seychelles. Strengthening regional security and cooperation and bilateral security arrangements with member countries and partners to secure shipping routes by investing in equipment and deterrence

A.13 Seychelles' Fiduciary Risk Assessment

1.0 Executive Summary

1.1 The primary purpose of the Country Fiduciary Risk Assessment (CFRA) is to assess the inherent fiduciary risk associated with the use of a national Public Financial Management (PFM) System. The CFRA establishes whether the Bank can place a whole or partial reliance on the core PFM systems of Government of Seychelles (GoS) for the implementation of Bank financed operations, as well as indicate when and where weaknesses are identified, the scope for capacity development in line with the Bank's guidelines, practices and risk tolerances, its commitment to operationalize the objectives of the Paris Declaration on Aid Effectiveness, Accra Agenda for Action, and Busan Partnership for effective development co-operation, as well as national preferences and other factors such as perceived governance and corruption level. The present assessment covers the main PFM components of the GoS, namely Budget planning and execution, Treasury management, Accounting and Reporting, Internal Control, Procurement, External Audit, and Governance.

1.2 This CFRA assessment was carried out as part of the desk preparation of the CSP 2021-2023 and it was undertaken using the tenets of the Bank's Country Fiduciary Risk Assessment User Guide (April 2014). The Bank updated the Country Fiduciary Risk Assessment (CFRA) that was carried out in 2020 as part of the COVID-19 Emergency Response Support Program. In assessing the fiduciary risk, the team made reference to the Public Expenditure and Financial Accountability Assessment (PEFA) of 2017, and recent developments captured in the country's policy documents and reports including the Seychelles National Development Strategy (NDS) 2019-2023, Public Finance Management Action Plan (2017 – 2020), Programme Performance Based Budget Statements 2020, OAG Strategic Plan 2016- 2020, Report of the Auditor General 2018, among other documents.

1.3 The overall conclusion, based on the assessment, is that the residual fiduciary risk is “**Moderate**”, and that Seychelles PFM Systems is adequate to implement Bank-financed operations. A detailed fiduciary risk assessment is presented in Table 1. The results of the PEFA 2017 indicate that the performance of the Government has carried on improving since the previous evaluations in 2011 and 2008 and is consistent in indicating a conducive PFM environment for the PBO.

1.4 Whereas the PFM system for managing public resources and encouraging compliance in Ministries, Departments and Agencies (MDAs) is sound and robust, the assessment identified a number of fiduciary risks including;

- 1) The PFM Framework is not widely understood which leads to many misconceptions on financial autonomy, and unwillingness of some related parties to understand the framework;
- 2) Lack of an integrated system to capture projects being implemented by line ministries and agencies which affects project monitoring by the Department of Finance;
- 3) Continued use of manual systems for key departmental functions due to lack of information technology capacity of staff and this affects data integrity, efficiency and effectiveness;
- 4) Limited internal audit coverage of the control systems, risk management strategies and governance frameworks of the MDAs due to capacity;
- 5) Lack of experienced and qualified tax auditors and an outdated Seychelles Revenue Commission manual system which affects both the quantity and quality of work of the audit teams

Fiduciary risk mitigating measures will continue to be put in place to ensure that adequate fiduciary systems exist throughout the program implementation period and beyond.

2.0 Performance of the PFM Systems

2.1 Financial Management

2.1.1 Credibility of Budget, Comprehensiveness and Transparency

The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years. The budget information submitted to Cabinet and National Assembly (NA) for approval is comprehensive and contains both quantitative and qualitative information as well as performance indicators that enable regular monitoring of the targets. The Budget Information is available on the Ministry of Finance Website. The PEFA 2017 shows a score of B under PI-5, noting that the budget documentation submitted to the Parliament satisfies 8 elements (All 4 basic elements + 4 additional elements). However, the budget estimates and realizations in the financial statements are presented according to administrative and economic classifications without functional classification, hence a “C” score. The Strategic Planning Policy Framework (2018) is in place, although institutionalizing the planning functions across MDAs and availability of necessary data for economic analysis remains a challenge. There is limited capacity to set up national consistency framework for the four economic sectors in order to improve forecasting and monitoring. The assessment noted that the level of participation in the annual budget process is still low.

2.1.2 Policy-based budgeting

The GoS has fully rolled out the Programme Performance Based Budgeting (PPBB) in all MDAs. The PPBB is part of a larger results-based management reform being implemented with three other pillars including a) Medium-Term National Development Strategy (MTNDS) and associated sector and MDA Strategic Plans; b) Performance Monitoring and Evaluation (PME); and c) Performance Management System (PMS) to assess individual performance. This has improved the Government’s ability to plan, prioritise, allocate, manage, control, account, and report on public funds and the achievement of its objectives since 2019. The MDAs now have more discretion at the finalization stage of budget preparation. In-year internal and public reporting is based financial information as well on progress towards the achievement of the targeted results, which has further strengthened the government’s ability to monitor and evaluate policy implementation and outcomes. In turn, the National Assembly are provided with better information that links the budget to performance during budget approval and budget oversight. However, most of the MDAs still require time and a lot of support to fully revamp their internal expenditure management systems to meet the requirements of the PPBB processes.

2.1.3 Predictability and control in budget execution

The 2017 PEFA registered significant improvements in the predictability of in-year resource allocation, aggregate revenue out-turn compared to original approved budget, effectiveness of measures for taxpayer registration and tax assessment and payroll controls all with “B” or better scores compared to 2011 PEFA scores. The Seychelles Revenue Commission (SRC) has introduced the use of VISA Debit Card (Plastic Money) to facilitate tax payment and limit the amount of cash transactions being undertake. An online registration platform was designed to cater for International Business Companies (IBCs) registration processes, though there is poor uptake for e-filing and improvements in e-services that aimed to promote voluntary compliance due to non-rigorous implementation. The SRC has continued to use a paper-based administration due to inadequate support from Client Management System (CMS) to its operations as well as the underlying shortcomings and weaknesses in the system. Other initiatives aimed at automation of the revenue systems such as the use of POS, bank transfer, use of e-government platform are still work-in-progress. The study for the upgrade of the Treasury Information Systems (TIS) was completed and its implementation awaits funding. The absence of an integrated system to capture projects being implemented by MDAs negatively impacts on proper monitoring of budget execution.

Risk Mitigation measure

1. Migrate to portfolio budgeting to improve resource allocation while sector strategies are being fully developed;

2. Institutionalise strategic planning functions across all MDAs, including capacity building
3. Improve on the availability of necessary data for economic analysis;
4. Increase the effective participation of local communities in the annual budget process
5. Integrate PBB processes with other pillars under the RBM Programme;
6. Integrate systems to ensure better monitoring, including upgrading the TIS.

2.1.4 Treasury Management

The Treasury Single Account (TSA), which is a key component of cash management, is in place and the framework for the operation and management of all government accounts is well-defined enabling consolidation and optimum use of government cash resources. The oversight framework for the Comptroller General to have an effective monitoring and timely reporting of the cash balances of the Government is properly set and is functional. All revenue is received into, and all expenditure are made from the Government General Bank Account (which is the TSA) maintained with the Central Bank of Seychelles. However, exceptions exist for the inner Islands where government accounts are held at Seychelles Commercial Bank. In such cases, the Accounting Officer of the MDA makes arrangements so that the balances are swept on a daily basis to the GGBA. Seychelles Electronic Funds Transfer platform was recently introduced, and Government Salary payment are effected using the system and the system is being tested for all other Government payments. A current medium-term debt management strategy covering existing and projected government debt is publicly available. Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least quarterly.

Risk Mitigation measure

1. Re-enforce on control check mechanism in Treasury processes to ensure accuracy
2. Roll out the use of EFT system to cover all Government payments.

2.1.5 Accounting, Recording, and Financial Reporting

The recently updated the Accounting Manual (2020) provide comprehensive procedures and guidelines as to format, content, movement and recording of Government accounts, with a view to better manage and control the public finances of Seychelles. The manual is compliant with mandatory reporting requirements of International Public Sector Accounting Standards (IPSAS) and provides guidance where the cash-basis IPSAS provides options between different accounting treatments. The present GoS Chart of Accounts (CoA) is in line with the GFSM 2014 manual. However, only four (administrative, economic, programme and source of fund) of the five segments of the CoA exist. The functional segment, which provides an analysis of revenue and expenditure across all functions in accordance with the Classification of Functions of Government (COFOG), is yet to be implemented in the system necessitating manual mapping from the administrative segment to generate IMF reports. The Government Expenditure and Payment Policy, 2017 and the Visual Account Mate (VAM) system which is the Government accounting and payment system ensures the efficient processing of MDA's payments, and the production of timely annual financial statements. The assessment however noted that the accounting and reporting system for donor-funded projects is not automated. The reporting is manually done off the Government system. Automation and integration of this aspect with the VAM is recommended. Moreover, the Government intends to migrate fully to e-signature for the approval process of all accounting documents to minimize the processing times of transactions.

The Government Financial Statements (GFS) are prepared in accordance with IPSAS, reporting on the consolidated financial transactions and balances of government and all its entities. Financial reports for budgetary central government are prepared annually and they are comparable with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations, and are supported by a reconciled cash flow statement. The certified GFS are submitted well within the prescribed completion deadlines. The accounting framework for the Public Enterprises have been transitioning from the Seychelles GAAPS to the IFRS since 2016 and the process has not been fully completed. The Ministry of Finance has stepped up its efforts to produce better quality GFS. However, more needs to be done to ensure that the GFS are fully

compliant with IPSAS framework and are produced timely to enable auditing of the same by the statutory deadline (30th June). There also need to address the delays (which sometimes are very long) in the submission of draft statements of accounts and the signed statements to OAG.

Risk Mitigation measures

1. Implement the functional segment of the Chart of Accounts;
2. Automate the donor funded projects accounting and reporting systems
3. Ensure full compliance with IPSAS framework across MDAs

2.1.7 Internal controls

The Internal Audit Division provides a risk-based and objective assurance, advice, and insight on the adequacy and effectiveness of internal control systems, risk management strategies and governance framework of MDAs of the GoS. The PEFA 2017 indicates that the Internal audit is operational for all central government entities and scored “A” under PI -26.1 -coverage of Internal Audit. An advisory oversight body (the Government Audit Committee-GAC) is in place to provides a strategic direction to and support and validate the internal audit function across public bodies including monitoring the settlement of internal and external audit observations relating to public bodies. There is, however, limited awareness of MDAs about the active presence of GAC. Moreover, the GAC reported a number of challenges, including non-receipt of all MDA audit reports issued by the Internal Audit, including non-implementation of audit recommendations by some MDAs. The collaboration of the GAC with key stakeholders require strengthening, if the objectives of the GAC are to be achieved. In regard to implementation of internal audits and reporting, the PEFA 2017 observed that substantive audit work is not carried out across all the MDAs and that less than the majority of the audit programme is completed with an issued final audit report, hence a “D” score. The Division plans to extend the internal audit work Program to include Government capital expenditure and oversees missions and units as well as conducting targeted investigations. The availability of experienced internal auditors with matching skills set remains a challenge. The Internal Audit Services in GoS is under restructuring, with the aim of improving the capacity of the Division to match the challenges.

Risk mitigation measures

1. Complete the restructuring and improve the capacity of the Internal Audit Division;
2. Strengthen the working relationship of the GAC with key stakeholders;
3. Increase training to create an Internal Audit pool of Certified Internal Auditors, Certified Information Systems Auditors, and Certified Public Accountants;

2.1.8 External audit

Overall, the external audit arrangements are adequate and follow international standards. The Office of the Auditor General (OAG) has appropriately adopted the International Standards for Supreme Audit Institutions (ISSAIs) in the conduct of public sector audits. In regard to resolution of external audit issues and follow-up, the Auditor General reported that many matters raised in audit management letters are dealt with satisfactorily. Moreover, the OAG has undertaken to provide the GAC all audit management letters and certified financial statements of public bodies for review and timely follow up. There are, however, delays within the OAG in processing audit reports and this has contributed to audit backlog. Speedy clearance of these arrears is a priority. There are also a number of emerging challenges being faced by the OAG including: (i) adoption of ISSAIs auditing standards in the audit methodology and compliance thereto; (ii) acquisition of the necessary capacity in the related audits consequent the adoption of the IPSAS and IFRS accounting frameworks by the MDAs and Public Enterprises respectively, PPBB which calls for Performance Information Reports auditing and the increasing emphasis on computerization and modernization of Government operations. The OAG has to streamline its operations and step-up its capacities (in terms of methodologies, staffing and equipment) to cope with the trends.

Risk Mitigation measures

- a) Review and put in place requisite policies and procedures;
- b) Strengthen the working relationship with the GAC

- c) Ensure follow up and timely settlement of external audit recommendations;
- d) Build capacity and increase the coverage of performance information audits;
- e) Outsource some of the audits to address the audit backlog

2.2 Procurement

2.2.1 Legislative and Regulatory Framework: Public procurement is regulated by the Public Procurement Act, 2008 (PPA, 2008) promulgated in December 2008. The Act is generally consistent with international standards as it contains most elements of modern procurement legal and regulatory framework. It is applicable to all public bodies using public funds. However, the procurement rules and procedures of any donor organization may be used as laid out in a financing agreement between the two parties (Section 6 of the Act). The Act describes the institutional framework, methods of procurement, procedures, rules and ethical behaviour. The attendant Regulations were adopted in 2014 to complement and operationalise the Act and standard bidding documents prepared as well. Procurement Oversight Unit (POU) is finalising amendments to the Act which will be presented to the National Assembly, for consideration in July 2020.

2.2.2 Institutional Framework and Management Capacity: The POU was established in 2009 as a procurement policy and monitoring body and is not supposed to participate in procurement proceedings or resolving procurement disputes. The law also establishes and prescribes the necessary hierarchy of the various procurement actors from the Procurement Oversight Unit, the National Tender Body, Independent Review Panel, Procurement Committees and Procurement Units with clearly defined roles and responsibilities.

2.2.3 Procurement Operations and Market Practices: Seychelles ranking in the Doing Business report has been consistently improving since 2016. Streamlining of internal processes and publishing construction industry regulations online free of charge has increased transparency and efficiency in regard to construction permits. These coupled with an improved land administration system and introducing a complaint mechanism have resulted in a favourable environment for private sector participation in public procurement. The main challenge faced by the private sector is limited access to credit and limited protection of minority investors. The Government encourages open dialogue and participation of the private sector and civil society in the decision process as exemplified by the inclusion of the private sector representative in the National Tender Board and the Review Panel for resolution of complaints. The Act in Section 42 prescribes open tendering as the default mode of procurement; however, Section 58(3) restricts participation in open national bidding to citizens of Seychelles and local bidders which is contrary to the Bank's Rules and Procedures.

2.2.4 Integrity and Transparency: POU provides procurement oversight and has an Inspectorate Unit responsible for monitoring performance of procuring entities (Section 12(1)) and prepare annual procurement audit reports to ascertain compliance with the Act. The Office of the Auditor General is mandated to carry out external audit of public funds while the Chief Internal Auditor deals with internal audit and investigations to ascertain that funds have been used for the intended purpose. The Act provides for a Review Panel whose composition guarantees independence of its operations. The appeal mechanisms are well articulated and generally working well. There is consistent publication of procurement opportunities in a newspaper of wide circulation and free portal of POU and NTB.

2.2.5 Current/ Ongoing Reforms: The revision of Public Procurement Act is in advanced stages and the proposed amendments, are scheduled for National Assembly approval by the end of 2020. The main focus of the amendments is; i) elevation of the Procurement Oversight Unit into a fully-fledged authority to be referred to as the Public Procurement Regulatory Authority; ii) procedures for handling retrospective approvals; iii) handling of low value procurements; iv) procedures under Framework agreements, and ; v) procedures for disposal of assets and permitting the use of electronic methods and instruments in the public procurement process.

2.2.6 Conclusion and Recommended Mitigation Measures: Seychelles has maintained a positive trajectory in procurement reforms, and the overall risk for the use the country procurement systems on Bank financed projects is rated at **“Moderate”**. The Bank will continue monitoring ongoing reforms

that are expected to further lower the identified risks. The table below proposes mitigation measures to address the discrepancies identified.

Risk Factor	Risk	Mitigation Measures
Legal and Regulatory Framework	• Participation under open national bidding is restricted to national bidders • The Act does not provide for; Life cycle costing, Enforcement of the outcome of a dispute resolution process under contract management, Use of e-procurement and Price adjustments	• Government to expedite approval of the proposed Amendments to the PPA • Further revise the Act to address omissions that are not catered for under the proposed amendments
Institutional Framework and Management Capacity	• Overlapping roles for the POU, National Tender board (NTB) and Procuring Entities (PEs) • POU internal organization, authority, staffing and training are not commensurate with the scheme of service requirements • No centralized online portal	• Streamline roles of POU, NTB and PEs • Staff profiling and development of a capacity building strategy • Intensify staff training and accreditation • POU to establish a centralized online portal
Procurement Operations and Market Practices	• Private sector has limited access to credit and limited protection of minority investors • Lengthy and costly commercial dispute resolution process • Lack of systematic publication of information like procurement plans; quarterly and annual reports, contract information, etc • POU does not have a central online portal	• Government to further improve business environment • POU to publish procurement reports in line with statutory requirements • POU to establish a one stop shop, online portal for information dissemination
Integrity and Transparency	• Overlapping roles of the public bodies charged with governance and anti-corruption • The Act does not have provisions for obstructive practices and the prohibited practices in the Act apply to the bidder or supplier but public officials • The Act does not provide for recourse to the Judicial Review as the next step after the appeals level	• Streamline the roles of the oversight bodies • Revise PPA to provide for obstructive practices, recourse to the judicial system and sanctions for public officers that get involved in prohibited practices

2.3 Governance & transparency

Seychelles governance is characterized by an open, multiparty democratic system in which free and fair elections consistently allow for the transfer of power from one party to another. The country retained its 1st position out of 53 African countries in the 2018 Mo Ibrahim Index on African Governance for the twelfth consecutive year. Seychelles is ranked 56 out of 180 on the 2019 Transparency International Index with a score of 52/100. It is one of the top twenty places to do business globally according to the latest World Bank Ease of Doing Business Report 2020 and remains 1st in Africa. The combination of a robust PFM system, strong anti-corruption institutions, a mostly free press together with an accountable democratic dispensation with a history of holding public officials accountable for the use of public funds provides adequate assurance on the appropriate use of the Bank's financing over the next CSP period(2021-2023). .

3.0 Conclusion

The Bank is fully committed to the Paris Declaration on Aid Effectiveness and the subsequent declarations to use country systems where such systems have been assessed to be adequate. In accordance with the findings of this assessment, the Bank's financing over the next CSP period (2021-2025) will follow the existing government financial management and public procurement systems. The PFM system is adequate to provide reasonable assurance on the appropriate use of the Bank's financing, accounting and reporting. The overall fiduciary risk is rated as moderate with very positive trajectory. Fiduciary risk mitigating measures will continue to be put in place to ensure that adequate fiduciary systems exist throughout the CSP implementation period, and beyond.

Table 1: Detailed Fiduciary Risk Assessment (Updated March 2020)

Elements	Average Capacity Development Score	Initial Risk Assessment	Mitigation measures	Residual Risk
1. Budget	1.82	Medium	- Migrate to portfolio budgeting to improve resource allocation while sector strategies are being fully developed; - institutionalise strategic planning functions across all MDAs, including capacity building - Increase the effective participation of local communities in the annual budget process - Integrate PPBB processes with other pillars under the RBM Programme. - Integrate systems	M
1.1 The Budget sub-system capacity is adequate to plan (formulate) budgets for programs and/or projects	1.50	Substantial		
1.2 The Budget sub-system capacity is adequate to execute budgetary control of programs and/or projects	2.45	Medium		
1.3 Transparency and public participation in budget preparation and access to budget execution information.	1.52	Medium		
2. Treasury	2.52	Low	- Re-enforce on control check mechanism in Treasury processes to ensure accuracy - Roll out the use of EFT system to cover all Government payments.	L
2.1 The Treasury sub-system capacity is adequate to manage the inflow of resources and disbursements of aid funds.	2.50	Medium		
2.2 The Treasury Single Account (TSA) is an appropriate and reliable way to administer aid funds	2.54	Low		
3. Accounting Recording and Reporting	1.58	Medium	- Implement the functional segment of the Chart of Accounts; - Automate the donor funded projects accounting and reporting systems - Ensure full compliance with IPSAS framework across MDAs - Capacity building for accounting staff in IT skills - Upgrading the TIS	M
3.1 The Financial Accounting sub-system is sound and capacity is adequate to record program and/or project transactions and account for their progress and financial status.	1.52	Medium		
3.2 Financial Management information systems have flexibility to accommodate specific reporting requirements of programs and projects and have procedures in place to ensure timeliness and quality of information produced.	1.23	Substantial		
3.3 The Financial Accounting sub-system has an integrated Fixed Assets module for the proper recording and control of assets purchased with program / project funds.	1.52	Medium		
3.4 The Accounting sub-system maintains up to date records of the country's borrowings; and the accounting systems are secured against deliberate manipulation of data and/or accidental loss of or corruption of data.	2.43	Medium		
3.5 The Accounting systems are secure against deliberate manipulation of data and/or accidental loss of or corruption of data.	1.50	Substantial		
4. Internal Control	2.10	Medium		
4.1 The Internal Control sub-system capacity is adequate to control the financial operations of programs and projects.	2.30	Medium	- Complete the restructuring and improve the capacity of the Internal Audit Division; - Strengthen the working relationship of the GAC with key stakeholders; - Increase training to create an Internal Audit pool of Certified Internal Auditors, Certified Information Systems Auditors, and Certified Public Accountants	M
4.2 Competition, value for money and controls in procurement are adequate.	2.50	Medium		
4.3 The Internal Audit function capacity is adequate.	1.50	Substantial		
5. External Scrutiny and Audit	2.28	Medium	- Review and put in place requisite policies and procedures; - Strengthen the working relationship with the GAC - Build capacity to conduct performance information audits; - Outsource some of the audits	M
5.1 The SAI has the level of "independence" needed to enable it to fulfil effectively its functions.	2.80	Low		
5.2 The SAI has the capacity to meet its audit mandate	2.50	Medium		
5.3 Scope of a SAI audit is comprehensive	1.55	Medium		
6. Overall Fiduciary Risk	2.0	Medium		Medium

A.14 Risks and Mitigation Measures

Risks	Mitigation Measures
Debt issues and commitment to bring it to less than 50% of GDP by 2021 becomes difficult due to COVID 19 affecting the country's borrowing ability.	The Government prepared an emergency preparedness plan for the pandemic and working with its DPs. It has also amended its Budget for the 2020 to take into account the new reality. The Bank and other DPs will dialogue with the Government on the need to continue the sound implementation of reforms.
Seychelles economy has achieved little transformation and is thus vulnerable to external shocks, such as a decrease in tourist arrivals due to weak demand from Europe, or a rise in international oil prices, which would adversely impact the balance of payments, growth and inflation.	Seychelles' improved resilience over the last few years will serve as a bulwark against adverse global economic effects. This has been confirmed by its recent rapid emergency response plan to the COVID 19 pandemic. This will be further mitigated by implementation of the new NDS 2019-23, strengthening the reform agenda aimed at building economic diversification, competitiveness and resilience; skills development, implementation of IMF programs (as mentioned above); continued budget support from the Bank and the World Bank, and continued strengthening of the institutional capacity. The Bank will continue to closely monitor macroeconomic developments, in particular critical variables such as the external current account and public debt. The Bank will also provide the Government with advisory services and technical assistance that will advance structural transformation agenda in Seychelles.
Natural disasters.	The Government is implementing a master plan for Disaster Risk Management that improves forecasting impacts and strengthens civil protection emergency plans. In that context, the Bank is pursuing opportunities for financing a climate change related intervention through a technical assistance project that is included in the non-lending operations in the new CSP IOP.
Insufficient government capacity (human and institutional) to implement reforms which has been a constraint affecting implementation of the CSP 2016-20.	The Government's NDS 2019-2023 articulates the need for skills development and implementing it. Bank will continue exploring opportunities for providing capacity building and technical assistance projects to address these impediments and will use its experience to continue to identify capacity gaps and provide support. In the past, the Bank assisted the Government in developing a Human Resource Development Strategy (HRDS) to develop skills in areas of need and in line with growth prospects. The Bank will continue to hold high-level policy dialogue with the authorities on the implementation of the HRDS during the term of the new CSP.

A.15(a) Blue Economy and Fisheries Sector

Overview of Blue Economy

The last medium-term NDS 2015-19 was adopted in November 2015, with the concept of the 'Blue Economy' as its centerpiece, and it has guided strategic priorities for the country over the last five years. The Blue Economy Strategic Framework and Roadmap approved in January 2018, emphasized the economic potential of Seychelles' vast Exclusive Economic Zone, a marine area of 1,374,000 km² (the 2nd largest in Africa), for inclusive growth. This strategy integrated conservation and sustainable use of ocean resources, oil and mineral wealth extraction, bio-prospecting, sustainable energy production and marine transport in line with the Sustainable Development Goals (SDGs). It also brands Seychelles a 'blue' tourism destination. Further, the Government recently adopted a new long-term vision 2033 and a new NDS 2019-2023 which became operational in November 2019. The two documents are very much aligned with each other, as well as with Seychelles Blue Economy Strategic Framework and Roadmap. The country's vast oceanic resources provide for potential knowledge generation and potential investments in the areas of renewable energy, aquaculture and bio-pharmaceuticals space. As a small island state, Seychelles' economic growth is heavily based on tourism and tuna-fishing. The country is leading calls for a more inclusive global development agenda which emphasizes the economic potential of the seas while protecting maritime resources. As security in the east coast of Africa improves, the Seychelles Government has embraced the development of a 'blue economy', using the Indian Ocean's resources for inclusive growth.²⁰ However, more technical capacity is needed to maximize the use of ocean and fisheries resources and commitment to sustainable development of such resources. In developing her marine resources, the Seychelles should maintain the highest standards of environmental protection. To this end, there is need for environmental protection, especially the preservation and expansion of marine and other protected areas. Seychelles has demonstrated its commitment to the blue growth agenda by initiating the implementation of the FAO Global Blue Growth Initiative. This initiative is composed of four key components, namely: (i) marine and inland capture fisheries; (ii) aquaculture; (iii) livelihoods and foods systems; and (iv) economic growth from ecosystem services. The Bank through a grant of UA 0.59 million is supporting the development of Seychelles Blue Economy MSMEs sector, but this is an area that require more support, especially as regards development of investment options/blue-economy bankable projects for financing by the Bank or other private sector actors.

Blue Economy Strategy

The government places strong emphasis on developing a "blue economy" which goes beyond the traditional focus on marine-based tourism and fishing. A Department of Blue Economy was created and placed within the portfolio of the Vice President's Office in 2016. Its mandate is to provide strategic direction and coordination for the implementation of the Blue Economy, within the framework of Seychelles' ongoing sustainable development. January 2018 Government adopted the Seychelles Blue Economy Strategic Framework and Roadmap: Charting the future 2018-2030. This promoted ocean based sustainable development, consistent with the Sustainable Development Agenda 2030, the Convention on Biological Diversity and the Paris Agreement on Climate Change, will be implemented around four key pillars:

- Economic diversification & resilience - to reduce economic vulnerability and reliance on a small number of sectors and to increase the % GDP derived from marine sectors.
- Shared prosperity – Creation of high value jobs and local investment opportunities;
- Food security and well-being;
- Integrity of habitats and ecosystem services, sustainable use, and climate resilience.

Four strategic priorities are defined:

Strategic Priority 1: Creating sustainable wealth

- Diversification of existing ocean-based sectors (fisheries, tourism, ports) focusing on value adding, value chains, quality not quantity; sustainability credentials and good practice;
- Exploring new and emerging sectors (mariculture, renewable energy, biotechnology, digital connectivity, trade) focusing on establishing the policy setting, feasibility and pilot projects.

Strategic priority 2: Sharing prosperity

- Ensuring food security and wellbeing focusing on improving local production systems and markets), reducing dependency on imports and promoting healthy lifestyles;
- Ensuring access to high quality education and professional training, new jobs and employment opportunities;
- Improving the business environment, encouraging local and international investment, innovation, small and medium enterprises (SME's) and a culture of entrepreneurship.

Strategic Priority 3: Securing healthy and productive oceans

- Ensuring ecosystem service accounting is built into economic measures such as GDP;
- Protecting marine & coastal assets, e.g. through marine protected areas (MPAs) and addressing ocean risks (e.g. marine pollution, climate and ocean acidification);
- Implementing blue economy/ocean climate resilience through mitigation (i.e. blue carbon, renewable energy) and adaptation strategies consistent with obligations under the United Nations Framework Convention on Climate Change (UNFCCC).

Strategic Priority 4: strengthening the enabling environment

This includes cross cutting actions without which the economic, social and environmental benefits of the blue economy would not be realised such as:

- Finalization of the Marine Spatial Plan of Seychelles' EEZ by 2020, which will help set the rules to apply for ocean-based development across maritime sectors;
- Developing research & development and innovation capability to inform responsible management of marine and coastal resources and to transform knowledge into development opportunities and productive activities (e.g. biotechnology);
- As a high-income country, financing the blue economy through diversification of funding opportunities, taking advantage of international private sector investors' appetite for investment in sustainability; and ensuring greater efficiency of revenue raising mechanisms;
- Incorporating blue economy/ocean risks in national marine security strategies and regional cooperation to address the impacts of illegal activities, resource degradation and improved capacity for monitoring, control and surveillance (MCS);
- Strengthening national partnerships between government, industry, civil society and regional partnerships to address issues of common interest;
- International advocacy and partnerships to attract technical and financial resources and keep island issues at the forefront of the global development and climate change agendas

Fisheries Sector

Overview of the Fisheries Sector

Seychelles has the largest Economic Exclusive Zone in Africa that is over 1.3 million km². Unlike volcanic archipelagos such as Mauritius or Cabo Verde, Seychelles have a relatively large continental shelf (54,000 km²) and therefore significant demersal and pelagic resources accessible and exploited by artisanal fleets in the inner and outer islands of the archipelago. However, the main fishery resource is tuna and associated species (swordfishes) whose stocks migrate throughout the southern Indian Ocean.

Traditionally, fishing has occupied an important place in the lives of the Seychellois people. Seychelles has one of the highest per capita consumption of fish with most recent figures standing at about 60 kg per annum. The local supply of fish comes mainly from the artisanal sub-sector and from by-catch of the longliners industrial vessels. About 1,200 to 1,500 full time and part time fishermen are involved in the artisanal fishery.

The fishing industry in Seychelles is a major contributor to the economic development of the country. The economic importance is derived from its role as a source of employment, contribution to production, food security and income generation, trade and foreign exchange generation, government revenue and most importantly, as a major source of animal protein.

It is estimated that the fishing sector, including ancillary activities, generates both directly and indirectly around 6,000 jobs, amounting to about 17% of total formal employment. In terms of income generation, the contribution of the fisheries sector to Gross Domestic Product is estimated between 8 to 20%.

In 2018²¹, domestic exports were valued at SCR 4600.7 million (eq. US\$ 336 million) f.o.b. This was 17.6% higher than in 2017. The value of exports of canned tuna increased by 9.2% from SCR 3493.8 million (US\$ 255 million) in 2017 to SCR 3816.9 million in 2018 (US\$ 279 million). The exports of fresh and frozen fish increased by 106.9% compared to 2017. Exports of fishmeal were valued at SCR 127.1 million in 2018 (US\$ 9 million) representing an increase of 10.3%. Exports of sea cucumber were valued at SCR 40.5 million (US\$ 3 million) representing a decrease of 7.9% compared to 2017.

Seychelles' fisheries sector can be subdivided into artisanal, recreational, semi-industrial, industrial fishery and mariculture.

Artisanal Fisheries: The Artisanal Fishery is the preserve of local fishermen operating small-motorized boats targeting mainly demersal resources (such as snappers, green job fish, groupers and capitaines), semi-demersal like (trevally) and pelagic species (sardines) found mostly on the Mahé and Amirantes plateau. The total annual landings for the artisanal fishery have remained rather constant for the last 20 years with approximately 4000 – 5000 metric tons (MT). Handline fishery accounts for more than 73% of total fish landings. Other fisheries include traps, gillnets, lobster fishery and also “foot fishers” targeting species such as octopus, crabs and shellfish.

Recreational Fishery: The sports fishery targeting large pelagic species (tuna, billfish, kingfish, etc.), mainly for tourists, has the potential for expansion in particular on the outlying islands with hotels. These islands have the prospects to develop this lucrative business on a much wider scale than for charter vessels based on Mahé. To date there are over 50 vessels engaged in the recreational fishery. There is a need, however, for the tourism department to market Seychelles as a big game destination to attract the necessary high class clients and also to improve the data collection from this fishery. The Seychelles Fishing Authority's (SFA's) initiative to place Fish Aggregating Devices on the Mahé Plateau and beyond should make a significant contribution in improving the catch rates of large pelagic species for the sport fishery.

Semi-Industrial Fishery: The semi-industrial fishery consists of small (14 to 23 meters) locally owned long liners targeting pelagic species (mainly tuna and swordfish) found outside the Mahé plateau but mostly within Seychelles' Exclusive Economic Zone (EEZ). The fishery started in the mid 1990's and now involves 13 vessels with an average crew of 5-6 per vessel. It is expected that in the next years, there will be a significant increase in semi-industrial catch due to additional long liners joining this sector financed by the Fisheries Development Fund. However, the fishery is now experiencing some difficulty in exporting due to a high level of mercury in swordfish. To date, the peak annual landing of the semi-industrial fleet has been approximately 500 MT.

Industrial Fishery: Industrial fishery is dominated by foreign fishing vessels targeting tuna and tuna-like species. The industrial purse seine fleet authorised to access the Seychelles EEZ typically includes up to 45-50 vessels, of which 27 are EU flagged (France, Spain and Italy), 12 from the Seychelles and up to 5 from Mauritius (operating under a Seychelles Mauritius fisheries agreement) and one or two from other nations. There was highly variable total of 130-150 industrial longline vessels drawing licences up to 2015. About 80 of these vessels are owned by Chinese and Taiwanese operators, and function under a non-published Agreement. Forty larger longline vessels were registered to the Seychelles flag.

Victoria port on the island of Mahé is a major hub for the regional fishery sector, receiving and transshipping catches, not just from the EEZ but other fishing zones as well and for EU and other foreign fleets. It hosts an important cannery processing about 80 000 MT per year of raw material (about one third of the West Indian Ocean purse seine tuna catch). Fishery products comprise 92% of the domestic visible exports (mostly canned tuna, but also tuna by-products. EU imports from Seychelles were valued at EUR 262 million (c.i.f.) in 2017.

Mariculture: Aquaculture production (black tiger prawns) was once a thriving industry but has stopped with the closure of the Coetivy prawn farm. Production of prawn peaked at 1,175 metric tons in 2004. There is one small farm engaged in the farming of oysters for Black Pearls and baby clams for the aquarium business on Praslin Island. Though several aquaculture projects have been discussed in Seychelles, only these two projects have reached a commercial stage so far. That is the case of the sea cucumber aquaculture that is quickly growing and reached 40 MT of dried product in 2018. The availability of land and fresh water resources being a limiting factor, any aquaculture project would have to be marine-based or more precisely mariculture. A comprehensive “Marine Aquaculture Development Study” (2015-2020) is being finalized. It is based on best management practices for the development of a sound aquaculture sector and it is expected that the aquaculture sector should contribute to a significant increase of fish production in the coming years.

Canned tuna production and export dominates the production of fish and fish products. Other processing activities include sea cucumber and shark fins drying for export and processing of fresh and frozen fish for export and sale on the local market.

Sector Governance

The Ministry launched a review of the fishery and aquaculture policy framework in 2018 with the adoption of the Seychelles National Aquaculture Policy. In early 2019, an intervention was launched entitled “Preparation of the Seychelles’ fisheries sector policy and strategy”, to update the previous fisheries policy of 2005. The project will involve drafting an updated policy framework, and stakeholder consultations, leading to adoption expected later in 2019.

The Seychelles Fishing Authority has already formulated its own Strategic Plan for the years 2018 – 2020 setting out its new role within the framework of the wider fisheries and aquaculture policy. The plan sets out the organization’s long-term vision, mission, core principles and values as well as the strategies it will be employing and priority actions that will be implemented. Four strategic goals are defined:

- Goal 1: Effective governance arrangements: Project SFA as the legal authority among various stakeholders through acceptance of responsibility for its decision and actions and reinforcing mechanisms for accountability and good governance.
- Goal 2: Institutional strengthening of SFA: Improve institutional infrastructure, build core competencies and strengthen the internal procedures of SFA to build and inspire human capacity for better service delivery.
- Goal 3: Ensure the sustainability of fisheries resources: Manage fisheries resources through ecosystem-based approaches and ensure that policies, legislations and infrastructure development are aligned towards achieving sustainability, taking into account climate change and global developments.
- Goal 4: Optimize the economic and social benefits of fisheries: Ensure that the fisheries sector continues to play a key role in the sustainable development of the country and the socio-economic well-being of the Seychellois nation.

Marine Spatial Plan

A central pillar for the sustainability of the blue growth policy is the implementation of the Seychelles Marine Spatial Planning process. This includes the designation of two extended Marine Protected Areas covering at this stage 15% of the EEZ (with a further 15% foreseen in the future) in addition to join area management plan with Mauritius around Mascareignes Plateau with the goal of applying new management tools and blue economy approaches concerning multi-level ocean governance, data management and shared jurisdiction responsibilities of the extended continental shelf.

Fisheries sector institutions

Fisheries are under the mandate of the recently created Ministry of Agriculture and Fisheries. The executive body responsible for implementing the policies set by the Ministry is the SFA, created in 1984. The aim of the SFA is to develop the fishing industry to its fullest potential and to safeguard the resource base for sustainable development. The SFA has a mandate for the management, planning, development, scientific and training functions, as well as regulatory functions. It works in close

collaboration with the Ministry of Environment, Natural Resources and Transport, the Coastguard, the Ports Authority, other Government institutions, nongovernmental organizations, as well as overseas partners. Stakeholder consultations are held on a regular basis regarding the development of the sector. The SFA presently employs over 100 people, which includes scientific and administrative personnel.

The main functions of the SFA are:

- To promote, organize and develop fishing industries and fisheries resources in Seychelles;
- To assist in the formulation of fisheries policies with respect to fishing development and fisheries resources;
- To conduct negotiations, engage in meetings, seminars or discussions with regard to fishing or fisheries and the establishment or operations of fishing industries, whether at a national or international level, on behalf of the Republic;
- To identify the manpower training requirements of Seychelles with regards to fishing and fishing industries.

Since its inception, the SFA has made remarkable advances, and to this day is the most credible fisheries management and research organization in the Western Indian Ocean. But SFA needs to be strengthened from marketing, research and development perspectives to allow further development and support the fishing industry adequately.

The other important stakeholder involved in the fisheries sector is a private body, the Fishing Boat Owner's Association (FBOA). The main function of FBOA is to create a pro-active dialogue with the government authorities to improve transparency and alleviate many of the existing constraints between SFA and the fishing community.

Other institutions concerned

- Ministry of Environment, Energy and Climate Change
- Seychelles Conservation and Adaptation Trust
- Seychelles Coast Guard
- Seychelles Ports Authority
- Seychelles Marine Academy
- the Blue Economy Council, established in October 2019 is composed of several Ministers, to provide leadership to strengthen Seychelles Ocean Governance mechanisms, as well as to enhance coordination among ministries, departments, agencies and other governmental bodies involved in the Blue Economy.
- the Blue Economy Multi-Stakeholders High Level Forum, also created in October 2019, will recommend policies and strategies to government and ensure implementation of commitments made. It will include members from the government, non-government organizations, civil society and the private sector.

Summary of issues/challenges/strengths/opportunities

The main **issues and challenges** are²²:

- Lack of updated and viable management plans in the domestic fishery to ensure sustainable management of the marine resources. The priority is to implement management plans based on a “bottom-up” (involving all relevant stakeholders) and an ecosystem approach;
- Difficulty in implementing efficient MCS (Monitoring, Control and Surveillance) programs in the fisheries sector due to lack of trained personnel, equipment (boats, engines etc.) and financial support;
- Limited involvement of stakeholders in the management and MCS of the fisheries resources;
- Lack of capacity (trained personnel) both at the institutional (SFA) and grass root level (Fishers Associations) as the number of qualified and motivated personnel in the fisheries/marine sector has decreased in recent years;
- High capital investment and operating costs relative to the low return on investment constrain the development of a national industrial fishery;

- Expansion of the fisheries sector into processing and aquaculture will require significant land resources, labor, energy and water;
- Increasingly higher operating costs for the artisanal fishing fleet with poor returns on investments appear likely to continue to grow in the future causing the local domestic fishery to face serious economic constraints;
- Existing port infrastructure for the industrial tuna fleet needs improvements as well as carrying out certain improvements in the port infrastructure for the artisanal fishing fleet, in particular at the district level (Anse Royale, Anse a la Mouche);
- . The fishery sector is extremely dependent on the main tuna resources at the SWIO scale. The status of overexploitation of the yellowfin tuna is confirmed year after year by the IOTC, which have considerable impact on the future of the can industry in the Seychelles.

Strengths. The tuna industry is already one of the two pillars of the Seychelles economy but there is still scope to increase the economic rent and social benefits from the fisheries sector, if the issues and challenges mentioned above are adequately addressed. There is also a very significant potential to develop marine aquaculture/mariculture considering the Seychelles vast EEZ and numerous islands. Such development should be cautiously planned, and as “green” as possible, to minimize impact on the marine environment. Proper space planning is also a prerequisite to ensure that mariculture development does not conflict with tourism which is the other major Seychelles industry and source of revenues.

Opportunities.

The country is leading international calls for a more inclusive global development agenda which emphasizes the economic potential of the seas while protecting maritime resources. Seychelles sees the blue economy as important for sustainable growth and it has spearheaded the idea of “Blue economy” during the last “International Conference on SIDS” which was held in Samoa in 2014 as well as the 2018 “Sustainable Blue Economy Conference” in Kenya. The key messages that emerged from these meeting were for the SIDS to improve the resilience of the oceans, their fragile ecosystems and maintain their unique aquatic biodiversity as a main enabler in ensuring their continued sustainable use and manage aquatic resources for future generations.

Seychelles has a truly integrated approach to its development through the adoption and creation of several institutions and legislative texts that contribute to the blue economy. This strategy includes, inter alia, the components of management and seafarer training, enhanced monitoring and surveillance through regional partnerships, comprehensive marine spatial planning, including in the joint area management program with Mauritius funded by GEF.

Seychelles actively participates in regional cooperation, at the level of the IOTC for the management of Indian Ocean tuna stocks, or in the fight against piracy and IUU fishing, since it hosts the regional centre for coordination of surveillance operations for the ESA-IO countries. Seychelles is also a leader of the **Fisheries Transparency Initiative** (FiTI) and has hosted the organization's secretariat since 2018.

Recommendations and Potential Bank Response

As mentioned above, further developments in the fisheries and aquaculture sectors should be considered in the context of an overall “Blue Economy” approach. Potential business opportunities could also be considered for investments in the tuna fishing industry to support an increase of the Seychellois stakeholder shares in the industry. Further developments in the fisheries and aquaculture sector should be considered in the context of an overall ecosystem approach.

Given the huge role of the Tuna canning and processing industry, supporting eco-certification and market access as well as a regional SADC approach to Port State Measures to reduce on IUU fisheries is critical. Exploring financial innovation beyond blue bonds (and SEYCAT) to seek novel financial tools towards biotechnology could be a catalyst for foreign direct investment and PPP arrangements especially with PITD. These efforts should complement the FAPA operation on Support to Blue

Economy MSMEs that was approved in September 2019 for an amount of UA 0.59 whose implementation is yet to commence.

A MIC grant to assist the Seychelles Fishing Authority in developing aquaculture value chains and improving institutional capacity towards the fisheries sector could also be considered by the Bank. In this regard, a study/TA on private sector development and competitiveness, productivity and value chains analysis in Tourism and Fisheries is included as one of the proposed interventions in the new CSP. This will lead to future lending to support aquatic food resources as specifically, in relation to aquaculture, the Seychelles Fishing Authority had received funds from NEPAD and conducted studies, notably the completion of the Mariculture Master Plan. The proposed interventions in this area will contribute to the implementation of the Bank's Ten-Year Strategy (TYS) pillar to assist regional member countries (RMCs) in their transition to Green Growth and the Blue Economy Flagship under Feed Africa.

A.15(b) Agriculture Sector

Agriculture: In Seychelles, the role of agriculture vis-à-vis the country's economic performance and growth is significantly different from most countries in continental Africa, where agriculture is among the key drivers of employment and national economic development, employing between 60% and 80% of the labour force. The plight of agriculture in the Seychelles is well articulated in the NFNSP, which explains that, following the collapse of the plantation economy, agriculture became stigmatized as an activity for the uneducated and poor. Most parents would not encourage their children to take up agriculture as a career. There is no preferential treatment for farmers to access finance, neither from the Development Bank of Seychelles (DBS) nor the commercial banks. High interest rates, input costs and risk make it difficult to attract investment to the sector. The 2008 policy on the liberalization of imports for meat and meat products struck a hard blow to the livestock sector and many producers were pushed out of business.

Several other challenges related to regulatory and the country's inherent topographic characteristics constrain the Agriculture sector from increasing its contribution to employment and GDP in the country including the following. i) There is low relative productivity than in other sectors while the cost of production for most agriculture outputs is high. All meats (pork, beef and chicken) and most of the vegetables (apart from tomatoes) produced locally are more expensive than similar imported products. Furthermore, there are claims that some imported food items could be highly subsidized in their countries of origin, giving them an unfair price advantage in Seychelles; ii) Land tenure issues also constrain investment in agriculture. Leases are for a minimum of 40 years, and they can be repealed because of non-performance; iii) changes in policy and institutional arrangement: As part of the reforms undertaken to address the 2008 balance of payment crisis, the Government took measures aimed at reducing public expenditure by realigning the public administration arrangements. Regarding the agriculture sector, the line ministry lost its mandates related to direct production, technical support and servicing activities. The sector ministry was restructured to focus on policy formulation and coordination. The agriculture portfolio was restructured under the Seychelles Agriculture Agency Act of 2009, and the Seychelles Agriculture Agency (SAA) was established to deliver services to the agriculture sector. The restructuring, however, did not affect the fisheries sub-sector, which continued to be led by the Seychelles Fishing Authority (SFA). Enhancing investment in the sector is therefore important from to at least ensure food security in the country and reduce over dependence on imported food. The perception of agriculture as income earner needs therefore to be remodelled to make it attractive to the youth. here is also a need to encourage micro-, small- and medium-sized enterprises (MSMEs) in the agriculture and food production sector through preferential loans and other financial instruments.

A.15(c) Transport

Seychelles has approximately 508 km of roads, out of which over 96% are surfaced. Roads interconnection is fairly good, but in some cases, roads are ageing and needs attention. The Road quality indicator for Seychelles (one of the components of the Global Competitiveness Index of the World Economic Forum (WEF) based on data from the WEF Executive Opinion Survey of business leaders in 144 countries) is relatively good, at 4.0 in 2019 (in a scale of 1=low to 7 high) compared with global average of 4.07. Port Victoria is the only port that can handle the import and export of goods for the country. The timely expansion of the port and airport to accommodate the increasing trading activities is critical for the economic growth and resilience of the country. Existing roadways connecting the port and Airport to the rest of the country are becoming more congested, while construction of additional roadways is difficult because of the mountainous terrain. It is recommended that the Government prepare a well-designed investment plan for the whole transport sector that considers the envisioned growth in demand for transportation services, and the current status of the sector. In this regard, it is important to ensure that a well-integrated Public transportation system will play a much more prominent role. Expansion of Port Victoria and of the airport has long been identified as major priority issue, although there are significant cost constraints, particularly given the current budgetary and debt issues related to the COVID 19 pandemic.

A.16 Seychelles Country Climate Fact Sheet

ABSTRACT

Contextual analysis. The climate of the Seychelles archipelago is strongly influenced by the ocean, mainly through (i) monsoonal wind shifts; (ii) changes in the position and intensity of the South Indian Ocean tropical anticyclone; (iii) seasonal migrations and changes in intensity of the complex inter-tropical troughs, and (iv) ocean currents and sea surface temperature patterns in the equatorial Indian Ocean. Climate change impacts in the country are manifested through strong winds, tsunamis, storm surges, extreme rainfall, flooding, droughts, land and rockslides, tropical cyclones and forest fires. Occurrence of these impact cost the Seychellois economy several million dollars in damages. The 2004 Indian Ocean tsunami and the tropical cyclone “Felling” of 2013, for example, resulted in massive flooding and landslides which caused the Seychellois economy US\$ 8.4 million in damages.

Summary of key issues. Seychelles is economically, culturally and environmentally vulnerable to the potential effects of climate change and associated extreme events. It is almost entirely dependent on surface water runoff for both agriculture and potable water consumption, and therefore is highly vulnerable to future changes in the intensity and distribution of rainfall. Rising sea levels will result in displacement of a large proportion of the population as well as disappearance of low-lying islands and cays. Increased coral bleaching due to increasing temperature threaten marine resources on which tourism – the backbone of the economy – depends.

Recommendations and Potential Bank Response. The Seychelles Government has embraced the development of the 'Blue Economy', using the Indian Ocean's resources for inclusive and sustainable growth. However, more technical capacity is needed to maximize the use of resources and how they can be developed. Since the fisheries sector constitutes the second major pillar of the economy, there is a need for close monitoring of the main commercial fish stocks. The Bank has assisted the Seychelles Fishing Authority (SFA) with a concept note for a MIC grant on how to construct the System of Economic Accounts for Fisheries (SEAF). In addition, the Bank, by using its role as convener, connector and catalyst, will encourage private investment and PPPs through the CSP's component that enables the private sector environment.

As the country has identified the energy and waste sectors as key areas for reducing emissions, Bank's support and investment in renewable energy generation (wind and solar) and energy efficiency improvements as well as solid waste management (waste-to-energy) would support Seychelles in meeting her mitigation commitments. Further, support in operationalization of blue economy and natural resource conservation and management would contribute to building Seychelles resilience to climate change. The Bank could play a role in helping the Seychelles in mobilizing climate finance for implementation of adaptation and mitigation measures, and in building capacity of the country in accessing international climate finance.

I. Contextual analysis

General climate context of the country

Seychelles consists of over 115 islands, of which some 40 are granitic and the rest coral with a total human population of about 95,000²³. The four main inhabited granitic islands in order of size are Mahe, Praslin, Silhouette and La Digue, and vary in age from some 650 to 750 million years old. All the islands collectively result in a coastline of about 491 km. The majority of the islands are surrounded by coral reefs with an area of about 1,690 km², many of which were affected by a mass coral bleaching event in 1998, which was caused by abnormally warm ocean currents. More than 90 percent of the population and all economic activities are located on the narrow coastal plateau of Mahe Island, at an average elevation of just 2m above sea level. Due to steep plateau terrain and lack of suitable land for locating infrastructure, extensive areas have been reclaimed on the east coast of Mahe Island, the largest inhabited island in the group.²⁴

Observed and projected climate trends and risks

The climate of the Seychelles archipelago is strongly influenced by the ocean, mainly through (i) monsoonal wind shifts; (ii) changes in the position and intensity of the South Indian Ocean tropical anticyclone; (iii) seasonal migrations and changes in intensity of the complex inter-tropical troughs; (iv) and ocean currents and sea surface temperature patterns in the equatorial Indian Ocean. Studies have shown that there has been substantial climate variability over the past hundred years in Seychelles. Observations show that the Seychelles warmed by 0.33°C between 1977 and 2007 while annual rainfall anomaly trends on Mahe Island for the period 1972 to 2006 were upward by 13.7 mm per year, indicating an increasingly wetter climate. Individual GCM²⁵ output shows a maximum increase in rainfall of +5.9 % (+19 mm) for the year 2025; +9.3 % (+25.4 mm) for the year 2050 and +12.4 % (+38.6 mm) for the year 2100.²⁶ GCM outputs predicts warming of +0.6, +1.1 and +2.1°C respectively for the years 2025, 2050 and 2100.²⁷ Given the observed and projected climatic changes, the main climate change impacts in the Seychelles are (a) changes in rainfall patterns leading to flooding, landslides and extended periods of drought; (b) increase in sea temperatures, resulting in further coral bleaching; (c) changes in acidity and damage to marine ecosystems; (d) increases in storms and storm surges; and (e) sea level rise.

Trends in extreme weather events

In recent years, the Seychelles has suffered several extreme climate events, namely cyclones, droughts and floods. The 2002–2003 South-West Indian Ocean cyclone season was one of the longest lasting, and one of the most active cyclone seasons in the South-West Indian Ocean. The season began early when a tropical storm struck Seychelles in September, becoming the most damaging storm in 50 years. Although tropical cyclone trajectories do not always come close to the islands located close to the equator, there have been a few incursions. It is also important to note that extreme rainfall and wave swells resulting from Indian Ocean tropical cyclones do affect Seychelles²⁸. In 2010 the Seychelles suffered its worst drought in decades, which was followed by severe flooding. This was preceded by heavy rainfall during 1997-98 El Nino and 1998-2000 La Nina events, which caused widespread flooding with significant losses to the economy. The government reported that fisheries accounted for 45 percent of El Nino/La Nina losses, followed by agriculture (28%) and tourism. The 2004 Indian Ocean tsunami and the tropical cyclone ‘Felling’ of 2013 also resulted in massive flooding and landslides, which caused the Seychellois economy US\$ 8.4 million in damages²⁹. Overall, during the period 1980–2010 Seychelles was affected by four natural disasters which affected a total of 18,328 people³⁰. According to the INFORM country risk profiles of 191 countries Seychelles ranks 74th on vulnerability index and 140th on hazard and coping capacity. These extreme climate events are expected to increase and worsen in the coming decades.

Sector Governance

Seychelles National climate change strategy and Intended Nationally Determined Contribution

The Seychelles National Climate Change Strategy (SNCCS), approved in 2009, aims at supporting sustainable development through mitigation and adaptation policies to climate change. The activities of the Government on adaptation strategies are enshrined in both the Seychelles Sustainable Development Strategy 2012-2020 and the Intended Nationally Determined Contribution. Five strategic objectives have been proposed to support Seychelles towards adaptation and developing resilience to climate change and its effects: (i) To advance Seychelles understanding of climate change, its impacts and appropriate responses; (ii) To put in place measures to adapt, build resilience and minimize Seychelles vulnerability to the impacts of climate change; (iii) To achieve sustainable energy security which will also contribute to a small reduction of global greenhouse gas emissions; (iv) To mainstream climate change considerations into national policies, strategies and plans; (v) To build capacity and social empowerment at all levels to adequately respond to climate change. These adaptation goals have been integrated in Seychelles National Development Strategy (2019-2023).

In addition to the SNCCS, Seychelles has publicly outlined what post-2020 climate mitigation actions it intends to undertake in her INDC. In the INDC, the Republic of Seychelles commits to reduce gross economy-wide GHG emissions by 122.5 ktCO₂e by 2015 and 188 ktCO₂e by 2030. These are to be achieved in the energy and waste sectors. In the energy sector measures include switching to renewable

energy, improving energy efficiency, and bringing in electric cars. In waste sector, measures include improved solid waste management and waste-to-energy programs. These mitigation measures are deemed sufficient as the identified sectors are responsible for 95% of the country's total GHG emissions. The total cost of implementing the mitigation measures is estimated at US\$ 309 million.

Institutional framework and actors

Seychelles ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 1992, and signed the Kyoto protocol in 1998. The Seychelles National Climate Change Committee (SNCCC) and the NCCC Secretariat was set up in 1992 to provide an overall co-ordination of the development and implementation of the national climate program, and to act as an interface between national climate program and the government. The Seychelles Meteorological Services established a climate center in 1998, with two experts in climatology. The Seychelles Meteorological Services is also responsible for the management of the country's network of meteorological stations, the tide and sea level monitoring stations as well as the ozone monitoring station. The Department of Disaster and Risk Reduction (DRDM) is responsible for disaster preparedness and awareness on climate change and other extreme events. The Department of Environment is responsible for water resource management, biodiversity, waste management, environmental assessment approval, etc.

The Environment Protection Act (EPA) of 1994 is the main legal framework for the managing of the environment in Seychelles and tackles issues such as coastal zone management, ozone, and pollution. The EPA is currently being revised with the intention to make it more comprehensive with greater emphasis on climate change and social impact. A number of NGOs are involved indirectly, either through advocacy, research projects or adaption initiatives. The role of the private sector is still limited but there is a lot of interest especially in the area of energy mitigation. Also in the tourism sector, more establishments are moving towards clean tourism and some also contribute to the beach monitoring plan.

II. Summary of issues/challenges/strengths/opportunities

Issues/challenges: Country vulnerability

Seychelles is economically, culturally and environmentally vulnerable to the potential effects of climate change and associated extreme events. Vulnerability characteristics, such as concentration of development on narrow coastal zones, non-resilient populations and ecosystems, make Seychelles extremely sensitive to climate change and its associated impacts.³¹ In many areas, climate change will place a major new source of stress on water management systems unable to cope with even existing climate variability at a time when these systems must respond to the increasing demands of a growing population. Seychelles is almost entirely dependent on surface water runoff for both agriculture and potable consumption, and therefore is highly vulnerable to future changes in distribution of rainfall. Sea level rise and storm surges will have significant impacts on the coastal population, which accounts for approximately 85% of human settlement and infrastructure location in Seychelles. Rising sea levels will result in the displacement of a large proportion of the population as well as the disappearance of low-lying islands and cays. Storm surges will cause damaging flood conditions in coastal and low-lying areas, likely resulting in severe loss of lives and livelihoods. Changes in hydrological cycles affecting rainfall pattern, evaporation, river runoff, ground-water recharge and water quality will have significant impacts on water resources. Such impacts are already inundating low-lying lands, eroding wetlands and beaches, exacerbating storm surges and flooding, and increasing the salinity of coastal inlets and aquifers, thus threatening freshwater resources and valuable coastal agricultural land.³²

Strengths: Country mitigation policy

A GHG inventory was undertaken in 2009³³ which indicated that the national total of CO₂ emissions in 2000 was 273,146 tons, of which 95 % came from the energy sectors and 5 % were from the forestry sector. 57 % of the CO₂ emissions were from public electricity production, 25 % from the transport sector (19 % for land transport), 11 % from commercial and institutional sector, 3 % from the manufacturing and construction sector, 3% from the residential sector, and 1 % from the other sectors.³⁴ GHG emission from the energy supply sector is mainly from the combustion of heavy fuel oil and gas oil to produce

electricity for all sectors of the economy and the general public. Seychelles is heavily dependent on the importation of petroleum products to meet the national energy needs. As a result of the ongoing and planned development projects, it is expected that the energy need of the country will continue to rise.

Nationally it has been recognized that there is the need to conserve energy, reduce the consumption of petroleum products, and accelerate the use of renewable energy technology. A new Energy Act has been approved and the legislation pertaining to the Energy Commission has been updated. These instruments allow independent power producers to produce and sell renewable energy to the national grid. This instrument has been successful in attracting a number of auto-producers who use mainly solar power to generate energy. Furthermore, the government will make relevant investments to create the enabling environment for development of renewable energy, develop legislative and institutional framework, and set up adequate fiscal and financial incentives to stimulate similar investments by the business community and the population. The main issues inhibiting effective mitigation measures in Seychelles include the lack of: (i) A clear policy and legal framework for the introduction of alternative energy technologies; (ii) Access to appropriate and cost-effective technologies and; (iii) Weak implementation of energy conservation measures and awareness.³⁵

Opportunities: Country adaptation policy

Adaptation to climate change in Seychelles is linked to the ability to implement actions through existing institutions as well as solutions on the ground. Seychelles has a number of impediments to successful implementation of adaptation activities. These impediments relate to: (i) The effectiveness of government action and intervention; (ii) The lack of in-country capacity to tackle the issue of climate change and; (iii) Inadequate resources to implement climate change adaptation. Seychelles has identified a number of key objectives including policy measures that will help the archipelago adapt to climate change through the NCCS. The document provides a good indication of the planned adaption projects that Seychelles would like to undertake, however, the implementation of these actions would require assistance from international funders. The following table presents the proposed adaption projects and programs in Seychelles National Climate Change Strategy:

Objective		Examples of possible adaption actions	Priority Sector(s)
1	To advance understanding of climate change, its impact, and appropriate responses	Adaption options include research and monitoring; the development of higher resolution models to understand the impacts of climate change on small islands; closing of research gaps in key sectors, including health, coastal areas, agriculture and marine fisheries; establishment of a national research council; and capacity building of existing institutions.	Mutli-sectoral
2	To put in place measures to adapt, build resilience, and minimize vulnerability to the impacts of climate change	Creation of inter-sectoral task force to coordinate effective implementation of actions and identify key stakeholders and synergies. The following adaption measures are proposed: identify priorities for adaption in critical sectors; assess and improve ongoing management activities and contributions to adaption; and implementation of adaption activities including adaption at community level, alternative coastal design, nationwide rain water harvesting evaluation of new plant varieties, etc.	Multi-sectoral
3	To mainstream climate change (CC) considerations into national policies, strategies and plans	Addressing institutional learning needs, including the identification and review of main institutions involved in responding CC and raising awareness of the likely impact of CC; incorporating climate risk assessment and response into government; and the incorporation of climate risk assessment into the private sector, including the adaption of guidelines and codes.	Government
4	To build capacity and social	Developing climate change education and curriculum within the country; implementing climate change	Civil society

empowerment at all levels to adequately respond to climate change	awareness at all levels, including within government and the private sector, and integrating CC into all sectoral policies and strategies, etc.	
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Ref: URL: http://www.preventionweb.net/files/25781_seychelles.pdf

Seychelles recently signed a landmark debt buyback agreement with Paris Club to combine marine conservation and liability management objectives through innovative structures. Seychelles intends to exchange a portion of its debt in return for financing action to mitigate against climate change. This means that about US\$ 30m of the debt will be transferred in terms of a fund for the protection and development of its marine space.

III. Recommendations and Potential Bank Response

Blue Economy - As a small developing island state, Seychelles' economic growth is heavily based on tourism and tuna-fishing. The country is leading calls for a more inclusive global development agenda which emphasizes the economic potential of the seas while protecting maritime resources. As security in the east coast of Africa improves, the Seychelles Government has embraced the development of a 'blue economy', using the Indian Ocean's resources for inclusive growth.³⁶ However, more technical capacity is needed to maximize the use of ocean and fisheries resources and commitment to sustainable development of such resources. In developing her marine resources, the Seychelles should maintain the highest standards of environmental protection. To this end, there is need to support the Seychelles in environmental protection, especially the preservation and expansion of marine and other protected areas. Seychelles has demonstrated its commitment to the blue growth agenda by initiating the implementation of the FAO Global Blue Growth Initiative. This initiative is composed of four key components, namely: (i) marine and inland capture fisheries; (ii) aquaculture; (iii) livelihoods and foods systems; and (iv) economic growth from ecosystem services. A specific MIC grant to assist Seychelles in the implementation of this initiative was included in the 2016-2020 CSP. The Bank should support strengthening and development of blue economy programs in the Seychelles. A first step towards this end is for the Bank to support development of investment options/ blue-economy bankable projects for inclusion in either her lending program or in the pipeline of other (private) actors.

Fisheries - The fisheries sector constitutes the second major pillar of the economy and contributes significantly to food security, thus implying a significant level of reliance and vulnerability to climate change. For this reason, there is a need for close monitoring of the main commercial fish stocks to identify, in particular, migration patterns and their consequence in terms of resources accessibility. As a response to gaps in the fisheries sector, the Bank has assisted the Seychelles Fishing Authority (SFA) with a concept note for a MIC grant to support the system of economic accounts for Fisheries (SEAF). In addition to this, there may be scope for the private sector to support investments in the fisheries sector. The Bank, using its role as convener, connector and catalyst, will encourage private investment and PPPs through the private sector enabling environment component.

Energy - The country's current goal is to receive at least 15% of its energy from renewable energy sources by 2030. However, a number of barriers impact on the ability of Seychelles to transfer to a clean energy framework. These barriers include the availability of such technologies at affordable prices and lack of national legislation. The capacity to transfer such technologies, including support infrastructure is also lacking in Seychelles.³⁷ The Bank should therefore encourage private sector investments and PPP schemes through the private sector enabling environment component. The Bank could also consider direct support to the government in development of electricity generation from renewables, principally wind and solar, and waste-to-energy. The country, also aims to develop liquefied natural gas power plants to replace HFO, and this is an area where the Bank could support. A selection of renewable energy programs should be included in the CSP.

Water - Water supply in Seychelles is primarily from rivers, combined with groundwater extraction and desalination plants in some locations. Seychelles will face serious water shortages in the near future; primarily due to a lack of adequate resources to invest in appropriate reservoirs to meet the growing

demand. The Bank will support this sector through the Mahe Sustainable Water Augmentation Project which is being carried over from the previous CSP 2011 – 2015. In addition to this, the Bank could consider supporting the GoS to seek funding for undertaking a technical study on water reservoir capacity and needs assessment.

Institutional Capacity Support – Concerning Seychelles coping capacity, the Bank could consider supporting capacity building initiatives with a focus on climate change adaption, more specifically addressing identified constraints such as (i) the ability of government to develop and implement concrete adaption actions; (ii) availability of adequate human capacity, and (iii) the financial capacity to implement and sustain the proposed adaptation options. In a related area, the Bank will support the MEECC to submit a proposal to the ClimDev Fund for technical assistance to develop in-house scientific capabilities. This would be undertaken in the context of developing scientific capabilities regarding the network of meteorological stations, data collection, interpretation and climate information services to aid in early warning and disaster preparedness. Additionally, the Bank could play a role in helping the Seychelles in mobilizing international climate funds for implementation of mitigation and adaptation measures.

A.17 Seychelles CSP Selectivity Criteria

The CSP 2021-25 applied a three-pronged approach in ensuring selectivity. These are: (i) thematic selectivity; (ii) sector selectivity; and (iii) rigorous selection of operations for the pipeline by setting clearly defined criteria in each step.

i) Thematic selectivity: under thematic resilience, two criteria were applied namely i) Economic resilience, where dialogue and consultations as well as proposed operations assessed in terms of their contribution to supporting and facilitating the country's economic resilience to external economic shocks thereby supporting economic diversification (both in terms of economic structure and access to wider markets for the country's main exports apart from Europe and the Middle East), and enhanced economic transformation; and ii) Environmental resilience, where dialogue and operations were given priority in terms of their contribution to lowering the country's vulnerability to environmental shocks and climate change effects as a result of its location as a small island economy. Thus, the CSP will not cover political and social resilience

ii) Sector Selectivity: To ensure greater focus and high impact, the CSP dialogues and operations were focused around two selected sectors: Energy sector and Sanitation Sector. These sectors have been identified based on the Bank's prior engagements including consultative assessments by sector experts, and Bank comparative advantages. In addition, complementary considerations of Cross-cutting themes were applied in each sector, notably climate change, private actors' involvement, human and institutional capacity development, gender empowerment, digitalization of the economy and sustainable and high value addition use of the country's blue economy.

iii) Operational selectivity: While prioritizing and selecting the pipeline operations, the following key criteria were used: i) Alignment to country and Bank's strategic and operational priorities; ii) Alignment to the Bank's relevant sector/thematic operations strategy; iii) Bank's performance in the area the operations belong to iv) Operations and perspectives for co-financing and collaboration with other DPs; v) Potential to ensure high impact on the ground and to address country's specific challenges as identified by the CDN, other knowledge products and consultations with stakeholders; and vi) Availability of feasibility study that indicate readiness of an operation to take off.

A.18 Seychelles Country Financing Parameters

1. Overview and Introduction: The Seychelles Country Financing Parameter (CFP) Note provides an assessment and provides proposal regarding the comprehensive framework of cost sharing arrangements between the African Development Bank Group (hereafter the “Bank”) on the one hand, and the Government of Seychelles (GoS) on the other hand, as per the Bank’s policy on expenditure eligibility. The main objective of this CFP Note is to objectively assess the government’s capacity to pay for the proposed counterpart funds in Bank financed projects and present options for flexibility in the application of the policy particularly given the low fiscal space faced by the country. The Note specifically looks at the extent to which government counterpart funds, recurrent costs, local costs, taxes and duties, and other provisional expenditures related to Bank financed infrastructural projects in Seychelles can be covered by the Bank itself. It shows that given the low fiscal space the country had over the last few years as a result of its commitment to reduce debt to less than 50 percent of GDP by 2021, which now had to be pushed forward further forward due to the increased debt levels owing to the extra expenditures and low revenues due to the COVID 19 pandemic. The information note on counterpart funding and recurrent costs that was discussed by the Board in April 2016 clearly stipulates that “CFPs would be prepared preferably as part of preparing the following generation of Country Strategy Papers, unless changes in country circumstances warrant earlier preparation”. These parameters, which themselves depend on several factors such as the macroeconomic situation of a country, its development needs, and its fiduciary environment, establish the overall framework for Bank Group financing of public sector investment projects in the country. The preparation of this CFP note is therefore timely as it accompanies a new CSP document that considers the potential short to medium-term socio-economic impacts of the COVID-19 pandemic with serious implications on the country’s fiscal space and debt situations.

2. Economic Developments in Seychelles. Supported by its Development Partners, including the African Development Bank Group, Seychelles successfully revived its economy after the 2008 global financial crisis when it defaulted on its public debt. The country has made impressive economic progress over the past two decades, with the country’s GNI per capita increasing from US\$ 2,080 in 1980 to US\$ 13,710 in 2015, thereby reaching high-income status. By 2018 the country GNI per capita reached US\$ 19,276, ranking Seychelles among the highest in Sub-Saharan Africa. Economic growth has generally been robust in recent years, but with COVID-19 pandemic, as a tourist dependent economy, maintaining such a performance is likely to be a challenge in the short to medium terms. GDP growth averaged 5.6% during 2011-15, and 4.2% over the 2016-2019 period. But this trend is being completely reversed in the short term due to the COVID-19 pandemic. The medium-term growth outlook is still positive but is also projected to be adversely impacted by the pandemic. The main transmission channels through which the pandemic could affect Seychelles’ economy are a decline in tourism activity, exports, and foreign direct investments. It is projected that there will be a 64% drop in tourist arrivals in 2020 and this will adversely impact the economy, since about 25% of Seychelles’ GDP directly relate to tourism sector. According to the AfDB’s 2020 African Economic Outlook, GDP is projected to sharply contract by -11.6% in 2020 – far below the pre-COVID-19 projection of +3.3% – but is expected to rebound in 2021 reaching +7.1% in 2021.

3. Fiscal developments: Seychelles has also maintained a strong fiscal discipline since the 2008 global financial crisis and successfully managed its debt reduction strategy: Over the 2016-2019 period the country achieved an overall fiscal surplus of between 0.2% and 0.9% of GDP. But owing to the COVID-19 pandemic, the 2020 projections point to an overall fiscal deficit of -13.8% of GDP (baseline case) or -15.2% of GDP (worst case), compared to initial projection of -0.2% of GDP. Government projects a similar worst-case scenario with GDP contraction of at least -10% in 2020, and a smaller contraction in output of -7.7%. Domestic revenues have drastically fallen while expenditures have increased due to government’s fiscal expansion programs put in place to protect vulnerable people and private businesses affected by the pandemic. Government has projected a fiscal primary deficit of -14.0% for 2020 compared to the original budget estimate of a surplus of 2.5% of GDP, whereas the Bank had projected a marginal

fiscal deficit of -0.2% of GDP in January 2020, that has been revised downwards to a pessimistic projection of -15.2% of GDP in March 2020 (see table below). Current account deficit will continue to widen. The twin deficits will undermine the country's debt repayment capacity.

4. Debt management and sustainability were also on track over the last decades: The pre-COVID 19 policy target was for public-debt-to-GDP ratio of 50% of GDP by 2021, and the authorities were well on track to achieve this had it not been for the adverse impacts of the pandemic. In deed the country has explicitly indicated that it has low fiscal space to borrow due to its commitment to meet its debt reduction target. However, in response to the pandemic, the Government, issued a revised 2020 budget amendment bill on 7 April 2020, showing a primary fiscal deficit of -14% which will lead to an increase in the public debt. These estimates are in line with the projections of a 24% reduction in tax collection leading to a tax-to-GDP ratio of 27%, compared to an average of 32% over the past five years. Specifically, the Government has committed approximately US\$ 70 million to guarantee salary payment of all employees until June 2020, extended to December 2020 for Seychellois employees only, and corporate social responsibility tax, tourism marketing tax and business tax due for April, May and June have been postponed to September 2020. These plus the health costs of the COVID-19 pandemic will increase Government spending to 48.5% of GDP in 2020, from the original 40.2%.

5. Government also took several Policy measures to reduce the socio-economic impact of COVID-19 that further constrain its fiscal space. These measures include the following: On 11 April, the President assented to the Appropriation Act 2020 of the Revised 2020 Budget which is SR1.2 billion (equivalent to US\$ 67.4 million) higher than the earlier approved budget, taking into consideration planned responses such as an allocation of SCR1,090 million (equivalent to US\$ 61.2 million) to cover 3-6 months' salary guarantee for 37,409 private sector employees; about SCR30 million (equivalent to US\$ 1.74 million) in the budget for the Social Protection Agency to assist vulnerable individuals and workers in the informal sector; an additional sum of SCR10 million (equivalent to US\$ 0.56 million) for the Unemployment Relief Scheme; a special allowance for all health workers on the frontline of the pandemic and staff in immigration and customs at the port and airport. These in turn affect the fiscal space of the country further, and will also lower its debt position.

6. Recent assessments of the country's debt position indicated that it is sustainable and improving. A event joint IMF/WB Debt Sustainability Analyses (DSA) of December 2019 indicated that the net present value of Seychelles' public debt stood at 60% of GDP at end-2018, compared to 70% in July 2015, but was projected to decline to below 50% of GDP by end-2022 if the authorities continued to maintain annual primary fiscal surpluses at 2.5% of GDP. These plans were suspended through the April 2020 budget amendment that opened the fiscal space to support borrowing to mitigate the adverse effects of COVID-19 pandemic. Measures introduced in the budget amendment include issuance of a domestic bond and drawing from crisis response budget support facilities of the Bank, the World Bank, and the IMF. As a result, the Government has revised its end-2020 debt-to-GDP ratio target to 85.1%.

7. Further flexibility is therefore important given the country's macro-fiscal management history, and the additional support it needs due to the pandemic. The assessments in the preceding paragraphs thus show that the country has been performing well in its macroeconomic management policy and implementation, including a serious commitment to reduce its debt. It had achieved robust growth performance and good fiscal discipline. However, given its tourism dependent economic structure, the COVID 19 pandemic has brought severe challenges, while at the same time increasing its debt level and reducing its ability to borrow further. With its historical positive achievements in its policy reforms and implementation to date, the country will be able to be back on track and resume robust growth. However, it needs continued support from its Development partners to shield its economic and social gains from the pandemic's impacts. Accordingly, the Bank approved a Crisis Response ` of US\$ 10m on 22 June 2020. On May 8, the IMF approved US \$31.2 million under the Rapid Financing Instrument; while on 25 June, the WB approved a loan of US\$ 15 million Development Policy Financing. Further support will be needed to sustain growth and economic management further in the medium term. One way of continued support from the African Development Bank in this regard should be introducing more flexibility in terms of project financing to the country, and seeking opportunities for private sector financing, in line with the new CSP approach.

8 The flexibility is also timely as it will help in the processing and approval of infrastructure operations planned over the next CSP (2021-25) cycle and beyond, as the government may not have the required minimum counterpart financing because of the pandemic's severe effect on Tourism, which is the mainstay of the economy. The flexibility will also help reduce project start-up delays, facilitate post-approval project implementation and maximize development impact of Bank financed operations in the country. Preparation of the CFP Note is informed by recent experiences in investment operations financed by the Bank in Seychelles, dynamics of the country's fiscal position, particularly considering the new reality of COVID-19 pandemic and its implications on the country's medium-term outlook, against the country's emerging development needs as evidenced by lessons learned to date and recent dialogue and consultations with stakeholders including government officials. The CFP Note finally recommends adjustment of the Bank's eligible financing in Seychelles; (i) up to 95% of the total project cost on the ADB Sovereign window, and if necessary, on a case by case basis, if there is a strong justification, up to 100%; and (ii) up to 100% of total project or program costs for Technical Assistance (TAs), Capacity Building projects and studies.

9. Eligible Expenditures: The Seychelles CFP Notes focus on 5 major groups of expenditures, which normally are either not eligible or eligible under certain conditions: These include counterpart funding, taxes and duties, local currency costs, recurrent costs and provisional expenditures of infrastructure projects.

a. Counterpart Funding

10. As the only high income country in Africa, and as an ADB country, Seychelles contribution to the Bank funded development projects and studies follows the Bank's principle for ADB countries which state that the government counterpart funding, on a case-by-case basis, should not be less than **50%** of total project or program costs and not less than **10%** of the total cost of studies and Technical Assistance operations. Given Seychelles' development needs to sustain growth, and government's constrained fiscal space discussed in the preceding sections, development partners' financial support remains an important source of development financing for the country.

11. The government's counterpart contribution has generally been low. Out of the five (5) projects in Seychelles approved by the Board and financed through ADB Sovereign financing between 2015 when Seychelles achieved a high-income status and July 2020, only two (namely SEYCHELLES – MAHE SUSTAINABLE WATER AUGMENTATION PROJECT, with a total cost of 25995400 and PROJECT FOR STRENGTHENING FINANCIAL MARKETS, with a total cost of 2225758) had a counterpart funding from the government with contributions at 15% and 19% respectively). The government contributed only a total of US\$ 4,421,158 out of a total of US\$ 27,100,000 (only 16%) for the two operations. The other operation approved during the same period that has a counterpart funding agreed on is the SEYCHELLES -SUPPORT TO BLUE ECONOMY MSMES VALUE CHAIN (Technical Assistance) approved in 2019, with implementation agreements signed between the AfDB and the Government in May 2020). The project is financed by the FAPA Trust fund. – with a total project cost of US\$ 1 million (out of which US\$ 0.2 million is a counterpart funding from the Government). With the new COVID reality, however, it may be difficult for the government to meet even such low levels of counterpart funding due to the low fiscal space.

12. The Bank should therefore consider increasing flexibility of its project financing in Seychelles to help the country meet its development financing needs in a new challenging environment. This CFPs Note proposes that the Bank may consider; (i) financing up to **95%** of the project cost on the ADB Sovereign window, but on a case by case basis go to 100%; and (ii) up to 100% for both TA programs and studies. Raising the Bank's ADB financing to 95% and up to 100% on a case by case basis will reduce the disincentive of the government to look for financing from its Development partners and reduce budgetary pressure to continue with its social support to the citizens, particularly following the adverse impacts of COVID-19 discussed above. This will also be complemented by seeking opportunities for financing from private sector actors and the Bank's NSO window. The Bank will continue its dialogue with the authorities on the importance of counterpart funding to promote national ownership of Bank

financed projects in the country, and also will strive for co-financing or strategic partnerships with other DPS for an enhanced impact and cost effectiveness of its operations. The Bank has already established a strong network of partners working on Seychelles and will leverage on these partnerships. Bank team has already consultation meetings and exchange of information with Development partners including the World Bank Group, IMF, UNDP, WHO, and bilateral donors to explore areas of common interest and these efforts will be scaled up during preparation and implementation of funded on the new CSP.

b. Taxes and Duties

13. The taxation system in Seychelles is made of up of the following four main taxes: i) the corporate tax: which is applied at various rates ranging between 0% and 33%; ii) the personal income tax: which has a standard rate of 16% and it applies to employees and other individuals; iii) the value added tax (introduced in 2013 to replace the Good and Services tax) which, using the principles for the VAT in other jurisdictions worldwide has a standard rate of 15%; iv) other taxes that include the withholding tax on dividends, interest or royalties.

14. However, the COVID-19 pandemic is expected to affect tax revenue collection from all types and sources due to the predicted economic recession. According to the amended budget for 2020, the Government expects to collect only SCR 5,903,742,000 (US\$ 331.3 million) in taxes instead of the SCR 7,729,429,000 (US\$ 433.8 million) which had been predicted for 2020, and thus lower by 25 percent of the original projection. The authorities expect their greatest revenue loss to be in VAT, with a reduction of SCR 944 million and a reduction of SCR355 million in business tax (respectively equivalent to US\$ 53 million and US\$ 20 million). The authorities also predicting a reduction in other taxes including Excise Tax, Income Tax, Custom Duties, Corporate Social Responsibility tax, and Tourism Marketing Tax. Total tax collection in 2020 represents a 27 % contribution to the GDP, compared to the 32% average during the past five years.

15. Therefore, given the declining projected tax collection and the current low tax/GDP ratio than previous years, the Bank Group should implement its *Policy on Expenditure Eligible for Bank Group Financing*, which provides for financing expenditures related applicable taxes and duties on a case-by-case basis. In Seychelles, taxes are considered as judicious and do not constitute a very high proportion of the total project costs. Moreover, taxes and duties are not usually directed at the Bank-financed projects, activities or expenses except VAT as projects are exempted from import duties and taxes. Inclusion of VAT in Bank Group financed project expenditures will therefore support the government improve its public revenue mobilization and tax collection outcomes thereby enhancing its capacity to finance other critically needed social sector projects including social protection.

c. Recurrent costs

16. The eligibility of recurrent costs, as established by the *Policy on Expenditure Eligible for Bank Group Financing* will be maintained at 100%. The Policy on eligible expenditures clearly specifies that the eligibility of recurrent costs, and prescribes that the Bank Group should be able to finance the recurrent costs of income-generating and non-income generating projects, up to 100%, on a case-by-case basis. It also prescribes that these costs can be financed if it is demonstrated that they are: (i) an integral part of the project; (ii) necessary for achieving project development objectives; and (iii) productive in the specific project financed. The percentage of financing to be borne by the Bank Group depends on the country's financial situation (especially the country's commitment and ability to provide continued financing for recurrent expenditures after Bank financing is completed), or on the financial situation of the project management entity or entities for income-generating projects. However, the Bank will continue to calculate the estimated recurrent costs and clearly indicate ways and means of ensuring sustainable financing.

d. Local currency costs

17. There was only one investment operation where the Bank funded a local currency component over the 2015-2020 period, The Seychelles – Mahe Sustainable Water Augmentation Project that was approved in 2015 has a local currency component which amounted to an equivalent of US\$ 100,000 (out of a total project cost of US\$ 25,995,400. Such components will also reduce the fiscal burden of the

government in implementing a project. The Bank will continue to provide funding of local currency costs in as far as operations need availability of such local currency cost components. The envisioned energy sector and ICT investment operations over the next 5 years will more likely require such local cost components, and this will be considered on a case-by-case basis.

e. Provisional expenditures of infrastructure projects

18. The Bank currently does not finance provisional expenditures (expenditures that are needed for the operation of a constructed infrastructure project before it starts generating revenue) in Seychelles. However, in accordance with the Bank's policy on eligible expenditure, the Bank may finance up to 100% of provisional expenditures on income-generating and/or transformative socio-economic infrastructure projects, upon government's request, and on a case-by-case basis for a period of up to 3 years. These expenditures will be eligible for financing if the Bank Group is satisfied that they: (i) are a core part of the project/ program during appraisal and (ii) represent a small portion of the project/program costs, which cannot be financed by the executing agency. Other considerations include confirmation that the provisional expenditures: (iii) contribute to the realization of the project/ program development objectives; and (iv) can be supported on a sustainable basis by the executing agency after the 3-year transition period. The Bank Group will maintain dialogue with the executing agencies of such operations to ensure that measures are in place to cover the provisional expenditures following the full disbursement of Bank Group support.

19. The following table summarises the proposed Seychelles Country Financing Parameters under each of the five components discussed above.

Financing Component	Parameter	Remarks/Explanation
Counterpart Funding <i>Limit on the proportion of individual project costs that the Bank may finance</i>	Up to 95 percent for projects Up to 100 percent for studies and TAs	The Bank may finance up to 95 percent of the costs of individual projects, and on case by case basis up to 100 percent. It may also finance up to 100 percent of Tas and studies. Raising the Bank's ADB financing will reduce the disincentive of the government to look for financing from its Development partners and reduce budgetary pressure to continue with its social support to the citizens, particularly following the adverse impacts of COVID-19 pandemic
Taxes and Duties <i>Are there any taxes and duties that the Bank would not finance</i>	No. The principle of tax exemption of Bank's financed projects will be maintained.	Seychelles' tax system is considered reasonable and taxes do not constitute a very high proportion of total project costs. Moreover, taxes and duties are not usually directed at the Bank-financed projects, or expenses except VAT as projects are exempted from import duties and taxes. Inclusion of VAT in Bank financed project expenses will therefore support government improve its public revenue mobilization and free up resources to finance other critically needed social sector projects including social protection.
Recurrent Cost <i>Limits that would apply to the overall amount of recurrent expenditures that the Bank may finance</i>	No country level limit	The Policy on eligible expenditures clearly specifies that the eligibility of recurrent costs, and prescribes that the Bank Group should be able to finance the recurrent costs of income-generating and non-income generating projects, up to 100%, on a case-by-case basis. However, the Bank will continue to calculate the estimated recurrent costs and clearly indicate ways and means of ensuring sustainable financing.
Local Currency Costs: <i>Are requirements for Bank financing of local expenses met, such as: i. financing requirements for country's development program would exceed public sector resources (e.g., from taxation and other</i>	Yes	There are limited number of operations recently with local currency cost components. However, Seychelles meets requirements for local cost financing. The Bank can finance local costs in any proportions required by individual projects. The Bank will continue to provide funding of local currency costs in as far as operations need availability of such local currency cost components. The envisioned energy sector and ICT investment operations over the next 5 years

<i>revenues) and expected domestic borrowing; and ii. the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects</i>		will more likely require such local cost components, and this will be considered on a case by case basis.
<i>Provisional expenditures of infrastructure projects</i>	Up to 100 percent, subject to the fulfillment of the four conditions	The Bank may finance provisional expenditures on income-generating socio-economic infrastructure projects up to 100% on a project/program, upon government's request, and if the expenditures satisfy the following conditions: (i) are a core part of the project/ program during appraisal; (ii) represent a small portion of the project/program costs, which cannot be financed by the executing agency; (iii) contribute to the realization of the project/program development objectives; and (iv) can be supported on a sustainable basis by the executing agency after the 3-year transition period

Conclusion and Recommendations

20. Despite recent achievements in terms of growth and fiscal discipline, the government's fiscal space is very limited due to its commitment to debt management with a view to bring its public debt to less than 50 percent of the GDP by 2021. With the severe effects of the COVID 19 pandemic, which has resulted into increased government expenditure and reduced revenues, the constraints of fiscal space is more likely to be exacerbated in the short and medium terms. This will reduce its ability further to raise counterpart financing for Bank financed projects. In response to this emerging challenge, the Bank needs to show flexibility in its requirements on the share of government's counterpart contribution. This CFP Note puts forward the following recommendations;

- i. Adjustment of government counterpart funding on the ADB Sovereign windows for Seychelles from *"not less than 50%"* of the project/program cost to *'no less than 5% and up to 0% on a case by case basis'* of total project/program cost.
- ii. Maintain the government counterpart funding on TA projects and programs f at *"no less than 10% of total project or program costs and no less than 5% of the total cost of studies and up to 0% on a case by case basis"*.

21. The proposed flexibility will not only improve the government's incentive to borrow from the AfDB and reduce the constraints of its fiscal space and potentially release funds for other development purposes including maintaining the social services it is providing to citizens, and reduce the social costs of the pandemic. The Bank team will continue its current dialogue with the government counterparts' on to increase domestic resource mobilization, reduce its recurrent expenditures and improve its fiscal space. In line with the new CSP, and to complement the domestic resources mobilization efforts, the Bank will also continue to support the government in institutional and human capacity building in policy making and implementation.

22. Management is hereby invited to consider and approve this CFPs Note for Seychelles which is prepared concurrently with the new CSP, but will also be reviewed regularly to accommodate changes in country context and any emerging challenges or opportunities.

Endnote Notes

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- ¹ The CDN can be accessed at following link, using Google Chrome, <https://afdb.sharefile.com/d-s6af4d61c4f246789>
- ² This section builds on, among others, the Seychelles CDN which is accessible, using Google Chrome, through the following link: <https://afdb.sharefile.com/d-s6af4d61c4f246789>
- ³ The CBS' monetary policy rate reference is the mid-point of the interest rate corridor.
- ⁴ The Bank has supported the Government to develop the Water Development Plan 2008-2030 which informed the SSDS 2012-2020.
- ⁵ The total number of visitor arrivals in Seychelles exceed the population in the country and consequently, the high number of mobile phone accounts. For example, the total number of visitor arrivals in 2019 increased to 384,204, from 351,235 in 2018, compared to a population of less than 100,000.
- ⁶ The Bank, the African Union Commission, and the Economic Commission for Africa jointly produce the African Regional Integration Index.
- ⁷ Republic of Seychelles' Sustainable Development Goals (SDG) Baseline Assessment Report, August 2019.
- ⁸ MPI of 0.04 is the product of poverty incidence (11.88%) and the average intensity (33.26%).
- ⁹ Seychelles' Second National Communication under the United Nations Framework Convention on Climate Change (2011) and Climate Change Policy Assessment Report of the International Monetary Fund (2017).
- ¹⁰ According to Seychelles' National Climate Change Strategy (2009).
- ¹¹ A World Bank's March 2012 report —WHAT A WASTE: A Global Review of Solid Waste Management— estimated that almost 1.3 billion tonnes of MSW are generated globally every year, or 1.2 kg/capita/day.
- ¹² Seychelles' main DPs are: AfDB; IMF; European Commission (EC); France; Commonwealth Secretariat; Italy; Japan; Portugal; Spain; Taiwan, China; UNDP; UNICEF; United States; WHO; and the World Bank.
- ¹³ ADB/BD/WP/2019/255
- ¹⁴ ADB/BD/WP/2020/141/Approved
- ¹⁵ ADB/BD/WP/2009/224
- ¹⁶ Estimation of jobs will need to be conducted by CSP MTR based on confirmed projected total investments by the Bank over the CSP 2021-2025 period and a robust estimation methodology. For now, the Bank's estimate of the target by 2025 is based on 5% of the population of Seychelles.
- ¹⁷ ADB/BD/WP/2019/255
- ¹⁸ There is no country office in Seychelles, and the country's portfolio performance continues to be rated as satisfactory. In this case, the revised guidelines allow the CPPR to be undertaken at least once every two years.
- ¹⁹ Calculated as the number of flags as a percentage of total number of loans and grants as at end of the respective year.
- ²⁰ <http://www.chathamhouse.org/about/structure/africa/publications>
- ²¹ <https://www.nbs.gov.sc/downloads/merchandise-trade-2018-q4/viewdocument>
- ²² Seychelles Development Strategy 2012-2020.
- ²³ Ministry of Finance, Trade, Investment and Economic Planning (2019). Seychelles National Development Strategy 2019-2023. Available http://www.finance.gov.sc/uploads/files/Seychelles_National_Development_Strategy_2019_2023_new.pdf (Accessed March 2, 2020)
- ²⁴ Seychelles National Climate Change Strategy (2009).
- ²⁵ General Circulation Model (GCM)
- ²⁶ Seychelles National Climate Change Strategy (2009)
- ²⁷ Climate change scenario assessment, p. 96 (Oct 2007)
- ²⁸ Seychelles National Climate Change Strategy (2009)
- ²⁹ Ministry of Finance, Trade, Investment and Economic Planning (2019). Seychelles National Development Strategy 2019-2023.
- ³⁰ <http://www.preventionweb.net/english/countries/statistics/?cid=153> (Accessed 31/3/2015)
- ³¹ Seychelles National Climate Change Strategy (2009)
- ³² URL: http://www.un.org/esa/dsd/resources/res_pdfs/ga-64/cc-inputs/Seychelles_CCIS.pdf. Also see UNFCCC, Vulnerability and Adaptation to Climate Change in Small Island Developing States, available At

http://unfccc.int/files/adaptation/adverse_effects_and_response_measures_art_48/application/pdf/200702_sids_a_daptation_bg.pdf.

³³ Seychelles is in the process of undertaking a 3rd GHG inventory

³⁴ National Greenhouse Gas Mitigation Options (2009)

³⁵ Seychelles National Climate Change Strategy (2009)

³⁶ <http://www.chathamhouse.org/about/structure/africa/publications>

³⁷ Seychelles National Climate Change Strategy (2009)