

Document of
The World Bank

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Report No: PAD2156

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON

A PROPOSED LOAN
IN THE AMOUNT OF US\$5 MILLION

A PROPOSED GUARANTEE
IN THE AMOUNT OF UP TO EUR5 MILLION (OR US\$ EQUIVALENT)

A PROPOSED GRANT FROM THE GLOBAL ENVIRONMENT FACILITY TRUST FUND
IN THE AMOUNT OF US\$5.29 MILLION

AND

A PROPOSED LOAN FROM THE GLOBAL ENVIRONMENT FACILITY TRUST FUND
IN THE AMOUNT OF US\$5 MILLION

TO THE

REPUBLIC OF SEYCHELLES

FOR A

THIRD SOUTH WEST INDIAN OCEAN FISHERIES GOVERNANCE AND SHARED GROWTH PROJECT
(SWIOFISH3)

September 8, 2017

Environment and Natural Resources Global Practice
Africa Region

This document is being made publicly available prior to Board consideration. This does not imply a presumed outcome. This document may be updated following Board consideration and the updated document will be made publicly available in accordance with the Bank's policy on Access to Information.

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 31, 2017)

Currency Unit = Seychelles Rupees (SCR)

SCR 13.48 = US\$ 1

US\$ 0.07 = SCR 1

Currency Unit = Euro (EUR)

EUR 0.89 = US\$ 1

US\$ 1.12 = EUR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

DBS	Development Bank of Seychelles
EEZ	Exclusive Economic Zone
ESMF	Environmental and Social Management Framework
EU	European Union
GDP	Gross Domestic Product
GEF	Global Environment Facility
GOS	Government of the Seychelles
IOTC	Indian Ocean Tuna Commission
IRR	Internal Rate of Return
IW:LEARN	International Waters Learning Exchange and Resource Network
M&E	Monitoring and Evaluation
MAF	Ministry of Agriculture and Fisheries
MEECC	Ministry of Environment, Energy and Climate Change
METT	Management Effectiveness Tracking Tool
MFTEP	Ministry of Finance, Trade, and Economic Planning
NPV	Net Present Value
PAD	Project Appraisal Document
PDO	Project Development Objective
PIU	Project Implementation Unit
SeyCCAT	Seychelles Conservation and Climate Adaptation Trust
SFA	Seychelles Fishing Authority
SWIO	South West Indian Ocean
SWIOFC	South West Indian Ocean Fisheries Commission
SWIOFish	South West Indian Ocean Fisheries Governance and Shared Growth
UNDP	United Nations Development Programme

Regional Vice President:	Makhtar Diop
Country Director:	Mark R. Lundell
Senior Global Practice Director:	Karin Kemper
Practice Manager:	Benoit Bosquet
Task Team Leader(s):	Benjamin Garnaud, Roya Vakil, Ruma Tavorath



BASIC INFORMATION

Is this a regionally tagged project? Yes	Country(ies) Seychelles	Financing Instrument Investment Project Financing
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- Situations of Urgent Need of Assistance or Capacity Constraints
- Financial Intermediaries
- Series of Projects

Approval Date 29-Sep-2017	Closing Date 30-Jun-2023	Environmental Assessment Category B - Partial Assessment
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Bank/IFC Collaboration No	
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Proposed Development Objective(s)

The Project Development Objective is to improve management of marine areas and fisheries in targeted zones and strengthen fisheries value chains in the Seychelles.

Components

Component Name	Cost (US\$, millions)
Component 1: Expansion of sustainable-use marine protected areas	4.15
Component 2: Improved governance of priority fisheries	4.15
Component 3: Sustainable development of the blue economy	16.00
Component 4: Project management and coordination	1.00

Organizations

Borrower : Republic of Seychelles



Implementing Agency : Ministry of Finance, Trade and Economic Planning

PROJECT FINANCING DATA (US\$, Millions)

<input type="checkbox"/> Counterpart Funding	<input checked="" type="checkbox"/> IBRD	<input type="checkbox"/> IDA Credit	<input type="checkbox"/> IDA Grant	<input checked="" type="checkbox"/> Trust Funds	<input type="checkbox"/> Parallel Financing
Total Project Cost: 15.29		Total Financing: 15.29		Financing Gap: 0.00	
		Of Which Bank Financing (IBRD/IDA): 5.00			

Financing (in US\$, millions)

Financing Source	Amount
Global Environment Facility (GEF)	10.29
International Bank for Reconstruction and Development	5.00
Total	15.29

Expected Disbursements (in US\$, millions)

Fiscal Year	2018	2019	2020	2021	2022	2023	2024
Annual	5.31	0.58	1.14	2.10	2.67	2.73	0.77
Cumulative	5.31	5.89	7.03	9.13	11.79	14.52	15.29

INSTITUTIONAL DATA

Practice Area (Lead)

Environment & Natural Resources



Contributing Practice Areas

Finance & Markets

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

No

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

No

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

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



COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[] Yes [✓] No

Does the project require any waivers of Bank policies?

[] Yes [✓] No

Safeguard Policies Triggered by the Project

Yes No

Environmental Assessment OP/BP 4.01

✓

Natural Habitats OP/BP 4.04

✓

Forests OP/BP 4.36

✓

Pest Management OP 4.09

✓

Physical Cultural Resources OP/BP 4.11

✓

Indigenous Peoples OP/BP 4.10

✓

Involuntary Resettlement OP/BP 4.12

✓

Safety of Dams OP/BP 4.37

✓

Projects on International Waterways OP/BP 7.50

✓

Projects in Disputed Areas OP/BP 7.60

✓

Legal Covenants

Sections and Description

IBRD Loan Agreement; GEF Loan Agreement; GEF Grant Agreement. Schedule 2, Section I.A: Institutional Arrangements.

Without limitation upon the provisions of paragraph (a) of Section I.A.2 of this Schedule 2, the Project Implementation Unit shall at all times be comprised of qualified and experienced personnel in adequate numbers, and to this end, inter alia, no later than six (6) months after the Effective Date, recruit an environmental and social specialist and a monitoring and evaluations specialist, all with qualifications and terms of reference acceptable to the Bank.

Sections and Description

IBRD Loan Agreement; GEF Loan Agreement; GEF Grant Agreement. Schedule 2, Section I.B: SeyCCAT Subsidiary



Agreement.

In order to achieve the objectives of Parts A.3 and B.4 of the Project, no later than one (1) month after the execution of the Bank Guarantee, the Borrower shall make part of the proceeds of the SWIOFish3 Blue Bond available to SeyCCAT under a subsidiary agreement between the Borrower and SeyCCAT, under terms and conditions acceptable to the Bank, as further detailed in the Bank Guarantee.

Sections and Description

IBRD Loan Agreement; GEF Loan Agreement; GEF Grant Agreement. Schedule 2, Section I.C: DBS Subsidiary Agreement.

In order to achieve the objectives of Part C.5 of the Project, no later than one (1) month after the execution of the Bank Guarantee, the Borrower shall make part of the proceeds of the SWIOFish3 Blue Bond available to DBS under a subsidiary agreement between the Borrower and DBS, under terms and conditions acceptable to the Bank, as further detailed in the Bank Guarantee.

Conditions

Type	Description
Effectiveness	The Borrower has adopted the Project Operations Manual in accordance with the provisions of Section I.E of Schedule 2 to the IBRD Financing Agreement.
Effectiveness	The Borrower has established the SWIOFish3 Blue Bond Account in accordance with the provisions of Section I.A.3 of Schedule 2 to the GEF Loan Agreement.
Effectiveness	GEF Grant Agreement: The IBRD Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of the GEF Grant Agreement) have been fulfilled.
Effectiveness	IBRD Loan Agreement: The GEF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals under it (other than the effectiveness of the IBRD Loan Agreement) have been fulfilled.

**PROJECT TEAM****Bank Staff**

Name	Role	Specialization	Unit
Benjamin Garnaud	Team Leader(ADM Responsible)	Natural Resources Management	GEN07
Roya Vakil	Team Leader	Financial Sector	GFM05
Ruma Tavorath	Team Leader	Environmental Safeguards	GEN07
Lova Niaina Ravaoarimino	Procurement Specialist(ADM Responsible)	Procurement	GGO07
Patrick Kabuya	Financial Management Specialist	Financial Management	GGO25
Anthony Molle	Team Member	Guarantee Specialist	GTPFS
Camilla Gandini	Team Member	Social Safeguards	GSU07
Faly Diallo	Team Member	Disbursement	WFALA
Gianfranco Bertozzi	Team Member	Guarantee Specialist	FABBK
Maminiaina Solonirina Rasamoelina	Environmental Safeguards Specialist	Environmental Safeguards	GEN07
Maria Do Socorro Alves Da Cunha	Social Safeguards Specialist	Social Safeguards	GSU07
Mathilde Caroline Pellizzari	Team Member	Operations	GEN07
Matthieu Louis Bonvoisin	Counsel	Lawyer	LEGAM
Michel De Marigny	Team Member	Disbursement	WFALA
Neil Pravin Ashar	Counsel	Guarantee Lawyer	LEGSG
Nevena Ilieva	Team Member	Operations	GEN07
Nneoma Veronica Nwogu	Counsel	Lawyer	LEGAM
Xavier F. P. Vincent	Team Member	Fisheries	GENDR

Extended Team

Name	Title	Organization	Location
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SEYCHELLES
THIRD SOUTH WEST INDIAN OCEAN FISHERIES GOVERNANCE AND SHARED GROWTH PROJECT
(SWIOFISH3)

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I. STRATEGIC CONTEXT

A. Country Context

- 1. In 2015, the Seychelles had the second highest gross domestic product (GDP) per capita in Sub-Saharan Africa (US\$27,177¹).** The Seychelles economy expanded by 4.3 percent in 2015 and is expected to grow an estimated 3.8 percent in 2016, with projections for further growth at 3.5 percent annually in the near term.² Unemployment is low and labor force participation is particularly high at 70 percent (2015). The tourism sector remains the major engine of growth and is benefiting from efforts to diversify source markets to the Middle East and Asia. Despite the recent, robust pace of growth, inflation has been contained, due partly to favorable imported energy and food prices.
- 2. Poverty rates in the Seychelles are expected to remain among the lowest in the world outside the Organisation for Economic Co-operation and Development.** Extreme poverty, using the international poverty line of US\$1.90 per day in 2011 purchasing power parity, stood at 1.1 percent of the population in 2013.³ Moderate poverty based on the US\$3.1 per day (in 2011 purchasing power parity) poverty line was 2.5 percent of the population in 2013. However, inequality is substantial, with a gross-income-based Gini index of 0.46 in 2013⁴, and households in the fisheries and agriculture sector are among the poorest.⁵
- 3. The Seychelles geography is unique but challenging.** The Seychelles archipelago consists of 115 granite and coral islands with an exclusive economic zone (EEZ) of approximately 1.4 million km², almost 3,000 times the size of its land area. The population is about 90,000, around 90 percent of which is located on the main island of Mahé. Small size; insularity; and limited land, capital, and human resources restrict the country's ability to benefit from economies of scale in production and economic diversification. High dependency on external markets creates vulnerability to external factors.
- 4. The Seychelles' comparative advantage lies with its natural capital, actively preserved by public policies.** The Seychelles is endowed with an extremely rich biodiversity, both marine and terrestrial, making it part of one of Conservation International's designated biodiversity hotspots. Endemism is exceptionally high at over 60 percent for animals in general and 50 percent for plants. The Seychelles is one of the world's most environmentally conscious nations, having officially protected more than half of its total land area from development and pledged to protect 30 percent of its EEZ.

B. Sectoral and Institutional Context

- 5. The fisheries sector is the second most important sector of the Seychellois economy.** Its annual contribution to GDP varies from 8 percent to 20 percent and it employs 17 percent of the total population.

¹ GDP per capita, PPP (current international \$), source: World Bank data, <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>.

² World Bank. Global Economic Prospects, January 2017.

<https://openknowledge.worldbank.org/bitstream/handle/10986/25823/9781464810169.pdf>.

³ Latest available data.

⁴ The Gini index is a measurement of the income distribution of a country's residents. This number, which ranges between 0 and 1 and is based on residents' net income, helps define the gap between the rich and the poor, with 0 representing perfect equality and 1 representing perfect inequality.

⁵ National Bureau of Statistics and World Bank (2016). A Poverty Profile of the Republic of Seychelles.



Fishing licenses fees provide the Government of the Seychelles (GOS) with a substantial source of revenue: during the year 2013, SCR 98.9 million and another €7.5 million as part of the sectoral support provided by the Fisheries Partnership Agreement with the European Union (EU) were collected. The Indian Ocean Tuna Factory is the largest single employer in the country with a workforce of over 2,500 workers. The fisheries sector is also of critical importance to the country's commercial balance; in 2014, the value of exports of consumable fish and fish products constituted 96 percent of the total value of domestic exports of goods.

6. **The Seychelles' fisheries sector is mainly governed by the Fisheries Act of 2014.** The Ministry of Agriculture and Fisheries bears the overall responsibility for the sector. Its executive arm, the Seychelles Fishing Authority, was established in 1984 as a parastatal organization to manage fisheries and fishing areas, develop the sector, assist in the formulation of policy and in negotiations, and conduct research and training. Seychellois fishers are grouped under several fishers' associations, organized by fishery and geography. The management of the regional tuna and tuna-like fisheries falls under the mandate of the Indian Ocean Tuna Commission (IOTC).

7. **The sector can broadly be divided into three subsectors: (a) the artisanal demersal fishery, (b) the industrial and semi-industrial pelagic fisheries, and (c) the seafood processing industry.** Demersal fish live on or near the bottom of the sea. The main species targeted by the demersal fisheries are Bourgeois (emperor red snapper), Job (green jobfish), and Maconde (brown-spotted grouper). Pelagic fish live in open waters, neither close to the bottom of the sea nor near the shore. The main species targeted by the pelagic fisheries are yellowfin tuna, skipjack tuna, and bigeye tuna.

8. **The artisanal demersal fishery is of paramount importance to the Seychellois.** It is largely limited to the Mahé Plateau, an area of around 41,000 km² and up to 75 m deep that comprises the islands of Mahé, Praslin, and La Digue, where most of the population lives. The plateau is fished by 140 whaler- and schooner-type vessels and at least 400 outboard motor vessels, as well as sport and recreational fishing boats. These vessels go to sea for a day to a week and use hook and line and traps. The total annual landed catch amounts to more than 4,000 tons, valued at around US\$12.5 million,⁶ and supplies most of the domestic market. This supply is critical to the local tourism industry and to the food security of Seychellois. Seychellois have one of the highest levels of fish consumption per capita, approximately 57 kg per year and almost exclusively produced by the artisanal demersal fishery, with fisheries products accounting for up to 50 percent of the total protein consumed.

9. **The industrial, and to a lesser extent the semi-industrial, pelagic fisheries account for the lion's share of the catch.** They are located offshore, in deeper waters, and involve significantly larger vessels: purse seiners and long-liners. In 2014, a total of 44 purse seiners were licensed to fish within the Seychelles EEZ and reported a total catch of 280,000 tons of tuna, of which 20 percent was from the Seychelles EEZ. The fleet is owned by foreign interests (mostly Spanish, French, and Korean). The second most important fishing for tuna catch is made by long-liners. In 2014, a total of 142 vessels were licensed to fish within the Seychelles EEZ, out of which 36 vessels were Seychelles registered. After a dramatic decrease in catches and the reaching of a record low of 1,343 tons in 2011, likely due to increasing Somalia piracy attacks in the region, the total licensed long-liner fleet recorded a catch of 7,400 tons in the EEZ in

⁶ Vivid Economics. 2015. *Fisheries Recovery on the Mahé Plateau*.



2014, following decreasing piracy activities.

10. **The Seychelles is a major seafood processing hub and intends to increase the contribution of the seafood industry to its economy.** Port Victoria is the most important tuna hub in the Western Indian Ocean, with almost 250,000 tons of purse-seined tuna transshipped and landed in 2014. The Seychelles also hosts the second largest tuna canning factory in the world in terms of capacity, the Indian Ocean Tuna factory. Additional, smaller processing plants target local and export markets. The GOS aims at progressively increasing the share of landed catch that is processed locally instead of being transshipped, targeting, in particular, bycatch and byproducts of the tuna industry.

11. **Recognizing how critical the ocean and coastal spaces are to its future, the Seychelles is refocusing its development around a blue economy.** The country defines the blue economy as the array of economic activities that directly or indirectly take place in the ocean and coastal areas, use outputs from the ocean, and place 'goods and services' into ocean's activities; as well as the contribution of these activities to economic growth and social, cultural and environmental wellbeing. The GOS is currently developing the National Blue Economy Roadmap, whose overarching goals are to diversify the economy, create high value jobs, ensure food security, and sustainably manage and protect the marine environment.

12. **There is increasing evidence that the pressures exerted by the fisheries and tourism sectors on the coastal and marine natural resources are reaching unsustainable levels.** Declining catch rates of the main species of fish are worrying indicators of the health of the ecosystems. Most of these pressures come from overfishing in the artisanal, recreational, and sport fishing subsectors and from an increasing environmental footprint of the tourism industry. They are particularly acute on the Mahé Plateau, where the population and economic activity are concentrated. The fisheries are open-access, which impedes any action to limit the fishing effort and ensure their sustainability.

13. **The unsustainable use of the marine environment is a major risk to the future of the Seychelles' blue economy.** The country's comparative advantage lies in its natural capital and the tourism and fisheries sectors are overly dependent on the health of coastal and marine ecosystems. Depleting fisheries will rapidly lead to a loss of income for fishers and tourism operators and will jeopardize the local seafood industry and any future investment in the blue economy. It will also pose significant risk to nutrition and food security in the country, where almost all the fish that is consumed is fished locally. The substitution of protein in the local diet from fish to less healthy sources is expected to lead to nutrition and public health issues, including obesity and diabetes. It will also increase the country's reliance on imports. These impacts could be compounded by climate change, the effects of which are still uncertain for the Seychelles environment and economy and will require that stocks are managed with precaution to ensure their resilience.

14. **Faced with the need to preserve its comparative advantage in natural capital for the future generations, the GOS adopted an ambitious marine conservation strategy.** The country is currently protecting 55 percent of its land mass and 0.02 percent of its EEZ, under the administration of a number of different government institutions, parastatals, and nongovernmental organizations. The Seychelles pledged to protect 30 percent of its EEZ by 2020 and initiated a marine spatial planning exercise to serve as the foundation of its blue economy approach. This marine spatial planning exercise started in 2015 and aims at improving the planning and management of the country's vast maritime space. It will progressively



identify and gazette areas amounting to 15 percent of the EEZ to be protected as high biodiversity zones and another 15 percent to be protected as medium biodiversity zones, allowing for some sustainable economic activities—including controlled fishing. In parallel, but in the same framework, the Seychelles is also developing management plans for its nearshore fisheries, including the first fisheries management plan for the Mahé Plateau, with a view to progressively transition from an open-access fishery to a more controlled fishery. The Mahé Plateau fisheries management plan is currently being prepared and will follow a continuous improvement approach, focusing on easy-gain and priority species during the first years of its implementation and progressively moving to a more comprehensive coverage of the demersal fisheries.

15. **The management of the Seychelles' marine ecosystems and fisheries is hampered by insufficient financing, capacity, and incomplete legal and institutional frameworks.** The newly created marine areas will benefit from a constant and indefinite revenue stream of around US\$250,000 per year from an endowment fund created with the proceeds of a debt restructuring.⁷ The total available funding will not be sufficient to effectively manage the marine areas and the fisheries of the Mahé Plateau, potentially jeopardizing the achievement of their objectives. In addition, the enabling environment for marine resources management requires stronger human capacity, clear policies and strategies, and surveillance capacity. The knowledge of the environmental, social, and economic state of the fisheries is deficient and current capability for applied fisheries research is insufficient. While many of these constraints are recognized by the sector, they contribute to deficiencies in the management of small-scale fisheries and monitoring of the offshore tuna fisheries.

16. **SWIOFish3 will support the GOS in achieving its objectives of marine conservation and sustainable development of the blue economy.** It will specifically address gaps in financing, capacity, and institutional frameworks to ensure a sustainable management of the identified sustainable-use marine protected areas (Component 1) and of the Mahé Plateau fisheries (Component 2). This will lay the ground for the sustainable development of the fisheries value chains and the improvement of the enabling business climate (Component 3). The expansion of the fisheries value chain will be a key element of adherence and compensation for any restrictive measure implemented as part of the management of the marine areas. However, it will be decisive that strong fisheries management measures are in place while fisheries value chains are developed to avoid creating a price signal that will further increase the pressure on the fisheries.

17. **Piloting several innovations, SWIOFish3 opens the way to a new generation of fisheries and natural resources management projects.** The essence of the project approach is to make the Seychelles fisheries sector 'investment ready' by (i) promoting public investments in fisheries management, ensuring that the resource base will be sustainable even with increased investments in the value-chains; (ii) designing a turn-key financial mechanism in the country to receive and disburse the private investments

⁷ In 2015, the Nature Conservancy raised US\$15.2 million in impact capital loans and US\$5 million in grants to buy back US\$21.6 million of Seychelles debt. The cash flow from the restructured debt is payable to and managed by an independent, nationally based, public-private trust fund called SeyCCAT. Debt service payments fund three distinct streams: (a) work on the ground that will help reduce risk through improved management of coasts, coral reefs, and mangroves; (b) repayment of impact investors; and (c) capitalization of SeyCCAT's endowment, which can then support conservation work into the future. SeyCCAT will receive semiannual payments from the GOS to finance conservation activities on the ground and also to capitalize an endowment, with 35 percent of these payments being used to capitalize an endowment that is invested to generate long-term sustainable financing for carrying out SeyCCAT's objectives once the GOS payments end (after 20 years).



(the Blue Grants Fund and the Blue Investments Fund); and (iii) attracting private investors through the issuance of the first Blue Bond. As such, it implements the cascade approach promoted by the World Bank Group and is pioneering a path towards bringing sustainable financing in an underserved area, bridging the gap between fisheries management and private investors.

C. Higher Level Objectives to which the Project Contributes

18. **The project will contribute to the Seychelles’ higher-level objectives for the sector and for poverty reduction.** It is primarily aligned with the Seychelles National Development Strategy and the Sustainable Development Strategy 2012–2020.⁸ The 2005 Fisheries Policy sets out the long-term policy of the GOS for the fishing industry: “the promotion of sustainable and responsible fisheries development and optimizing the benefits from this sector for the present and future generations.”⁹ The objective of the Seychelles National Development Strategy for the fisheries sector is “to turn Seychelles from a mainly fisheries transshipment hub to the primary seafood processing center of the Indian Ocean.” The Sustainable Development Strategy 2012–2020 highlights fisheries and marine resources as key pillars of development.

19. **The project will strengthen Seychelles’ resilience to the impacts of climate change.** It will reduce the vulnerability of its marine resources to still uncertain impacts of climate change by protecting the resilience of the related ecosystems. Expanding the network of marine protected areas and promoting cautious management of fisheries will be the two pillars of the project’s ecosystem-based adaptation approach. In addition, the project will also help the Seychelles diversify its economy and reduce its vulnerability to climate change by expanding the seafood value chains. As such, the SWIOFish3 project is a key contributor to Seychelles 2015 Intended Nationally Determined Contribution. It is also in line with the African Climate Change Business Plan which looks to support countries, including the Seychelles, in their adoption of climate-smart ocean economies, resulting in better adaptation to the negative effects of climate change.

20. **The project directly addresses the objectives of the World Bank’s engagement in the country and builds on the organization’s comparative advantage.** It is designed to contribute to the World Bank Group’s corporate objectives of ending extreme poverty and promoting shared prosperity in a sustainable fashion. It recognizes the importance of fisheries as a key contributor to food security and nutrition, safety net, and job creation for the population of the Seychelles. Promoting sustainable use of fisheries, linking small-scale operators to extended value chains, and better harnessing fisheries to national economies will ensure that the sector socioeconomic benefits are better captured and their distributive feature is optimized. This will contribute to boosting shared prosperity in the country. It is aligned with the objectives of the Country Partnership Strategy (2012–2015)¹⁰ and the 2017 Systematic Country Diagnostic (report number 114289-SC, dated June 23, 2017) to reduce vulnerability and build long-term sustainability and focuses on a sector in which the World Bank Group has a long-term and regional engagement. It complements a series of World Bank-financed development policy operations¹¹ that have addressed competitiveness, employment, and an improved business environment, based on the private sector as the source of economic growth and supporting improved efficiency of selected state-owned enterprises

⁸ <http://www.egov.sc/edoc/pubs/frmpubdetail.aspx?pubId=26>.

⁹ National Agricultural and Fisheries Policy.

¹⁰ A new Country Partnership Framework is being prepared and is expected to be presented to the Board on March 22, 2018.

¹¹ Sustainability and Competitiveness Development Policy Loans 1 (P125202), 2 (P132425) and 3 (P146567).



in the vulnerability and resilience pillar. The project builds on previous and ongoing World Bank initiatives, including on governance reform, statistical capacity building, and analysis of the political economy, development policy, and the financial sector. By supporting building competitiveness and employment and addressing vulnerability and resilience, with a foundation on governance and public sector capacity, the project is also in line with the World Bank's Africa Strategy.¹² The project will benefit from and contribute to other complementary initiatives in the region, including the EU support to the fisheries sector of the Seychelles as well as several regional projects funded by the Global Environment Facility (GEF).¹³

21. **The project is part of the regional South West Indian Ocean Fisheries Governance and Shared Growth (SWIOFish) Program**, which adopts a regional and long-term approach to supporting the South West Indian Ocean (SWIO) countries in sustainably developing their fisheries sector. The program goal is to increase the economic, social, and environmental benefits to SWIO countries from sustainable marine fisheries. Within the SWIOFish Program, a first project, SWIOFish1, was approved by the World Bank's Board of Executive Directors on February 27, 2015. SWIOFish1 promotes regional cooperation in the framework of the South West Indian Ocean Fisheries Commission (SWIOFC) to foster sustainable management of the region's fisheries. It also includes national investments in Comoros, Mozambique, and Tanzania. The second project, SWIOFish2, was approved by the Board on March 28, 2017 and will pursue the support to regional cooperation with a specific focus on the Indian Ocean Tuna Commission (IOTC), the Indian Ocean Artisanal Fishers Federation, and the group of African and Indian Ocean Developing Island States and will include national investments in Madagascar. The Republic of Seychelles is already part of the regional component of the first two projects within this program, SWIOFish1 and SWIOFish2, through its active role within the SWIOFC and the IOTC. The country will benefit from national investments under SWIOFish3, which in turn will contribute to the attainment of the regional SWIOFish Program objective. The SWIOFish Program and the sequencing of investments is further described in annex 2.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

22. **The Project Development Objective (PDO) is to improve management of marine areas and fisheries in targeted zones and strengthen fisheries value chains in the Seychelles.**

B. Project Beneficiaries

23. **The main project beneficiaries are the Seychellois living off of marine resources**, including the artisanal and semi-industrial fishers and their households, as well as operators in the tourism and seafood value chains, including aquaculture. Among these operators, the private sector, including enterprises engaged in large-scale fishing, aquaculture, and export of seafood products, foreign fishing fleets, foreign

¹² <http://regions.worldbank.org/afr/Documents/2017%20AFR%20Regional%20Update%20FINAL.pdf>.

¹³ Including Western Indian Ocean Large Marine Ecosystems Strategic Action Programme Policy Harmonization and Institutional Reforms (SAPPHIRE); Addressing Land-based Activities in the Western Indian Ocean (WIO-LaB); Implementation of the Strategic Action Programme for the Protection of the Western Indian Ocean from Land-based Sources and Activities (WIO-SAP); and Areas Beyond National Jurisdiction.



investors in fisheries, will benefit indirectly from a more sustainable resource base and decreased risks for their investment. National and local institutions engaged in management of marine resources, including fishers associations and government entities, will also benefit from improved capacity to formulate and analyze policy and to promote public-private coordination as a result of project-financed institutional development activities. Ultimately, the general population of the Seychelles will benefit from a healthier marine environment and increased food security, and the government will receive increased and lasting revenues from a sustainable blue economy. The project will devote specific attention to the role of women and youth in the fisheries sector, the seafood value chains and the broader blue economy. Within the context of fisheries post-harvesting and service sectors, there is limited data on issues relating to gender equality and therefore no specific gender gaps have yet been identified in this sector. The project will support an assessment within the sector to improve the understanding of gender imbalances and propose implementation measures to close any gender gap.

24. **The populations, ecosystems and economies of the other SWIO countries will also benefit from the project's investments.** The SWIO marine fisheries are part of a larger marine ecosystem shared by all countries of the region. They are a regional public good, whose health and sustainability require action by each riparian country to limit the negative and enhance the positive externalities yielded by national activities. As such, the investments planned under the SWIOFish3 project, aiming at preserving the marine resources for the future, will have important benefits to the countries sharing the common marine ecosystem.

C. PDO-Level Results Indicators

25. **The PDO-level results indicators of the project are as follows:**

- (a) Sustainable-use marine protected areas with a Management Effectiveness Tracking Tool (METT) score of 50 or higher (ha)
- (b) Share of key demersal indicator species stable or rebuilding in the Mahé Plateau fisheries (%)
- (c) Ratio between consumer price per kilogram and landed catch price per kilogram in artisanal fisheries (%)
- (d) Share of bycatch landed and sold in the Seychelles (%)
- (e) Share of citizens of the Seychelles who rate management of sustainable-use marine protected areas and selected fisheries as 'Satisfactory' or above (disaggregated by sex and age) (%)

26. Indicators (a) and (b) measure the improved management of marine areas and fisheries and relate to the first indicator of the SWIOFish Program: "status of fish stocks". Indicators (c) and (d) measure the strengthened fisheries value chains and the induced economic benefits to Seychellois. They relate to the second and the third indicators of the SWIOFish Program: "fisheries-related GDP in participating countries", and "local fisheries-related value addition benefitting the households". Section VII 'Results Framework and Monitoring' provides a more detailed description of these indicators and their



significance, and the SWIOFish Program and its objectives are described in annex 2.

III. PROJECT DESCRIPTION

27. **SWIOFish3 will support the GOS in achieving its dual objective of marine resources conservation and expansion of the seafood value chains.** Seafood value chains are a cornerstone of the country's blue economy strategy and their expansion is expected to deliver long-term, resilient growth, jobs, and food security and will be the focus of Component 3 of this project. However, this development will not be sustainable if the marine resource base is not properly managed, which will be supported by Components 1 and 2. Because marine and coastal resource management will potentially translate into reduced access to the resource, Component 3 will compensate fishers for any loss of access and foster adherence to the management measures. As such, Components 1, 2, and 3 are intimately linked. The activities supported by the project are further described in annex 1.

28. **SWIOFish3 will create a Blue Grants Fund and a Blue Investment Fund to contribute to this dual objective.** These two funds will be capitalized with the proceeds of the Blue Bond¹⁴ to be issued by the GOS with the support of the World Bank and the GEF. The activities eligible for the Blue Grants Fund will contribute to the expansion of the sustainable-use marine protected areas network under Component 1, and to the management of fisheries under Component 2. The Blue Investment Fund will be created as a revolving fund to extend commercial loans to projects aimed at sustainably expanding the seafood value chains under Component 3. The activities eligible for these funds, their related financial flows, and the Blue Bond are described in greater details in the following paragraphs and in annex 3.

A. Project Components

29. **Component 1: Expansion of sustainable-use marine protected areas (US\$4.15 million, including US\$2.65 million GEF and US\$1.5 million Blue Bond).** The first component of the project will support the GOS in implementing its pledge to protect an increasing share of its maritime space. It will build on the marine spatial planning exercise that the Government is currently undertaking through a scientific and consultative process. This exercise will progressively identify 15 percent of the EEZ as medium biodiversity areas and another 15 percent as high biodiversity areas. The medium biodiversity areas will allow for some sustainably managed economic activities, including fisheries and tourism, and will be gazetted as 'sustainable-use marine protected areas'. They will be the focus of Component 1. The high biodiversity areas will be managed under stricter protection and will be supported by a parallel project financed by the GEF and the United Nations Development Programme (UNDP).¹⁵ Subcomponent 1.1 will expand the coverage of sustainable-use marine protected areas through research, the preparation of related management plans and specific regulations, and consultations to periodically revise their zoning. Subcomponent 1.2 will enhance the effective management of these sustainable-use marine protected

¹⁴ The Blue Bond will generally follow the 'Green Bond' model that has been used by governments, development banks, and corporations to fund projects with positive environmental and climate benefits. Because the Seychelles bond will fund an ocean-based project and virtually all Green Bonds have funded terrestrial projects, this offering could be differentiated as a 'Blue Bond'. See annex 3 for greater details.

¹⁵ The UNDP/GEF project is still in early preparation stage and is expected to be presented at the GEF Council in November 2017.



areas through targeted investments in communication, capacity building, control and surveillance, environmental research and data collection, and promotion of more sustainable practices. Approximately 10 percent of the Blue Bond proceeds will be channeled through the Blue Grants Fund to strengthen the sustainable-use marine protected areas network (subcomponent 1.3). Greater details and a list of eligible activities are proposed in annexes 1 and 6. Component 1 will generate climate adaptation co-benefits by expanding the protection of marine biodiversity and strengthening the resilience of the coasts and oceans to climate change.

30. **Component 2: Improved governance of priority fisheries (US\$4.15 million, including US\$2.65 million GEF and US\$1.5 million Blue Bond).** The second component of the project will have a greater focus on fisheries management at a national level. Subcomponent 2.1 will support the finalization and the implementation of the Mahé Plateau and the Praslin fisheries management plans, the most important fisheries management instruments of the country. This will entail communication, capacity building, control and surveillance, environmental research and data collection, promotion of more sustainable practices, and economic diversification. In parallel, it will help prepare and implement other fisheries management plans, including for the sea cucumber and tuna fisheries at the national level, thus covering over 90 percent of the fisheries in value and volume. It will also prepare and implement a fleet management and development plan and provide technical assistance to the fishers association to enhance their participation in fisheries management. Subcomponent 2.2 will consolidate the existing fisheries and marine environment statistics by developing a fisheries information management system and providing targeted training to government statisticians. It will also improve the fisheries economic monitoring by financing technical assistance, training and operational costs of the nascent Fisheries Economic Intelligence Unit, and by designing and setting up a satellite economic account for fisheries. Subcomponent 2.3 will reinforce the country's capacity to manage its fisheries sector through a review and update of the fisheries institutional framework, the drafting of a fisheries sector policy note, assessing the current public support to the sector, and capacity building and ad-hoc technical assistance for the relevant public entities. Approximately 10 percent of the Blue Bond proceeds will be channeled through the Blue Grants Fund to contribute to the management of these fisheries (subcomponent 2.4). Greater details and a list of eligible activities are proposed in annexes 1 and 6. Component 2 will generate climate adaptation co-benefits by fostering sustainable and ecosystem-based management of fisheries and strengthening the resilience of the coasts and oceans to climate change.

31. **Component 3: Sustainable development of the blue economy (US\$16.0 million, including US\$4 million IBRD and US\$12 million Blue Bond).** Component 3 will help finance the sustainable development of the Seychelles blue economy and support increased value addition in the aquaculture, industrial, semi-industrial, and artisanal fishing and processing sectors. IBRD funds will be used under subcomponents 3.1 to 3.4 to improve the enabling environment for the development of the blue economy and generate a pipeline of investments. A Blue Investment Fund will be created under subcomponent 3.6 with the Blue Bond proceeds to provide loans for such investments.

32. Subcomponent 3.1 will facilitate the expansion of seafood value chains and promote synergies with other value chains (for example, tourism), including through targeted studies (identification of opportunities), capacity building to fishers and operators, and investments in initiatives led by artisanal fishers (including an innovative fish auction house and a labeling scheme for sustainable artisanal fisheries). Subcomponent 3.2 will strengthen the enabling environment for local investments in the aquaculture sector (environmental and social impact assessments, capacity building, and training courses



and long-term human capital development plans). Subcomponent 3.3 will finance studies and technical assistance to improve the planning and decision-making mechanisms related to investments in the blue economy. It will, in particular, finance the different feasibility studies linked to activities eligible under the Blue Investment Fund. It will also develop the understanding of the role of women and youth in the sector and propose and implement strategies to close any gender or age gaps. In addition, it will develop and implement policies and standards to improve recruitment and retention of local crew and skippers with a view to improving the labor conditions and the attractiveness of jobs at sea for the Seychellois, including women and youth. Subcomponent 3.4 will augment the Seychelles' ability to export its seafood products by investing in its sanitary and phytosanitary monitoring capacity (enhanced monitoring program, training, equipment and technical assistance).

33. Approximately 80 percent of the Blue Bond proceeds will be channeled through the Blue Investment Fund to finance private and public investments aimed at facilitating the implementation of the Mahé Plateau fisheries management plan and the transition from open-access to better controlled fisheries (subcomponent 3.5). These investments will include alternative business opportunities for fishers in the seafood value chain, the restructuring of fishing capacity, and the rebuilding of fish stocks. To avoid that these investments create a price signal that would increase the pressure on the resource, the GOS developed a list of acceptable projects that includes management prerequisites (for example, management plan operational), as detailed in annexes 1 and 6. The GEF Non-Grant Instrument Pilot will be used under subcomponent 3.6 to support the Seychelles' capacity to reduce the financing cost of the Blue Bond issuance. To some extent, Component 3 will generate climate adaptation co-benefits by diversifying the Seychelles' economy and reducing its vulnerability to the impacts of climate change.

34. **Component 4: Project management and coordination (US\$1.0 million IBRD).** The last component will support the coordination and implementation of the project, through a Project Implementation Unit (PIU). These implementation arrangements are described in further details in section IV 'Implementation' and in annex 5.

B. Project Cost and Financing

35. **The project activities will be financed using proceeds from (i) a US\$5 million loan from IBRD; (ii) a US\$5.29 million grant from the GEF; and (iii) an up to EUR15 million (or US\$ equivalent) Blue Bond placement (which in turn will be supported by an up to EUR5 million (or US\$ equivalent) IBRD guarantee and a US\$5 million concessional loan from the GEF Non-Grant Instrument Pilot).** The GOS will place a Blue Bond for an estimated total of up to EUR15 million (or US\$ equivalent) to finance part of SWIOFish3, in an innovative transaction that mobilizes capital markets to finance the Seychelles' blue economy objectives. The proposed transaction structure combines an IBRD project-based guarantee with an additional commitment from the GEF to backstop the Blue Bond. The use of credit enhancement derives from the need to secure attractive terms for the GOS, which has a mixed track record in bond markets, to provide for onlending of part of the resources raised through the placement at acceptable cost. The impact of the Blue Bond placement on the debt sustainability of the Seychelles is not material: the size of this new borrowing is small compared to the current debt portfolio of the country and the debt sustainability analysis conducted in February 2017 by the International Monetary Fund confirms that the Seychelles' public debt trajectory is projected to remain on a sustainable path, if the authorities take the necessary fiscal measures to ensure primary surpluses on the order of 3 percent of GDP.



36. **IBRD Guarantee.** A partial credit guarantee from IBRD will be used to backstop a share (one-third) of the repayment of the up to EUR15 million (or US\$ equivalent)¹⁶. By guaranteeing a material amount of recovery to the investor(s) in the event of a default, the instrument is intended to reduce the coupon of the bond from its standalone or unenhanced starting point, which can be observed by prevailing yields for Seychelles outstanding Eurobonds. In addition to coupon reduction, the guarantee will facilitate longer tenor with an expected 10-year maturity, as well as represent a leveraged use of IBRD capital, as investors will take a meaningful share of uncovered risk in the transaction.

37. **GEF Non-Grant Instrument Pilot.**¹⁷ The GEF Non-Grant Instrument Pilot will be used alongside an IBRD guarantee to lower the effective cost of this Blue Bond, ideally down to the 3 percent range. The Non-Grant Instrument Pilot will be offered to the GOS with a 40-year maturity, a 10-year grace period, and a 0.25 percent fixed interest rate. The resources will be used to pay down the Blue bond coupon further, in order to reach a level that is suitable for the onlending objective of the operation, without undermining the market returns envisaged for the investor(s). The Non-Grant Instrument Pilot may be used to purchase security to facilitate the repayments of coupons and structured to serve as additional credit enhancement in the event of a default.

38. **The Blue Bond is expected to be replicable for other borrowers in the future,** by raising awareness on Blue economy challenges, attracting investors to a new area of relevance for social impact investment, and creating an affordable financing package for a small island state that is pursuing greater sustainability in the fishing industry. It should be noted however that the Seychelles is a special case given its small size and its income level. The preparation of the first Blue Bond is a process of discovery and the project will further assess the replicability potential and the lessons learned during the course of the project.

39. The Blue Bond structure and the terms and conditions of the IBRD guarantee and GEF Non-Grant Instrument Pilot are further detailed in annexes 3 and 4, respectively.

¹⁶ Please see annex 4 (Indicative Term Sheet).

¹⁷ The GEF established a special set-aside, the Non-Grant Instrument Pilot, to expand the use of non-grant instruments to contribute to the achievements of the GEF's objectives. Such instruments include credit guarantees, performance risk guarantees, structured financing, equity/investment funds, revolving equity funds, contingent loans, concessional loans, and revolving loan funds. Refer to: https://www.thegef.org/sites/default/files/council-meeting-documents/16_EN_GEF_C_47_06_GEF-6_Non-Grant_Instrument_Pilot_and_Updated_Policy_for_Non-Grant_Instruments_1.pdf



Table 1. Project Cost and Financing*

Project Components	Project Cost (US\$, millions)	IBRD Loan (US\$, millions)	GEF Grant (US\$, millions)	Blue Bond** (US\$, millions)
1. Expansion of sustainable-use marine protected areas	4.15	—	2.65	1.5
2. Improved governance of priority fisheries	4.15	—	2.65	1.5
3. Sustainable development of the blue economy	16.00	4.0	—	12.0
4. Project management and coordination	1.00	1.0	—	—
Total Costs				
Total Project Costs	25.29	5.0	5.29	15.0 ¹⁸
Total Financing Required	25.29	5.0	5.29	15.0

* The values of the project cost and financing differ because of the Blue Bond. The total project cost is US\$25.29 million and the amount of financing provided through IBRD and GEF amounts to US\$15.29 million. The Project Appraisal Document datasheets are not designed to reflect such financing cascade, which explains what might look like a discrepancy in the present datasheet.

** The Blue Bond will be supported by a US\$5 million IBRD guarantee and a US\$5 million GEF Non-Grant Instrument Pilot.

Figure 1. Flow of Funds of the SWIOFish3 Financing



C. Lessons Learned and Reflected in the Project Design

40. The project draws on lessons learned from several national and regional projects.¹⁹ These lessons include the following:

¹⁸ The Blue Bond will be for up to EUR15 million (or US\$ equivalent). Bond transactions such as this typically have high transaction costs (arranging fees; legal counsels; trustee fees; out-of-pocket expenses). The GOS and project participants are currently negotiating the terms so as to ensure that costs are kept to acceptable level. These will be taken into consideration in assessing the effective costs of this Blue Bond placement.

¹⁹ These include the first two projects in the SWIOFish Series of Project (SWIOFish1 and SWIOFish2), Development Policy Loans in Peru and Gabon, the West Africa Regional Fisheries Project, the Lake Victoria Environmental Management Project, the South West Indian Ocean Fisheries Project, Tanzania’s Marine and Coastal Environment Management Project, the Kenya Coastal Development Project, Indonesia’s Coastal Resources Management Project, and the Pacific Islands Regional Oceanscape Program.



- **Investments in seafood value chains will only be sustainable with proper fisheries management measures in place.** Without these measures, the investments run the risk of creating price signals that will increase the pressure on the fisheries and will lead to declining stocks, productivity, and yields for these investments. The ultimate cost is borne by the country to which the asset belongs. Fisheries management measures are critical to lower the risks of any investment in the sector and send a positive signal to potential investors. The project has been designed to enable this complementarity between fisheries management measures and investments in the seafood value chains.
- **Social change and reforms in the fisheries sector require an extended time horizon; a high degree of flexibility; continuous support for progressive capacity building; and repeated financing to maximize impact, learning, and sustainability.** The project has been designed to allow for this flexibility. It includes a strong focus on capacity building for all stakeholders and embeds marine resources management in broad-based consultative processes to build consensus and inclusion and give a voice to poorer stakeholders. In turn, this creates flexibility and builds the necessary ownership to maximize sustainability and impact of otherwise controversial conservation activities. In addition, the SWIOFish Program, of which the project is part, provides a long-term window for the support to the sector and its management.
- **Investments in the business enabling environment and alternative opportunities are essential to gather stakeholders' adherence to the required social change and reforms.** These investments help make the opportunities created by better marine resources management a reality and build momentum around the broader sustainable blue economy vision. They also compensate for potential loss of access to the resource and economic displacement resulting from stricter regulations of the fisheries. The safeguard instruments prepared by the Government for the project will ensure that the stakeholders affected by these management measures are identified and receive compensation, and Component 3 will host the related investments.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

41. **The project was prepared and will be implemented jointly by the Ministry of Finance, Trade, and Economic Planning (MFTEP); the Department of the Blue Economy in the Office of the Vice-President; the Ministry of Agriculture and Fisheries; and the Ministry of Environment, Energy, and Climate Change.** The MFTEP led the preparation and will lead the implementation of the project. It has the mandate, convening power, and vision necessary to oversee the implementation of the project, as well as sufficient management and fiduciary capacity to ensure efficient coordination of project activities. The MFTEP is supported by the Department of the Blue Economy in relation to technical coordination of the project. The other two ministries have the technical expertise to implement the project activities and are responsible for their respective activities, but will not have any fiduciary oversight. The Ministry of Environment, Energy, and Climate Change is mostly involved in Component 1, while the Ministry of Agriculture and Fisheries and the Seychelles Fishing Authority is leading the implementation of



Components 2 and 3, for the most part.

42. **A PIU is embedded within the MFTEP and works in close collaboration with the other ministries and agencies.** The PIU is in charge of coordinating the implementation of the project activities and is solely responsible for procurement and the financial management of the project. The Project Coordinator, a staff of the Department of the Blue Economy, is seconded by an Assistant financed by the project and will be in charge of the overall project coordination and management. A Financial Management and Procurement Specialist assisted by a Financial Management Assistant and a Procurement Assistant have been designated within the existing MFTEP Project Coordinating Unit, currently in charge of the fiduciary aspects of several World Bank-financed projects. An Environmental and Social Specialist and a Monitoring and Evaluation (M&E) Specialist will also be recruited no later than six months after the project is declared effective. In addition, starting in 2018, the Ministry of Agriculture and Fisheries and the Ministry of Environment, Energy, and Climate Change will each appoint a Project Manager, to support the planning, implementation, and reporting of the project activities pertaining to their ministry and reporting to the Project Coordinator.²⁰

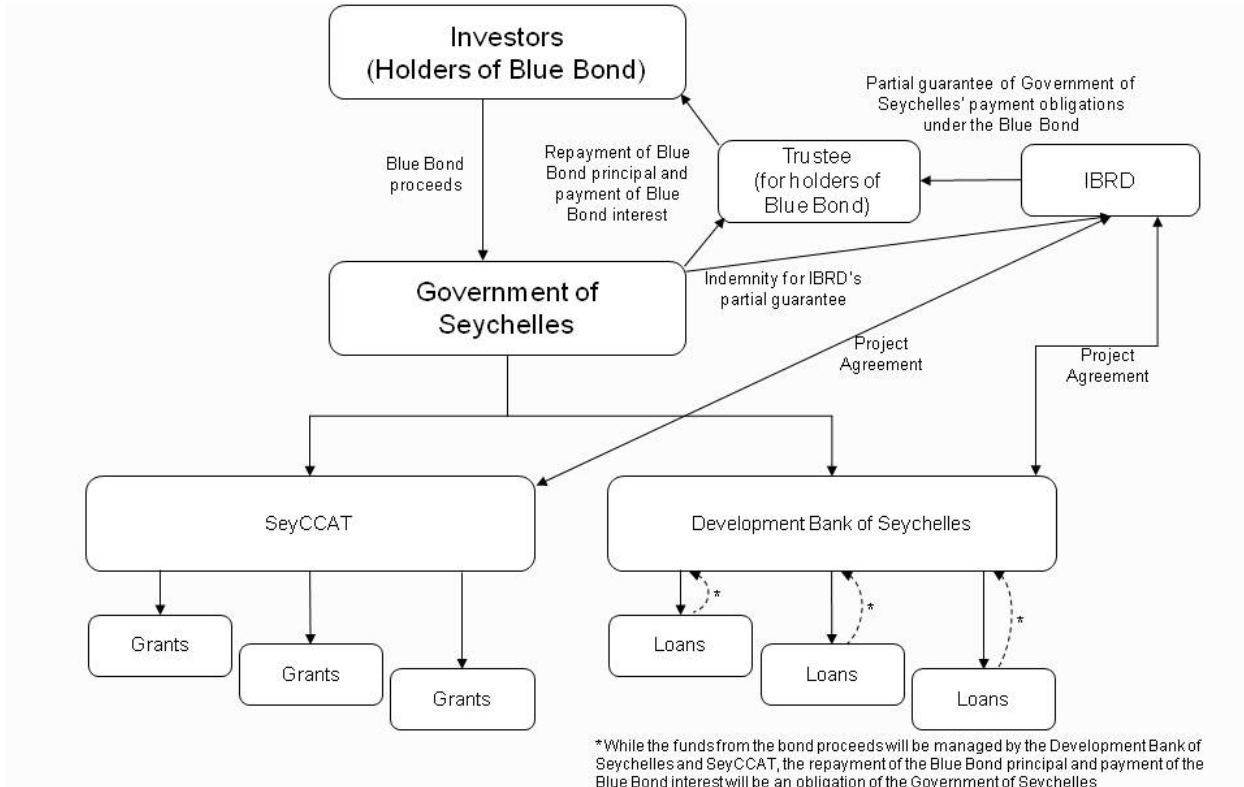
43. **The PIU prepared and will implement the project under the oversight of a Steering Committee.** The MFTEP chairs the Steering Committee, which also includes representatives from the Ministry of Agriculture and Fisheries; the Ministry of Environment, Energy, and Climate Change; the Ministry of Foreign Affairs; the Seychelles Fishing Authority; the Seychelles National Parks Authority; the Seychelles Port Authority; and the Department of Blue Economy. A more detailed description of the implementation arrangements for this project is contained in annex 5 of this PAD. The GOS is preparing the Project Operations Manual, detailing the implementation arrangements and the procedures to follow to implement the project activities, and will submit it to the World Bank before effectiveness.

44. **The proceeds of the Blue Bond will follow two tracks.** Under the first track, the MFTEP will sign a Subsidiary Agreement with the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) whereby a portion of the Blue Bond proceeds (notionally EUR3 million (or US\$ equivalent)) will be transferred to SeyCCAT to establish a Blue Grants Fund. Grants will be made to public and private entities on a project proposal basis to fund activities related to the operationalization of sustainable-use marine protected areas, the implementation of the Mahé Plateau fisheries management plan, and the transition from open-access to better controlled fisheries. Under the second track, the MFTEP will sign a Subsidiary Agreement with the Development Bank of Seychelles (DBS) whereby a portion of the Blue Bond proceeds (notionally EUR12 million (or US\$ equivalent)) will be transferred to the DBS for the establishment and management of a Blue Investment Fund. Commercial loans will be made to projects consistent with the provisions of the Mahé Plateau fisheries management plan and with a specific focus on economic diversification and sustainability. While the Blue Investment Fund will be capitalized by the Blue Bond proceeds, the repayment of the Blue Bond is considered an obligation of the GOS and will not be linked financially to the Blue Investment Fund.

²⁰ Due to the small labor market and the budget planning process, these positions will be filled when the 2018 budget is approved. In the meantime, the current Project Coordinator and Assistant are able to handle project activities through approval and early implementation.



Figure 2. Flow of Funds of the Blue Bond Proceeds



45. **The Blue Grants Fund will be administered by SeyCCAT.** SeyCCAT is an independent, nationally based, public-private trust fund established in 2015 to manage the funds generated by a debt restructuring intended to provide a sustainable flow of funds to support the long-term management and expansion of the Seychelles system of protected areas and other activities that contribute substantially to the conservation, protection, and maintenance of biodiversity. SeyCCAT currently has a planned grants program with a focus on sustainable fisheries related to marine protected area management and expansion. In order to avoid the establishment of a duplicative competing structure and to facilitate the administration of the grants program, the planned SeyCCAT grants program will be merged with the aforementioned proceeds of the Blue Bond to create a single Blue Grants Fund with an expanded focus and list of eligible projects. The Blue Grants Fund will have segregated financing windows to ensure the separation and traceability of funds (see annex 6). SeyCCAT already has an Operations Manual and Grants Procedures Manual detailing processes and procedures that have been reviewed and endorsed by its board and stakeholders. The SeyCCAT Grants Committee will review and recommend projects for approval under the Blue Grants Fund and the SeyCCAT Board of Directors will have final approval. Additional details are provided in annex 6.

46. **The eligible beneficiaries of the Blue Grants Fund will represent a diverse array of stakeholders.** In line with the focal areas of the eligible activities under the Blue Grants Fund (annex 1, Table 1.1 and 1.2.), the beneficiaries of the Blue Grants Fund can include: (i) individuals, including fishers, and businesses (small, medium and large in size) interested in investing in various aspects of the fisheries value chain; (ii)



fishers associations; (iii) Government agencies, academic institutions, locally registered NGOs, community-based groups and other civil society organizations involved in the operationalization and implementation of the marine spatial planning and/or fisheries management plans. Investors might also be interested in grants to address a lack of information (e.g. market) for a future investment. The Blue Grants Fund will also give additional consideration to those potential beneficiaries who can demonstrate in their proposals a synergy with projects financed under the Blue Investment Fund, or with a plan to seek financing under the Blue Investment Fund, in an effort to strengthen projects and/or mitigate potential risks associated with a larger investment project.

47. **The Blue Investment Fund will be administered by the DBS, a national development financing institution with a specific mandate to assist in the economic development of the Seychelles.** Similar to the Blue Grants Fund, proposed loans will need to be compliant with a list of eligible activities which will also be evaluated against management prerequisites for the target activity to be funded by the Blue Investment Fund in order to ensure the environmental sustainability of the proposed investment and avoid creating a price signal that would increase pressure on the fisheries. To ensure that projects are sound from a fisheries perspective, the DBS will convene a Technical Committee (notionally consisting of various Government ministries, fisher associations, and civil society organizations) to provide a technical review and recommendation for loan applications. If the Technical Committee recommendation is positive, then the loan application will be sent back to the DBS for standard loan processing procedure and financial appraisal. The DBS Board will have final approval over all loans. Additional details are provided in annex 6.

48. **The beneficiaries of the Blue Investment Fund will be individuals and firms with an interest in investment opportunities in fisheries post-harvesting, service sectors, aquaculture, fish processing and value addition, logistical and scientific services, and restructuring of fishing capacity.** This includes fishers, processors, distributors, fisher organizations, fisheries, small and medium sized enterprises engaged in the fisheries supply chain, as well as larger public-private partnerships and local-foreign joint ventures. A communication strategy will be developed to ensure that information on the Blue Investment Fund is accessible to all targeted beneficiaries. While the Blue Investment Fund is designed to be a revolving fund, one of its main objectives is to provide a demonstration effect to the market that the fisheries sector can be investment-worthy and is therefore designed to remove the distortion currently present in the market by heightened risk perception and a lack of market understanding of the sector.

B. Results Monitoring and Evaluation

49. **M&E of outcomes and results are a core part of the project design.** The PIU will collect and present data and reports for six-monthly reviews by the National Steering Committee in conjunction with World Bank implementation support missions. Discussions during these missions related to institutional capacity building, financial viability, technical reviews, and site visits will also provide effective means of monitoring progress. The PIU will appoint a dedicated M&E Specialist to organize data collection and processing, keep track of project indicators, and prepare regular results reports. Learning and sharing knowledge from the different innovations within the project will be given special attention and funds, including at least 1 percent of the GEF International Waters financing, will be devoted to the dissemination of project activities and results, the setting up of a website, and the participation of the Seychelles in the International Waters Learning Exchange and Resource Network (IW:LEARN) activities.



50. **The project will also help improve the M&E system for the sector**, in close collaboration with the Ministry of Agriculture and Fisheries, the Blue Economy Department, the Seychelles Fishing Authority and the National Bureau of Statistics. The project M&E Specialist will take an integral part in the management and development of the fisheries sector statistics in the country and the development of scientific, economic, and social dashboards to support fisheries management and decisions related to the development of the fisheries sector. A first step in the M&E process will be to prepare and implement a fisheries information and statistics master plan to develop the core fisheries, social, environmental, and economic tracking modules to deliver the dashboard of indicators for the sector with emphasis on the biological, social and economic targets (project year 2). The second step will be to link the dashboard to the performance indicators and deliverables of the dependent institutions, major projects, and milestones of countries' sector plans, poverty reduction plans, and other strategic instruments (project year 4). The third step will be to link the dashboard of the project and national decision-making and management process (by the end of the project). (See also annex 5.)

C. Sustainability

51. **The core element of institutional sustainability will be the capacity building coupled with the alignment of policies with investments and the tracking of impacts.** The PIU is fully embedded within the MFTEP and the project is jointly implemented by the two line ministries. This will favor ownership of the project achievements beyond its closure. Feedback through participatory processes will guide adaptive management to respond to changing economic, social, and environmental conditions. This approach will help align the project activities around a shared vision, prioritize and sequence investments and establish a framework for the progressive realization of higher-level objectives, thus promoting the ownership and sustainability of the project's achievements.

52. **The project will underwrite public sector financial sustainability by improving the effectiveness of the public institutions and increasing private sector rents.** In the long term, public finances will benefit from more cost-effective production from public fiscal receipts through new and more profitable enterprises entering the economy and through the timely repayment of public investments supporting private sector productivity.

53. **The Blue Investment Fund is intended to operate as a revolving fund whereby the funds that are repaid are used to replenish the Blue Investment Fund and initiate new loans with no fiscal year limitations.** The project funds will not be used to cover the cost borne by the DBS to manage the Blue Investment Fund. The DBS will collect administrative and management fees based off the interest payments made by borrowers, which will help protect the fund from being depleted.

54. **SeyCCAT is an established independent trust that is not dependent on the Blue Bond proceeds for its sustainability.** SeyCCAT is scheduled to receive US\$432,000 per year from the GOS, over 20 years. Each year, SeyCCAT will distribute US\$281,000 for marine conservation and planning implementation. The remaining US\$151,000 per year will be placed into an endowment, with an expected ending value of US\$6.7 million, after 20 years. The endowment will then fund work starting in the 21st year (after the cash flow from the debt restructuring ends).



V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

55. **Overall risk rating.** Several risks might affect the achievement of the project's objective and the overall risk is rated moderate.

56. **Technical design of project.** The risk related to the technical design of the project is rated substantial. A first risk stems from the uncertainty related to the design and the placement of the Blue Bond in capital markets, including its price. The project would still be viable in the unlikely event that the Blue Bond is undersubscribed, up to approximately 50 percent. In the very unlikely event that it would attract insufficient investments, the project would not be viable and would have to be redesigned. The risk is partially mitigated by the technical assistance provided by the World Bank to the MFTEP, which includes market outreach to make sure that financing terms are attractive to the Seychelles and are consistent with the project objectives and are suitable for an onlending component; direct support in the design of the Blue Bond, including the coordination of IBRD commitments, GEF contribution, and possible other enhancement, if needed; liaising with investors to identify buyers of the placement (see annex 3); and documentation of the transaction involving coordination of legal teams of the World Bank, arranger, and client; and so on.

57. A second risk regarding the technical design is related to the cross-dependency between the components of the project, as described earlier. Components 1, 2, and 3 are intimately linked, with the first two components ensuring that the natural assets that form the resource base for the third component are managed sustainably. It will be decisive that strong fisheries management measures are in place while fisheries value chains are developed to avoid creating a price signal that would further increase the pressure on the fisheries. The GOS has therefore developed a list of eligible investments in the seafood value chains that includes management prerequisites for each of these eligible investments. No investment will be financed unless the management prerequisites are in place. In parallel, the expansion of the fisheries value chains is designed as a key element of adherence and compensation for any restrictive measure implemented as part of the management of the marine areas. Delays in approving and implementing the fisheries management measures will further delay the related investments in the value chains. These delays or inadequate coordination between the management and the value chain activities pose a risk to the reputation of the government, the investors and the World Bank. The synchronization between Components 1 and 2, on the one hand, and Component 3, on the other hand, will be critical to the success of the project.

58. **Institutional capacity for implementation and sustainability.** The risk related to the institutional capacity is deemed substantial. The main risk is the slow implementation due to human resources constraints at the MFTEP; the Ministry of the Environment, Energy, and Climate Change; and the Ministry of Agriculture and Fisheries. This risk will be particularly salient with the Seychelles Fishing Authority, which suffers from human resources constraints and will be implementing a majority of the project activities. A parallel risk stems from difficulties working with several ministries, the fisheries agencies, and the private sector, in a context where multiple simultaneous initiatives in the blue economy and an active business environment can lead to lack of clarity and staff being overloaded. An associated risk relates to potential delays in preparing the marine spatial planning and the Mahé Plateau fisheries management plan that are to be implemented by the project. To reduce these risks and potential delays in preparation



and implementation, the GOS recruited a dedicated Assistant to the Project Coordinator and the project will support the recruitment of any additional personnel, if and when needed. It will also provide technical assistance on specific themes, including statistics and fisheries management, and invest in capacity building and leadership. The World Bank will also conduct frequent implementation support mission to assist the GOS, especially early in the implementation of the project.

59. **Fiduciary.** The fiduciary risk is moderate. The PIU and the DBS have adequate financial management arrangements, but SeyCCAT was recently established and has no history of financial management. The World Bank and the GOS agreed on a set of actions to put in place to mitigate these financial management risks. Weaknesses in procurement capacity will be offset through the placement of a dedicated procurement officer with experience in World Bank procedures as well as through basic and advanced procurement training to staff from the PIU and sector ministries involved in the project procurement processes. The procurement officer will be backstopped by close supervision through the implementation support missions.

60. **Stakeholders.** An additional moderate risk is associated with potential resistance of key public and private sector stakeholders to introduction of reforms, which may not provide equal or short-term benefits or may affect current advantages and status quo. This includes the potential restriction of access to marine resources caused by the gazettement of new sustainable-use marine protected areas and the adoption of fisheries management plans. Potentially affected stakeholders include fishers and operators of the seafood value chains, as well as tourism operators whose activity could be restricted by the gazettement of the protected areas. The use of consultative and transparent processes to increase the protection of marine areas and improve the control of fisheries, the careful design of reform processes, and the identification and compensation of potential losers will help mitigate these risks.

61. **Political and governance.** The Seychelles is encountering historic political changes, and for the first time in its history the opposition won the parliamentary elections in 2016, resulting in an opposition coalition majority in the National Assembly. Significant political developments and changes in government leadership, senior staff, and the configuration of government institutions also occurred in 2016. These evolutions have not affected project preparation significantly and the team does not anticipate serious implementation issues, thus the risk is considered moderate. This risk will be managed by maintaining a frequent dialogue close relationship with many government stakeholders, capitalizing on the World Bank presence in the region.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

62. **Development impact.** The magnitude and main types of expected benefits from the project include improved and transparent resource assessment and access rules at national levels; increased resource rent captured by public and private actors, in particular, from the Seychelles and the region; improved income for fishers and coastal communities; and increased local and national value added from healthy fisheries and postharvest activities.

63. **Results of the economic analysis.** The economic analysis assesses the internal rate of return (IRR) of the project after 5 years and 10 years and is broken down per component and submitted to a sensitivity



analysis. It presents the baseline and the business-as-usual scenario and compares it with the project expected benefits. The IRR of the project estimated at the end of the project (6 years) is relatively high (15.6 percent), rising to 27 percent after 10 years without further investment, and is not overly sensitive to a decrease in expected returns or to increased costs. The economic and financial analysis is detailed in annex 8.

64. **Public rationale.** The activities proposed under the project should be financed by the government. Institutional reforms in the fisheries sector, sustainable management of marine resources, strengthening of the enabling environment for private sector development, and fostering coordination between a wide range of stakeholders can only happen through government action. The project will also support public investments in seafood value chains through the Blue Investment Fund, for which there is a clear argument of additionality as the fisheries sector is notably underserved by financial institutions due to heightened risk perceptions associated with a lack of information and non-traditional cash flow cycles. Consequently, there is currently no market competition to service this sector: in 2016, private credit extended to the fisheries sector represented less than 1 percent of total credit extended by banks, the lowest amount of all the economic sectors in the country. Even the DBS, which has a legal national mandate to provide credit to relatively smaller underserved sectors and businesses, extended only US\$1.7 million in credit to the fisheries sector in 2015 (4.4 percent of total loans). Public support for the establishment of a Blue Investment Fund will provide an initial demonstration effect that the fisheries sector can be bankable and will signal to the market in the short- and medium-term that there is a public commitment to improving management and accountability in the sector, which in turn can comfort and catalyze commercial institutions to make investments, in ports, processing, market development, and various other activities along the fisheries value chain.

65. **World Bank value added.** The World Bank has a comparative advantage in financing the proposed project; it has been at the forefront in supporting the management and development of the SWIO fisheries sector in the past decade, mainly through the implementation of the previous World Bank-managed, GEF-financed South West Indian Ocean Fisheries Project and preparation of the SWIOFish Program. The World Bank's convening power will also be a critical asset to the project to foster cooperation across sectors, boundaries, and donors. In addition, the World Bank's experience in developing and implementing similar operations in Comoros, Madagascar, Mozambique, Tanzania, and Maldives and at the regional level as well as in West Africa and the Pacific will bring significant value added to the achievements of this project.

66. **GEF incremental cost.** The GEF funds will be used to foster the sustainability of the Seychelles' fisheries sector and expand the coverage of sustainable-use marine protected areas. Without GEF funds, the project would focus on supporting the development of the fisheries sector and its value chains but would miss the opportunity to strengthen the sector by promoting the preservation of healthy ecosystems, ensuring the sustainability of its management and linking fisheries with biodiversity conservation. The GEF funds will contribute to enhancing the sustainable use of globally significant biodiversity (Biodiversity Global Environmental Benefit) and restoring and sustaining coastal and marine ecosystems goods and services, including globally significant biodiversity, as well as maintaining the capacity of natural systems to sequester carbon (International Waters Global Environmental Benefit). The incremental cost analysis is detailed in annex 9.



B. Technical

67. **The project adopts an ecosystem approach to fisheries**, whose purpose is to plan, develop, and manage fisheries in a manner that addresses the multiplicity of societal needs and desires without jeopardizing the options for future generations to benefit from marine ecosystems.²¹ The key technical challenge is to design this approach to the specificities of the country and develop the necessary public-private consensus and financing. Building this blend of technical and financial interventions is a vital project aspect. New or revised fishery policy instruments will be based on current analyses of best practices with respect to consensus-based fishing tenure and concessions. The high-cost monitoring, control, and surveillance activities will benefit from new technologies and timely regional information exchange and collaboration to increase cost-effectiveness and deterrence and draw upon recent regional experiences. The economic models and value chain analyses will inform policy and project adaptation and reduce externalities and transaction costs.

C. Financial Management

68. **The overall financial management was assessed to be adequate.** A financial management assessment was conducted to evaluate whether the project meets the World Bank's minimum financial management requirements in OP/BP 10.00. The assessment was done on the three implementing entities that will be responsible for financial management: the PIU, within MFTEP, which will have overall financial management responsibilities, and SeyCCAT and DBS, the two institutions that will be responsible for managing, monitoring and reporting on the Blue Bond proceeds on behalf of the Government. The assessment complied with the Financial Management Manual for World Bank-Financed Investment Operations that became effective on March 1, 2010, as well as with the World Bank Financial Management Assessment and Risk Rating Principles and the Financial Intermediary Financing Guideline. The comprehensive assessment conducted on MFTEP and DBS indicated that the agencies have adequate financial management arrangements. SeyCCAT was established in 2015 and its financial management arrangements were also assessed to be adequate. To further strengthen financial management arrangements of the three institutions, a number of actions were agreed and are set out in annex 5.

D. Procurement

69. Procurement activities for the project will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011, revised July 2014 (Procurement Guidelines); "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011, revised July 2014 (Consultant Guidelines); and "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016 (Anti-Corruption Guidelines), and the provisions stipulated in the financial agreements.

70. The PIU will be the sole unit responsible for managing procurement activities for and on behalf of all the beneficiary agencies. The other agencies (the Ministry for Agriculture and Fisheries and the Ministry

²¹ FAO (Food and Agriculture Organization of the United Nations). 2003. *The Ecosystem Approach to Fisheries*. FAO Technical Guidelines for Responsible Fisheries. Rome, FAO.



of Environment, Energy and Climate Change) will be responsible for drafting the terms of reference and technical specifications, as the case may be, for carrying out the evaluation and drafting of reports for the procurement of goods and selection of consultant under their respective agencies, and for the monitoring of the relevant contracts during their implementation. Procurement arrangements are further detailed in annex 5.

E. Social (including Safeguards)

71. **The project will make specific provisions for enforcement of access restrictions to some fishing grounds through fisheries management and marine protected areas.** This triggers the Involuntary Resettlement safeguard policy (OP/BP 4.12), although the project will not finance activities that involve physical resettlement of persons as a result of involuntary land acquisition. The Government has prepared a Process Framework to avoid, minimize or mitigate potential adverse effects of access restrictions and ensure project affected persons are meaningfully consulted and enabled to participate in project activities that may affect them. Public consultations about these project activities will be held and information disclosed before their design is finalized. A Livelihood Restoration Plan will be developed during the consultation and stakeholder engagement process to improve or restore the livelihoods of project affected persons to pre-displacement levels while maintaining the sustainability of the protected area. The GOS prepared appropriate grievance-handling procedures and arrangements. The project will also pay particular attention to social impacts of the fisheries management process and will ensure that any market-based instruments that are designed as management tools are not detrimental to social equity. The Process Framework has been consulted with key stakeholders on March 7, 2017 and has been disclosed in the Seychelles on May 11, 2017 and published by the World Bank on May 12, 2017.

F. Environment (including Safeguards)

72. **The project is expected to have a substantial positive environmental impact** not only directly on the marine and coastal environment but on the institutional stewards and the users of the coastal natural resources. It will establish practices for the sustainable and profitable use of marine and coastal fisheries resources and contribute directly to the adaptive capacity of the coastal communities, many of which are in the front line of climate change. The core natural resource governance foundation of the project is expected to ensure conformity with safeguard policies triggered.

73. **The project is classified as Category B (partial assessment), in accordance with World Bank Safeguards Policies.** Regarding applicable safeguard policies, Environmental Assessment (OP/BP 4.01) is triggered as the project may have localized negative impacts stemming from limited infrastructure investments (such as building, renovation, or expansion of small value chain infrastructures, including aquaculture). Likewise, Natural Habitats (OP/BP 4.04) has been triggered as the project is expected to have impacts on the coastal and marine environment from activities such as the expansion of seafood value chains and aquaculture subprojects. An Environmental and Social Management Framework has been prepared, which details screening procedures for environmental and social impacts and outlines proposed mitigation measures, which will be incorporated into site-specific Environmental and Social Management Plans. The Environmental and Social Management Framework also builds in requirements for public consultations and information disclosure, and appropriate grievance handling procedures and arrangements for monitoring of the Environmental and Social Management Plans. The Environmental and Social Management Framework has been consulted with stakeholders on March 7, 2017 and disclosed in



the Seychelles on May 11, 2017 and published by the World Bank on May 12, 2017.

G. Other Safeguard Policies

74. **Borrower's responsibilities regarding the United Nations Convention on the Law of the Sea.** The World Bank's OP 4.01 addresses project activities and their relation to international treaties and agreements. The Seychelles has signed and ratified the United Nations Convention on the Law of the Sea. To be eligible for World Bank financing for fisheries enforcement, the fisheries legislation of the country should be compatible with the Convention, particularly its Article 73, whereby any foreign vessels and crews detained in the EEZ will be immediately released upon posting a reasonable bond, and the flag of the vessel is immediately notified. As part of the project preparation, the World Bank reviewed the Seychelles' fisheries legislation and confirmed its adequacy.

H. World Bank Grievance Redress

75. Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank's Grievance Redress Service. The Grievance Redress Service ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service, please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY : Southern Africa

Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)

Project Development Objectives

The Project Development Objective is to improve management of marine areas and fisheries in targeted zones and strengthen fisheries value chains in the Seychelles.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: 1. Sustainable-use marine protected areas with a Management Effectiveness Tracking Tool (METT) score of 50 or higher		Hectare(Ha)	0.00	5000000.00	Annual	METT scoring assessment	PIU M&E function

Description: The METT is a widely used globally applicable generic systems developed to assess protected area management effectiveness. The METT is designed to be a simple and rapid site assessment system to measure progress in management effectiveness at particular sites over time and to identify actions to address any management weaknesses. The METT consists of two main sections: datasheets of key information on and main threats to the protected area and an assessment form containing a questionnaire with four alternative responses to 30 questions, each with an associated score, a data field for notes and a justification for the answers, and a place to list steps to improve management if necessary. These 30 questions cover all aspects of management, including legal status, law enforcement, design, management plans, monitoring, control and surveillance, staffing, budgeting, equipment, awareness, land-use planning, community involvement, economic benefits, tourism, and monitoring and evaluation.

Significance: The indicator measures the improved management of marine areas, supported by component 1. The project will support the Government in progressively



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
<p>creating and managing sustainable-use marine protected areas covering 15% of its EEZ. This indicator will measure both the coverage and the management effectiveness, with a view to reflecting the quality of the newly created protected areas.</p> <p>The indicator relates to the first indicator of the SWIOFish Program: “status of fish stocks”.</p>							
Name: 2. Share of key demersal indicator species stable or rebuilding in the Mahé Plateau fisheries		Percentage	11.00	55.00	Annual	Gutierrez 2014 (baseline). SFA annual assessments.	PIU M&E function
<p>Description: The key demersal indicator species are: Lutjanus sebae, Aprion virescens, Epinephelus chlorostigma, Lutjanus bohar, Carangoides gymnotethus, Carangoides fulvoguttatus, Gymnocranius robinsoni, Lethrinus crocineus and Lutjanus coccineus. Together, these species constitute more than 80% of artisanal fisheries catch. The baseline is provided by Gutierrez (2014). The assessment of the status of the stock will use the catch-per-unit-effort (CPUE) derived from available SFA data and statistically standardized to improve its interpretation as an abundance index, combined with catch data provided by SFA.</p> <p>Significance: The indicator measures the improved management of fisheries, supported by component 2. It is a proxy for the improvement of the health of the main artisanal fisheries in Seychelles: the Mahé Plateau fisheries. The improvement of this health is the main environmental outcome of the improved fisheries management measures that the project will help implement.</p> <p>The indicator relates to the first indicator of the SWIOFish Program: “status of fish stocks”.</p>							
Name: 3. Ratio between consumer price per kilogram and landed catch price per kilogram in artisanal fisheries		Percentage	110.00	130.00	Quarterly	Ad-hoc data collection and review of SFA price list (basket of species)	PIU M&E function
<p>Description: The consumer price will be the local consumer price of the most processed fish. Landed catch price per kg: SFA price review.</p> <p>Significance: The indicator measures the strengthening of value chains supported by component 3, focusing on the artisanal fisheries. It measures the difference in price</p>							



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
<p>between the landed catch (price before value is added) and the consumer price (price after value is added), reflecting the evolution of value addition in the value chain. Little value is currently added to seafood produced from artisanal fisheries in Seychelles, and the fish is mostly sold fresh with little transformation to the end consumer, hotels, and restaurants. It is expected that the Blue Investment Fund will support Seychellois entrepreneurs in this value-chain, financing the setting up of transformation facilities, creating jobs and increased revenues for the Seychellois. In order to capture the highest value addition, the indicator will use the local consumer price of the most processed fish. The domestic seafood market is relatively competitive and the ratio is assumed not to be a reflection of market failures.</p> <p>The indicator relates to the second and the third indicators of the SWIOFish Program: “fisheries-related GDP in participating countries”, and “local fisheries-related value addition benefitting the households”.</p>							
Name: 4. Share of by-catch landed and sold in the Seychelles		Percentage	10.00	50.00	Annual	Review of SFA reports on by-catch landed and sold (Fisheries Economic Intelligence Unit)	PIU M&E function
<p>Description: Review of SFA reports on by-catch landed and sold. This data will also be provided by the Fisheries Economic Intelligence Unit once set up.</p> <p>Significance: The indicator measures the strengthening of value chains supported by component 3, focusing on the industrial and semi-industrial fisheries. By-catch (e.g. marlin, kingfish, rainbow runners, dorado) is produced by industrial and semi-industrial fishing boats and is currently insufficiently used by the Seychellois industry. It is one of the main future options for the expansion of value chains in the country and it is anticipated that the Blue Investment Fund will support Seychellois entrepreneurs investing in by-catch processing facilities. These investments will create jobs and increase revenues for the Seychellois. The indicator is a proxy for this value addition, considering that by-catch sold will be processed.</p> <p>The indicator relates to the second and the third indicators of the SWIOFish Program: “fisheries-related GDP in participating countries”, and “local fisheries-related value addition benefitting the households”.</p>							
Name: 5. Share of citizens of the Seychelles who rate management of sustainable-use marine areas and		Percentage	0.00	50.00	Biennial	Perception survey	PIU M&E function



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
selected fisheries as 'Satisfactory' or above (disaggregated by sex and age)							
Share of female citizens of the Seychelles who rate management of sustainable-use marine areas and selected fisheries as 'Satisfactory' or above (disaggregated by age)		Percentage	0.00	50.00	Biennial	Perception survey	PIU M&E function
Share of male citizens of the Seychelles who rate management of sustainable-use marine areas and selected fisheries as 'Satisfactory' or above (disaggregated by age)		Percentage	0.00	50.00	Biennial	Perception survey	PIU M&E function
<p>Description: Perception survey. The survey will be designed during the first year of implementation and will include elements related to: the effectiveness of monitoring, control and surveillance; the sharing of the benefits; and the regeneration of the fish stocks.</p> <p>Significance: The indicator measures the citizen's perception of the two groups of marine environment management measures supported by the project: the sustainable-use marine protected areas and the fisheries management plans, mostly the Mahé Plateau fisheries management plan. Citizen engagement in and endorsement of these management measures is key to their success and the project will invest in communication, awareness-raising and liaison officers to ensure that the population is engaged in the efforts undertaken by the Government and the trade-offs they entail</p> <p>The Government will adopt an adaptive management approach to the implementation of the different management measures. It will use the results of the perception</p>							



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
surveys to regularly assess and improve the implementation of these management measures. Using the citizens' input is expected to facilitate improved development outcomes. The Government will also provide tangible responses to the perception surveys in order to close the feedback loop and help meet citizens' expectations for change created by their engagement. The indicator will be disaggregated by sex and age to improve the Government's understanding of the perception of diverse subsets of the population, differently impacted by the management measures.							

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: 1.1 Area with submission for gazettment to the Parliament as a sustainable-use marine protected area with agreed-upon management plans developed in a consultative manner		Hectare(Ha)	0.00	10000000.00	Annual	Review of gazettment documents, management plans and proceedings of consultations	PIU M&E function

Description:

Name: 1.2 Annual air surveillance trips in sustainable-use marine protected areas		Number	0.00	7.00	Annual	Review of flight reports from coast guard	PIU M&E function
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Description:



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: 1.3 Sustainable-use marine protected areas managed by non-state actors		Number	0.00	3.00	Annual	Review of annual report by non-state actors on management of sustainable use marine protected areas	PIU M&E function
Description:							
Name: 2.1 Fisheries management plans implemented		Number	2.00	5.00	Annual	Review of stock assessment, licensing system and input and out controls by Ministry of Fisheries	PIU M&E function
Description: Fisheries managed according to defined criteria: 1. Stock assessment 2. Controlled access (licensing) 3. Controlled capacity and fishing mortality (input and output control to be defined by management planning)							
Name: 2.2 Performance review of fisheries management plans		Yes/No	N	Y	Biennial	Review of performance review minutes	PIU M&E function
Description:							



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: 2.3 Fisheries economic intelligence information publicly accessible		Yes/No	N	Y	Annual	Review of relevant website(s)	PIU M&E function
Description:							
Name: 3.1 Share of landed catch from domestic fisheries sold via auction		Percentage	0.00	10.00	Annual	Review of SFA annual reports (landed catch) and auction house reports (sale via auction)	PIU M&E function
Description:							
Name: 3.2 Food fish sold commercially from in-shore aquaculture		Yes/No	N	Y	Annual	Review of SFA annual reports	PIU M&E function
Description:							
Name: 3.3 Proportion of landed catch from artisanal fisheries in labelling scheme		Percentage	10.00	30.00	Annual	Review of FBOA reports	PIU M&E function
Description:							



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description:							
Name: 3.4 Blue Investment Fund approval rate		Percentage	0.00	60.00	Annual	Review of Development Bank of Seychelles interim financial reports	PIU M&E function
Description: Share of approved loans on the total capital of the Blue Investment Fund							



Target Values

Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	End Target
1. Sustainable-use marine protected areas with a Management Effectiveness Tracking Tool (METT) score of 50 or higher	0.00	0.00	0.00	0.00	2000000.00	4000000.00	5000000.00	5000000.00
2. Share of key demersal indicator species stable or rebuilding in the Mahé Plateau fisheries	11.00	11.00	11.00	33.00	33.00	55.00	55.00	55.00
3. Ratio between consumer price per kilogram and landed catch price per kilogram in artisanal fisheries	110.00	110.00	110.00	115.00	120.00	125.00	130.00	130.00
4. Share of by-catch landed and sold in the Seychelles	10.00	10.00	10.00	15.00	20.00	30.00	50.00	50.00
5. Share of citizens of the Seychelles who rate management of sustainable-use marine areas and selected fisheries as 'Satisfactory' or above (disaggregated by sex and age)	0.00		10.00		20.00		50.00	50.00
Share of female citizens of the Seychelles who rate management of sustainable-use marine areas and selected fisheries as 'Satisfactory' or above (disaggregated by age)	0.00		10.00		20.00		50.00	50.00



Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	End Target
Share of male citizens of the Seychelles who rate management of sustainable-use marine areas and selected fisheries as 'Satisfactory' or above (disaggregated by age)	0.00		10.00		20.00		50.00	50.00

Intermediate Results Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	End Target
1.1 Area with submission for gazettment to the Parliament as a sustainable-use marine protected area with agreed-upon management plans developed in a consultative manner	0.00	0.00	0.00	0.00	2000000.00	5000000.00	10000000.00	10000000.00
1.2 Annual air surveillance trips in sustainable-use marine protected areas	0.00	0.00	0.00	2.00	3.00	5.00	7.00	7.00
1.3 Sustainable-use marine protected areas managed by non-state actors	0.00	0.00	0.00	0.00	1.00	2.00	4.00	3.00
2.1 Fisheries management plans implemented	2.00	2.00	2.00	2.00	3.00	4.00	5.00	5.00
2.2 Performance review of fisheries management plans	N		N		Y		Y	Y



Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	End Target
2.3 Fisheries economic intelligence information publicly accessible	N	N	N	Y	Y	Y	Y	Y
3.1 Share of landed catch from domestic fisheries sold via auction	0.00	0.00	0.00	0.00	2.00	5.00	10.00	10.00
3.2 Food fish sold commercially from in-shore aquaculture	N	N	N	N	N	Y	Y	Y
3.3 Proportion of landed catch from artisanal fisheries in labelling scheme	10.00	10.00	10.00	20.00	20.00	30.00	30.00	30.00
3.4 Blue Investment Fund approval rate	0.00	0.00	10.00	15.00	25.00	45.00	60.00	60.00



ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY: Seychelles

Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)

Project Development Objective

1. The Project Development Objective is to improve management of marine areas and fisheries in targeted zones and strengthen fisheries value chains in the Seychelles.
2. SWIOFish3 will support the GOS in achieving its dual objectives of marine resources conservation and expansion of the seafood value chains. Seafood value chains are a cornerstone of the country's blue economy strategy and their expansion is expected to deliver long-term, resilient growth, jobs, and food security and will be the focus of Component 3. However, this development will not be sustainable if the marine resource base is not properly managed, which will be supported by Components 1 and 2. Because marine and coastal resource management will potentially translate into reduced access to the resource, Component 3 will compensate fishers for any loss of access and foster adherence to the management measures.

Project Components

Component 1: Expansion of sustainable-use marine protected areas

Budget: US\$4.15 million

Including: US\$2.65 million (GEF grant)
US\$1.5 million (Blue Bond proceeds)

3. The first component of the project will support the GOS to implement its pledge to protect an increasing share of its maritime space. It will build on the marine spatial planning exercise that the Government is currently undertaking through a scientific and consultative process.
4. In partnership with the Nature Conservancy and in the framework of an innovative climate adaptation debt restructuring, the Seychelles pledged to protect 30 percent of its EEZ by 2020 and initiated a marine spatial planning exercise to serve as the foundation of its sustainable blue economy strategy. This marine spatial planning exercise started in 2014 and will progressively identify and gazette areas amounting to 15 percent of the EEZ to be protected as high biodiversity zones and another 15 percent to be protected as medium biodiversity zones, allowing for some sustainable economic activities—including controlled fishing ('sustainable-use marine protected areas'). The debt restructuring supported by The Nature Conservancy reduces the cost of part of the debt the Seychelles owes to its Paris Club creditors. In turn, it allows the Seychelles to fund marine conservation and climate adaptation with the cost difference. These funds are channeled through a sinking fund, for immediate measures, and through an endowment fund that will ensure a sustainable financing stream in the future. Both of these funds will be hosted by SeyCCAT.
5. The sustainable-use marine protected areas will allow for some sustainably managed economic activities, including fisheries and tourism, and they will be the focus of Component 1. The high biodiversity



areas will be managed under stricter protection and will be the focus of a parallel project financed by the GEF and the UNDP. Component 1 will generate climate adaptation co-benefits by expanding the protection of marine biodiversity and strengthening the resilience of the coasts and oceans to climate change.

Box 1.1. The Seychelles Marine Spatial Planning

The Seychelles committed to protect 30 percent of its EEZ and a comprehensive marine spatial planning to ensure species and habitats have long-term protection, improve resiliency of coastal ecosystems with a changing climate, and ensure economic opportunities for fisheries, tourism and other uses. The 30 percent marine protection will be zoned in high and medium biodiversity protection areas - each about 15 percent of Seychelles' waters - and compatible uses will be identified to align with biodiversity objectives. Once approved, the Seychelles marine spatial plan will be the second largest in the world after Norway.

The Seychelles marine spatial planning initiative began in early 2014. It is a government-led process aimed at supporting the sustainable and long-term use and health of the waters throughout Seychelles' EEZ. It is an integrated, multi-sector approach to address climate change adaptation, marine protection, and support the Blue Economy and other national strategies. It receives input from all major sectors including commercial fishing, tourism and marine charters, biodiversity conservation, renewable energy, port authority, maritime safety, and non-renewable resources. Science, spatial data, economic information and local knowledge are being used to propose zones for biodiversity protection and multiple uses. The marine spatial plan will be regulatory to guide policy and economic development.

Phase 1 of the marine spatial planning was launched in 2014 and lays the foundation for a coarse-scale zoning design and draft management considerations. It will conclude at the end of 2017. At this point, 5 percent of high biodiversity and 10 percent of medium biodiversity zones will be identified and approved. Phase 2 will include identifying the remaining 10 percent of high biodiversity zones and 5 percent of medium biodiversity zones, refining the zoning design and management considerations, developing an implementation plan and new regulations. Phase 2 will conclude in 2020.

The Seychelles Marine Spatial Planning Initiative outputs are:

- Spatial data catalogue
- Zoning framework and planning tools
- Stakeholder preferences, advice and input
- 'Marine Spatial Planning Atlas' and decision-support tools
- Website and communication materials
- Zoning design for 1.37 million km²
- Management considerations for all zones
- 15% of Seychelles' waters in high biodiversity protection zones and compatible uses
- 15% of Seychelles' waters in medium biodiversity protection zones and compatible uses
- 70% of Seychelles' waters in multiple use zones
- Draft implementation plan

6. **Subcomponent 1.1: Expansion of the sustainable-use marine protected areas (GEF US\$1 million).** The first subcomponent will expand the coverage of sustainable-use marine protected areas by supporting their creation and the preparation of related management plans and specific regulations. This will entail investments in (a) research to define the management measures and mortality controls and assess the blue carbon potential; (b) consultancies to prepare management plans for the first sustainable-



use marine protected areas, including the definition of their governance mechanisms; (c) the preparation of the regulations required to create and operationalize these marine areas; and (d) consultations to revise the zoning of the sustainable-use marine protected areas.

7. **Subcomponent 1.2: Management of the sustainable-use marine protected areas (GEF US\$1.65 million).** The second subcomponent will contribute to the operationalization of these sustainable-use marine protected areas by investing in their effective management. It will include (a) equipment and training to strengthen the relevant public institutions and allow them to supervise the areas and enforce the management measures adequately and cost-effectively; (b) the monitoring, control, and surveillance of the natural resources and economic activities, including satellite-based imaging, patrols, staff costs, equipment, and infrastructure; (c) intense communication, consultations, and capacity-building efforts targeted at the main stakeholders, including fishers, tourism operators, and government; and (d) the promotion of more sustainable practices, mostly in the tourism and fisheries sectors, aiming, for instance, at reducing energy consumption, waste generation, bycatch, and discards of fish, improving fish handling and selective fishing. The subcomponent will also finance the capacity building and third-party evaluation (by independent consultants) necessary to assess the management effectiveness of the sustainable-use marine protected areas, through the METT.²²

8. **Subcomponent 1.3: Blue grants (Blue Bond \$1.5 million).** A portion of the Blue Bond proceeds (tentatively 10 percent) will be disbursed as grants to strengthen the sustainable-use marine protected areas network. An indicative list of eligible activities is detailed in the table below.

Table 1.1. Indicative List of Eligible Activities for the Blue Grants Fund under Component 1

Activity Focal Area	Prerequisites	Eligibility of application ²³
Research for fisheries management (e.g. stock assessment, socioeconomics)	Marine Spatial Planning Phase I complete (zones confirmed)	- Compliant with MSP allowable activities table and regulations - Seychelles Bureau of Standards research approval or Seychelles Fishing Authority mandate
Development and implementation of management plans	- Marine Spatial Planning Phase I complete (zones confirmed) - Marine Spatial Planning governance and implementation plan operational	- Application demonstrates context-specific due diligence
Education and awareness programs	None	Application demonstrates context-specific due diligence
Capacity building and training activities	Marine Spatial Planning governance and implementation plan operational	Zone-specific capacity building needs assessment complete

²² The METT is designed to be a simple and rapid site assessment system to measure progress in management effectiveness at particular sites over time and to identify actions to address any management weaknesses. The METT consists of two main sections: datasheets of key information on the protected area and an assessment form containing a questionnaire with four alternative responses to 30 questions, each with an associated score, a data field for notes and a justification for the answers, and a place to list steps to improve management if necessary. Although designed as a self-assessment tool, METT implementation can involve verification processes, including checking of completed METTs by external assessors. Refer to: www.protectedplanet.net/system/comfy/cms/files/files/000/000/045/original/WWF_METT_Handbook_2016_FINAL.pdf.

²³ SeyCCAT criteria also apply. Environmental and Social Management Framework and Process Framework applies to all applications.



Activity Focal Area	Prerequisites	Eligibility of application ²³
Strengthening of monitoring, control and surveillance	Management plan operational for relevant zone(s), which includes approved monitoring, control and surveillance protocol	Demonstrates engagement with relevant authorities and authorized officers unless otherwise specified in monitoring, control and surveillance protocol
Promotion of sustainable practices in marine tourism	Marine Spatial Planning manuals of best practice/protocols operational	Licensed (hirecraft) and permitted (Fisheries Act 2014) operators

Component 2: Improved governance of priority fisheries

Budget: US\$4.15 million

Including: US\$2.65 million (GEF grant)

US\$1.5 million (Blue Bond proceeds)

9. The second component of the project will have a greater focus on national fisheries management, including the finalization and the implementation of the two main management frameworks currently prepared by the Government: the Mahé Plateau and the Praslin fisheries management plans. It will prepare or update additional fisheries management plans, thus covering over 90 percent of the country’s fisheries in volume and value. This second component will also reinforce the sector’s governance by an array of targeted investments. Component 2 will generate climate adaptation co-benefits by fostering sustainable and ecosystem-based management of fisheries and strengthening the resilience of the coasts and oceans to climate change.

10. **Subcomponent 2.1: Fisheries management (GEF US\$1.6 million).** The first subcomponent will support the preparation and implementation of several management plans for the Mahé Plateau, the Praslin, the sea cucumber, and the domestic tuna fisheries. The sea cucumber and the domestic tuna fisheries management plans will be national. The subcomponent will finance (a) stock assessments, socioeconomic impact assessments, preparation, and regular reviews of the management plans; (b) capacity building for the Steering Committees of the fisheries management plans and the different fishers associations; (c) a liaison officer at the Seychelles Fishing Authority to serve as the main point of contact for the artisanal fishers within the Government; (d) monitoring, control, and surveillance, including vessel monitoring system equipment and installation for the Fisheries Monitoring Center and for coastal patrol boats; (e) the certification of the semi-industrial longline fishery; and (f) the preparation and implementation of fleet capacity management plan, including a frame survey, updated licensing framework, and updated legal framework.

11. **Subcomponent 2.2: Fisheries and marine environment statistics (GEF US\$0.8 million).** The second subcomponent will strengthen the provision of relevant and reliable information on the status of the marine environment and fisheries and their respective contribution to the economy. First, it will improve the fisheries data, including catch data, and information systems by (a) contributing to the finalization of the fisheries information system designed with the support of the French Research Institute for the Exploitation of the Sea (*Institut Français de Recherche pour l'Exploitation de la Mer, IFREMER*), including fish size data capture; (b) financing related training for government statisticians; (c) developing a longline data logbook module; and (d) developing the new fisheries information management system.



Second, it will improve the fisheries economic monitoring through support to the nascent Fisheries Economic Intelligence Unit (technical assistance, operational costs, and training) and the design and setting up of a satellite economic account for fisheries by the National Bureau of Statistics. Socio-economic data will be sex-and age-disaggregated.

12. **Subcomponent 2.3: Fisheries sector institutions (GEF US\$0.25 million).** The fisheries sector currently suffers from an inadequate fisheries institutional framework, with unclear and diffuse objectives, not in phase with the importance of the sector for the national economy. The third subcomponent will ensure that the institutions involved in fisheries management are in a position to contribute to it. It will in particular finance (a) the drafting of a fisheries sector policy note; (b) the development of the fisheries sector policy and strategy and its midterm review; (c) an assessment of the current public support to the fisheries sector, including the subsidies; (d) the update of the legal framework, including laws, regulations and policies;²⁴ and (e) capacity building and ad hoc technical assistance for the relevant public entities, including the Ministry of Agriculture and Fisheries and the Seychelles Fishing Authority. The third subcomponent will also finance the dissemination of project activities and results, the setting up of a website, and the participation of the Seychelles in the IW:LEARN activities. At least 1 percent of the GEF funds from the IW window will be allocated to this.

13. **Subcomponent 2.4: Blue grants (Blue Bond US\$1.5 million).** A portion of the Blue Bond proceeds (tentatively 10 percent) will be disbursed as grants to strengthen the management of fisheries in the Seychelles. An indicative list of eligible activities is detailed in the table below.

Table 1.2. Indicative List of Eligible Activities for the Blue Grants Fund under Component 2

Activity Focal Area	Prerequisites	Eligibility of application ²⁵
Research for fisheries management and development	Management plan drafted or operational	- Research explicitly linked to management standards (e.g. reference points) in plan - Seychelles Bureau of Standards research approval or Seychelles Fishing Authority mandate
Fisheries management planning	- Fishery-specific licensing system operational - Fisheries management units defined by Seychelles Fishing Authority	- Stakeholders consulted on proposal - Includes Ecosystem - Approach to Fisheries and co-management - Consistent with regional measures if applicable (e.g. IOTC)
Education and awareness programs by fisher associations	None	- Association registered - Application demonstrates context-specific due diligence
Capacity building support to fisher associations	Association registered or statement of intent to register	Application demonstrates context-specific due diligence
Strengthening of monitoring, control and surveillance	Management plan operational, which includes approved monitoring, control and surveillance protocol	Demonstrates engagement with relevant authorities and authorized officers unless otherwise specified in monitoring, control and surveillance

²⁴ The project will support the preparation of the related legal instruments, but their approval is beyond its scope.

²⁵ SeyCCAT criteria also apply. Environmental and Social Management Framework and Process Framework applies to all applications.



Activity Focal Area	Prerequisites	Eligibility of application ²⁵
		protocol
Promotion of sustainable practices in fisheries capture, services and post-harvesting sectors (e.g. energy efficiency)	For capture fisheries, management plan and fishery-specific licensing system operational	- Capture fishing: sustainability further defined by Marine Spatial Planning and management plan - Value chain data collected and shared
Preparation of proposals to Blue Investment Fund (e.g. feasibility study, business plan)	Elaboration of a standardized assessment methodology for the proposals to the Blue Investment Fund	- Compliant with Blue Investment Fund indicative list - Compliant with Sustainable Investment Scheme
R&D on new or underexploited resources	Policy and regulation on new and emerging fisheries enacted	- Seychelles Fishing Authority research approval Involves existing fishing boats/operators - Data sharing agreement
R&D for innovation in post-harvesting and marketing	- Assessment of maximum carrying capacity for investment in post-harvesting/service sectors - Management plan operational (depending on product)	- Application demonstrates context-specific due diligence - Data sharing agreement

Component 3: Sustainable development of the blue economy

Budget: US\$16.0 million

Including: US\$4.0 million (IBRD loan)
US\$12.0 million (Blue Bond proceeds)

14. Component 3 will help finance the sustainable development of the Seychelles blue economy and support increased value addition in the aquaculture, industrial, semi-industrial, and artisanal fishing and processing sectors. Component 3 will also help compensate fishers for any reduced access to the resource resulting from marine and coastal resource management measures implemented under Components 1 and 2 and foster adherence to the management agenda. IBRD funds will be used under subcomponents 3.1 to 3.4 to improve the enabling environment for the development of the blue economy and generate a pipeline of investments. A Blue Investment Fund will be created under subcomponent 3.6 with the Blue Bond proceeds to provide loans for such investments. To some extent, Component 3 will generate climate adaptation co-benefits by diversifying the Seychelles’ economy and reducing its vulnerability to the impacts of climate change.

15. **Subcomponent 3.1: Expansion of the seafood value chains (IBRD US\$1.6 million).** The first subcomponent will facilitate the expansion of value chains and promote synergies with other value chains (for example, tourism). It will (a) identify value chain development opportunities and provide targeted capacity building to fishers and operators; (b) support the Government and the Fishermen and Boat Owners Association to complete and start the operation of an innovative artisanal fish auction house, the Providence Fish Center (economic and financial feasibility study, installation of the refrigeration system and ice plant, and design and installation of the sales platform); (c) install a small ice plant and bait storage



on Praslin; (d) promote the nascent labelling scheme for sustainable artisanal fisheries, linking the fisheries and tourism value chains (label program coordinator, design and materials, participation in trade fairs, internationally recognized certification); and (e) better include the sport and recreational fisheries in the fisheries management effort, through education and awareness programs and marketing to promote tagging and catch-and-release, and the development of the related electronic logbook application.

16. **Subcomponent 3.2: Enabling environment for local investments in the aquaculture sector (IBRD US\$0.8 million).** Aquaculture is a key component of the Seychelles' blue economy strategy, and the Government prepared an ambitious national aquaculture master plan to provide the framework for its development. The second subcomponent will strengthen the enabling environment to promote local, small-scale, and sustainable investments in aquaculture, with a view to releasing pressure on some capture fisheries and providing fishers with alternative opportunities. It will finance environmental and social impact assessments for local investments in inshore and land-based aquaculture, build capacity of investors and the Seychelles Fishing Authority, and develop training courses and long-term human capital development plans.

17. **Subcomponent 3.3: Strategic development of the blue economy (IBRD US\$1 million).** The blue economy is currently developed in a suboptimal fashion, as investments are often approved and land allocated without sufficient feasibility assessments, coordination, and strategic vision. The GOS placed a renewed emphasis on the sustainable development of its blue economy, and the third subcomponent will support improved planning and decision-making mechanisms. This will also serve as the foundation for the activities of the Blue Investment Fund (see subcomponent 3.5). The third subcomponent will in particular strengthen the performance of loan schemes and their alignment with the blue economy objectives, financing the elaboration of standardized proposal assessment methodologies and related training (to be used in the Blue Investment Fund), and an assessment of the maximum carrying capacity for investments in the fishing post-harvesting and service sectors. It will also prepare the ground for investment opportunities, by providing technical assistance to facilitate a sustainable, economically sound port development process and conducting the studies necessary to the development of different areas of the blue economy: feasibility of vessel refitting, decommissioning, and buyback; policy and management for new and emerging fisheries; scoping study for small-scale boat repair; and policy development for improved cold-chain management and services. It will also develop the understanding of the role of women and youth in the sector and propose and implement strategies to close any gender or age gaps. It will finally contribute to the improvement of labor conditions and the attractiveness of jobs at sea for the Seychellois, including women and youth, by developing policies and standards to improve recruitment and retention of local crew and skippers and implementing these measures. The gender assessment to be undertaken will also inform the adaptive design of the Blue Grants Fund and the Blue Investment Fund, which could give special considerations to a subset of the population, including women or youth, if necessary.

18. **Subcomponent 3.4: Sanitary and phytosanitary monitoring (IBRD US\$ 0.6 million).** The development of the blue economy in the Seychelles relies heavily on future exports of seafood products to foreign markets and thus the capacity of the country to meet international sanitary and phytosanitary standards. The current systems revealed some limitations during a recent mercury crisis in tuna-like species, blocking exports to the EU, their primary market. The fourth subcomponent will strengthen the sanitary and phytosanitary monitoring capacity in the Seychelles through the setting up of an enhanced



monitoring program, and providing for the related training, equipment, and technical assistance.

19. **Subcomponent 3.5: Blue Investment Fund (Blue Bond US\$12 million).** A Blue Investment Fund will be created with part of the proceeds of the Blue Bond (tentatively 80%) to finance private and public investments aimed at facilitating the implementation of the Mahé Plateau fisheries management plan and the transition from open-access to better controlled fisheries. These investments will include alternative business opportunities for fishers in the seafood value chain, the restructuring of fishing capacity, and the rebuilding of stocks. To avoid these investments from creating a price signal that would increase the pressure on the resource, a list of acceptable projects has been developed that includes management prerequisites. This list is presented in the table below.

Table 1.3. Indicative List of Eligible Activities for the Blue Investment Fund

Focal Area	Activity	Prerequisites	Eligibility of application ²⁶
Stock Rebuilding	GoS purchase of catch limit portion		
	GoS buyback of catch of individual vessels (linked to decommissioning)		
	GoS purchase of catch shares		
Restructuring of Fishing Capacity	Refitting vessels for tourism	Fleet management plan and fisheries licensing framework operational (phase 2 of management plan)	Refitting feasible
	Refitting vessels for longline tuna fishing	- Demersal fleet management plan and fisheries licensing framework operational (phase 2 of management plan) - Domestic tuna fisheries co-management plan operational - Sustainability of the tuna stocks (regional conservation management effective) - Associated growth of the services and processing sector	Refitting feasible
	Refitting vessels for under- or unexploited fisheries	- Fleet management plan and fisheries licensing framework operational (phase 2 of management plan) - Mechanism in place for R&D of the unexploited fisheries	Refitting feasible
	Vessel decommissioning or buyback	- Related fisheries management plan operational and catch limits adopted	
Aquaculture	Land-based production of high	- Mariculture master plan	- Compliant with

²⁶ DBS financial due diligence criteria apply. Environmental and Social Management Framework and Process Framework applies to all applications.



Focal Area	Activity	Prerequisites	Eligibility of application ²⁶
	value niche products (e.g. crustaceans, sea urchins, ornamental corals and fish)	operational - Support services available	the mariculture master plan - Land allocated
	Sea ranching of high value products (e.g. sea cucumbers)	- Mariculture master plan operational - Support services available	- Compliant with the mariculture master plan - Land and seabed allocated
Fish Processing and Value Addition	Medium to large-scale processing and product development, with an emphasis on pelagic species (e.g. tuna loins, sashimi-grade tuna, bycatch)	- Positives results from “the value-chain and feasibility study to guide investments in the processing and services sector” - Fishing Port Development Committee strengthened	- Approval by the Fishing Port Development Committee, if relevant - Land allocated
	Small to medium-scale bio-refineries for fish processing by-products (e.g. oil, collagen, amino acid, mineral production)	- Positives results from “the value-chain and feasibility study to guide investments in the processing and services sector” - Fishing Port Development Committee strengthened	- Approval by the Fishing Port Development Committee, if relevant - Land allocated
Services Sector/Logistics Support	Ancillary enterprises for cold storage and cold-chain maintenance	Positives results from “the value-chain and feasibility study to guide investments in the processing and services sector”	- Approval by the Fishing Port Development Committee, if relevant - Land allocated
	Small- to medium-scale enterprises for agencies providing vessels services (e.g. stevedoring, chandlery). Focus on integration of logistical services to include ice, bait, and gear for the demersal and semi-industrial fisheries	Positives results from “the value-chain and feasibility study to guide investments in the processing and services sector”	- Approval by the Fishing Port Development Committee, if relevant - Land allocated
	Small- to medium-scale enterprises for logistical services to the aquaculture sector, including security services for onshore and offshore installations	Mariculture master plan in place	Land allocated
Services Sector/Scientific Support	Fisheries observer companies		
	Environmental monitoring consultancy firms		
	Fisheries science and management consultancy companies		



20. **Subcomponent 3.6: Blue Bond (GEF Non-Grant Instrument Pilot US\$5 million).**²⁷ The GEF Non-Grant Instrument Pilot will be used by the Government to reduce the financing cost of the Blue Bond issuance through, inter alia, (i) the capitalization of an account to assist in the financing, directly or indirectly, of the Blue Bond-related coupons payments and/or purchase of a financial asset to securitize repayment of a percentage of the Blue Bond principle; and (ii) technical assistance and operating costs associated with the Blue Bond.

Component 4: Project management and coordination

Budget: US\$1.0 million (IBRD loan)

21. The last component will support the coordination and implementation of the project. It will fund the operations of the PIU: consultants recruited to prepare and implement the project; preparatory studies including the safeguards instruments; M&E; audits; monitoring of the implementation of the safeguards policies; midterm and final evaluation reports; and other costs associated with core operational functions (training, equipment, staff, manuals, and so on).

²⁷ The amount of the GEF Non-Grant Instrument Pilot is not accounted for in the project activities budget, as it is considered part of the Blue Bond financing alongside the IBRD guarantee.



ANNEX 2: THE SWIOFish PROGRAM

COUNTRY: Seychelles

Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)

1. SWIOFish3 is part of the broader SWIOFish Program launched by the World Bank in February 2015, which adopts a regional and long-term approach to supporting the SWIO countries in sustainably developing their fisheries sector. The SWIOFish Program is based on the vision that consolidating the emerging regional vision and collaborative framework, founded on a common objective of economic growth and poverty reduction based on the sustainable use of SWIO marine resources, can only be achieved over the longer term.

2. The SWIOFish Program serves as a long-term financing platform to help SWIO countries address the shared challenges and development issues through an expanded multi-borrower approach. The overarching program goal is to increase the economic, social, and environmental benefits to SWIO countries from sustainable marine fisheries. The program results indicators are as follows:

- (a) Status of fish stocks
- (b) Fisheries-related GDP in participating countries
- (c) Local fisheries-related value addition benefitting the households

3. The program establishes a financing, coordinating, and knowledge exchange mechanism and supports a suite of regional and country-level activities over the medium and long term. Given the range of issues affecting countries of the SWIO region, the program activities target core governance and productivity challenges, remove critical constraints to private investment and sustainable business, bring part of the 'offshore fisheries economy' within country economies, and add value through regional collaboration and integration.

Phases²⁸

4. The program is a multiphase operation implemented with iterative investments in each country over a 15-year period. All SWIOFC member countries are eligible for the program, contingent on available funding. The first phase of the program (phase 1) aims at creating the conditions to achieve rational exploitation of fish resources for constant stock regeneration and high productivity, as the cornerstone for a perennial and competitive fisheries and seafood industry. This phase consolidates and strengthens regional cooperation on fisheries and living marine resources management and the blue economy through improved management of fisheries, reinforced regional fisheries institutions, knowledge exchanges, and capacity development. It establishes the core human and institutional competencies and frameworks for the sustainable management of fisheries and the development of a blue economy and supports the creation of incentives for stakeholders to engage in the needed reforms. It also develops community

²⁸ The World Bank has not committed to financing any activities in Seychelles beyond the proposed project. Any anticipated subsequent phases would be reviewed based on respective priorities of an agreement between the country and the World Bank and the success of the current project.



fisheries co-management and promotes increased regional, national, and local value addition. It prepares for major public and public/private capital investments required in the future (for example, fleet adjustment, aquaculture, and port infrastructure). As such, phase 1 has a major focus on human and institutional capacity development, design and implementation of fisheries management plans, and support to community livelihoods with a view to reducing the pressure on the resource.

5. For now, phase 1 includes the ongoing SWIOFish1 in Comoros, Mozambique, and Tanzania; the recently approved SWIOFish2 in Madagascar; the proposed SWIOFish3 in the Seychelles—which is the subject of this PAD; and the recently approved SWIOFish4 in Maldives²⁹. Other SWIOFC countries are expected to join the program in subsequent projects.

6. A potential future phase (phase 2), while building on the structure and achievements of phase 1, would be a deepening of the project and expansion phase that would further strengthen the policy reforms and empower stakeholders and users to have a greater role and incentives to secure the long-term health of the resources. It would support major investments prepared and shown to be viable in phase 1, including in infrastructure, in co-financing of aquaculture development, sector infrastructures and fleet adjustment, and fisheries reform. It would deepen regional collaboration with a focus on ensuring sustainability of that collaboration and regional management efforts. It would further harness benefits along domestic and international value chains. Phase 2 investments could start in any country when phase 1 is completed, a sound basis for sustainable fisheries management is in place at the national and local levels, and infrastructure investments in the sector are prepared on the technical, environmental, financial, and economic aspects. A potential third phase would be aimed at fully consolidating investments and activities undertaken under the previous two phases, as needed.

Figure 2.1. Phasing of the SWIOFish Program

Projects	Beneficiaries	SWIOFish Phase 1: Regional collaboration & foundation of fisheries management							SWIOFish Phase 2: Enhanced regional collaboration & fisheries governance					SWIOFish Phase 3: Value chain development and integration					
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	[...]
SWIOFish1 (P132123)	IOC / SWIOFC																		
	Comoros																		
	Mozambique																		
	Tanzania																		
SWIOFish2 (P153370)	IOC / IOTC - AIODIS - FPAOI																		
	Madagascar																		
SFDP (P157801)	Maldives																		
SWIOFish3 (P155642)	Seychelles																		
Potential SWIOFish Projects	Somalia																		
	Mauritius																		
	Kenya																		

²⁹ Sustainable Fisheries Resources Development Project (Fourth South West Indian Ocean Fisheries Governance and Shared Growth Project) (P157801), approved by the Board on April 11, 2017



Geographic Scope

7. The program encompasses the 11 developing countries of the SWIOFC: Comoros, Kenya, Madagascar, Maldives, Mauritius, Mozambique, the Seychelles, Somalia, South Africa, Tanzania, and Yemen. In addition to purely regional activities, each SWIOFC country can initiate country-level activities as part of the program, as soon as their work program is prepared and financing is secured.

SWIOFish1

8. The first project under the SWIOFish Program, SWIOFish1, was approved on February 27, 2015. It supports all SWIOFC countries to improve regional coordination, in particular through (a) developing and implementing a regional strategy to increase national and regional economic benefits from regional fisheries; (b) improving regional monitoring, control, and surveillance of fisheries; and (c) developing a sustainable financing mechanism for the SWIOFC work program. It also supports Comoros, Mozambique, and Tanzania in implementing phase 1 of the program, namely improving the governance of priority fisheries and increasing the economic benefits from priority fisheries.

SWIOFish2

9. The second project, SWIOFish2, aims at fostering a strengthened implementation of international obligations and regional measures for tuna fisheries management under the IOTC. It will also strengthen the capacity of two groups, namely the island states and the private sector stakeholders in the small-scale fishing sector. Collaboration among these groups will strengthen their capacity to address shared challenges and fortify their voice in regional and international fora. It also supports Madagascar in implementing phase 1 of the program.

Benefits and Risks

10. The programmatic approach is considered to bring important benefits in that it allows for phasing support necessary for a long-term, regional programmatic effort. It also brings risks stemming from the fact that the program is a temporal (at the country level) and geographical (at the regional level) series of projects. The associated risks result from the challenges in structuring a program that is both flexible enough to fit the diversity of situations on such a broad agenda across the region and specific enough to show demonstrable results.



ANNEX 3: BLUE BOND STRUCTURE AND RATIONALE

COUNTRY: Seychelles

Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)

- 1. Over the last five years, the Green Bond market has provided over US\$50 billion in debt funding to issuers with environmentally friendly projects.** This market has been driven by a large and growing investor base with a specific mandate to invest in sound investment propositions that also create clear social and environmental benefits. Issuance in this market is guided by the Green Bond Principles which are voluntary best practice guidelines that highlight the importance of allocating funds to eligible projects, tracking proceeds, and providing periodic reporting on use of proceeds.
- 2. The proposed transaction will generally follow the ‘Green Bond’ model** that has been used by governments, development banks, and corporations to fund projects with positive environmental and climate benefits. Because the Seychelles bond will fund an ocean-based project and virtually all Green Bonds have funded terrestrial projects, this offering could be differentiated as a ‘Blue Bond’. The term Blue Bond has generally been used to refer to transactions that will support a sustainable blue economy.
- 3. In this context, the GOS will place a sovereign obligation to private investors to raise funding.** This funding will be specifically designated for the implementation of the marine spatial planning and the Mahé Plateau fisheries management plan and for the sustainable development of the country’s blue economy. The Blue Bond will be a general obligation of the GOS, without any connection to, or dependence on, the repayment of any new obligations created through the use of the proceeds raised by the issuance.
- 4. To support the arrangement of the transaction, the World Bank team is providing technical assistance to the MFTEP in various forms.** Some of the assistance provided by the World Bank includes market outreach to make sure that financing terms are attractive to the Seychelles and are consistent with the project objectives and are suitable for an onlending component; direct support in the design of the Blue Bond, including the coordination of IBRD commitments, GEF contribution, and possible other enhancement, if needed; liaising with investors to identify buyers of the issue; documentation of the transaction involving coordination of legal teams of the arranger and client; and so on.
- 5. The Blue Bond instrument is envisaged as a market transaction that is sold to investors and not charitable partners.** The operation is designed to attract attention of market investors and not charitable partners who might in any case not require risk mitigation. In addition to raising capital to support the needs of the underlying project, the objective is to launch a new instrument that may have replicability with the growing universe of social impact investors. IBRD’s leadership in the development of the Green Bond asset class will underpin this activity.
- 6. The Blue Bond will be best suited for a private audience.** Because this intended issue is of quite low volume in market terms, at no more than EUR15 million (or US\$ equivalent), the Blue Bond will be placed privately. Numerous banks and investors have expressed appetite in this relatively small placement, so that an extensive investor roadshow is not necessary, and there are likely scenarios that involve a much reduced number of buyers. The placement will target socially responsible private investors



that value the innovation and the storyline, as well as require market returns and some level of risk mitigation to accept the lower coupons targeted by the transaction.

7. **The proposed transaction structure combines World Bank project guarantee with additional commitment from the GEF to backstop the Blue Bond.** The new bonds will be used to help finance the sustainable development of the Seychelles blue economy, as outlined in this PAD. The use of credit enhancement derives from the need to secure attractive terms for the GOS, which has a mixed track record in bond markets (see paragraph 10 below), to provide for onlending of part of the resources raised through the placement at acceptable cost.

8. **The size of the Blue Bond financing is expected to be up to EUR15 million (or US\$ equivalent), with a maturity of 10 years.** An up to EUR5 million (or US\$ equivalent) guarantee from IBRD can serve as partial repayment coverage on the up to EUR15 million (or US\$ equivalent) due, or roughly a third of the transaction notional amount. This form of transaction enhancement would support the placement of the instrument with private “blue” investors at a lower cost than Seychelles would face on a standalone basis. GEF has also committed an additional US\$5 million of resources through its Non-Grant Instrument Pilot which will be used to further pay-down the interest due yearly during the 10-year period and which can also serve as additional protection of coupons to investors.

9. **The US\$5 million GEF Non-Grant Instrument Pilot will be delivered as a highly concessional loan.** These resources are provided with a 40-year maturity and a fixed interest rate of 0.25 percent, similar to those of the International Development Association. The loan will include a 10-year grace period, during which only interest on the GEF Non-Grant Instrument Pilot will be paid and which will cleanly match the maturity of the Blue Bond. This Non-Grant Instrument Pilot may be best used to further reduce the effective cost to GOS, although the GEF funds could also be used to buy AA/AAA collateral to further mitigate the risk of nonpayment at maturity, be placed in escrow to facilitate payment of coupons, depending in part on further feedback from target investors

10. **An IBRD guarantee of up to EUR5 million (or US\$ equivalent) will be arranged to provide protection against payment default up to that amount at maturity.** Discussions with market investors have revealed that up to EUR5 million IBRD (or US\$ equivalent) credit guarantee would reduce the expected coupon by at least 200 basis points, possibly more due to the nature of the transaction and need for few buyers, under prevailing conditions. Due to the country’s relatively small size and its mixed track record in markets, and having defaulted on sovereign obligations in 2008, the cost of bond issuance for the Seychelles today is higher than would be desirable to support the objectives of this project. The combination of (IBRD and GEF) risk mitigation instruments can, however, culminate in an effective rate of interest that would be aligned with the on-lending strategy targeted under SWIOFish3.

11. **Bond transactions such as this typically have high transaction costs, given certain disclosure requirements, need for international legal counsel, etc.** Recognizing this, and given the very small size of the financing, the project structure contemplates a private placement that achieves reduced transaction costs.

12. **The contemplated approach represents a leveraged use of IBRD’s balance sheet.** While the financing structure will be finalized during guarantee negotiations with the selected private investors, the current proposal represents an elegant risk sharing distribution, where IBRD capital mobilizes additional



resources than will be provided as an IBRD loan, leveraging a larger volume of financing for the GOS, and where IBRD, GEF, and the market each effectively share a third of the up to EUR15 million (or US\$ equivalent) of risk.

13. **The impact of the blue bond placement on the debt sustainability of the Seychelles is not material.** The size of this new borrowing is small compared to the current debt portfolio of the country (US\$1 billion, about 70 percent of GDP). The debt sustainability analysis conducted in February 2017 by the International Monetary Fund confirms that despite the incurred delays in debt reduction, if the authorities take the necessary fiscal measures to ensure primary surpluses in the order of 3 percent of GDP, Seychelles' public debt trajectory is projected to remain on a sustainable path, and is expected to fall to below 50 percent of GDP around 2020 and decline further thereafter.

14. **This initiative has possible broad-reaching impact on the Blue economy.** The Blue Bond can create a model for funding fishery recovery efforts for other small island developing states and coastal countries. It is also anticipated that the Blue Bond can help catalyze more public-private sector partnerships within the blue economy of the Seychelles and thus serve as leverage in an area in need of greater support. The operation is intended as an operation that should have ripple effects in the broader environment, raise awareness around blue economy themes, and establish a market-based mechanism for mobilizing investment in the future into coastal areas that today need greater sustainability and higher efficiency.



Box 3.1. World Bank Support to the Placement of the Blue Bond

To prepare the Blue Bond financing, the World Bank project team has engaged closely with the MFTEP and coordinated continually with the Department of the Blue Economy in the Office of the Vice President. The transaction should be shaped by the objectives laid out by Seychelles authorities and matched to prevailing market conditions. Therefore, having a full understanding of these factors has been critical to designing an appropriate package, which is also considered sustainable from a public debt management standpoint.

The team has conducted numerous soundings with potential investors to gauge interest in the transaction, as well as define suitable parameters for the financing, given the experience of Seychelles as a borrower. These discussions have confirmed the need for strong credit enhancement features to achieve the target (effective) borrowing rate that would be considered appropriate for on-lending to beneficiaries of a large share of the resources raised. While largely defined already, the final structure of the transaction must derive from the needs of the final investors selected for the operation, and few investors will be needed (and even desired with a view to keep transaction costs to manageable levels). Thus far, significant interest in the transaction has been revealed under the base-case terms under discussion.

Additionally, the project team has engaged with numerous investment banks and helped to identify an institution that can serve as arranger for the transaction, as well as trustee or fiscal agent. Early discussions revealed a limited number of banks that could offer support as well as several specificities of this transaction: its small size, the non-presence nature of the client for many investment banks, generalized deleveraging or de-risking underway which makes it difficult for many banks to operate in certain jurisdictions, and possible challenges related to 'know your customer' processes and on-boarding of the client. The World Bank has identified interested transaction partners with strong global standing and experience collaborating with World Bank Group in other financings, included partially guaranteed transactions, and has selected a strong global bank.

Finally, the project team has held numerous discussions with legal counsels, including external counsel of Seychelles, to gauge scope for reducing documentation burden and ultimately transaction costs and to lay out a strategy for closing the transaction in a timely manner. Formal outreach to investors have begun, in tandem with the documentation of the Blue Bond financing.



ANNEX 4: SUMMARY OF TERMS AND CONDITIONS OF THE PROPOSED IBRD GUARANTEE AND GEF NON-GRANT INSTRUMENT PILOT

COUNTRY: Seychelles

Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)

1. This annex outlines the indicative terms and conditions of a potential World Bank guarantee of the Private Placement Bond to be issued by Seychelles and of a Global Environment Facility Non-Grant Instrument as additional support. This term sheet contains a preliminary general summary of indicative terms and conditions of a potential IBRD project-based guarantee (the IBRD Guarantee) for a Private Placement Bond to be issued by Seychelles. The term sheet contains, in addition, a summary of terms of a GEF Non-Grant Instrument (the Non-Grant Instrument), which will be used to provide additional security to investors and to reduce coupon payments for the borrower. These terms would be subject to further development based on Seychelles’ choices regarding the financing structure.

2. This term sheet does not constitute an offer from IBRD to provide an IBRD Guarantee, or from the GEF to provide a Non-Grant Instrument. The provision of both the Guarantee and the Non-Grant Instrument is subject, inter alia, to satisfactory appraisal by IBRD of the related Project, review and acceptance of the underlying financing structure and transaction documentation, and the approval of Management and the Board of Directors of IBRD in their sole discretion.

IBRD GUARANTEE	
Borrower (Issuer):	Seychelles.
Guarantor:	International Bank for Reconstruction and Development (IBRD).
Guarantee Beneficiaries:	Private investor(s) to be identified (the Investor(s)).
Guaranteed Obligation:	Privately placed bonds (IBRD Guaranteed Private Placement Bonds).
Trustee and Paying Agent:	Bank of New York Mellon.
Lead Manager:	Standard Chartered Bank.
Currency:	USD or EUR
Distribution:	Regulation S
Denomination:	USD 200,000 and multiples of USD 1,000 thereof (or such other denominations acceptable to the Issuer and IBRD).
Form:	Bearer/Registered.
Clearing and Settlement:	Euroclear and Clearstream, Luxembourg.
IBRD Guaranteed Private Placement Bond Principal Amount:	Principal amount up to EUR 15,000,000, or equivalent amount in USD.
Maximum IBRD Liability:	A partial amount of the financing, not to exceed EUR 5,000,000, or equivalent amount in USD



Issue Price:	Issuer price to be determined on date of placement, and acceptable to the Issuer, the Investors and IBRD.
Re-offer Yield:	Re-Offer Yield to be determined on date of placement, and acceptable to the Issuer, the Investors and IBRD.
Coupon:	Coupon to be determined on date of placement, and acceptable to the Issuer, the Investors and IBRD.
Maturity:	10 years (or such other maturity acceptable to the Issuer, the Investors and IBRD).
Guaranteed Event:	Failure by the Borrower to repay the principal amount or certain principal and interest amounts of the IBRD Guaranteed Private Placement Bond (to be determined), up to the Maximum IBRD Liability, at stated maturity or on scheduled payment dates (to be determined) (the “IBRD Callable Period”)
Subrogation:	If and to the extent IBRD makes a payment under the IBRD Guarantee, IBRD will be subrogated immediately to the extent of such unreimbursed payment to the Beneficiaries’ rights.
Right to Purchase:	If IBRD guarantees the payment of interest, then upon payment default by the Borrower, IBRD will have the right to purchase all rights, title and interests of the Beneficiaries in the IBRD Guaranteed Private Placement Bonds.
Non-accelerability of Guarantee:	The IBRD Guarantee cannot be accelerated and become payable prior to the scheduled payment dates under any circumstances, including as the result of a Guaranteed Event. ³⁰ Further, any payment made by IBRD under the Guarantee will be deemed to have been made by GOS for purposes of the provisions of the Bond relating to events of payment default.
IBRD Guarantee Fees:	IBRD charges a guarantee fee of 0.6% per annum for up to 10-year avg. life ³¹ on the present value of the Maximum IBRD Liability, payable up front by the Borrower prior to the effectiveness of the IBRD Guarantee.
IBRD Front-end Fees³²:	IBRD charges a one-time front-end fee of 0.25% on the Maximum IBRD Liability This fee is payable by the Borrower prior to or at effectiveness.
IBRD Stand-by Fees³³:	IBRD charges a stand-by fee of 0.25% per annum on the present value of the Maximum IBRD Liability commencing from i) the date 60 days after signature of the guarantee agreements and ending on ii) the placement date and effective date of the IBRD Guarantee ³⁴ . Payment of the Standby Fee is the obligation of the Borrower and must be paid in advance of the relevant payment period and no later than by effectiveness of the guarantee.
Other Fees:	Reimbursement of IBRD outside legal counsel expenses (if any) by the GOS. This fee is payable by the Borrower prior to or at effectiveness.
No Additional Amounts	The IBRD Guarantee is limited to certain outstanding scheduled payments of principal or principal and interest (to be determined) payable on the relevant scheduled payment dates and would not cover any additional amounts payable by the Borrower with respect to such amounts.

³⁰ IBRD Project-based guarantees may be accelerable in some cases, however for the transaction envisaged this feature is not considered appropriate. This bond structure is intrinsically tied to GoS repayment risk, much like a policy-based guarantee structure, where no such acceleration right is offered.

³¹ IBRD charges a guarantee fee of 0.5% per annum for up to 8 year avg life. For a guarantee with an average life of 8-10 years, a maturity premium of 10bp would be applied, rendering a guarantee fee of 0.60% applied to the NPV of IBRD’s exposure

³² FY17 pricing. All fees will be updated based on the pricing applicable at the time of approval by IBRD’s Board of Directors.

³³ FY17 pricing. All fees will be updated based on the pricing applicable at the time of approval by IBRD’s Board of Directors.

³⁴ The private placement contemplates a single full disbursement of the bond proceeds.



Termination events	The IBRD Guarantee may be terminated, inter alia, if (i) an installment of the Guarantee Fee or Standby Fee is not paid when due; (ii) an amendment, waiver, modification or other change is made or given relating to certain provisions of the finance documentation, IBRD’s rights or obligations, or the IBRD Guarantee without IBRD’s prior written consent, including but not limited to any material amendment or modification to a finance document or any amendment or waiver that materially and adversely affects the rights and obligations of IBRD; (iii) following full payment of all guaranteed amounts or (iv) after the final date for payment under the IBRD Guarantee.
Exclusions	IBRD is not liable for losses directly resulting from noncompliance with, or the invalidity, illegality or unenforceability of any transaction document under laws in effect on, or events occurring before, the date of the Fiscal Agency Agreement.
Governing law:	English law or New York law.
Roadshows:	Representatives of IBRD, including its legal counsel, would attend all (if any) roadshows or investor presentations relating to this financing.
Conditions Precedent:	Usual and customary conditions for IBRD guaranteed financing transactions of this type including but not limited to the following: a) Provision of relevant legal opinions satisfactory to IBRD (including a legal opinion from the appropriate official of Seychelles relating to the Indemnity Agreement); b) Payment in full of the Guarantee Fee, the Front-End Fee, the Standby Fee (if any), and expenses and costs of IBRD external counsel, IBRD roadshow attendance, auditors and other expenses (if any); c) Execution of an Indemnity Agreement between IBRD and Seychelles, the Fiscal Agency Agreement among the Trustee, Seychelles and IBRD (expected to include the Guarantee), , a Warranty Agreement among the Lead Manager and IBRD (if any), the downstream agreement(s) relating to the application of proceeds of the financing for purposes of the Project in form(s) acceptable to IBRD, and any other applicable documentation, including preparation of an Offering Document whose presentation of the Guarantee is acceptable to IBRD; and d) Satisfaction of any other conditions precedent under the financing documents.
IBRD-Guaranteed Fiscal Agency Agreement³⁵	
Description:	Agreement among the Borrower as Issuer, the Fiscal Agent and IBRD as Guarantor setting out terms and conditions of the IBRD Guaranteed Private Placement Bond, and containing the terms and conditions of the IBRD Guarantee.
Governing Law:	English law or New York law
Warranty Agreement	
Warranty Agreement:	IBRD would enter into a Warranty Agreement with the Lead Manager in order to make and receive certain representations and warranties about the information each set of parties provides to the other in that type of transaction, as well as to receive certain representations, warranties, and undertakings from the Lead Manager , including but not limited to a representation and warranty that the Lead Manager has not engaged in any Sanctionable Practice in connection with the transaction, and an undertaking by the Lead Arranger not to engage in any Repackaging Arrangements (as described below) and to inform purchasers of the IBRD Guaranteed Private Placement Bond of IBRD’s repackaging restrictions. ³⁶

³⁵ IBRD Guarantee expected to be contained in this Fiscal Agency Agreement. Depending on type of issuance, Fiscal Agency Agreement may be replaced by a Trust Indenture or Deed of Trust.

³⁶ In a securities issuance, repackaging restrictions would be addressed in this manner. In transactions more closely characterizable as a loan, repackaging restrictions would bind each holder of an interest in the loan and restrictions on



Offering Document³⁷	
Offering Document:	Document describing the offering of the IBRD Guaranteed Private Placement Bond and providing market-standard information for investors regarding the IBRD Guaranteed Private Placement Bond, Seychelles, IBRD and the Guarantee.
Indemnity Agreement	
Parties:	IBRD and Seychelles.
Indemnity:	Seychelles will reimburse and indemnify IBRD on demand, or as IBRD may otherwise direct, for all payments under the IBRD Guarantee and all losses, damages, costs, and expenses incurred by IBRD relating to or arising from the IBRD Guarantee.
Covenants:	Usual and customary covenants included in agreements between member countries and IBRD in support of guarantees.
Remedies:	If Seychelles breaches any of its obligations under the Indemnity Agreement, and that breach remains uncured for 60 calendar days or more after notice from IBRD, IBRD may suspend or cancel, in whole or in part, the rights of Seychelles to make withdrawals under any other loan or credit agreement with IBRD, or any IBRD loan to a third party guaranteed by Seychelles, and may declare the outstanding principal and interest of any such loan or credit to be due and payable immediately. A breach by Seychelles under the Indemnity Agreement will not, however, discharge any guarantee obligations of IBRD under the IBRD Guarantee.
Governing Law:	The Indemnity Agreement will follow the usual legal regime and include dispute settlement provisions customary for agreements between World Bank member countries and IBRD.
Project Agreements	
DBS Project Agreement	IBRD will enter into a separate project agreement with DBS under which DBS would covenant, <i>inter alia</i> , that it will: (i) comply with all its obligations under the transaction documents; (ii) obtain IBRD's consent prior to agreeing to any change to any transaction document which would materially affect IBRD; (iii) provide certain notices to IBRD; (iii) cooperate with IBRD and furnish all such information related to such matters as IBRD shall reasonably request; (iv) promptly inform IBRD of any condition which interferes with, or threatens to interfere with, such matters; and (v) comply with certain account management obligations.
SeyCCAT Project Agreement:	IBRD will enter into a separate project agreement with SeyCCAT under which SeyCCAT would covenant, <i>inter alia</i> , that it will: (i) comply with all its obligations under the transaction documents; (ii) obtain IBRD's consent prior to agreeing to any change to any transaction document which would materially affect IBRD; (iii) provide certain notices to IBRD; (iii) cooperate with IBRD and furnish all such information related to such matters as IBRD shall reasonably request; (iv) promptly inform IBRD of any condition which interferes with, or threatens to interfere with, such matters; and (v) comply with certain account management obligations.
GEF Non-Grant Instrument	
Borrower:	Seychelles
Lender:	IBRD, as implementation entity of the Global Environment Facility
Loan Volume:	USD 5 million
Currency:	USD
Maturity:	40 years

assignment, transfer and novation would closely bind each holder and potential assignee/transferee.

³⁷ To be determined if this is required for this private placement.



Grace Period:	10 years
Annual Principal Repayment:	Years 11-20, 2% of initial principal Years 21-40, 4% of initial principal
Interest rate:	0.25% p.a.
Preferred Creditor Status	The Bank will be under no obligation to exercise cross-default, cross-suspension, or any other remedies in respect of its own portfolio with the Borrower in the event of a default on the GEF Non-Grant Instrument
Use of Proceeds:	Pay down of Blue Bond coupons/partial security against default event or to purchase a security instrument (AA/AAA bond or similar high quality asset), which in turn would be used to pay the coupon on the Blue Bond coupon.

ANNEX 5: IMPLEMENTATION ARRANGEMENTS

COUNTRY: Seychelles

Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)

Project Institutional and Implementation Arrangements

1. **The project was prepared and will be implemented jointly by the MFTEP; the Department of the Blue Economy in the Office of the Vice-President; the Ministry of Agriculture and Fisheries and the Ministry of Environment, Energy, and Climate Change.** The MFTEP led the preparation and will lead the implementation of the project. It has the mandate, convening power, and vision necessary to oversee the implementation of the project, as well as sufficient management and fiduciary capacity to ensure efficient coordination of project activities. The MFTEP is supported by the Department of the Blue Economy in relation to technical coordination of the project. The other two ministries have the technical expertise to implement the project activities but lack the necessary workforce. They do not have any fiduciary oversight.
2. **A PIU is embedded within the MFTEP.** The PIU will be in charge of coordinating the implementation of the project activities and is sole responsible for procurement activities and the financial management of the project. The Project Coordinator, a staff of the Department of the Blue Economy, is seconded by an Assistant financed by the project and will be in charge of the overall coordination and management of the project. A Financial Management and Procurement Specialist assisted by a Financial Management Assistant and a Procurement Assistant have been designated within the existing MFTEP Project Coordinating Unit, currently in charge of the fiduciary aspects of several World Bank-financed projects. An Environmental and Social Specialist and an M&E Specialist will also be recruited no later than six months after the project is declared effective.
3. **Each ministry is responsible for the implementation of its activities, and the PIU at the MFTEP acts as the coordinating body.** The Ministry of Environment, Energy, and Climate Change is mostly involved in the technical implementation of Component 1, while the Ministry of Agriculture and Fisheries and the Seychelles Fishing Authority is leading the technical implementation of Components 2 and 3, for the most part (see table below for additional details). They will not have any fiduciary oversight. The Ministry of Agriculture and Fisheries and the Ministry of Environment, Energy, and Climate Change will each recruit a specific Project Manager for the project in early calendar 2018, to foster the implementation of the project activities and the ownership of the line ministry. The Project Managers, staff of their respective ministry, will be the key focal points of the project within the ministry and will be responsible for the planning, implementation, and reporting of the project activities pertaining to their ministry. Additional focal points in other implementing entities could be appointed as required.

Table 5.1. Implementing Entities per Component and Subcomponent

Component / subcomponent	Implementing entity*
Component 1: Expansion of sustainable-use marine protected areas	
Subcomponent 1.1: Expansion of the sustainable-use marine protected areas	MEECC
Subcomponent 1.2: Management of the sustainable-use marine protected areas	MEECC / SFA
Subcomponent 1.3: Blue grants	SeyCCAT



Component / subcomponent	Implementing entity*
Component 2: Improved governance of priority fisheries	
Subcomponent 2.1: Fisheries management	SFA / MAF
Subcomponent 2.2: Fisheries and marine environment statistics	SFA / MAF
Subcomponent 2.3: Fisheries sector institutions	MAF / BE
Subcomponent 2.4: Blue grants	SeyCCAT
Component 3: Sustainable development of the blue economy	
Subcomponent 3.1: Expansion of the seafood value chains	SFA
Subcomponent 3.2: Enabling environment for local investments in the aquaculture sector	SFA
Subcomponent 3.3: Strategic development of the blue economy	MFTEP / MAF / BE / SFA
Subcomponent 3.4: Sanitary and phytosanitary monitoring	SFA
Subcomponent 3.5: Blue Investment Fund	DBS
Subcomponent 3.6: Blue Bond	MFTEP
Component 4: Project management and coordination	MFTEP

* MEECC: Ministry of Environment, Energy and Climate Change; SFA: Seychelles Fishing Authority; MAF: Ministry of Agriculture and Fisheries; BE: Department of the Blue Economy (Vice-Presidency)

4. The PIU prepared and will implement the project under the oversight of a Steering Committee.

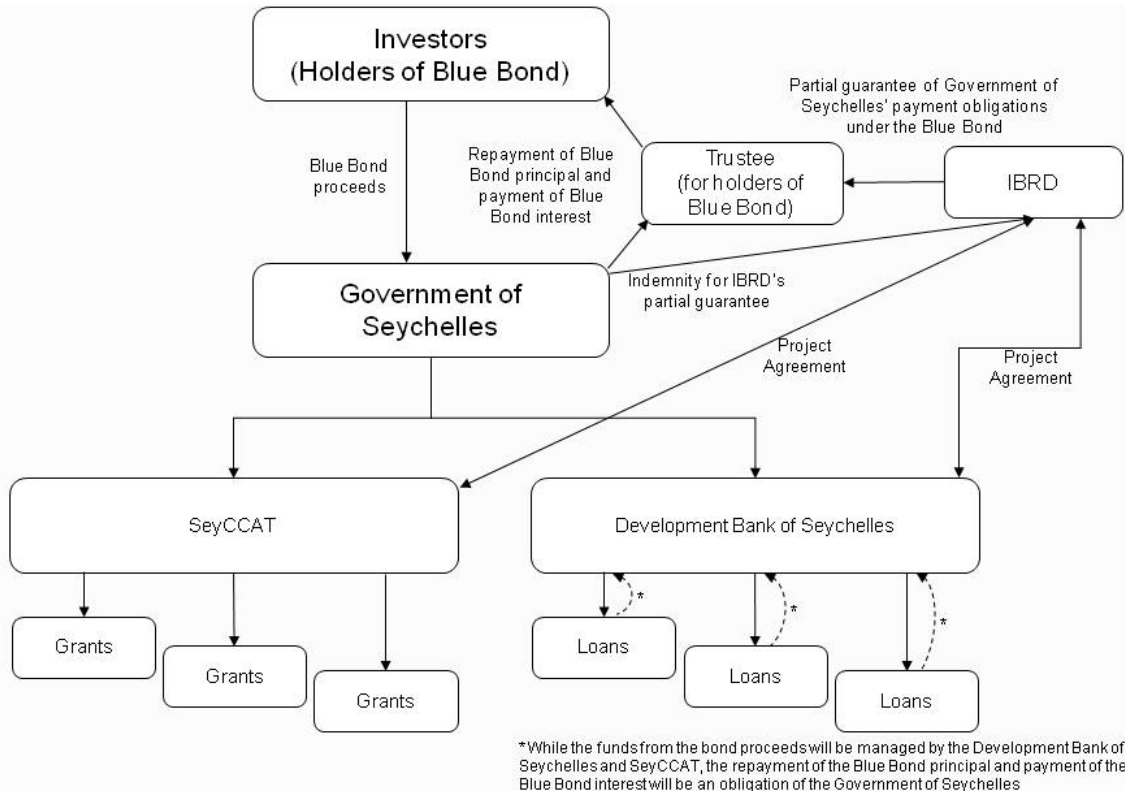
The tasks of the Steering Committee are to (a) provide overall policy guidance and decision making on all issues relating to the project; (b) facilitate coordination among the relevant agencies; and (c) review and approve annual work and expenditure plans. The MFTEP chairs the Steering Committee, and the Assistant to the Project Coordinator acts as its Secretary. The Steering Committee includes representatives from the Ministry of Agriculture and Fisheries; the Ministry of Environment, Energy, and Climate Change; the Ministry of Foreign Affairs; the Seychelles Fishing Authority; the Seychelles National Parks Authority; the Seychelles Port Authority; and the Department of Blue Economy. The World Bank and other groups, including, for instance, artisanal fishers, civil society, donors (including the Nature Conservancy and the UNDP), may be invited to participate as observers. The Steering Committee meets twice a year or as needed.

5. The proceeds of the Blue Bond will follow two tracks.

Under the first track, the MFTEP will sign a Subsidiary Agreement with SeyCCAT whereby a portion of the Blue Bond proceeds (notionally US\$3 million) will be transferred to SeyCCAT to establish a Blue Grants Fund. Grants will be made to public and private entities on a project proposal basis to fund activities related to the operationalization of sustainable-use marine protected areas, the implementation of the Mahé Plateau fisheries management plan, and the transition from open-access to better controlled fisheries. Under the second track, the MFTEP will sign a Subsidiary Agreement with the DBS whereby a portion of the Blue Bond proceeds (notionally US\$12 million) will be transferred to the DBS for the establishment and management of a Blue Investment Fund. Commercial loans will be made to projects consistent with the provisions of the Mahé Plateau fisheries management plan and with a specific focus on economic diversification and sustainability. Both Subsidiary Agreements will be signed before the guarantee is issued. While the Blue Investment Fund will be capitalized by the Blue Bond proceeds, the repayment of the Blue Bond is considered an obligation of the GOS and will not be linked financially to the Blue Investment Fund.



Figure 5.1. Flow of Funds of the Blue Bond Proceeds



6. **The Blue Grants Fund will be administered by SeyCCAT.** This is an independent, nationally based, public-private trust fund established to manage the funds generated by the debt restructuring in 2015, intended to provide a sustainable flow of funds to enable it to support the long-term management and expansion of the Seychelles system of protected areas and other activities that contribute substantially to the conservation, protection, and maintenance of biodiversity.³⁸ SeyCCAT is governed by a nine-person Board of Directors composed of both Government ministries and civil society organizations, and its objectives are fully aligned with those of the project.³⁹ Its main planned activity is to administer a grants program with a focus on sustainable fisheries related to marine protected area management and expansion and will launch its first call for proposals in fall 2017. To avoid the establishment of a duplicative competing grants program, and to maximize efficiency, the SeyCCAT grants program will be merged with Blue Bond proceeds to create the Blue Grants Fund with an expanded focus and list of eligible projects. There will be segregated financing windows in order to ensure separation and traceability of funds.

³⁸ In 2015, the Nature Conservancy raised US\$15.2 million in impact capital loans and US\$5 million in grants to buy back US\$21.6 million of Seychelles debt. The cash flow from the restructured debt is payable to and managed by an independent, nationally based, public-private trust fund called SeyCCAT. Debt service payments fund three distinct streams: (a) work on the ground that will help reduce risk through improved management of coasts, coral reefs, and mangroves; (b) repayment of impact investors; and (c) capitalization of SeyCCAT's endowment, which can then support conservation work into the future. SeyCCAT will receive semiannual payments from the GOS to finance conservation activities on the ground and also to capitalize an endowment, with 35 percent of these payments being used to capitalize an endowment that is invested to generate long-term sustainable financing for carrying out SeyCCAT's objectives once the GOS payments end (after 20 years).

³⁹ The SeyCCAT Board will be reconstituted to include more representation from the fisheries sector (to possibly include fishers associations and the Department of Blue Economy), as will the Grants Committee.



SeyCCAT already has an Operations Manual and Grants Procedures Manual detailing processes and procedures that have been reviewed and endorsed by its board and stakeholders. The SeyCCAT Grants Committee will review and recommend projects for approval under the Blue Grants Fund and the SeyCCAT Board of Directors will have final approval.

7. **The Blue Investment Fund will be administered by the DBS, a national development financing institution with a specific mandate to assist in the economic development of the Seychelles.** To ensure that projects are sound from a fisheries perspective, the DBS will convene a Technical Committee (notionally consisting of the Government and civil society) to provide a technical review and recommendation for loan applications. If the Technical Committee recommendation is positive, then the loan application will be sent back to the DBS for standard loan processing procedure and financial appraisal. The DBS Board will have final approval over all loans.

8. The functioning of the Blue Grants Fund and the Blue Investment Fund is described in annex 6.

Financial Management

Overall Financial Management Assessment

9. A financial management assessment was conducted to evaluate whether the project implementing agencies meet the World Bank's minimum financial management requirements in OP/BP 10.00. The assessment was done on the three implementing entities that will be responsible for financial management: the PIU, within MFTEP, which will have overall financial management responsibilities, and SeyCCAT and DBS, the two institutions that will be responsible of managing, monitoring and reporting on the Blue Bond proceeds on behalf of the Government. Based on the appraisal, the overall financial management was assessed to be adequate and the risk was assessed as moderate. To further strengthen FM arrangements, several actions were agreed and are set out in FM action plan below.

Financial Management Arrangements for the Project

10. **The assessed implementing agencies will be responsible for the financial management arrangements of components that they will be implementing.** MFTEP will continue to apply financial management arrangements similar to those being applied to manage the IBRD Project Preparation Advance and GEF Project Preparation Grant. DBS will use its existing financial management arrangements, used to administer projects like those being funded under this project, while SeyCCAT, which was recently established, will have to design and put in place an appropriate financial management infrastructure. The specific arrangements are described in the following paragraphs.

Staffing

11. **MFTEP.** A Senior Project Accountant will continue to be responsible for the overall financial management of the project, supported by an Assistant Project Accountant from the Ministry. Both are suitably qualified and have vast wealth of knowledge of and experience on Government of Seychelles financial management systems, project management, and GEF and World Bank requirements as they have been responsible for the financial management of past projects financed by the GEF and the World Bank. The two accountants will provide appropriate support to officials designated or appointed to perform



financial management roles in DBS and SeyCCAT.

12. **DBS.** A staff from the institution with relevant experience in administering similar funds will be designated to conduct the financial management roles. The designated staff will receive additional training from the World Bank Financial Management Specialist and MFTEP Senior Project Accountant to strengthen his/her skills during project implementation.

13. **SeyCCAT.** An accounting firm has been contracted to provide financial management services including use of the contracted entity's accounting system to record project transactions and prepare financial reports (monthly, quarterly and end of year). The accounting firm will support the SeyCCAT Chief Executive Officer, who is expected to be the only full time employee of the organisation in the initial years.

Budgeting arrangements

14. The project activities will be included and approved as part of implementing agencies budget from 2018 budget and be subjected to regular management reviews and monitoring during the execution of the project.

Internal controls

15. **MFTEP.** The internal controls set out in the MFTEP Financial Instructions Manual, which the team considers to be adequate, will be applied to the project transactions.

16. **DBS.** The key transactions under the project will be to approve, disburse, monitor and report on loans advanced from the Blue Bond proceeds deposited in the Blue Investment Fund. The related procedures will be included in the DBS operations manual.

17. **SeyCCAT.** SeyCCAT has prepared and will implement an operations manual setting out internal controls and procedures that shall be followed to approve, monitor and report on grants advanced from the Blue Grants Fund.

Internal auditing

18. The Government internal audit unit (in case of MFTEP and SeyCCAT) and DBS internal audit unit will be requested to perform two internal audit reviews per year during the project implementation period to provide objective assurance on functioning of internal controls. Copies of the report will be submitted to the World Bank.

Accounting arrangements

Accounting system

19. **MFTEP.** The Government Treasury Information System (TIS) will be used to record the project transactions and generate required reports. The PIU will create codes for each activity in the chart of accounts once the project is approved.

20. **DBS.** The existing accounting system will be used to record and generate reports relating to the



project.

21. **SeyCCAT.** The accounting firm that has been contracted will provide accountancy services including an accounting system to record project transactions and produce in-year and end-of-year financial reports.

Financial reports

22. To monitor project implementation, all the implementing agencies will prepare and submit the following two reports:

- **Interim Financial Reports (IFRs).** The contents of the IFRs will include: (i) a financial report narrative summary; (ii) a statement of sources and uses of funds by disbursement component/activity, showing for the period and cumulatively, actual and planned cash receipts and payments; (iii) sources and uses of funds by component/activity; and (iv) designated account activity statement with cash forecast for the ensuing two reporting periods. The IFRs should be prepared on a quarterly basis. DBS and SeyCCAT will prepare and submit their quarterly reports to the PIU 30 days after the end of the reporting period. The PIU will consolidate and submit the report to the World Bank within 45 days of the end of the reporting period. The IFRs will be accompanied by substantive progress report and procurement reports for all components. The format and content of interim financial reports will be in line with that being used under the implementation of the Project Preparation Advance and Project Preparation Grant, which is similar to formats of recent World Bank funded projects.
- **Audited project annual financial statements.** The MFTEP will prepare project annual financial statements using International Public Sector Accounting Standards – cash basis. Both DBS and SeyCCAT will submit their annual reports to MFTEP at least one month after the end of the year providing enough time to the PIU to consolidate the report (the project annual financial statement) – ready for audit.

External Auditing arrangements and submission of audited annual financial statements

23. MFTEP will subject the consolidated project annual financial statements to an audit by the Auditor General of Seychelles who is already conversant with the World Bank requirements. The PIU will ensure that the audit costs have been budgeted under the project. The audited financial statements, audit report and management letter will be submitted to the World Bank within 6 months after the end of the year. The audits will be prepared according to the International Standards of Auditing. Audit reports will be publicly disclosed in accordance with the disclosure policy of the World Bank.

Funds flow

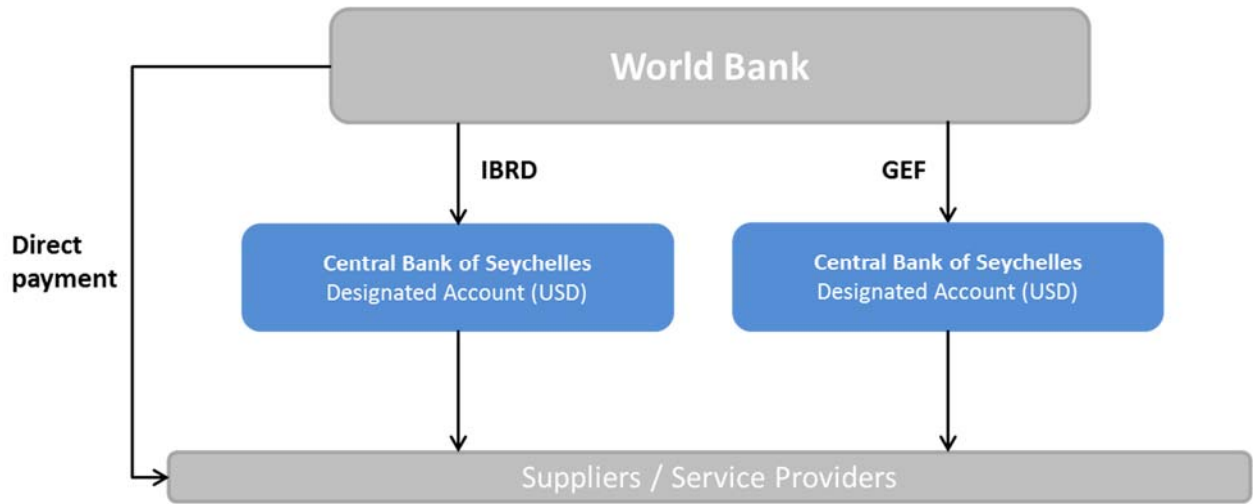
24. The funds from IBRD (US\$5 million) and GEF (US\$5.29 million) will be deposited into a designated account managed by the MFTEP. The proceeds of the Blue Bond which the Government of Seychelles will issue (notionally EUR15 million (or US\$ equivalent)), will be deposited in DBS (80%) and SeyCCAT (20%).



25. **MFTEP.** The project disbursements from the World Bank (IBRD and GEF) will be deposited into the project Designated Account (denominated in US\$) that will be managed by the MFTEP. Essentially the project will continue to use the Designated Account opened at the Central Bank of Seychelles and being used for the Project Preparation Advance. The payments to service providers and suppliers of goods will be paid directly from the account.

26. The flow of funds from the IBRD and the GEF is presented as follows.

Figure 5.2. Flow of Funds from the IBRD loan and the GEF grant



27. **DBS.** The DBS will establish a separate account for the Blue Investment Fund. The MFTEP will transfer 80 percent of the Blue Bond proceeds (notionally US\$12 million) to the Blue Investment Fund account within the DBS. The approved beneficiary loans will be paid out of that account. The Subsidiary Agreement will set forth all the terms and conditions under which the MFTEP is making funds available to the DBS.

28. **SeyCCAT.** SeyCCAT has an existing account for a planned grants fund, which will become the Blue Grants Fund. The MFTEP will transfer 20 percent of the Blue Bond proceeds (notionally US\$3 million) to the Blue Grants Fund account within SeyCCAT. Grants will be made to public and private entities on a project proposal basis. The approved grants will be paid out of that account. The Subsidiary Agreement will set forth all the terms and conditions under which the MFTEP is making funds available to SeyCCAT.

Financial management action plan

29. The financial management action plan described below has been developed to mitigate the overall financial management risks and put in place the necessary financial management arrangements.

Table 5.2. Financial Management Action Plan



Action Description	Person Responsible	Due Date	Condition
MFTEP			
Design project codes for each of the activities for inclusion in the chart of accounts and Treasury Information System by the date the project becomes effective	PIU	Effectiveness date	No
Include the project activities in the Ministry's 2018 budget	PIU	December 2017	No
Engage Auditor General to conduct the audit: prepare terms of reference setting out the audit scope and reporting requirements, and use the ToR to engage Auditor General to conduct the project audit	PIU	Effectiveness date	No
DBS			
Execute the DBS subsidiary agreement on behalf of the Government and DBS	DBS	December 2017	No*
Designate an official who shall be responsible for financial management Provide appropriate training to the designated officials on the required project and World Bank financial management and disbursement policies and procedures	DBS	December 2017	No*
Revise the operations manual to include the agreed policies and procedures to approve, monitor and report on the project loans	DBS	December 2017	No*
Customize DBS accounting system in a way that it can record and report on the project transactions	DBS	December 2017	No*
Include the project activities in the DBS 2018 budget	DBS	December 2017	No*
SeyCCAT			
Execute the SeyCCAT subsidiary agreement on behalf of the Government and SeyCCAT	SeyCCAT	December 2017	No*
Modify existing SeyCCAT grants committee operations manual to reflect revised policies and procedures for administering, monitoring and reporting the grants, and other internal procedures in accordance with Project guidelines and requirements	SeyCCAT	September 2017	No*
Include the project activities in SeyCCAT 2018 budget	SeyCCAT	December 2017	No*

* The actions pertaining to the use of Blue Bond proceeds will be addressed through the IBRD guarantee process.

Supervision plan

30. Based on the moderate overall financial management risk rating, the World Bank financial management team will conduct one financial management supervision per year. The World Bank financial management team will also review quarterly IFRs as soon as they are submitted, as well as internal audit reports and annual audit reports, and will follow up on issues and recommendations raised by external



auditors and the task team leader.

Conclusion of the assessment

31. The conclusion of the assessment is that the financial management arrangements will meet the World Bank’s minimum requirements under OP/BP 10.00 once the above agreed action plan is implemented. The overall financial management risk rating of the project is moderate.

Disbursements

32. **IBRD loan and GEF grant.** Disbursements will be made in accordance with the Disbursement Guidelines for Investment Financing Project, dated February 2017. The financing proceeds will be disbursed using one or more of the four disbursement methods available to the project—reimbursement, advance, direct payment, and special commitment. Two Designated Accounts denominated in U.S. dollars will be opened at the Central Bank of the Seychelles. The first Designated Account will be used for advances from the IBRD loan and will receive an initial advance of up to the ceiling amount of US\$300,000, equivalent to three months of forecasted expenditures. The second Designated Account will be used for advances from the GEF grant and will receive an initial advance of up to the ceiling amount of US\$400,000. Both accounts will be replenished regularly through monthly withdrawal applications supported with statements of expenditures. Detailed supporting documentation for statements of expenditures will be maintained by the PIU for review by World Bank teams and/or external auditors. Direct payments may be made to service providers at the request of the borrower. The GOS may also request reimbursements for prefinanced expenditures or payments pursuant to special commitments entered into by the recipient. Withdrawal applications will be submitted electronically using the World Bank’s client portal (ClientConnection). The GOS will provide the names of officials authorized to sign and submit withdrawal applications electronically.

33. **Blue Bond proceeds.** The MFTEP will transfer funds to the DBS and to SeyCCAT upon receipt of the proceeds from the issuance of the Blue Bond. The funds transfers will be one-time single disbursements to the DBS and SeyCCAT. In the case of DBS, the Blue Investment Fund is intended to operate as a revolving fund whereby the funds that are repaid are used to initiate new loans with no fiscal year limitations and will not be repaid to the MFTEP.

34. **Eligible expenditures.** The following tables show the eligible expenditures by disbursement category.

Table 5.3. Eligible Expenditures for the IBRD Loan

Category	Amount of the Loan Allocated (US\$)	Percentage of Expenditures to be Financed
(1) Good, works, non-consulting services, consultant’s services, training and operating costs for components 3.1, 3.2, 3.3, 3.4, and 4 of the Project	3,776,500	100%
(2) Refund of preparation advance	1,211,000	Amount payable pursuant to Section 2.07(a) of the General Conditions



(3) Front-end fee	12,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions
(4) Interest rate cap or interest rate collar premium	0	
Total	5,000,000	

Table 5.4. Eligible Expenditures for the GEF Grant

Category	Amount of the Grant Allocated (US\$)	Percentage of Expenditures to be Financed
(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project except Components 1.3, 2.4, 3 and 4	5,292,110	100%
Total	5,292,110	

Table 5.5. Eligible Expenditures for the GEF Loan

Category	Amount of the Loan Allocated (US\$)	Percentage of Expenditures to be Financed
(1) Capitalization of the SWIOFish 3 Blue Bond Account under Components 3.6(i) of the Project	5,000,000	100%
(2) Consulting services and Operating Costs for Part 3.6(ii) of the Project	0	100%
Total	5,000,000	

Procurement

35. Procurement activities of the project will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011, revised July 2014 (Procurement Guidelines); "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011, revised July 2014 (Consultant Guidelines); "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016; and the provisions stipulated in the financial agreements.

36. The MFTEP will be responsible for the implementation of the project. The PIU will be staffed with one designated procurement officer who will be seconded by one junior staff.

37. An assessment of the capacity for the Ministry of Finance, Trade and Economy Planning to implement the proposed project was carried out in February 2017. The assessment reviewed the organizational structure, functions, staff skills and experiences, and adequacy for implementation of the



project. The procurement capacity assessment has revealed that MFTEP has adequate capacity since it is currently in charge of the fiduciary aspects of several World Bank financed projects. Although limited to modest value contracts, the designated procurement officer has experience with other donors’ procedures and is proficient in World Bank fiduciary requirements. However, the appointed junior staff and staff from sector ministries have not been involved in procurement under World Bank procedures. Therefore, basic procurement training will be provided by the World Bank Procurement Specialist to all staff, fiduciary and technical, involved in the project’s procurement processes, to enhance their knowledge in procurement under World Bank procedures. The project procurement officer is advised to take an advanced procurement training in the region.

38. During project preparation, it has been discussed and agreed that the PIU will be the sole unit responsible for managing procurement activities for and on behalf of all the beneficiary agencies. The other agencies (the Ministry for Agriculture and Fisheries and the Ministry of Environment, Energy and Climate Change) will be responsible for drafting the terms of reference and technical specifications, and be responsible for carrying out the evaluation and drafting of reports for the procurement of goods and selection of consultant under their respective agencies and for their contract monitoring, during implementation.

39. The overall project risk for procurement was assessed as **moderate**, but with mitigation measures outlined in the table below, the residual risk will be reduced to low.

Table 5.6. Procurement Risks and Action Plan

Risk	Action	Timeframe	Responsibility
Inadequate procurement staff with knowledge in procurement under World Bank procedures	Provide basic training to PIU procurement staff and sector ministries’ staff involved in procurement	By effectiveness	WB PS
	Procurement officer to attend an advanced procurement training in the region	At the latest 3 months after effectiveness	MFTEP / WB
Inadequate system for project implementation	Prepare a Procurement Manual as part of the Project Operations Manual	By effectiveness	MFTEP
	Establish a proper procurement records filing system	During project Implementation	

40. No additional mitigation measures are identified at this point. The World Bank Procurement Specialist is based in Madagascar and will provide close supervision and hands-on support throughout the implementation of the project.

41. **Frequency of procurement implementation support.** In addition to the prior review to be carried out from World Bank office, the capacity assessment of the implementing agency recommends one mission every six months to the field to carry out post review of procurement actions. The World Bank may also conduct an independent procurement review at any time up to two years after the closing date of the project.

42. **Shortlists composed entirely of national consultants.** Shortlists for consultancy services for



contracts estimated to cost less than US\$300,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

43. **Advertising.** Consultancy services for contracts estimated to cost US\$300,000 and above equivalent per contract shall be advertised in the UNDB online in addition to advertising in the national newspapers of wide circulation and/or regional newspaper in accordance with the provisions of paragraph 2.5 of the Consultant Guidelines.

44. **Procurement plan.** The procurement plan shall set forth those contracts which shall be subject to the prior review of the World Bank. All other contracts shall be subject to post review by the World Bank. The draft procurement plan for the first 18 months has been prepared. The procurement plan will be updated by MFTEP at least on an annual basis to reflect actual project implementation needs. All procurement activities will be carried out in accordance with the original or updated approved procurement plan. The project shall use the World Bank’s online procurement planning and tracking tools (STEP) to prepare, clear and update its procurement plans and conduct all procurement transactions. All procurement plans should be published at the national level and on the World Bank website as stated by the guidelines.

Table 5.7. List of consulting assignments with short-list of international firms and other selection methods

Expenditure Category	Contract Value (Threshold) (US\$)	Procurement Method	Contract Subject to Prior Review
Works	>15,000,000	ICB	All
	>5,000,000	ICB	
	< 5,000,000	NCB	
	< 500,000	Quotation	
Direct contracting			All
Goods, and non-consulting services	> 4,000,000	ICB	All
	> 1,000,000	ICB	
	< 1,000,000	NCB	
	< 300,000	Quotation	
Direct contracting			All
Consulting firms	> 2,000,000	QCBS	All
	< 1,000,000	QCBS, QBS, CQS, FBS, LCS	
Individuals consultants	> 400,000	IC	All
	< 400,000	IC	
Consulting firms (single source)	> 1,000,000	SSS	All
	< 1,000,000	SSS	
Individuals (single source)	> 500,000	SSS	All
	< 500,000	SSS	
Note: All terms of reference regardless of contract value are subject to prior review.			



45. All contract amendments that raise the initial contract value by more than 15 percent of the original amount or above the prior review thresholds will be subject to the prior review of the World Bank.

46. **Procurement filing.** Procurement documents must be maintained in the project files and archived in a safe place until at least two years after the closing date of the project. Procurement staff within each implementing agency will be responsible for properly filing procurement documentation.

Environmental and Social (including safeguards)

47. Given the project objectives of improving the sustainability of the marine environment and the governance in the fisheries sector through better data collection, sectoral governance and institutional reform, stronger enforcement of conservation measures, and renewed emphasis on co-management strategies, the overall environmental and social impacts of the project are expected to be positive. However, the proposed subprojects on the construction/expansion/rehabilitation of small infrastructures related to fisheries value chains (landing sites, markets, office buildings, processing plants, ice plants) could generate some minor to moderate adverse environmental and social impacts.

48. The impact assessment undertaken by the GOS pursuant to OP 4.01 confirms that large-scale, significant, and/or irreversible environmental impacts are not expected.

49. The Environmental and Social Management Framework points out that some potential negative small-scale and localized environmental and social impacts from project investments may occur, which have been taken care of in the design of the project and its implementation arrangements. These negative impacts include seasonal, temporary, or permanent access restrictions that may be implemented for certain fisheries or in specific geographic locations; short-term reduction in income to artisanal fishers engaged in illegal or unsustainable fishing activities due to strengthened fisheries management, monitoring, control, and surveillance; and localized environmental impacts from infrastructure rehabilitation, upgrading, or construction such as air, soil, and water pollution, loss of vegetation and coastal erosion. Possible social impacts could include issues related to labor influx and worker and community health and safety.

50. Given that any adverse environmental and social impacts from implementation of the proposed project are generally expected to be site specific, not significant, and not irreversible, this project has been designated as a Category B. The project has triggered the following three safeguards policies: OP/BP 4.01 (Environmental Assessment); OP/BP 4.04 (Natural Habitats) and OP/BP 4.12 (Involuntary Resettlement). Based on assessment of records on maritime or terrestrial archaeological work in Seychelles and the fact that the development of the small and medium scale aquaculture subprojects likely to receive financing will not disturb the sea floor where shipwrecks might be found, OP 4.11 on Physical Cultural Resources was not triggered.

51. Because the exact nature and location of investments may not be determined up front, the Government prepared an Environmental and Social Management Framework and a Process Framework.

52. The Environmental and Social Management Framework and Process Framework provide an environmental and social screening form that will be applied by qualified personnel, precisely the Environmental Specialist and Social Specialist within the PIU, at the planning stage of future investments.



They also provide for the methodology to follow when planning for investments that could have a negative environmental or social impact. They also summarize the grievance redress mechanism detailed in the Process Framework.

53. Concerning infrastructure subprojects, mainly the rehabilitation/construction of small fishery infrastructures and/or administrative building and/or small processing plants in the project zones, and the upgrading of existing fishery infrastructures, no archaeological vestiges will be affected following the socioeconomic survey developed in the Environmental and Social Management Framework. For more assurance, the Environmental and Social Management Framework has made provisions for 'chance finds' procedures for inclusion in the contractors' contract. Mitigation measures will be included in the respective subproject Environmental and Social Impact Assessment and Environmental Management Plans, including chance find procedures.

54. The project is not expected to involve land acquisition leading to involuntary resettlement of project-affected persons, as project infrastructure will take place on already existing sites. However, the project proposes to strengthen the effective management and protection of natural resources in nearshore or offshore waters as well as potentially expand areas under protection. These access restrictions, whether seasonal, temporary, or permanent, may provide some prospect for negative impacts on livelihoods for some individuals in some coastal communities, at least in the short term. Therefore, a Process Framework has been developed and extensively consulted upon to ensure stakeholder's views and concerns are fully taken into consideration in the final project design. Public consultations were held and the information was disclosed. Appropriate grievance-handling procedures and arrangements will be prepared before the enforcing of any restriction, including action plans acceptable to the World Bank and describing the specific measures to be undertaken to assist the affected persons and the arrangements for their implementation.

55. The Process Framework establishes a process whereby individuals, households, or communities who may lose some or all of their livelihoods from fishing or fisheries-related activities, as a result of project investments, are able to participate in a process to minimize such negative impacts on project-affected communities' livelihoods and living conditions, precisely by (a) designing the fisheries resource restrictions; (b) determining measures necessary to restore or improve their livelihood conditions; and (c) implementing and monitoring relevant project activities. The Process Framework includes institutional arrangements, capacity building, grievance redress mechanism, and an estimated budget for Process Framework implementation. The Process Framework also includes the conducting of a social assessment to collect demographic and socioeconomic data on project affected persons and affected communities and development of a Livelihood Restoration Plan to improve or restore the livelihoods of project affected persons to pre-displacement levels while maintaining the sustainability of the protected area. Special attention will be given to women, youth, and other vulnerable groups whose livelihood are intrinsically linked to the fishing activities. The Process Framework prepared by the Seychelles has been deemed acceptable by the World Bank.

56. The grievance redress mechanism is detailed in the Process Framework. The Process Framework lists preventative measures to be applied to avoid exacerbation of conflicts: awareness-raising and regular information about project activities, participatory and inclusive co-management processes, consultations and negotiations with project-affected persons, training in conflict management, and community empowerment. The actual grievance and conflict redress mechanism lists different levels of resolution;



local community mechanisms are to be used to provide a first level of listening and informal consultation. If unsuccessful, or outside of the scope of the community leadership, the grievance is transmitted to higher administrative levels. Informal settlement is always preferred. If unsuccessful, the formal settlement process is detailed in the Process Framework. The Process Framework provides for the constitution of grievance committees and details the different steps to be followed in grievance and redress processes: documentation of the grievance, resolution procedure at the first administrative level, and resolution procedures at the higher levels if unsuccessful. Clear time lines and responsibilities are stated to ensure timely resolution of conflicts.

Monitoring and Evaluation

57. M&E of outcomes and results are a core part of the project design. The PIU will collect and present data and reports for six-monthly reviews by the National Steering Committee in conjunction with World Bank implementation support missions. Discussions during these missions related to institutional capacity building, financial viability, technical reviews, and site visits will also provide effective means of monitoring progress. The PIU will appoint a dedicated M&E Specialist to organize data collection and processing, keep track of project indicators, and prepare regular results reports. Learning and sharing knowledge from the different innovations within the project will be given special attention and funds, including at least 1 percent of the GEF IW financing, will be devoted to the dissemination of project activities and results, the setting up of a website, and the participation of the Seychelles to the IW:LEARN activities.

58. The project will also help improve the M&E system for the sector, and the project M&E Specialist will take an integral part in the management and development of the fisheries sector statistics in the country and the development of scientific, economic, and social dashboards to support fisheries management and decisions related to the development of the fisheries sector. A first step in the M&E process will be to prepare and implement a fisheries information and statistics master plan to develop the core fisheries, social, environmental, and economic tracking modules to deliver the dashboard of indicators for the sector with an emphasis on the biological, social and economic targets (project year 2). The second step will be to link the dashboard to the performance indicators and deliverables of the dependent institutions, major projects, and milestones of countries' sector plans, poverty reduction plans, and other strategic instruments (project year 4). The third step will be to link the dashboard of the project and national decision-making and management process (by the end of the project).

59. The outcomes of the project will be tracked through the enhanced fisheries statistical system developed to populate a dashboard. The M&E functions will be embedded in the dashboard activities. These activities will in turn be mainstreamed into the improved statistical systems. The M&E activities will in all cases be part of improved knowledge and information systems required to manage the sector while simultaneously serving the needs of the project. The outputs from the specific activities will be monitored through the M&E capability provided in the PIU in accordance with specific targets and timetables approved by the Steering Committee. Indicative targets are provided in the Result Frameworks.

60. In addition to conventional recording and analysis of capture fishery and aquaculture production, catch per unit of effort, imports, exports, and fish prices, the dashboard will include close tracking of the economic performance of a representative sample of operators. Specific linkages will be made to higher-level policy objectives through metrics on fish food supply, sector balance of payments and employment. The dashboard will enable timely assessment and adaptive management by the lead agency and the



project. It will also enable oversight by the planning and finance ministries and the private sector. The dashboard will be complemented by transparency and anti-corruption targets based on a Fisheries Industry Transparency Initiative, the ecosystem approach to fisheries (EAF) scorecard used by the SWIOFC, the compliance reports produced annually by the IOTC Secretariat under the compliance process, and, possibly, Fisheries Performance Indicators under development in other World Bank projects.

61. Due caution will be exercised to balance the indicators and avoid the pitfalls of applying conventional economic and social indicators to the sector. Conventional fisheries sector GDP frequently does not include postharvest activities, and GDP fails to account for fish stock depletion or ecosystem degradation. Similarly, increased employment in capture fisheries may come at the expense of profitability and incomes as more fishers chase less fish with a higher cost per unit of catch. Where baselines are lacking, the project will develop the systems to assemble them. Particular attention will be devoted to coherence and synergies with other information systems, such as ensuring fisheries-related questions in household surveys and proper specification of fish imports and exports.



ANNEX 6: INSTITUTIONAL ARRANGEMENTS OF THE BLUE GRANTS FUND AND THE BLUE INVESTMENT FUND

COUNTRY: Seychelles

Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)

Blue Grants Fund

1. Before the Blue Bond is placed, the MFTEP will sign with SeyCCAT a Subsidiary Agreement whereby a portion of the Blue Bond proceeds (to be determined—notionally US\$3 million) will be transferred to SeyCCAT to establish a Blue Grants Fund for grants to be made to public and private entities on a project proposal basis.⁴⁰ These grants will be used to fund activities related to the operationalization of sustainable-use marine protected areas, the implementation of the Mahé Plateau fisheries management plan, and the transition from open-access to better controlled fisheries.
2. SeyCCAT will manage the Blue Grants Fund. The Subsidiary Agreement will specify SeyCCAT to be the agency responsible for the management and monitoring of the Blue Grants Fund. The Subsidiary Agreement will set forth all the terms and conditions under which the MFTEP is making funds available to SeyCCAT, including the terms and conditions detailed in the following paragraphs. The execution and ratification of the Subsidiary Agreement will be a legal covenant stated in the Financing Agreement. In addition, the GOS' or SeyCCAT's failure to meet their obligation under the Subsidiary Agreement will be considered as an additional event of suspension.
3. SeyCCAT currently has a planned grants program with a focus on sustainable fisheries related to marine protected area management and expansion.⁴¹ To avoid the establishment of a duplicative competing structure and to facilitate the administration of the grants program, the planned SeyCCAT grants program has been merged with the aforementioned proceeds of the Blue Bond to create a single Blue Grants Fund, with segregated financing windows, with an expanded focus and list of eligible projects.
4. In March 2017, the Board of Directors approved the creation of a single Blue Grants Fund. a. The MFTEP will also introduce a motion to give one of the two rotating seats on the Board of Directors reserved for civil society to a representative from the fisheries sector, which would become effective in November 2017.⁴²

⁴⁰ Subject to approval by the SeyCCAT Board of Directors.

⁴¹ SeyCCAT is scheduled to receive US\$432,000 per year, over 20 years. Each year, SeyCCAT will distribute US\$281,000 for marine conservation and planning implementation. The remaining US\$151,000 per year will be placed into an endowment, with an expected ending value of US\$6.7 million, after 20 years. The endowment will then fund work starting in the 21st year (after the cash flow from the debt swap ends).

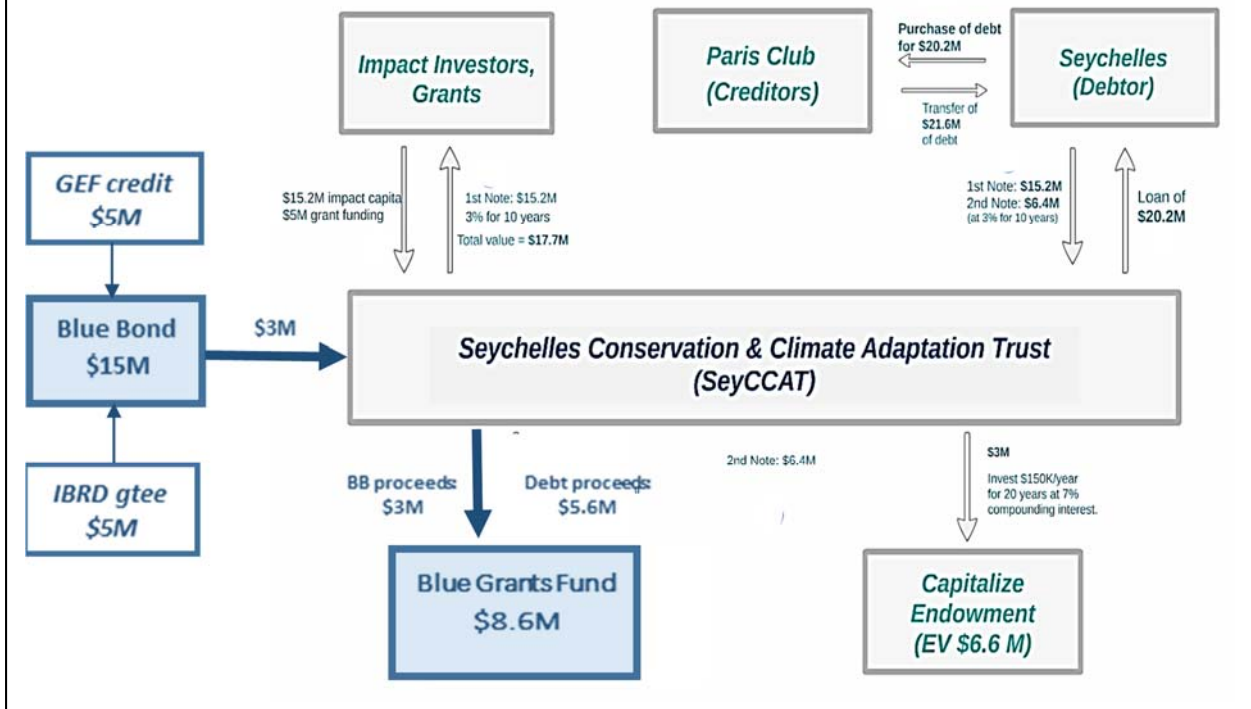
⁴² SeyCCAT currently has a nine-person Board of Directors—four members from Government: Minister of Finance, Trade, and Economic Planning; Minister of Environment, Energy, and Climate Change; Minister of Fisheries and Agriculture; and Head of the Island Development Corporation and five members from civil society: The Nature Conservancy; Seychelles Tourism and Hospitality Association; Seychelles Chamber of Commerce and Industry; and Nature Seychelles and Seychelles Islands Foundation, which are rotating seats reserved for civil society. The Department of Blue Economy (Vice-Presidency) and the Fishermen and Boat Owners Association currently have observer status on the Board. Any changes to the permanent SeyCCAT Board would require legislative changes.



Box 6.1. The Seychelles Conservation and Climate Adaptation Trust (SeyCCAT)

In 2015, the Nature Conservancy raised US\$15.2 million in impact capital loans and US\$5 million in grants to buy-back US\$21.6 million of Seychelles debt. The cash flow from the restructured debt is payable to and managed by an independent, nationally based, public-private trust fund called SeyCCAT. The mission of SeyCCAT is to administer its assets, intended to provide a sustainable flow of funds to enable support for the long-term management and expansion of protected areas and other activities which contribute substantially to the conservation, protection and maintenance of biodiversity and the adaptation to the climate change as identified through consultations with stakeholders.

As part of the debt restructuring, the GoS reissued two New Promissory Notes to SeyCCAT (one for US\$15.2 million at 3% over 10 years, and the other for US\$6.4 million at 3% over 20 years). SeyCCAT will then use these proceeds to fund three distinct streams: (i) work on the ground to improve management of coasts, coral reefs, and mangroves, (ii) repayment of impact investors, and (iii) capitalization of SeyCCAT’s endowment. SeyCCAT plans to manage a Grants Fund of US\$5.6 million (US\$280k per year, over 20 years). Through the proceeds of the Blue Bond, an additional US\$3 million will be transferred to SeyCCAT for the creation of a single Blue Grants Fund, with an expanded scope of focal areas and eligible activities. The total funding amount for grant activities to be managed by SeyCCAT will be US\$8.6 million.



5. Under the Blue Grants Fund, the Board will consider requests for grants based on a Call for Proposals process to be held every 6-12 months. SeyCCAT has an existing Grants Committee to guide and administer this process.⁴³

⁴³ The Grants Committee is currently chaired by the Ministry of Agriculture and Fisheries and consists of representatives from the following: TNC, the Fishermen and Boat Owners Association, the Minister of Environment, Energy, and Climate Change, the University of Seychelles, Seychelles National Parks Authority, the Project Coordination Unit, GEF Small Grants Programme, and the Seychelles Youth AIMS Hub.



Grant Qualification Criteria

6. The priority for grants issued under the Blue Grants Fund is to facilitate (a) the operationalization of sustainable-use marine protected areas and (b) the implementation of the Mahé Plateau fisheries management plan and the transition from open-access to better controlled fisheries.
7. Three separate financing windows will be established within the Blue Grants Fund:
 - (a) Expanded sustainable-use marine protected areas (US\$1.5 million over 6 years) (SWIOFish3 Component 1)
 - (b) Improved governance of priority fisheries and Sustainable development of the Blue Economy (US\$1.5 million over 6 years) (SWIOFish3 Component 2)
 - (c) Sustainable fisheries related to marine protected area management and expansion (US\$1.7 million over 6 years) (SeyCCAT)
8. Proposals related to Components 1 and 2 will be evaluated against a 'Green List' of eligible activities (to be finalized by the GOS) to determine eligibility.
9. Additional consideration will be given to proposals that demonstrate a synergy with projects financed under the Blue Investment Fund or with a plan to seek financing under the Blue Investment Fund, to strengthen projects and/or mitigate potential risks associated with a larger investment project. Such grant proposals could include, but are not limited to,
 - Development of financial plans (that is, preparation of annualized investment returns, financing history, historical cash flows, financial projections, and identification of collateral);
 - Development of operational plans;
 - Conduct of market analysis (that is, identification of customer base, market potential, development of geographic and business risk mitigation strategies, assessments of scalability); and
 - Collection of data related to fisheries stock, species, pricing, monitoring, fishing efforts, vessels, and so on, which can assist in the assessment of investment risk related to current/future Blue Investment Fund projects.
10. In broad terms, qualifying proposals will also be expected to
 - Provide clear and demonstrable benefits proportional to the grant investment (value for money) and
 - Be observant of and compliant with environmental and social safeguards.
11. Eligible applicants may include the following:



- Any government agency, locally registered nongovernmental organization or civil society organization, parastatal organization, or individual may submit a proposal. Proposers must have been incorporated for a minimum of two years.
- Overseas-based organizations are not eligible, although proposals from and led by eligible local organizations may include overseas-based partners.

12. Proposals will be required to include details of qualifications and experience to ensure that a sound judgment can be made concerning the proposer's ability to deliver the project.

13. Proposals may cover any part of the territory of the Seychelles, terrestrial, coastal, and marine, but may not cover areas outside of the territory of the Seychelles.

14. Each of the Directors and staff of SeyCCAT (including SeyCCAT's Chief Executive Officer) must declare in a written statement addressed to the Chairperson of the Board the nature and extent of any interest, direct or indirect, which he/she has in a proposed transaction or arrangement with SeyCCAT.

15. A Director should absent himself/herself from any discussions of the Board in which it is possible that a conflict will arise between his/her duty to act solely in the interests of SeyCCAT and the Blue Grants Fund and any personal interest (including, but not limited to, any personal financial interest).

Grant Details and Exclusions

16. There are two categories of grants that may be applied for:

- Small-medium grants of up to approximately US\$7,500. These grants will be awarded on the basis of an approved concept.
- Large grants between approximately US\$7,500 and US\$75,000. These grants will be short-listed on the basis of the concept (stage 1) and then awarded on the basis of a full proposal (stage 2).

17. The maximum duration of grant awards is 12 months for a small-medium grant and 24 months for a large grant. At the request of the grantee, these grant periods may be extended for a maximum of 6 months and 12 months, respectively.

18. Exclusions that will not be considered for funding include the following:

- (a) Funds may not be used, directly or indirectly, to pay for government administrative or operating costs (that is, salaries).
- (b) Funds may not be used for individual sponsorships for participation in workshops, seminars, conferences, congresses, or individual scholarships.
- (c) Funds may not be used to service debts and provisions for losses or debts.
- (d) Funds may not be used to pay interest owed on debts.



- (e) Funds may not be used for items or costs incurred by or through projects already financed under another framework.
 - (f) Funds may not be used for purchases of land or administrative buildings.
 - (g) Funds may not be used for the purchase of automobiles.
 - (h) Funds may not be used to cover currency exchange losses.
 - (i) Funds may not be used to pay taxes (with the exception of VAT).
 - (j) Funds may not be used to extend credit(s) to third parties.
 - (k) Funds may not be used to finance activities that are not environmentally and socially compliant or those that require land acquisition (detailed Exclusion list is provided in the Environment and Social Management Framework).
19. Management fees applied by the proposal may not be more 10 percent of the total grant.
20. Contingency costs should not be included in project proposals.

Call for Proposals

21. A Call for Proposals will be made every 6-12 months. The responsibility of issuing the Call for Proposals lies with the SeyCCAT Secretariat.
22. The Call for Proposals will list the financing windows and provide indicative lists of activities. All proposals must provide key information on the proposer, a description of the activities proposed for financing (with an identification of which financing window their project falls under) and the objectives they address, a summary of the execution approach, and a cost estimate. Projects will be encouraged to identify at least some co-financing which may be in kind.
23. SeyCCAT staff will be responsible for running of the Call for Proposals, including posting of the Call for Proposals. The Call for Proposals announcement will be widely distributed by as many means as reasonably possible (website, nongovernmental organization networks, community organizations, newspaper, and so on), to reach a broad representation of potential grantees. A section of SeyCCAT's website will be dedicated to the grant award process.
24. The steps of the grant cycle, grantee eligibility criteria, guidance for submitting proposal documents, and the criteria that will be used for evaluating proposals are made public to ensure that all potential grantees have access to the same information. SeyCCAT staff will respond to questions from grant applicants that may arise during the grant award process. SeyCCAT staff will publish grant applicants' questions and answers on its website so that all concerned may benefit.

Approval of Projects

25. Grant proposals will be subject to review and decision by the Grants Committee of SeyCCAT,



which was created through legislation on November 19, 2015.⁴⁴

26. All short-listed proposals in the large grant category will need to prepare full proposals. The Grants Committee may request changes to the original concept, without by so doing changing the general nature or objective of the proposal.

27. The Grants Committee may suggest a partner to assist the proposer in writing the full grant proposal and may request the SeyCCAT Secretariat, at the discretion of the Board of Directors, to provide the proposer a small proposal preparation grant, not to exceed SCR 10,000, the cost of which will be included in the total project cost proposed.

28. Grant proposals will be received by the SeyCCAT Secretariat. All proposals received will be required to pass the administrative compliance stage before being forwarded to the Grants Committee. The Secretariat will check that submissions are administratively compliant by applying the following procedure:

- Ensure that the subject of the proposal is compliant to the priorities for funding.
- Verify that the proposer is eligible.
- Verify that the proposal has been submitted in complete form before the imposed deadline for receiving grants.
- Check the budget is compliant with the different categories.
- Ensure that all required documentation has been received (if papers are missing, the Secretariat will contact the proposer and request the proposal be resubmitted).

29. The Grants Committee will meet every 6 to 12 months to evaluate proposals submitted. An initial sequence of Grants Committee meetings is outlined in table 6.1.

Table 6.1. Initial Sequence of Grants Proposals Review

Date	Activity	Action
October	Call for Proposals	
December	Grants Committee meeting to evaluate concepts for small-medium and large grants Board meeting (physical or electronic)	a) Recommendations for approval of small-medium and large grants sent to Board of Directors b) Large grants are short-listed and proposers requested to prepare full proposals
February	Grants Committee meeting to evaluate full proposals for large projects	c) Recommendations for approval of large projects sent to Board of Directors

⁴⁴ The mandate of the Grants Committee is given in Article 2.4 of the SeyCCAT Operations Manual: “The Grants Committee shall consist of (members) with operational and technical programming skills who are committed to the conservation of renewable resources and sustainable development. The Grants Committee will (i) analyze and recommend projects and programmes to be presented for approval by the Board, (ii) provide orientation on priorities of SeyCCAT and the projects and programs to be funded, (iii) periodically review and bring up to date the (investment or grant making) strategy of SeyCCAT and (iv) participate in the periodic review of the Annual Work Plan, along with other stakeholders in the Seychelles.”



Date	Activity	Action
March	Board meeting (physical or electronic)	d) Announcement of projects

30. The SeyCCAT Secretariat will be responsible for circulating a dossier containing all proposals to be evaluated, with attached administrative compliance sheets, to each member of the Grants Committee at least 15 working days before the date of the scheduled evaluation meeting.

31. The technical assessment of proposals will be done by evaluation of the major points described as follows:

Implementation Capacity

- (a) Capacity of the organization/individual to implement the proposed project
- (b) Experience of the organization/individual with similar projects

Project Objectives and Activities

- (a) Is the project logic clearly defined—are the results likely to achieve the outcome(s) and objective(s)?
- (b) Are the project activities clearly laid out and achievable within the stated time frame?
- (c) Are risks properly identified, and are mitigation measures in place?
- (d) Is there a plan for M&E?
- (e) Are the means whereby the project interventions will be sustained and replicated clearly defined?

Budget

- (a) Is the budget breakdown by activities clear and realistic?
- (b) Is the budget breakdown by categories appropriate and likely to be cost-effective?

32. Technical assessment of concepts and full proposals will involve the allocation of scores for elements of the submitted documentation. The evaluation of the concept note focuses on whether the proposal addresses priority issues and its cost-effectiveness—in the case of small-medium projects, this is sufficient to make a recommendation for a grant (or not). The evaluation of full proposals looks more closely at the project design, implementation, and budgeting.

33. The Grants Committee may choose to rely on external technical reviewers or consult with advisory bodies to provide objective or specialized guidance on grant selection; individuals giving advice should be independent of the grants or activities they are reviewing and should not create a perceived conflict of interest.

34. The Grants Committee at the end of each evaluation meeting will make recommendations to the



Board of Directors for grants to be awarded. For each proposal a short text will be provided giving reasons for (a) rejection or (b) recommendation for a grant award.

Disbursement of Grant Funds

35. SeyCCAT will provide an initial payment through a transfer of funds to the individual/organization for the first six months of activities (amount to be determined based on individual project needs and rationale) upon signing of the grant agreement. The remainder/subsequent tranches (amounts to be determined) will be paid when (a) the organization/individual has spent 80 percent of the down payment/s and (b) the quality of work and the progress being made toward successfully achieving the goals of such activities has been deemed satisfactory by the SeyCCAT Grants Committee. Payments will be subject to the organization/individual meeting the outputs as specified in their work plan.

36. The amount of the grant award is not subject to any adjustment or revision because of price or currency fluctuations or the actual costs incurred by the organization/individual in the performance of the activities under the grant agreement.

Monitoring and Reporting

37. SeyCCAT will be responsible for the financial management of the funds allocated by the GOS under the project for the purposes of the Blue Grants Fund and will account for the project funds transferred from the project Designated Account.

38. SeyCCAT will provide regular interim financial reports (IFRs) to the PIU. The contents of the IFRs will include: (i) a financial report narrative summary; (ii) a statement of sources and uses of funds by disbursement component/activity, showing for the period and cumulatively, actual and planned cash receipts and payments; (iii) sources and uses of funds by component/activity; and (iv) designated account activity statement with cash forecast for the ensuing two reporting periods. SeyCCAT shall prepare and submit their quarterly reports to the PIU 30 days after the end of the reporting period. The PIU shall consolidate and submit the report to the World Bank within 45 days of the end of the reporting period.

39. The MFTEP shall prepare project annual financial statements using International Public Sector Accounting Standards – cash basis. SeyCCAT will submit their annual reports to MFTEP at least one month after the end of the year providing enough time to the PIU to consolidate the report (the project annual financial statement) – ready for audit.

40. SeyCCAT will transmit annual performance reports of the Blue Grants Fund to the PIU, which will include updated project indicators based on the project results framework and M&E requirements. The PIU will retain the right to require more information from SeyCCAT.

Blue Investment Fund

41. The MFTEP will sign with the DBS⁴⁵ a Subsidiary Agreement, whereby a portion of the Blue Bond

⁴⁵ The DBS was established in 1977 as a development financing institution with a specific mandate to assist in the economic development of the Seychelles. The DBS finances new modernization and expansion projects in the fields of agriculture, fishery, industry, service, and tourism as well as construction of commercial and residential complex.



proceeds (to be determined—notionally US\$12 million) will be transferred to the DBS for the establishment and management of a Blue Investment Fund for commercial loans to be made to projects consistent with the provisions of the Mahé Plateau fisheries management plan and with a specific focus on economic diversification and sustainability.

42. The DBS will establish a separate account for the Blue Investment Fund. The Subsidiary Agreement will specify the DBS to be the agency responsible for the management and monitoring of the Blue Investment Fund. The Subsidiary Agreement will set forth all the terms and conditions under which the MFTEP is making funds available to the DBS. The execution and ratification of the Subsidiary Agreement will be a condition of effectiveness stated in the Financing Agreement. In addition, the GOS' or DBS' failure to meet their obligation under the Subsidiary Agreement will be considered as an additional event of suspension.

43. The repayment of the Blue Bond is considered an obligation of the GOS and will not be linked financially to the Blue Investment Fund.

44. The Blue Investment Fund is intended to operate as a revolving fund, whereby the funds that are repaid are used to initiate new loans with no fiscal year limitations.

45. The DBS will appoint a Technical Committee specifically for the Blue Investment Fund. The Technical Committee will be responsible for providing a technical review for loan applications and it would include, inter alia, one representative from the following:

- Office of the Vice President (Department of Blue Economy)
- MFTEP (Department of Economic Planning)
- Ministry of Agriculture and Fisheries (Seychelles Fishing Authority)
- Ministry of Employment, Entrepreneurship Development, and Business Innovation
- Ministry of Health and Social Affairs (*Observer status*)⁴⁶
- SeyCCAT (*Observer status*)⁴⁷
- DBS (*Observer status*)⁴⁸

46. The Department of Blue Economy will be responsible for the advertising and promotion of the

⁴⁶ The Ministry of Health and Social Affairs will not be responsible for conducting a technical assessment of the loan applications, but it will participate in the Technical Committee evaluation meetings in the interest of cooperation, capacity building, and transparency of discussions for eventual loan approval.

⁴⁷ SeyCCAT will not be responsible for conducting a technical assessment of the loan applications, but it will participate in the Technical Committee evaluation meetings in the interest of cooperation, capacity building, and transparency of discussions for eventual loan approval.

⁴⁸ DBS will not be responsible for conducting a technical assessment of the loan applications, but it will participate in the Technical Committee evaluation meetings in the interest of cooperation, capacity building, and transparency of discussions for eventual loan approval.



Blue Investment Fund.

Loan Eligibility Criteria

47. The priority focal area for loans issued under the Blue Investment Fund is the facilitation of the implementation of the Mahé Plateau fisheries management plan and the transition from open-access to better controlled fisheries.

48. Proposed loans will need to be compliant with a 'Green List' of eligible activities (which outlines the priority areas for funding under the Blue Investment Fund). The applications will also be evaluated against the Green List's management prerequisites for the target activity to be funded by the loan to ensure the environmental sustainability of the proposed investment and avoid creating a price signal that would increase pressure on the fisheries.

49. In broad terms, qualifying applications will also be expected to

- Provide clear and demonstrable analysis of expected returns on investment; and
- Be observant of and compliant with environmental and social safeguards.

50. Eligible applicants:

- Any locally registered nongovernmental organization or civil society organization or individual may submit a proposal to the DBS. Proposers must have legally existed and operated for a minimum of two years.
- Overseas-based organizations are not eligible, although proposals from and led by eligible local organizations may include overseas-based partners.

51. Proposals will be required to include details of qualifications and experience to ensure that a sound judgment can be made concerning the proposer's ability to deliver the project.

Loan Details and Exclusions

52. The total cost of each loan proposed to be financed out of the Blue Investment Fund shall not exceed US\$3 million for each project.

53. Repayment period will be according to the Loan Agreement between the borrower and the DBS and should not exceed 12 years. However, in exceptional circumstances a longer repayment period can be negotiated.

54. Repayment will be made in Seychelles rupees and money paid back will be deposited into the Blue Investment Fund account within the DBS.

55. The project funds will not be used to cover the cost borne by the DBS to manage the Blue Investment Fund. The DBS will collect administrative and management fees, as follows:



- 1 percent of the interest payable on the approved and disbursed loan (deducted by the DBS from the total interest received on a monthly basis)
- Application fee of 1 percent of the loan amount (upon final approval of the loan)

56. The interest rate on any loan from the Blue Investment Fund will be 3 percent. A penalty fee equivalent to the commercial bank's prevailing savings rate + 1 percent will be charged to the borrower by the DBS in case of default.

57. Unless otherwise agreed with the GOS, the DBS shall cause the borrower to undertake that any loan will be made on terms whereby the DBS shall obtain, by written contract with the borrower, adequate rights to protect the interest of the GOS and the DBS, especially the right to

- (a) Require the borrower to carry out and operate the investment project with due diligence and efficiency and in accordance with sound technical, financial, and managerial standards and to maintain adequate records;
- (b) Require that (i) the goods and services to be financed out of the proceeds of the loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts thereof and, in the case of services, of their quality and the competence of the parties rendering them and (ii) such goods and services shall be used exclusively in carrying out of the investment project;
- (c) Inspect, by itself or jointly with representatives of the GOS, if the GOS shall so request, such goods and the sites, works, plants, and construction included in the investment project, the operation thereof, and any relevant records and documents;
- (d) Obtain all such information as the GOS or DBS shall reasonably request relating to foregoing and to the administration, operations, and financial condition of the borrower; and
- (e) Suspend or terminate the right of the borrower to use the proceeds of the loan upon failure by the borrower to perform its obligation under its contract with the DBS.

58. The DBS shall exercise its rights in relation to each Loan in such manner as to

- (a) Protect the interest of the GOS and the DBS and achieve the purpose of the Blue Investment Fund and
- (b) Comply with the DBS's obligations under the Subsidiary Agreement.

59. The DBS shall transmit to the PIU, for its prior approval, any substantial changes proposed to be made in respect of the repayment provisions of any loan.

60. The DBS shall cause the borrower to undertake not to utilize the proceeds of the loan except for technically sound projects after securing DBS approval.



Approval of Projects

61. Loan applications will be received by the DBS on a rolling basis.
62. Upon receipt of a loan application under the Blue Investment Fund, the DBS will review it for administrative compliance. The DBS will certify that the applications are administratively compliant by
 - (a) Conducting an initial verification that the applicant is eligible and
 - (b) Verifying that the application has been submitted in complete form.
63. The Technical Committee shall convene every four months for an evaluation meeting to provide a technical review of the loan applications received.
64. The DBS will be responsible for circulating a dossier containing all loan applications to be evaluated, with attached certification of administrative compliance, to each member of the Technical Committee at least 20 working days before the date of the scheduled evaluation meeting. The individual members of the Technical Committee will complete their technical assessments and scoring before the evaluation meeting.
65. A technical evaluation methodology will be developed specifically for the Blue Investment Fund and will involve the allocation of scores for elements of the project. All members of the Technical Committee will receive training on the technical evaluation methodology before the activation of the Blue Investment Fund.
66. In broad terms, loan proposals will be technically evaluated against the major points described as follows:
 - Does the proposed investment satisfy eligibility criteria under the Government-approved 'Green List'?
 - To what extent does the proposed investment contribute to the objectives of the Blue Investment Fund (the facilitation of the implementation of the Mahé Plateau fisheries management plan and the transition from open-access to better controlled fisheries)?
 - Does the organization/individual have the capacity to implement the proposed project?
 - Is the project logic clearly defined and based on demonstrable sector realities and sound market data?
 - Are the project activities and budgeting realistic, clear, cost-effective, and achievable within the stated time frame?
 - Are risks properly identified and are mitigation measures in place? Is the project sufficiently observant of environmental and social safeguards?
 - Is there a plan for M&E?



67. If the loan proposal involves land acquisition, the Technical Committee will refer the proposal to the Fisheries and Port Development Committee for their recommendation. Additionally, for any loan proposal over US\$500,000, the loan applicant will be invited to present their project in person to the Technical Loan Committee.

68. If the Technical Committee recommendation is positive, then the loan application will be sent back to the DBS for standard loan processing procedure and financial appraisal. Approval of the loan is decided by the DBS Board after positive financial appraisal.

Monitoring and Reporting

69. The DBS will be responsible for the financial management of the funds allocated by the GOS under the project for the purposes of the Blue Investment Fund and will account for the project funds transferred from the project Designated Account.

70. DBS will provide regular interim financial reports (IFRs) to the PIU. The contents of the IFRs will include: (i) a financial report narrative summary; (ii) a statement of sources and uses of funds by disbursement component/activity, showing for the period and cumulatively, actual and planned cash receipts and payments; (iii) sources and uses of funds by component/activity; and (iv) designated account activity statement with cash forecast for the ensuing two reporting periods. DBS shall prepare and submit their quarterly reports to the PIU 30 days after the end of the reporting period. The PIU shall consolidate and submit the report to the World Bank within 45 days of the end of the reporting period.

71. The MFTEP shall prepare project annual financial statements using International Public Sector Accounting Standards – cash basis. DBS will submit their annual reports to MFTEP at least one month after the end of the year providing enough time to the PIU to consolidate the report (the project annual financial statement) – ready for audit.

72. The DBS will also prepare and submit to the PIU regular reports on the performance of the Blue Investment Fund in the form of a management report, which will include updated project indicators based on the project Results Framework and M&E requirements. The PIU retains the right to require more information from the DBS should it require access to more than regular management accounts and project reporting. The Environmental and Social Specialist of the PIU will be responsible for monitoring and supervising the implementation of the Environmental and Social Management Framework and the Process Framework at the level of each investment.



ANNEX 7: IMPLEMENTATION SUPPORT PLAN

COUNTRY: Seychelles

Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)

Strategy and Approach for Implementation Support

1. The project implementation strategy is based on the following: (a) ensuring a high degree of quality at entry and implementation readiness of all project components; (b) focused technical, financial, and procurement reviews by the World Bank; (c) close and constant focus on risk areas such as policy dialogue and quality and speed of procurement; and (d) close and continuous follow-up on issues highlighted during implementation support missions.
2. **Team composition.** The implementation support team is expected to consist of a Task Team Leader, in charge of overall coordination of the implementation support, and team members who will assist the team leader on project management and specific activities, including financial sector development. In addition to this core implementation support team, region-based procurement, financial management, and social and environmental staff will participate as team members and be responsible for the implementation of project-specific activities in their areas of expertise. The Environmental and Social Specialists following the project will closely monitor the execution of the mitigation measures and safeguards documents. If required, implementation support consultants will be hired on an ad hoc basis to provide real-time technical assistance to governments to support smooth implementation of the investment, where capacity is weak, without speaking formally for, or representing, the World Bank.

Implementation Support Plan and Resource Requirements

3. **Frequency of implementation support effort.** The objective will be to supplement the ongoing support provided by the task team and/or implementation support consultants with up to two full implementation support missions of the wider team (including partners), as well as a quarterly virtual mission through audio/video to review progress in annual work plan, if necessary. The GOS will submit an annual work plan, updated budget, and procurement plan at the end of the calendar year, for World Bank 'no objection' for the following year.
4. **Implementation support budget.** To ensure a strong and continuous implementation support effort, especially during the first two full years of implementation, a minimum of US\$220,000 per year implementation support budget will be required to cover all related fixed and variable cost, not including safeguards and fiduciary aspects. Tables 7.1 and 7.2 provide the breakdown for the implementation support budget for the project.



Table 7.1. Implementation Support

Time	Focus	Skills Needed	Resource Estimate (US\$)
First 12 months	Issuance of the Blue Bond Setting up of the fiduciary environment, including the Blue Investment Fund and the Blue Grants Fund	Project management, debt management, disbursement, procurement, financial management, financial sector development	220,000
12–72 months	Technical aspects	Project management, fisheries management, environment and social management, financial sector development, procurement and financial management	660,000

Table 7.2. Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader	15	4	
Team members	15	4	Includes different staff
Procurement specialist	4	2	
Financial management specialist	4	1	
Environmental specialist	4	2	
Social specialist	4	2	



ANNEX 8: ECONOMIC AND FINANCIAL ANALYSIS

COUNTRY: Seychelles

Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)

Baseline (without Project)

1. Regional and national fisheries and marine ecosystems play a crucial role in the economic development of SWIO countries. The SWIO island states neighbors on the African continent (Tanzania and Mozambique) share widely distributed and migratory resources, and their coastal fisheries ecosystems face similar challenges. Marine fisheries and aquaculture productions were worth more than US\$296 million per year for Comoros, Tanzania, and Mozambique (the three countries in SWIOFish1); US\$213 million per year for Madagascar in SWIOFish2; and US\$178 million per year for the Seychelles, where fisheries can contribute 8 to 20 percent of the GDP annually (see table 8.1). The SWIO region's seafood exports (excluding South Africa) were valued at more than US\$1 billion in 2008, of which tuna and shrimp accounted for more than half.

Table 8.1. Macroeconomic and Fisheries Sector Indicators for the Seychelles (SWIOFish3); SWIOFish1 Countries (Comoros, Mozambique, and URT); and Madagascar (SWIOFish2)

2008–2010 and 2014 ^a	SWIOFish1 (3 Countries)	SWIOFish2 (Madagascar)	SWIOFish3 (Seychelles)
Land area (km ²)	1,745,217	589,712	445
Coastline (km)	4,234	5,600	746
EEZ (km ² , thousands)	976	1,888	1,288,643
Continental shelf (km ²)	92,000	117,000	31,479
Seagrasses and lagoons (km ²)	—	60,000	—
Mangroves (km ²)	4,245	3,097	29
Coral reefs (km ²)	5,870	1,350	1,690
Population (million) ^a	60	24	1
Coastal population (million)	9	10	1
Fisheries production (US\$, millions)	296	213	178
Direct employment (million)	1.3	0.3	0.015
Wages to fishers (US\$, millions)	115	128	0.09
Number of ports/coastal transport	19	11	3
Gross national income per capita (US\$) ^a	1,710	1,370	23,300
Human Development Index (HDI) ^a	1.4	0.51	0.77
GDP (US\$, billions)*	36,778	11	0.13
Fisheries (% GDP)	1%	7%	12%

Note: ^a Data collated and approximated for the Seychelles (2014) and the other countries from various sources, including UNDP 2015 HDR; SFA 2014 Annual report; ASCLME 2012, 28 Cost and Benefit Analysis Island States; 2015 African Economic Outlook; 2013 technical case study for the WAVES Global Partnership in Madagascar (World Bank), Le Manach et al.; Mangroves of East Africa, UNEP 2003; UNEP World Atlas of Coral reefs, 2001; <http://www.indexmundi.com> and 2012 HDI report, <http://hdr.undp.org/en/data/map/>.

2. In the Seychelles, the fisheries sector employs about 17 percent of the total population. Artisanal and semi-industrial fisheries mostly concerned with reef protection and management plans are crucial for the sustainable development of the local sector. Nearly all the country's population is living in coastal



areas. The sector is also a major contributor to nutritional health and food security and has strong linkages with tourism.

3. **Business-as-usual scenario.** The business-as-usual scenario for the Seychelles would deliver some benefits, but these would be smaller than the potential benefits from strengthened national capacity, and net benefits linked to the blue economy initiatives to improve protection and sustainable use of the marine environment would take longer to materialize. The business-as-usual scenario would contribute limited national benefits due to the capacity constraints that limit national actions. The baseline scenario would incur costs and losses due to (a) a continuing trend in coastal and reef resources overexploitation and habitat degradation driving losses of natural capital, biodiversity, and ecosystem services; (b) limited management of sustainable-use marine protected areas, including for transboundary fish stocks in coastal waters; (c) elements missing in the national Fisheries Information System, economic monitoring, and legal framework for policy, planning, and decision making; (d) some inefficient, overcapacity, and aging national fleet; and (e) short value chains with limited postharvest value added by local stakeholders.

Trends in the State of Fish Stocks, Economic Rents

4. The baseline assumes that expanded protection of marine areas (Component 1), improved governance of priority fisheries including greater involvement of communities and the private sector in fisheries co-management leading to efficient implementation of the management plans and increased contribution to economies (Component 2), and private sector development of local value chains (Component 3) are necessary to prevent further loss of ecosystem services. In particular, entire communities rely on the productivity of coastal waters reefs and mangroves.

Baseline Trends for EEZ and Coastal Fisheries

5. **Baseline scenario.** The baseline scenario assumes that the activities funded by the project are necessary to reverse the current trend of increasing overexploitation of coastal resources and loss of marine ecosystem services. In the Seychelles, tourism-linked use of reef habitat and fisheries resources contributes to unsustainable pressures. An increasing number of coastal fisheries in SWIOFC⁴⁹ countries are either biologically fully or overexploited. Fisheries that are exploited in biological sense at the maximum sustainable yield are found to be underperforming in economic terms although they may contribute important social benefits, suffering from excessive vessel numbers and poor return on capital; as fleet fishing effort increases, passing the maximum economic yield level toward the maximum sustainable yield fishing effort level, production costs increase faster than revenues and profit margins decrease. For overfished stocks, the baseline assumptions are that (a) the number of fisheries underperforming in economic terms will likely continue to increase at a rate of 6 percent per year, following the trend observed between 2005 and 2009 (last data available) without the project and (b) as a result, SWIO coastal states as a whole would incur an annual loss of economic rent of US\$225 million (in 2008 US\$), proportionate to the gross value of catch estimated by the World Bank for world fisheries or 0.45 percent of US\$50 billion.⁵⁰ The working assumption is that project activities could prevent 10 percent of the rent loss through improved management, notably with the development of 'ecosystem approach

⁴⁹ SWIOFC, Status of the Resources, March 13–16, 2011, 12p. SFS/DM/SWIOFC/09/3 F and E from <http://www.fao.org/fishery/rfb/swiofc/en#Org-EIMS>.

⁵⁰ Kelleher, K., R. Willmann, R. Arnason. 2009. *The Sunken Billions: The Economic Justification for Fisheries Reform*. Washington, DC: World Bank.



to fisheries’ management plans and co-management systems, from year 2. Assuming that the corresponding Seychelles fisheries account for 20 percent of the SWIO fisheries first-sale value, this would correspond to a loss in rent of US\$45 million (in 2008 dollars) per year.

Table 8.2. Trends in the Status of Main Fisheries Stocks in SWIO Region 2005 to 2009 (percent)

	Stock Status	2005	2006	2007	2009
Considered economically overfished ^a	Recovering	1	2	3	4
	Depleted	5	8	7	12
	Overexploited	19	22	19	21
	Fully exploited	29	32	36	40
Not considered economically overfished	Moderately exploited	21	20	17	14
	Underexploited	24	16	18	9
Percentage of economically overfished stocks		54	64	65	77

Note: ^a Economically overfished extends to fisheries that are biologically fully exploited.

6. The most commonly overexploited fisheries are the nearshore, high-value species, such as lobsters, sea cucumbers, shrimp, octopus, crab, snappers, and groupers in the artisanal fisheries. Some of these fisheries also have the greatest potential for rapid improvement from a combination of national and community-led co-management (Component 2). Several of these high-value species are short-lived (1 to 3 years), and yield could be improved within the life of the first phase of the program. Although production could decrease during the initial years of stock recovery, in many cases the income of the private sector and fisheries households could be maintained or increased through the extension and management of sustainable-use marine protected areas (Component 1) and through improved fisheries products quality, prices, and local value added (Component 3). The baseline scenario assumes that all project activities are necessary to reverse the trend of overexploitation of coastal resources.

7. For shared tuna and tuna-like resources, the most recent resource assessments from the IOTC (2015 and 2016⁵¹) show that most migratory tuna and tuna-like species are neither overfished nor currently subject to overfishing, apart from (a) the yellowfin tuna (*T. albacares*) currently overfished and subject to overfishing; (b) the black, blue, and striped marlins and sailfish, which are all subject to overfishing; and (c) neritic (coastal) tuna species, which are either of unknown status (bullet tuna, frigate tuna, kawakawa tuna, Indo-Pacific king mackerel) or overfished and subject to overfishing (longtail tuna, narrow-barred Spanish mackerel). These fisheries bring substantial revenue to SWIO coastal states through foreign fishing agreements, licensing revenue, and, to a lesser extent, national and regional value added. Recent studies⁵² suggest considerable potential for increased revenues from these fisheries. Project activities at a national level are designed to improve on the reporting from local fisheries management and to increase national value of coastal catches, including from improved conservation measures and enforcement.

⁵¹ See: <http://www.iotc.org/science/status-summary-species-tuna-and-tuna-species-under-iotc-mandate-well-other-species-impacted-iotc#ttmt>.

⁵² Barnes, C., and K. Mfodwo. 2012. *A Market Price Valuation of Tuna Resources in the Western Indian Ocean: An Indicative Regional and Country/EEZ Perspective*. World Wildlife Fund. POSEIDON, MRAG, NFDS, and COFREPECHE, 2014. *Review of Tuna Fisheries in the Western Indian Ocean (Framework contract MARE/2011/01 – Lot 3, specific contract 7)*. Brussels.



Ecosystem Services

8. Sustainable development of fisheries and aquaculture in the SWIO region is supported by coastal ecosystems and biodiversity of great richness and unique world value. However, the scarcity of economic valuations at the national and regional levels limits the scope and precision in the cost-benefit analysis and preparation of environmental accounts.⁵³ The baseline ‘without project’ scenario uses a cost-benefit analysis undertaken for the SWIO countries involved in the SWIOFish program, which provides some valuation of direct (food, raw, and ornamental material extraction) and indirect services (regulating, cultural, including tourism and recreation, and supporting), provided particularly by mangrove and coral reef habitats (ASCLME 2012).

9. The provision of fisheries resources as a direct ecosystem service is already accounted for in terms of the landed value of the catch. For the Seychelles, the annual net value for the fisheries sector was estimated to be US\$213 million corresponding to a net present value (NPV) over a 30-year period, with a 3 percent discount rate, of US\$4.18 billion (table 8.3). Its capital value was estimated at less than 5 percent of the total marine ecosystem NPV. By comparison, for the Seychelles, the NPV of nutrient cycling services provided by the open ocean, shallow and coastal waters is more than twice that of fisheries, and the global benefit from maintenance of genetic diversity largely provided by mangrove, seagrass, and coral reef habitats is more than 10 times that of fisheries (table 8.3). An NPV for the maintenance of genetic biodiversity of US\$44 billion was estimated from the surface area of mangrove habitats and coral reefs— both also of crucial importance to fisheries and tourism in the region.

10. Overall coastal ecosystem services are estimated to be worth a total economic value (NPV aggregated net income discounted over time assuming a discount rate of 3 percent over 30 years) of US\$64 billion for the Seychelles and a capital value in excess of US\$207 billion for the four island states of Comoros, the Seychelles, Mauritius, and Madagascar,⁵⁴ which have the only data in the region. The project will collaborate with ecosystem valuation initiatives⁵⁵ to obtain more precise biodiversity indicators alongside those for the production quantities and values in selected fisheries. These estimates provide a compelling estimate to support investments toward sustainable-use marine protected areas, their management, and the financing of activities to support a blue economy within these.

Table 8.3. Economic Valuation (NPV) of Coastal Ecosystems Services in the Seychelles US\$ Million per Year (Madagascar - SWIOFish2 for Illustrative Purpose)

Services	Seychelles	Madagascar
Direct: Provision services		
Fisheries	4,185	4,172
Ornamental resources	911	48
Raw materials	10	41

⁵³ UN (United Nations)/FAO (Food and Agriculture Organization of the United Nations). 2004. *Handbook of National Accounting - Integrated Environmental and Economic Accounting for Fisheries*. Studies in Methods, Series F, No. 97 (ST/ESA/STAT/SER.F/97); and EC (European Commission), FAO (Food and Agriculture Organization of the United Nations), IMF (International Monetary Fund), OECD (Organisation for Economic Co-operation and Development), UN (United Nations), World Bank, 2012. *System of Environmental-Economic Accounting*. Central Framework.

⁵⁴ ASCLME. 2012. Rakotobe Andriamanganiaina T., Cost and Benefit Analysis Island States, report 28.

⁵⁵ See <http://teeboceans.org/>; www.wavespartnership.org.



Services	Seychelles	Madagascar
Indirect: Regulation services		
Shoreline protection	13	7
Disturbance regulation	109	463
Climate regulation	2,105	2,897
Cultural and recreational services	1,847	2,479
Indirect: Supporting services		
Nutrient cycling	10,503	28,888
Maintenance of genetic diversity	43,911	57,942
Total	63,594	96,937

Source: ASCLME 2012. Cost and Benefit Analysis Island States, report 28.

Project Costs

11. The project financing summary for the Seychelles is provided in table 8.4. The SWIOFish3 provisional budget is US\$25.29 million without national co-financing currently estimated at US\$1.0 million. Project costs were estimated at 2016 prices. Some of the modalities for parallel sources of funding are not finalized, so these are not included in the economic analysis.

Table 8.4. SWIOFish3 Summary of Financing (US\$, millions)

	IBRD Loan	GEF Grant	Blue Bond	Total
Seychelles	5.00	5.29	15.00	25.29

Project Benefits—6- and 10-Year Horizons

12. The project is designed to be adaptive. Its operational Components 1 to 3 will include investment in critical capacity strengthening, technical and managerial support of protected areas and the management of targeted fisheries led by public service agencies, and support to private sector entrepreneurship and communities identified in the preparation phase.

Basic Assumptions

13. The preliminary economic analysis considers the following potential project benefits. Three categories of benefits are attributed to improved governance: (a) benefits from a recovery of comanaged coastal fisheries in priority areas through improved regulatory, strategic planning, information, and capacity-building systems; (b) increased rates of return and gross value added from coastal vessels through limited entry and fisheries management, recovery plans, strengthening of statistics, and strengthening of the competent authorities in charge of fisheries surveillance, and the quality and safety of food products; and (c) benefits from improved ecosystem services. An additional three categories of benefits can be attributed to private sector activities: (a) improved incomes for artisanal and semi-industrial fishers; (b) increased local value added to products along value chains; and (c) benefits of improved or new local infrastructure and businesses, including aquaculture.

14. The returns expected for each operational component are based on the following basic assumptions:



- Priority area designated to expand protection of marine areas identified for SWIOFish3 support in the Seychelles would be described by quantified environmental (habitats, biodiversity, and so on); social; and economic indicators (Component 1) determined during the project initial stage and would be monitored on an annual basis to implement adaptive management measures and ensure investment return.
- Priority fisheries for national or shared resources identified for SWIOFish3 support in the Seychelles would be described by quantified environmental, social, and economic indicators (Component 2) determined during the project initial stage and shared across the region that would be monitored on an annual basis to allow adaptive management measures and maximize investment return. The South West Indian Ocean Project (closed in 2013) demonstrated that many fisheries such as for demersal species do not appear to be shared across the region and may be effectively managed at the national level.
- A solid framework for sustainable investments made possible with the Blue Investment Fund will help increase investment returns (Component 3). They will target specific value chains, value addition, improved sanitary and phytosanitary monitoring, community infrastructure and services, and aquaculture (including land based).

15. The magnitude and main types of expected benefits would depend on the interactions between expanded sustainable-use marine protected areas and the priority fisheries supported by the project and would include improved and transparent resource assessment, management systems, and access rules; increased resource rent captured by public and private actors; improved income and safety for fishers; and increased local, national, and regional value added from postharvest activities. The assumptions specific to the economic appraisal are as follows:

- Economic distortions prevailing in the Seychelles including a general shortage of savings, particularly for public sector investment projects, are included in project costs. Foreign exchange, price, and other contingencies are included in the budget, corresponding to an overall 5 percent.
- Even though a full cost-benefit analysis of the whole project investment or detailed appraisals are not feasible at this stage, an economic IRR is estimated based on the following assumptions:
 - (a) The IRR is computed for each expected result at the project end, after 6 years and also 10 years when results of institutional strengthening or resource rebuilding are expected to show their full benefit.
 - (b) Uncertainty is not detailed by component or subcomponent and cannot be usefully separated given the natural variability and uncertainty such as from market prices for input and outputs, piracy at sea, or climate change. However, a basic sensitivity analysis presents changes in IRR from increased costs and decreased expected benefits.
 - (c) The IRR estimation is made on the assumption of a constant economic performance projected from the baseline and, in several instances, on the assumption that a decline



could be reduced or halted rather than marine ecosystem production would be increased. Both options are conservative.

- (d) The project investment NPV, given as part of the sensitivity analysis, is calculated for discount rates of 6 percent and 7 percent according to the 2015 World Bank guidelines. The project would bring both qualitative and quantitative benefits and additional assumptions and expected benefits are given in the following paragraphs for each of the three operational components.
- (e) At this initial stage, the IRR is computed overall. A description by component in the following paragraphs provides a discussion of the assumptions made on the basis of data available.

Component 1. Expansion of sustainable-use marine protected areas

16. As a baseline, the Seychelles has only 0.02 percent of the EEZ protected and pledged to protect 30 percent of its EEZ, or 400,000 km², by 2020. The marine spatial planning exercise started in 2014.⁵⁶ It will progressively identify and gazette areas amounting to 15 percent of the EEZ to be protected as high biodiversity zones and another 15 percent to be protected as medium biodiversity zones, allowing for some sustainable economic activities, including controlled fishing.

17. Activities under Component 1 would generate increased economic returns and costs savings for the Seychelles. This would occur through (a) the marine spatial planning approach to a substantial extension of the existing marine protected area network and (b) strengthened management of sustainable uses within some of the areas, including through grant-supported activities from the Blue Bond.

18. The marine spatial planning exercise uses scientific and local knowledge and a fully inclusive stakeholder involvement⁵⁷ to extend the sustainable-use marine protected areas network. Activities proposed in Component 1 will support research, define management standards, make governance arrangements, and devise management plans for the pressures and impacts of fisheries and tourism activities, including zoning updates and the necessary legislation.

19. Activities to support the management of sustainable-use marine protected areas include capacity increase for monitoring, control, and surveillance of protected areas and research to support marine spatial planning and management measures for fisheries and tourism, as well the M&E of marine areas using the World Bank/World Wildlife Fund 'METT' built around the World Commission on Protected Areas.⁵⁸

20. Expected benefits under Component 1 will be the gradual designation and management of marine biodiversity capital and services within sustainable-use marine protected areas, including mangroves and seagrass meadows, to benefit local communities by increasing resilience to environmental change and natural disasters. A very conservative estimate for overall annual benefits linked to specific activities is

⁵⁶ http://seymsp.com/wp-content/uploads/2014/08/SeychellesZoningDRAFT_A4_v1.3c_20140729_JLS.pdf.

⁵⁷ <http://seymsp.com/our-partners/>.

⁵⁸ http://www.ramsar.org/sites/default/files/documents/library/cop12_res15_management_effectiveness_e.pdf.



US\$1 million from year 1 increasing to US\$3 million per year by years 7 to 10.

Component 2. Improved governance of priority fisheries

21. Activities under Component 2 aim to improve the governance of priority fisheries and priority ecosystems focusing on the national tuna fisheries, demersal and benthic fisheries, and the semi-industrial fishing fleet. Activities target key components of the co-management systems, from management plans, regulatory framework, licensing, management measures to control fishing capacity, fishers' contribution to fisheries management process, fisheries and marine environment statistics, Blue Grants Fund projects, and GEF IW:LEARN activities.

22. The main types of benefits from improved governance considered for the cost-benefit analysis are benefits from (a) a recovery of the managed fisheries through area-based management plans and improved monitoring, control, and surveillance and information systems leading to better targeted and more cost-efficient (risk-based) management measures; (b) increased rates of return and gross value added from semi-industrial vessels; and (c) grant-supported activities from the Blue Bond.

23. A recent economic study of the Mahé Plateau fisheries recovery values the annual catch at US\$12.5 million with decreasing catch rates linked to the open-access regime and government fishing operating subsidies amounting to US\$2.6 million per year (Vivid Economics 2015⁵⁹). Recovery of the coastal demersal fisheries is expected to take time, about 10 years for the fish biomass to approach maximum sustainable yield. However, with a mix of short- and long-lived species, management measures and strengthened monitoring, control, and surveillance capabilities are expected to yield improved fishing conditions over the 'business-as-usual scenario' for those remaining in the fishery, as soon as fishing effort is controlled and management measures are in place from year 2. The Mahé Plateau fisheries management plan is currently being prepared and will follow a continuous improvement approach, initially focusing on more productive and priority species during the first years of its implementation and progressively moving to a more comprehensive coverage of the demersal fisheries. The same will apply to the Praslin fishery.

24. Activities to support the managed recovery and transition of these and other fisheries (sea cucumber, national tuna, semi-industrial longline) will be financed by the Blue Grants Funds.

25. Improved governance with staffed, trained, and suitably equipped public services and a responsible private sector is considered essential for effective management of renewable resources and their ecosystems.⁶⁰ Component 2 would also strengthen the management of priority fisheries and coastal ecosystem services by improving the fisheries ecosystem and economic data collection, data analyses, and monitoring systems. The further development of the Seychelles fisheries information systems under the proposed project would provide the required precision and tool to monitor the project impacts.

26. In addition to economic rent collected by various levels of government in the form of fishing and trading permits and local and national taxes, the income of fishers is highly dependent on the productive state of the ecosystem and species targeted. Labor is considered as a production cost, and fishers' income

⁵⁹ Vivid Economics. 2015. *Fisheries Recovery on the Mahé Plateau* (third draft).

⁶⁰ Gutiérrez, N. L., R. Hilborn, and O. Defeo. 2011. *Leadership, Social Capital and Incentives Promote Successful Fisheries*. Nature. Doi:10.1038/nature09689.



is not counted as a benefit in a standard cost-benefit analysis, but the recent study for the Mahé Plateau fisheries recovery plan already mentioned⁵⁹ estimated a benefit-costs ratio of 17:1 over 25 years and the doubling of fishers' income. Similar figures were estimated for sea cucumbers in Madagascar,⁶¹ where even a partial recovery of sea cucumber resources, through management and enhancement, could double the income of collectors on foot, divers, and traders.

27. Altogether, activities of Component 2 are expected conservatively to increase the collective worth of the Seychelles' coastal fisheries by US\$1 million per year in year 2 to US\$3 million per year by year 6 to year 10, without further investment.

Component 3. Sustainable development of the blue economy

28. Two categories of benefits accruing from Component 3 were considered for the cost-benefit analysis: (a) expanded value added to products along value chains and improved sanitary and phytosanitary monitoring and (b) strategic development of the blue economy through the Blue Investment Fund.

29. A conservative baseline assumption (Table 8.1) is that benefits from all Seychelles' coastal fisheries could be in excess of US\$100 million per year. Benefits from increased product hygiene, safety, and quality and from greater local value added along the value chains are assumed to add from US\$1 million per year in year 1 to US\$2 million in year 2, US\$3 million in year 6, and US\$4 million per year for years 9 and 10.

30. Opportunities offered with the Blue Investment Fund, taking into account activities to enable the investment environment and to support the proposals process and accompany investment, are expected to bring high returns of sustainable fisheries and aquaculture private and community businesses. The IRR assumption is that project activities initiated through the Blue Investment Fund above would generate an additional US\$2 million in year 2, increasing to US\$5 million by year 6 and US\$9 million by year 10 without further investment after year 6.

Overall Project Benefit

31. A scenario for the baseline 'without' and one for the 'with' project can be developed by Component and activity groups.⁶² The estimated IRR after 6 years would be 16 percent, which would be more than prevailing discount rates (between 6 percent and 7 percent). The IRR estimated value is most likely lowered by the current lack of information rather than by low project expected benefits, in particular for the Seychelles where essential capacity already exists. The assumptions used at all stages are very conservative, in particular for the benefits from the Blue Investment Fund, which may materialize earlier than assumed as some of the preparatory work has been undertaken during the preparation of the project.

32. The IRR is highest for activities under Component 1, to contribute to the extension and management of sustainable-use marine protected areas, which carry enormous environmental benefits.

⁶¹ Andrianaivojaona, C. 2012. *Value Chain Analysis for Sea Cucumber in Madagascar*. Smartfish report SF/2012/25.

⁶² Excluding major infrastructure not envisaged at present and for which detailed economic justifications would need to be made separately.



The rate of return would also be high for Component 2 investments into improved fisheries management, although estimates cannot account precisely for benefits from improved information and monitoring systems and are therefore very conservative. Component 3 investments to strengthen private sector capacity have the highest monetary return potential to support sustainable economic activities, but in the absence of further details about the types of supported projects, eligibility criteria, M&E of past projects, and so on at this stage, expected returns are taken to be relatively low to take potential risks into account. Therefore, relatively, Component 1 would have the lowest costs and highest expected IRR because of high environmental capital and services values of the proposed activities. For a relatively low added cost, Component 2 investments to strengthen existing institutions would bring additional and relatively high returns to the Seychelles, by increasing national management capacity and revenue collection from shared resources. Component 3 investments, to support entrepreneurship, innovation, and local value added projects, are also expected to bring positive returns.

Table 8.5. Economic IRR and Sensitivity Analysis

Scenarios	%	Total for Seychelles
Investment costs (US\$, millions)	—	25.29
Base IRR (6 years)	—	16%
IRR (10 years)	—	27%
NPV (6 years) with discount rate (US\$, millions)	6%	10
	7%	8
IRR (6 years)	Costs + 10%	13%
	Costs + 20%	11%
	Returns – 10%	12%
	Returns – 20%	9%

33. To conclude, the IRR estimated at the end of the project (6 years) is relatively high (15.6 percent), rising to 27 percent after 10 years without further investment (table 8.5).

34. The project is not expected to generate fiscal obligations from the Government. By contrast, activities aiming to increase governments' capacity to monitor and manage access to the resources in their EEZ have the potential to increase the 'rent' that accrues from a more sustainable use of renewable resources. It is estimated that fiscal revenue from priority fisheries could be increased, both as a result of better management from more efficient public sector services and from private sector operators paying fees for the use of comanaged infrastructures and services.

35. The choice of information and assumptions was set to provide conservative estimates of the project IRR. Unfortunately, the economic data available are patchy. However, the project is likely to have a high relative impact on the sustainable development of demersal and reef fisheries, in particular in terms of resource and habitat recovery in the newly managed and protected areas. In the Seychelles, the project has specific activities for the collection of baseline information and monitoring of the project result.

Sensitivity Analysis

36. Conservative options were chosen throughout the analysis to obtain more robust estimates and avoid excessive details in the absence of precise data. The overall IRR at year 6 is 16 percent but not overly sensitive to a decrease in expected returns or to increased costs—a flat 10 percent or 20 percent change



of annual estimates for costs or benefits leads to an estimated 3–5 percent decrease in economic return.



ANNEX 9: INCREMENTAL COST ANALYSIS

COUNTRY: Seychelles

Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)

Project Objectives

1. The SWIOFish program aims at increasing the economic, social, and environmental benefits of SWIO countries from sustainable marine fisheries. SWIOFish3 activities will target core sustainability management challenges in the Seychelles and remove critical constraints to sustainable business and private investment to develop the 'blue economy'.
2. The specific objectives of SWIOFish3 will be to improve management of marine areas and fisheries in targeted zones and strengthen fisheries value chains in the Seychelles. The primary targets are (a) the management of the most economically important fisheries; (b) co-management of the small-scale fisheries; and (c) planning and/or implementing critical hard and soft infrastructure investments to increase contribution of fisheries to national economies. The project will build the capacity and leadership required.
3. A preliminary Incremental Costs Analysis estimates that incremental costs at national levels (US\$5.29 million) would be eligible for GEF Non-Grant Instrument Pilot financing associated with Biodiversity 4 Program 9 and International Waters 3 Program 7.

Rationale

4. The rationale to support SWIOFish3 in the Seychelles stems from the need to improve marine ecosystem protection and fisheries governance in all coastal states around the SWIO. The SWIO has a large extent of unique coastal ecosystems including mangroves and coral reefs and a number of transboundary fisheries for large pelagic (tuna and tuna-like) resources that are shared by the Small Island States and between countries along the eastern coast of Africa (from Somalia in the North to South Africa). The range of some of key biodiversity habitats resources and some vulnerable marine species such as sharks and turtles also extends to the high seas. Nine countries in the SWIO region (Comoros, Kenya, Madagascar, Mozambique, Mauritius, Tanzania, the Seychelles, South Africa, and France by virtue of its outermost regions, Somalia and Maldives being observers) with the assistance of the GEF-funded ASCLME project and South West Indian Ocean Project, prepared a Transboundary Diagnostic Analysis and a Strategic Action Plan.⁶³ They identified priority objectives with global marine biodiversity conservation targets and priority activities and outcomes aligned with the goals of the Biodiversity (Component 1) and the International Waters (Component 2) GEF focal areas. The countries also collaborate through the regional fisheries body, the SWIOFC, and through the IOTC for the regional fisheries management of tuna and tuna-like species.

Status Quo

5. **Scope and Costs.** The project baseline scenario will have a budget of US\$25.29 million for the

⁶³ ASCLME 2012.



Seychelles, supporting activities organized under three operational and one project management component:

- (a) **Component 1. Expansion of sustainable-use marine protected areas.** Activities in this component will aim to enhance national and regional public goods, in particular to support the identification and designation of marine areas amounting to 15 percent of the Seychelles' EEZ to be protected as medium biodiversity zones, allowing for some sustainable economic activities, including controlled fishing. Without GEF financing, more than half of the activities planned to support the extension of the medium biodiversity area network and manage sustainable use activities would be curtailed.
- (b) **Component 2. Improved governance of priority fisheries.** This component will focus on improving fisheries co-management performance and actions by the public sector. Without GEF funds, Seychelles activities relating to the statistical monitoring, surveillance, and reporting of fisheries, mainstreaming biodiversity in fisheries management, especially for coastal fisheries, will be reduced and hence its participation to the sustainable management of a regional public good.
- (c) **Component 3. Sustainable development of the blue economy.** This component will focus on supporting engagement and increased value addition with the Blue Investment Fund through innovative and sustainable projects along the value chains and sustainable development of national (including coastal and semi-industrial, recreational, and sport) fisheries and aquaculture (including land-based), low-impact fishing practices, and economic diversification to support protected areas and fisheries management plans' implementation and ultimately to increase economic benefits generated by communities and the private sector. No GEF co-financing will be used for this component.
- (d) **Component 4. Project management and coordination.** No GEF financing will be applied as co-financing for this component.

6. In the absence of GEF assistance, support to some key activities of Components 1 and 2 will be reduced (table 9.1).

GEF Alternative

7. **Scope and costs.** Implementation of the baseline scenario investment project will generate national benefits, some of which, regarding data collection of catches from shared stocks by coastal fleet and economics data information systems, will extend across the region in the manner of the leadership role assumed by the Seychelles at the IOTC (2012). However, in the absence of GEF assistance, the project would lack essential activities to strengthen national capacity to develop management plans for its expanded sustainable-use marine protected areas (Component 1) and to collect environmental statistics to better monitor and report fisheries impact (Component 2).



Table 9.1. Project Costs Financing by Expenditure Account (US\$, millions)

Sources and Use of Funds	IBRD Loan	GEF Grant	Blue Bond	Total
Component 1. Expansion of sustainable-use marine protected areas	—	2.65	1.50	4.15
Component 2. Improved governance of priority fisheries	—	2.65	1.50	4.15
Component 3. Sustainable development of the blue economy	4.00	—	12.00	16.00
Component 4. Project management and coordination	1.00	—	—	1.00
Total	5.00	5.29	15.00	25.29

8. The GEF funds will contribute to enhancing the sustainable use of globally significant biodiversity of marine protected areas (Biodiversity Global Environmental Benefit) and restoring and sustaining coastal and marine ecosystems goods and services, including globally significant biodiversity, as well as maintaining the capacity of natural systems to sequester carbon (International Waters Global Environmental Benefit).

9. For the Seychelles, the total cost of the baseline scenario is estimated to be US\$20 million. The GEF alternative is estimated at US\$25.29 million. The GEF will finance US\$5.29 million incremental costs to support national activities. Resources essential to comply with the GEF’s co-financing requirements and support the complementary country-level actions that contribute directly to the outcomes will be financed through IBRD and supplemented by a range of co-financing, including from the Seychelles-issued up to EUR15 million (or US\$ equivalent) Blue Bond, which will benefit from a US\$5.0 million GEF credit enhancement.

10. The project and proposed regional component are fully consistent with the requirements of the Biodiversity Global Environmental Benefit and the IW envelopes for co-financing.

11. **Benefits.** In addition to national benefits associated with the baseline scenario, global benefits of the GEF alternative are summarized in table 9.2.

Table 9.2. Incremental Cost Matrix

Cost Category	US\$, millions	National Benefit	Global Benefit
Component 1. Expansion of Sustainable-Use Marine Protected Areas			
Baseline	1.50	Gradual designation and management of marine biodiversity capital and services within sustainable-use marine protected areas	Demonstration of marine spatial planning and sustainable use areas for marine biodiversity protection
With GEF Alternative	4.15	Expanded coverage of sustainable-use marine protected areas and speedier delivery of governance arrangements and area management plans and specific regulations	The project will benefit from—and contribute to—the regional GEF-funded project: Western Indian Ocean Large Marine Ecosystems Strategic Action Programme Policy Harmonization and Institutional Reforms (SAPPHIRE)
Incremental	2.65		
Component 2. Improved Governance of Priority Fisheries			
Baseline	1.50	Resource-specific fisheries management	Contribution of sustainable use



		within area-specific plans (Mahé Plateau, Praslin), including coastal, national tuna, semi-industrial, and recreational/sport fisheries	areas to SWIO regional marine biodiversity
With GEF Alternative	4.15	Support of the effective management of sustainable-use marine protected areas through targeted investments in communication, capacity building, control and surveillance, environmental research, and data collection	Demonstration of sustainable use area management for marine biodiversity protection; improved data collection and reporting for coastal fisheries catch and effort, especially juveniles of large pelagic species; benefit from/contribute to the GEF Areas Beyond National Jurisdiction project
Incremental	2.65		
Component 3. Sustainable Development of the Blue Economy			
Baseline	16.00	Financing framework and Blue Investment Fund projects for the sustainable development of the Seychelles blue economy and support of increased value addition in the industrial, semi-industrial and artisanal fisheries, aquaculture, and processing sectors.	World leadership in the Blue Investment Fund
With GEF Alternative	16.00	—	—
Incremental	—		
Component 4. Project Management and Coordination			
Baseline	1.00	Efficient project management	—
With GEF Alternative	1.00	—	—
Incremental	—	—	—

