



Republic of Seychelles

OFFICIAL DOCUMENTS

LN 8437-SC

Ministry of Finance, Trade and Investment

The Minister

27th June 2014

Mr. Jim Yong Kim
President
The World Bank Group
Washington DC

Dear Mr. Kim,

1. On behalf of the Government of Seychelles, I hereby write to request the approval for the Third Sustainability and Competitiveness Development Policy Loan (DPL3) and the Disaster Risk Management Development Policy Loan with Catastrophe Deferred Draw Down Option (DPL with Cat DDO) to the Republic of Seychelles. This third development policy loan will support Seychelles in its ongoing reform process especially as we strive to improve the fiscal sustainability and enhance private sector competitiveness in order to sustain our achievements so far. The DPL with Cat DDO will strengthen the Government's Disaster Risk Management (DRM) policy and reform agenda and enhance its capacity to efficiently respond to disasters.
2. In 2013 we celebrated five years since we started the reform process and it is encouraging to see the broad based support for the process still exists and continues to be strengthened. The private sector and the civil society on their part continues to play an important role in the process, so that we ensure that our people continue to have a sound understanding of the ongoing reform process and appreciates the benefits. The international community, especially our development partners continues to equally extend their support to us through budget support and technical assistance in various areas. In December 2013 the series of IMF supported program we had embarked on since 2008 came to an end and earlier this month the IMF Executive Board approved the Governments' request for a successor program- a new 3 year Extended Fund Facility of SDR 11.445 million. In December 2013 the African Development Bank also approved a 2 year budget support operation for FY 2013-2014 for an amount of USD 20 million.

I. SEYCHELLES REFORM PROGRAM

I.1 Overview

3. The core aim of Seychelles Development remains the need to reduce its vulnerability and long-term sustainable and inclusive development. In order to maintain the gains we have achieved so far the overarching goal of Seychelles' fiscal policy remains to put public finances on a sustainable path, while creating the fiscal space to raise public investment and support targeted social safety nets. The 2014 budget reiterated government's commitment in that direction. The budget looks back on the reforms of the past 5 years and set the stage for the country to move beyond reforms and start focusing on accelerating growth for shared prosperity. The budget is based on two main objectives, which are critical for Seychelles to maintain its sustainability in the medium to long term- (i) a comprehensive review of the wage structure and wage levels in government-this is to allow government to pass more benefits of the reforms to the people and make government's pay structure more competitive and enable it to continue to attract quality staff; (ii) freezing of non-priority expenditures for the first half of 2014, until an exercise to rationalize the budget and identify possible wastage and savings is completed by mid-next year.
4. Seychelles embarked on a comprehensive reform program in late 2008 aimed at addressing large fiscal and external deficits and economic inefficiencies. At the end of our arrangement under the Extended Fund Facility (EFF) in late 2013, we have been able to achieve a satisfactory level of macroeconomic stability, which has sustained growth. However we are aware that the economy remains highly vulnerable to external shocks, and that we need to pursue further fiscal and monetary stabilization in order to preserve and strengthen our international reserve position, reduce the gross public debt to a more sustainable level. These would further strengthen resilience of the economy and support sustained growth. An active policy of structural reforms is also needed to promote inclusive growth and put the economy firmly on a sustainable path. In this context, we are of the view that an EFF-supported program would help to realize those objectives and maintain confidence of external partners, and provide an appropriate framework for stability and growth oriented policies.

II. MAIN ELEMENTS OF POLICY REFORMS

5. In order to sustain the achievements of the economic reform program and address the remaining agenda we will continue to ensure that we strengthen the institutional and governance framework in critical areas such as public finance management, public enterprise, and the investment climate among others.
 1. **Fiscal Policy**
 6. Strong fiscal adjustment has been and is central to the achievement of debt sustainability and sound public finances. In 2013 our primary surplus was 4.7 percent of GDP—These objectives have been achieved through a combination of expenditure restraint and strong public financial management. For 2014 we are aiming for a primary surplus of 4.2 percent of GDP. It is imperative that we maintain a primary surplus through to 2018 in order to achieve the 2018 public debt target of 50 percent to GDP.

7. We remain committed to having a modern tax system, an improved customs administration and to the improvement of the financial performance of the broader public sector. Our focus is on improving the functioning of tax administration, with particular attention to VAT and trade and excise taxes, with actions to facilitate electronic filing, speed up VAT refunds, reduce exemptions, simplify trade documentation filing and strengthen the audit and investigative capacity of the SRC. Specific measures will include: (i) a mandatory requirement for compulsory VAT registered businesses to file their monthly return online starting on July 1, 2014, following the establishment of an e-payment facility which will eliminate the need for payments in person; (ii) reducing the exemptions on VAT and further reduction of the threshold for compulsory registration; (iii) the introduction of the single window principle at customs, to avoid the involvement of more than one agency to which trade documentation has to be submitted; resulting in improved efficiency of official controls and lower compliance costs; (iv) an action plan on excise management including amendments to regulations, following a 2013 TA report; (v) the recruitment of more specialized audit personnel at SRC to strengthen its investigative and auditing function; and (vi) we are also taking measures on international tax cooperation.

2. Public Financial Management Reforms

Strengthening the Public Financial Management Framework and the budgetary process remains one of our key objectives. The government priorities in the area of public financial management are to: (i) prepare a full Medium Term Fiscal Framework (MTFF); (ii) gradually widen the adoption of Performance Program-Based Budgeting (PPBB) which has started with two ministries in 2014; (iii) strengthen public investment management by developing the Public Sector Investment Program (PSIP), formulating infrastructure plans in key areas, and preparing detailed guidelines for every stage of project preparation, execution and monitoring; (iv) adopt the necessary guidelines to prepare financial statements according to the International Public Sector Accounting Standards (IPSAS) principles, as it was started on a pilot basis for 2011; and (v) establish and publish comprehensive asset register for state-owned enterprises and public land and strengthen the management of public land.

MTFF- To enhance the predictability and sustainability of our public finances, we are preparing an MTFF which should be approved by Cabinet by end-September (structural benchmark). A key tool in strategic fiscal management, the MTFF will establish integrated multi-year policy-based targets for the main fiscal aggregates – debt, financing, primary balance, revenues and expenditures – consistent with the overall macroeconomic framework. Moreover, the MTFF will provide the foundation for a full MTBF to be elaborated next year, which will allow for an improved process for the allocation of budgetary resources.

PPBB- The Ministry of Finance is providing support to the two pilot ministries and put in place all other necessary pillars required to implement PPBB in all ministries and agencies. A first step is to prepare strategic plans in the two pilot ministries by June 2014 and to launch the preparation of such plans in all other ministries, with assistance from the Department of Public Administration. PPBB will be introduced in three more ministries in 2015. Appropriate training of officials will be undertaken, with World Bank assistance, and the School of Business Management will help in building capacity, within its public finance management department.

Public Investment Management (PIM) and the Public Sector Investment Program (PSIP)- To improve the formulation and execution of the PSIP, a PSIP Development Committee will be established to coordinate the preparation of Investment program. This committee will comprise of representatives of the Ministry of Finance and line ministries. As part of the process, the Ministry of Finance will carry out quarterly review of projects above the threshold of SR 10 million. As part of its plan to encourage growth, Government is putting emphasis on infrastructure development.

PIM Guidelines and project monitoring- Over the medium term we aim to develop a complete, integrated set of guidelines or manual for PIM—covering all stages of PIM: project proposal submission, pre-screening, appraisal, financing, design, project management, monitoring and evaluation. We also aim to consolidate the legal foundation for project monitoring. In particular, the budget circular will add the reporting on monitoring as a requirement for budgeting that line ministries have to follow, and establish mechanism for periodic, on-site joint monitoring by the Ministry of Finance, NTB, and line ministries.

Financial Instructions and Accounting Manual: We have incorporating the revised articles of the PFM Act 2012 and elements relating to PPBB into the Financial Instructions and accounting manual to explain to the users the regulations and procedures. *(Prior action 5 of DPL 3).*

Preparation of financial statements in accordance with IPSAS- While the new PFM Act requires preparation of the financial statements in accordance with IPSAS, the applicable rules and regulations, incorporated in the accounting manual, needs to be amended. This requires further developing the legal and regulatory framework, the accounting policies, detailed accounting procedures including roles and responsibilities, use of the chart of accounts, required report formats, and related internal control procedures. The Government, supported by the AFRITAC South mission, has prepared financial statements in IPSAS format for the year 2011, based on the Annual Financial Statements (AFS 2011) which have been approved by the National Assembly. 2011 is therefore considered a parallel year.

A register for public assets of the state-owned enterprises, including state land, will be established and published, beginning with the five largest by the end of 2014. In 2015 a comprehensive government asset register will be prepared, and more transparency will be introduced in the management of public land, with clear valuation, and revenue and transaction reporting.

3. Public Enterprise Reforms

8. The government through the PEMC will continue to strengthen transparency in the operations of all state-owned enterprises and ensure that they meet their performance objectives. The Public Enterprise Monitoring Commission (PEMC) will continue to strengthen its framework for monitoring of SOEs so as to minimize risks, particularly to public finances. We will seek technical assistance from our partners to strengthen capacity of the Commission. Following the enactment of the new PEMC Act last year, it is now a requirement that within three months of the end of their fiscal year each public enterprise will have to submit their audited financial statements to the Public Enterprise Monitoring Commission. To date 12 public enterprises out of 21 have submitted their audited financial statements to the PEMC (*prior action 6 of DPL3*). However only 1 of the 12 accounts submitted was done within the 3 months' timeframe. The reasons for delay are mainly due to a culmination of delays on the part of the auditing firm, and certain lapses in the process of the public enterprises themselves. We remain confident that by the time our request is submitted to the Board, we would have received the audited financial statements from all the entities, and next year the process should be more straightforward and the 3 months deadline adhered to. We continue to advance our privatization program. Government has successfully sold its remaining shares in SACOS Insurance Company Limited.
9. Following the adoption of the new Housing Finance Policy in December 2011 and the technical assistance received from the World Bank through the FIRST Initiative we have successfully introduce a housing finance subsidy scheme for the first time home buyer. We are now engaged in discussion with the World Bank through FIRST Initiative to see how to allow the private sector to play a more prominent role in the housing market.
10. Challenges in the utility sector remains and we continue to take measures to address the situation. In 2013 Government adopted a tariff re-balancing plan which will gradually see a rise in utility prices over the next 8 years to bring them to cost recovery levels (*prior action 10 of DPL 3*). However we recognize that the 8 year period may not be the most effective time frame, thus we are committed to reviewing the key parameters and development in the sector with a view to accelerating the completion of tariff rebalancing.
11. To further reduce the dependence on fuel and further our efforts to become an environmentally-friendly country the Government has been working on various schemes to promote the use of renewable energy by households. The 2014 budget has made provision for a total of SR4.0 million to support small businesses and households through a number of renewable energy schemes such as the photovoltaic rebate scheme and the Seychelles Energy Efficiency and Renewable Energy Programme (SEEREP).

4. Social Sector Reforms

12. Following on from the reforms undertaken in the social sector since 2008, the Government remains committed to ensuring that the benefits delivered by the Agency of Social Protection is done in an efficient and targeted manner. In an effort to further reduce the share of ineligible beneficiaries of welfare assistance the Government has taken steps to effectively switch the burden of paying the first 15 days of annual sick leave compensation from the government to the employer (*prior action 7 of DPL 3*).
13. The Government continues to take measures to tackle the long-term fiscal risks and address the issue of sustainability of Seychelles' pension system, which are related to the system's generous benefits and limited contributions. It has been approved and implemented a 1% increase in pension contribution from 3% to 4%, with employers and employees contributing equally toward the increase (*prior action 8 of DPL3*). In addition to the increase in contribution rate, the benefit formula is also being revisited in order to strengthen the link between benefits and contributions (*prior action 9 of DPL3*).

5. Private Sector Developments

14. The Government remains committed to the process of sustained and inclusive growth. We recognize that the private sector is the engine of growth and will therefore continue to promote competition and the private sector involvement. Whilst the government continues to welcome new FDI, we have equally recognize the need to better appreciate and increase our support for local investors. In order to improve the investment climate, increase efficiency and improve service delivery, the development of e-services remains high on our agenda. We have identified a series of measures to assist in the process such as (i) online application for business licenses, (ii) e-payment of registration fees and charges for various government services, (iii) a collateral registry and (iv) extend e-filing and e-payment beyond Value-Added Tax and encourage migration to e-filing through incentives/benefits/education. The system for the e-payment of taxes is now fully developed and operational (*prior action 1 of DPL 3*). Currently this service is available to customers of the Barclays Bank only, while the other Banks continues to develop and upgrade their IT system so that they can also offer this service to their clients.
15. Following the setting up of the Commercial Division at the Supreme Court operators can also now benefit from the necessary mechanisms for alternative dispute resolutions. The necessary mediation rules have been successfully enacted, a code of conduct for mediation exists and the supplementary guidelines ensuring that the mediation framework is operational has been published. (*prior action 2 of DPL3*)

Continuation

6. Governance of Key Economic Sectors

16. The Government remains committed to ensuring that good governance and transparency exist in areas which are potential sources of public revenues.
17. The fisheries sector remains an important source of public revenue and financial transfers. The Seychelles Fishing Authority has successfully made operational the basic modules of a fisheries information system and is now disclosing statistics on its website every quarter to support fisheries management and inform decision makers and civil society (*prior action 4 of DPL 3*). This follows on from steps taken previously to disclose fishing agreements. The petroleum sector is another important sector whereby the government is keen to strengthen governance and transparency given the potential economic impact any future discoveries may have. Following the statement made last year of the government's intention to adopt the Extractive Industry Transparency Initiative (EITI) we have taken the necessary measures to comply with the candidacy steps (*prior action 3 of DPL3*). Having successfully constituted the multi stakeholder group and developing a costed work plan we have formally submitted our candidature application to the EITI secretariat for consideration.

7. Disaster Risk Management

18. A little more than a year ago during the week of January 27th, 2013, heavy rains resulting from tropical storm Felling caused severe flooding and landslides in the Seychelles, particularly in four districts on the southeast coast of Mahé (Anse Aux Pins, Au Cap, Pointe Larue, and Cascade), as well as on the nearby islands of Praslin and La Digue. The rainfall, which represented 66% of the long-term average and was coming after heavier than normal rains for the month of January, overwhelmed existing natural and constructed drainage systems and retaining walls, causing floods, landslides, and rockfalls, and resulting in serious damage to homes and public buildings, roads, bridges, drainage systems, water and sanitation systems, crops, and farms.
19. Following the request to the international community for assistance, the World Bank responded with a team of experts to conduct a Damage, Loss and Needs Assessment (DaLA), which in turn received financial support through the Global Facility for Disaster Reduction and Recovery (GFDRR). Upon receiving the recommendations of the DaLA, the Government decided to consider the establishment of a DPL with Cat DDO.
20. Recognizing that the DPL with Cat DDO offers a source of immediate bridge financing after a natural disaster the Government is of the view that due to our specificities and vulnerabilities we should pursue this option. This will also assist in the strengthening of the disaster risk management policy and reform agenda in the sector.

Continuation

21. Recognizing the increasing threat of natural disaster and climate change issues, the government places a high priority on increasing disaster resilience with an emphasis on disaster prevention and preparedness by having a comprehensive disaster risk financing strategy in place.
22. In order to adequately institutionalize the DRM aspect in the country as whole it is imperative that the Department of Risk and Disaster Management (DRDM) is further strengthened. We have taken the necessary steps to provide the necessary legal framework for disaster risk management. The National Assembly has adopted the Disaster Management Act, which provides a legal framework for disaster risk management including both a National Disaster Risk Management Plan, and an integrated emergency management system. (*prior action 1 of DPL with Cat DDO*). The development of the National DRM Act has been done in consultation with representatives of government, private sector, non-governmental organizations and development partners.

In addition, the existing DRM Policy is being revised to ensure that it is aligned with the state of affairs of the new National DRM Act. The new policy encompasses a multi-hazard approach that in addition to DRR also includes emergency management and institutional framework for agency coordination. The Cabinet of Ministers has approved an updated policy for disaster risk management, which establishes a fully functional early warning system, increases preparedness through updated sector contingency plans and provides for the carrying out of information dissemination activities. (*prior action 2 of DPL with Cat DDO*)

23. A National Act on DRM and the updated DRM Policy form the cornerstone of Seychelles' national regime for disaster management, and key to the protection of people and property, public awareness, capacity building and effective use of resources across all phases of disaster management from prevention to rehabilitation.
24. With the Disaster Management Act, the Government has adopted a more proactive approach to disaster risk management. The law emphasizes the need for a coherent, comprehensive, integrated approach to disaster risk management across levels and sectors of government and establishes a clear institutional structure for disaster risk management in the country.
25. The National Policy for Disaster Risk Management seeks to facilitate the broad multi-sector approach that effective disaster risk reduction requires, and make this process transparent and thereby foster optimal stakeholder engagement and galvanize actions towards the common goal of building community, district and national resilience to disaster. In this sense, the Policy provides the parameters for the subsequent development of detailed action plans, procedures and protocols to address disaster risk management needs in the various sectors and scenarios present in Seychelles.

Continuation

26. Strengthening institutional basis for disaster risk reduction. The Government recognizes the key role of leadership and coordination for the proper integration of disaster risk reduction throughout socioeconomic sectors of society and as such undertakes to allocate resources for the development of appropriate policies, programs and laws on disaster risk reduction, and its integration into government development planning and sector strategies and plans. In addition, the Government invests into the development of capacities to address current and future DRM requirements, particularly in risk reduction and emergency response by building facilities in strategically positioned safe areas and in sound disaster proof structures.
27. The institutional strengthening effort is based on policies and strategies to promote community involvement in disaster risk reduction including the delegation and provision of the necessary authority and resources where appropriate.
28. Improving risk assessment, early warning systems and disaster preparedness. A knowledge and understanding of the nature and scale of potential hazards is central to the reduction of disaster risk, therefore to strengthen this essential knowledge base the Government of Seychelles is supporting the development and sustainability of the appropriate scientific, technological and technical capacities necessary to research, observe, analyze, map and forecast natural and related hazards, vulnerabilities and disaster impacts. This enhanced capacity will provide in a short-term periodic updating of risk maps and related information, including indicators of disaster risk and vulnerability at national and district levels for decision-making and the public.
29. Although Seychelles has made good progress towards risk assessment and monitoring systems a comprehensive national level assessment is lacking, and data sharing is weak. In order to address the situation under the National DRM Act it is a requirement for a national risk information database to be established. The DRDM is in the process of establishing an online platform to share geo-spatial risk information.
30. Seychelles is partnering with international agencies to establish and maintain databases on disaster occurrence, impacts and losses and disseminate related statistical information nationally and internationally as appropriate - including international cooperation in the assessment, monitoring and information exchange on regional and trans-boundary hazards. Currently a historic loss and damage database in collaboration with UNISDR and the Indian Ocean Commission was established and is available for on-line public consultation (*prior action 3 of DPL with Cat DDO*).
31. Drawing from the knowledge base, information, experience and international cooperation, the country has embarked in the task to develop targeted, effective, people-centered early warning systems with related actions, emergency protocols and regular drills. The enhancement of the system will support National Government decision-making processes and positively impact the capacity development in disaster risk reduction initiatives at regional level.
32. To further avoid disruptions in the aftermath of natural disaster the Government started to establish sector specific contingency plans, such as for education, tourism, industry and municipalities. The Government remains committed to develop more contingency plans for other critical sectors and continuously update existing contingency plans.

Continuation

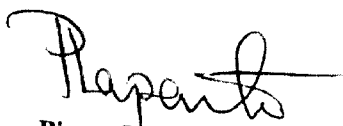
33. Developing a culture of safety and resilience. The targeted provision of information to decision-makers, planners, and technicians, public agencies, the private sector and the general public is central to empowering society as a whole to make informed choices and foster a culture of disaster risk reduction and resilience. The government therefore is supporting the development, implementation and adaptive review of a national disaster risk reduction communications program to provide plain language information on disaster risks and protection options to the general public and hence enable people to take action to reduce risk and build resilience in their daily lives.
34. In spite of the progress achieved, the Government recognizes that further undertake needs to be carried out to develop a culture of safety and resilience in the country, such as the integration of disaster risk reduction knowledge into relevant aspects of school curricula and the development risk assessment and disaster preparedness programs in institutes of higher education, as well as the implementation of a multimedia-based public education and awareness program targeted at the different sectors of society as appropriate, with public outreach, consultations and sustained public education campaigns.
35. Reducing underlying risk factors. The integration of the tenants of disaster risk reduction into environment and development planning and management processes is key to the reduction of underlying risk factors, therefore Seychelles committed to the sustainable use and management of ecosystems by promoting land-use planning and development activities that reduce risk and vulnerabilities, implementing integrated environmental and natural resource measures that incorporate disaster risk reduction such as integrated flood management and sound management of fragile ecosystems, and factoring in risk reduction for existing climate variability and projected future climate change including the identification of climate-related disaster risks for decision-making processes and the design of specific risk reduction measures.
36. Incorporate systemic redundancy measures into social and economic development practices are critical to secure proper emergency management, daily life disruption, and continuation of services. The DRDM is in the process of mapping key assets and strategic infrastructure, and capabilities for rapid disaster response deployment, in addition to fostering public-private sector partnerships to harness full national capacities and encourage the private sector to develop a culture of disaster prevention.
37. The National Government has been proactively promoting the development of social support mechanisms such as insurance against disaster scenarios, through the agricultural insurance scheme, and establishment of national emergency provision funds in particular for the most vulnerable in society, through the establishment of two reserve/savings funds for more frequent disasters with lower magnitude, these are a Budget Contingency Fund and a National Disaster Relief Fund.
38. Finally, Seychelles has taken actions to mainstream disaster risk considerations into land use and development planning procedures by identifying zones that are available and safe for human settlement, incorporating disaster risk assessments into urban planning and disaster-prone and/or highly populated areas, integrating disaster risk considerations into planning procedures (i.e. design, approval and implementation) for major infrastructure and tourism projects, and revising existing or developing new building codes and standards, and reinforcing the capacity to implement, monitor and enforce such codes.

Continuation

Conclusion

39. As the above indicate, the Government of the Republic of Seychelles is strongly committed to undertaking necessary reforms to promote economic growth modernize our country and build resilience against natural disasters. In this context, the support of The World Bank through approval of the Development Policy Loan and the Development Policy Loan with a Catastrophic Deferred Drawdown option would be important to successful implementation of the government's continued reform agenda and its quest to become more resilient.
40. Accordingly, the Government of the Republic of Seychelles requests that Development Policy Loans be approved.

Yours Sincerely



Pierre Laporte

Minister



International Year of Small Island Developing States:
Seychelles A Determined Island Nation

Liberty House, P.O. Box 313, Telephone: 4382000, Ext: 2120, Telefax: 4325161, Email: minister@finance.gov.sc