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PROJECT PAPER

FOR

SMALL RETF GRANT

IN THE AMOUNT OF US\$290,000
EXTRACTIVE INDUSTRY TRANSPARENCY INITIATIVE MDTF

TO THE

REPUBLIC OF SEYCHELLES

FOR AN

IMPLEMENTATION OF THE
EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE PROJECT

JANUARY 15, 2015

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CURRENCY EQUIVALENTS
(Exchange Rate Effective December 31, 2014)

Currency Unit:

Seychellois Rupee (SCR)

USD 1.00 = 0.076 SCR

USD 13.18 = 1 SCR

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

2D/3D	Two Dimensional/ Three Dimensional
CPS	Country Partnership Strategy
EGPS	Extractives Global Practice Support
EEZ	Exclusive Economic Zone
EI TAF	Extractive Industries Technical Advisory Facility
EITI	Extractive Industries Transparency Initiative
FM	Financial Management
GDP	Gross Domestic Product
GoS	Government of Seychelles
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
JOGMEC	Japan Oil, Gas and Metals National Corporation
Km	Kilometer
MOFTI	The Ministry of Finance, Trade and Investment
MSG	Multi-Stakeholder Group
Mtons	Metric tons
OPSF	Office of the Principal Secretary for Finance
OP/BP	Operational Policy/ Bank Policy
MPA	Model Petroleum Agreement
MSG	Mutli-stakeholder group
PAPT	Petroleum Additional Profits Tax
PDO	Project development Objective
PIT	Petroleum Income Tax
SCR	Seychellois Rupee
SEYPEC	Seychelles petroleum Company
SIDS	Small Island Developing States
SNOC	Seychelles National Oil Company
SoEs	State-owned enterprises
sq	Square mile
US\$	United State Dollar

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Task Team Leader:	Ilhem Salamon

REPUBLIC OF SEYCHELLES
Implementation of the Extractive Industries Transparency Initiative Project

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DATA SHEET

Republic of Seychelles

Implementation of the Extractive Industries Transparency Initiative Project

Small RETF Grant Project Paper

Africa Region

GEEDR

Basic Information									
Date:	January 15, 2015			Sectors:	Energy and Extractive Industries				
Country Director:	Mark R. Lundell			Themes:	Transparency and Accountability				
Practice Manager/Global Practice Senior Director:	Paulo de Sa / Anita Marangoly George			EA Category:	C				
Project ID:	P150595								
Instrument:	Grant								
Team Leader(s):	Ilhem Salamon								
Recipient: Ministry of Finance, Trade and Investment of the Republic of Seychelles									
Executing Agency: Ministry of Finance, Trade and Investment of the Republic of Seychelles									
Contact:	Mr. Patrick Payet			Title:	Principal Secretary of Finance				
Telephone No.:	248-2723766			Email:	psf@finance.gov.sc				
Project Implementation Period:	Start Date: February 15, 2015			End Date:		December 31, 2015			
Expected Effectiveness Date:	February 15, 2015								
Expected Closing Date:	December 31, 2015								
Project Financing Data(US\$M)									
Total Project Cost :	US\$290,000			Total Financing :	US\$290,000				
Financing Gap :	None								
Financing Source				Amount(US\$M)					
BORROWER/RECIPIENT (parallel co-financing)				US\$75,000					
Others (EITI)				US\$290,000					
Financing Gap				US\$0					
Total				US\$365,000					
Expected Disbursements of the MDTF / SRETF (in USD)									
Fiscal Year	FY15	FY16							
Annual	50,000	240,000							
Cumulative	50,000	290,000							
1. Project Development Objective(s): The project development objective is to help Government of Seychelles establish the									

principles of a sustainable petroleum revenue management and enhance transparency in the oil sector.				
Components				
Component Name			Cost (USD Millions)	
Component 1 - Options for Petroleum revenue management in Seychelles			USD 100K	
Component 2 - Institutionalization of EITI in Seychelles			USD 40K	
Component 3 – Build MSG capacity in oil sector and petroleum revenue management			USD 150K	
Compliance				
Policy				
Does the project depart from the CAS /CPS/CPF in content or in other significant respects?			Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Does the project require any exceptions from Bank policies?			Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Have these been approved by Bank management?			Yes <input type="checkbox"/>	No <input type="checkbox"/>
Is approval for any policy exception sought from the Board?			Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Does the project meet the Regional criteria for readiness for implementation?			Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Safeguard Policies Triggered by the Project			Yes	No
Environmental Assessment OP/BP 4.01			<input type="checkbox"/>	<input checked="" type="checkbox"/>
Natural Habitats OP/BP 4.04			<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests OP/BP 4.36			<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management OP 4.09			<input type="checkbox"/>	<input checked="" type="checkbox"/>
Physical Cultural Resources OP/BP 4.11			<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples OP/BP 4.10			<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement OP/BP 4.12			<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams OP/BP 4.37			<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waters OP/BP 7.50			<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas OP/BP 7.60			<input type="checkbox"/>	<input checked="" type="checkbox"/>
Legal Covenants				
Name	Recurrent	Due Date	Frequency	
Description of Covenant				
Team Composition				
Bank Staff				
Name	Title	Specialization	Unit	UPI
Ilhem Salamon	Senior Energy Economist	Oil and Gas	GEEDR	234880
Lova Niaina Ravaoarimino	Senior Procurement Specialist	Procurement	GGODR	293987

Patrick Kabuya	Sr Financial Management Specialist	Financial Management	GGODR	348898	
Nathalie S. Munzberg	Senior Counsel	Safeguards	LEGEN	132625	
Andrew Michael Losos	Environmental Specialist	Environmental Safeguards	GTIDR	36169	
Fowzia Hassan	Energy Specialist	Energy	GEEDR	35889	
Bourama Diaite	Senior Procurement Specialist	Procurement	GGODR	76111	
Non Bank Staff					
Name	Title	Office Phone	City		
Hilda L. Yumiseva	Consultant		Mclean, Virginia		
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Republic of Seychelles					

I. STRATEGIC CONTEXT

A. Country Context

1. *The Republic of Seychelles is an island-state with middle income country characteristics and an estimated population of 90,846 (2013).* The economy is small (US\$1,031 million gross domestic product in 2012) and per capita income (US\$11,350 in 2012) is among the highest of the Middle Income Countries. Seychelles comprises 115 tropical islands spread over 1.374 million square kilometers (sq. km.) in the western Indian Ocean, covering 455.3 sq. km. in land area. Ten of the islands are inhabited, and approximately 90% of the population live on the largest island, Mahe (60% urbanized), where the capital, Victoria, and the main port is located.

2. *Seychelles has been recovering strongly from a 2008 debt crisis and is transitioning to market-based economic policies.* After high external indebtedness and loss of competitiveness which precipitated a depletion of foreign exchange reserves and a payment default in 2008, Seychelles energetically pursued a restructuring program focused on liberalization of the exchange regime, significant and sustained tightening of fiscal policy, and a reduction in the state's role in the economy to boost private sector development. Seychelles has managed to secure generous debt relief, which together with fiscal consolidation has led to a path for fiscal and external sustainability.

3. *These achievements aside, a number of challenges remain to be addressed.* Having accomplished high-income standards, Seychelles confronts the challenges of a small and remote island state, highly dependent on tourism, overwhelming dependence on oil imports for energy production, and vulnerable to a range of global shocks and climate change. Limited land, capital, and human resources restrict its vulnerability to benefit from economies of scale in production. The investment climate needs to be strengthened to harness private sector growth. Bottlenecks in infrastructures remain critical constraints. Even though the Government of Seychelles has achieved remarkable results on the fiscal front, further progress are needed to achieve debt reduction targets.

B. Sectoral and Institutional Context

4. **Oil Sector Strategy.** *Seychelles' oil sector strategy is to improve energy security and promote petroleum exploration in the Exclusive Economic Zone (EEZ) by putting in place fiscal and regulatory incentives that will attract oil companies, expedite exploration and allow an early commercial discovery.* Seychelles depends overwhelmingly on rising petroleum imports for energy generation, while fiscal revenues are tight and the country is aiming to lower its debt ratios. The Government is therefore keen on expediting petroleum exploration in its EEZ. A discovery of oil will not only improve security of supply, but will also generate additional revenues to the Government. The legal and fiscal frameworks were revised with this objective. The resulting oil sector activity is expected to stimulate ancillary economic growth in the services and other sectors, generating employment and stimulating economic growth.

5. **Hydrocarbons exploration.** *The results of hydrocarbon exploration in Seychelles are encouraging and a potential discovery may not be too far in the future.* Hydrocarbon exploration in the Seychelles started in the early seventies following the discovery of the continental nature

of the underlying crust and thick sedimentary basins during the International Indian Ocean Expedition. Since then, several geophysical surveys have been conducted and four exploration wells have been drilled. Although no commercial hydrocarbon discovery has been made to date, all the pre-requisites for generation, migration and trapping have been identified, including traces of migrant oil and gas in three of the four wells drilled indicative of a working system.

6. *Following a recent wave of discoveries in the East African region, interest in the Seychelles has been rekindled and several new geophysical surveys have been undertaken, both as proprietary surveys under petroleum agreement work programs and also as non-exclusive multi-client surveys. Two companies have petroleum agreements with the Government of Seychelles: the Australian based, WHL Energy Ltd and the London-based Afren Plc. WHL farmed out 75% of its interest to Ophir Energy Plc. Afren completed a 3D seismic survey of 2500 sq.km in early 2013 and Ophir completed the acquisition of 1528 sq.km of 3D seismic in the Junon prospect in July 2014. Data processing and interpretation is underway and drilling is planned for the first quarter of 2015. A third company, Japanese Oil Gas and Minerals Exploration Company, (JOGMEC) has an exploration license with the Government and they completed a 2D seismic survey and a geochemical survey in May 2014.*

7. *The results of the recent seismic work have firmed up the definition of several large prospects. Companies are now evaluating the data and expected to commence drilling in 2015. Government of Seychelles is also contemplating the possibility of undertaking a regional synthesis using all available data to allow PetroSeychelles to gain a better understanding of the overall prospectivity of the Seychelles EEZ thereby ensuring that petroleum licensing policy decisions are based on solid scientific insights.*

8. **Enabling Environment.** *The Government of Seychelles has revised its upstream oil and gas legal and regulatory framework to foster private investment in the sector, which could not only restore fiscal balance but potentially also fuel substantial economic growth and employment. The World Bank supported the government effort through a technical assistance financed by the Extractive Industries Technical Advisory Facility (EI TAF). This assistance helped the government of Seychelles: (i) review and amend the 1976 Petroleum Act, revised in 2008, and Model Petroleum Agreements, which provided the legal basis under which petroleum exploration, development and production were to be conducted; (ii) assess and enhance the tax and fiscal regime; (iii) undertake a successful promotional campaign.*

9. *The petroleum legal system has been enhanced. The Petroleum Taxation Act of 2008 has been updated and amended in May 2013 (c.f. box 1) for the purpose of the Licensing Initiatives under the amended Model Petroleum Agreement. The “open file licensing initiative” which is now in place is significantly more transparent and competitive than the “open door policy” that the country had until then. Further work is being developed to harmonize the Accounting Procedure included in the Model Petroleum Agreement and the new Petroleum Taxation Act. A new Petroleum Environment and Safety Act has also been developed with the objective to replace the obsolete 1984 Drilling Regulations.*

Box 1: Main features of Seychelles' Petroleum Taxation Act

The Petroleum Taxation Act as amended in May 2013 repeals the Petroleum Income Tax Decree and makes provision for the Petroleum Additional Profits Tax (PAPT). The main features of the new regime are as follows:

- (i). *Petroleum Income Tax (PIT)*. The rate of the PIT is 35% payable on taxable income. The Act defines taxable income as the difference between the assessable income (market value of the petroleum sold) accruing to the person in the tax year and the sum of the allowable deductions.
- (ii). *Allowed deductions* are expenditures incurred for repairs of plant, machinery, implements necessary to carry out petroleum operations; rent for land or buildings; interest on loans; royalties and bonuses. Regarding the apportionment of expenses in terms of operating agreement, the operator is to provide a consolidated financial statement (containing details of all expenditures on behalf of the parties) in respect of the petroleum agreement to the controller and to each of the parties to the operating agreement at the end of each tax year. Each party to the agreement is to also furnish a reconciliation statement reconciling the individual tax return and the consolidated financial statement of the operator. The Amendment also adds the depreciation rules for capital expenditures.
- (iii). *Petroleum Additional Profits Tax (PAPT)*: The tax is charged in accordance with the provisions of the petroleum agreement, and at rates specified in that agreement. This is a tax payable on petroleum profits exceeding pre-determined annual profitability thresholds. The PAPT return is to be submitted by the Operator on behalf of all other companies having an interest in the relevant petroleum field. Where the petroleum agreement relates to more than one field, a separate tax return is to be submitted in respect of each field.
- (iv). *Withholding tax*. At a rate of 7% on the gross amount of fees payable in respect of services performed in Seychelles or overseas by a non-resident contractor or subcontractor in connection with petroleum operations related to a petroleum agreement. The tax is payable to the Controller by an operator, who must retain the tax from the services provided. Where the withholding tax has been paid, the non-resident contractor or sub-contractor shall not be liable for any other withholding tax or business tax in Seychelles.

10. As a result of the modernization of the legal and fiscal regime, Government of Seychelles has, over the last several months, witnessed renewed petroleum exploration interests and activities in the Exclusive Economic Zone. In 2014, the implementation of the "Open Filing" procedure for accepting applications for petroleum concessions has been successful and new applications are under review. In addition, the Government intends to strengthen transparency in financial reporting in the petroleum sector by adopting the principles of the Extractive Industries Transparency Initiative (EITI). Further modifications of the legal and regulatory framework might be needed to allow full disclosure of financial flows in the petroleum sector. It is however anticipated that these changes – if any – would be limited in their scope and nature.

11. **Sector (re)organization and (re)structuring.** In 1984 the Seychelles Government established the Seychelles National Oil Company (SNOC) to implement the country's petroleum policies, as well as represent the Government in petroleum related activities. SNOC assumed responsibility for all upstream petroleum matters in 1986. This included responsibility for the leasing of exploration blocks in the country's offshore acreage to international oil companies. In 2005 SNOC merged with another company called the Seychelles Petroleum Company (SEYPEC) and the merger performed all regulatory activities.

12. In March 2012, SEYPEC was broken in two and PetroSeychelles was created to strengthen the Government's capabilities to deal with the upstream sector of the oil industry, including the supervision, monitoring, and investment in upstream activities. Responsibility for government investment in downstream activities will remain with SEYPEC, the former regulator. If oil is

found in economically viable quantities and the government decides to enter into extraction, it will then create a full-time, independent regulatory authority to monitor and regulate upstream operations. PetroSeychelles will then be responsible for government investments in the oil sector

13. *PetroSeychelles is currently a streamlined company* with a core group of qualified professional and support staff to enable the company to undertake its mandated tasks with minimal overhead. The company has plans to grow as hydrocarbon exploration matures and discoveries are made. The company is attached to the Office of the President of the Republic and is governed by a Board of Directors. The company is required to submit an annual report on its operations and audited accounts to the newly created Public Enterprise Monitoring Commission and the Ministry of Finance.

C. Higher Level Objectives to which the Project Contributes

14. *The proposed project is planned under the Bank's Country Partnership Strategy (CPS) with Seychelles for FY12-16.* In line with Government's commitment to further reduce the burden of the public sector on the economy indeed, the CPS targets improvements in the allocation and execution of public expenditures. The foundation for its two pillars (which aim to promote competitiveness and employment and to reduce vulnerability and resilience) involves strengthening Governance and Public Sector Capacity.

15. *Since initial oil exploration has yielded encouraging results, the authorities want to put in place an appropriate governance structure for the petroleum sector.* In this context the CPS planned technical assistance to create the institutional framework to support oil production and make sure that appropriate benefits accrue to the country. As reported in the CPS progress report dated of November 2014, PetroSeychelles has been created to this end as the regulatory authority and the Seychelles Petroleum Taxation Act was enacted in August 2013, thereby establishing an improved legal and fiscal framework for awarding and administering petroleum agreements, including safety, environmental, and operational standards and fiscal terms. The Government also issued the Model Petroleum Agreement (MPA) in June 2013, which includes health, safety and environmental regulations. In addition CPS support has focused on helping Seychelles to fully participate in the Extractive Industries Transparency Initiative (EITI). With support from the Extractive Industries Technical Assistance Fund (EITAF) the Government completed the requirements to join EITI and was admitted as an EITI candidate country in August 2014. Since the proposed project is meant at helping Government of Seychelles implement the EITI work plan, it does fit into the CPS.

16. *Finally, the proposed project is also consistent with the twin pillars of the banks' Africa Region Strategy* meant to increase "competitiveness and employment" as well as to improve "vulnerability and resilience". By supporting governance and accountability, the project will enhance sector management, and its potential to stimulate growth and economic diversification, and reduce its heavy dependence on fossil fuel imports.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

17. The project development objective is to help Government of Seychelles establish the principles of a sustainable petroleum revenue management and enhance transparency in the oil sector.

Project Beneficiaries

18. The direct project beneficiaries are the multi-stakeholder group (MSG), the Government of Seychelles (GoS), Seychelles Petroleum and private investors.

19. *MSG* will benefit from enhanced capacity to understand the key issues and challenges pertaining to the oil sector and petroleum development. With enhanced capacity, *MSG* will have better chance to influence positively decisions on petroleum revenue sharing and sustainable management of the resource.

20. *GoS and PetroSeychelles* will also directly benefit from the project since increased transparency will foster private sector appetite to engage in exploration activities in Seychelles and match citizens' requirement for good governance. Private sector investment in oil exploration has the potential to generate substantial fiscal revenue in the medium run.

21. *The private investors* contemplating investments in the country's oil sector are direct beneficiary of the project since they would be able to operate in a more favorable business environment.

PDO Level Results Indicators

- (a) Improved capacity to manage petroleum revenues in a sustainable way, measured by the adoption, by Seychelles Petroleum MSG, of the study developing options on petroleum revenue management.
- (b) Improved transparency and accountability in the oil and gas sector of the Republic of Seychelles, measured by the publication of the reconciliation report and the institutionalization of EITI.
- (c) Enhanced capacity of Seychelles Petroleum MSG to manage the EITI compliance process, measured by its capacity to meet EITI reporting requirements.

III. PROJECT DESCRIPTION

A. Project Background

22. The government of Seychelles has applied for EITI candidacy on June 12, 2014 (c.f. box 2). On August 6, 2014, Seychelles was admitted as EITI Candidate Country, after successfully completing the four "sign-up" steps, including the development of a work plan, which was validated by the EITI Board, and indicates that Seychelles will present its first EITI report by February 6, 2016 with the objective to become EITI compliant by February 6, 2017.

Box 2: Extractive Industries Transparency Initiative

Overarching Principles. *The principles, on which the Extractive Industries Transparency Initiative is based, state that the wealth from a country's natural resources should benefit all its citizens and that this will require high standards of transparency and accountability. After the Principles were agreed, rules were drawn up to ensure that all EITI member countries committed to a minimum level of transparency in company reporting of revenues paid and government reporting of receipts.*

Overall Benefits. *By implementing the EITI, governments enhance transparency, accountability and good governance, thereby mitigating the resource curse risk. Countries rich in natural resources such as oil, gas, and mining have tended to under-perform economically, have a higher incidence of conflict, and suffer from poor governance. These effects are not inevitable and it is hoped that by encouraging greater transparency, in countries rich in these resources, some of the potential negative impacts can be mitigated.*

Application. A country intending to implement the EITI is required to undertake the following four "sign-up" steps before submitting an EITI candidature Application to the EITI Board:

- 1) The government is required to issue an unequivocal public statement of its intention to implement the EITI.
- 2) The government is required to appoint a senior individual to lead on the implementation of the EITI.
- 3) The government is required to commit to work with civil society and companies, and establish a multi-stakeholder group to oversee the implementation of the EITI.
- 4) The multi-stakeholder group is required to maintain a current workplan, fully costed and aligned with the reporting and Validation deadlines established by the EITI Board.

The Board reviews the application and if it establishes that the requirements have been successfully met, the country becomes an EITI Candidate country.

Compliance. When the EITI Board admits an EITI Candidate, it establishes deadlines for publishing the first annual EITI report and undertaking validation by a third-party, which is directly procured by the International Secretariat to assess EITI compliance. The EITI report communicates the efforts undertaken to meet and/or maintain compliance with the 7 EITI requirements, which are as follows:

- 1) Effective oversight by the multi-stakeholder group.
- 2) Timely publication of EITI Reports.
- 5) EITI Reports that include contextual information about the extractive industries.
- 6) The production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues, and disclosure of all material payments to government by oil, gas and mining companies.
- 7) A credible assurance process applying international standards.
- 8) EITI Reports that are comprehensible, actively promoted, publicly accessible, and contribute to public debate.
- 9) The multi-stakeholders' group to take steps to act on lessons learned and review the outcomes and impact of EITI implementation.

Source: EITI (<https://eiti.org/eiti/principles>)

23. The approved EITI work plan for Seychelles includes the following five objectives in addition to the one of becoming an EITI Candidate Country.

- 1) *To establish the conditions needed to institutionalize EITI* by (i) establishing an EITI secretariat; (ii) amending as needed the legal and regulatory framework of the oil and gas sector to ensure EITI compliance; (iii) removing if needed legal barriers to EITI disclosure of payments and receipts; and (iv) increasing accountability of PetroSeychelles.
- 2) *To develop a framework for prudent use of oil revenues for sustainable development and poverty management* by preparing and discussing with all interested at stake a study articulating the options for petroleum revenue management in Small Island Developing States (SIDS).
- 3) *To build Seychelles MSG capacity to implement, communicate and monitor EITI* by enhancing stakeholders knowledge of EITI, Seychelles' oil sector issues and oil revenues ownership and management.
- 4) *To reconcile oil payments and receipts and publish and disseminate the EITI report* by February 6, 2016.
- 5) *To validate the implementation of the Seychelles EITI with all requirements met*, after an independent validator is appointed by the International Secretariat to review the report and achievements, and assess EITI compliance.

24. The proposed technical assistance will help Government of Seychelles implement the activities programed under the EITI work plan and, more specifically, to:

- (a) Develop a study on petroleum revenue management, articulating the concepts of ownership, management and revenue sharing that would apply in the event hydrocarbons are found to be commercially viable in Seychelles;
- (b) Identify potential amendments of the legislation that would be needed to institutionalize EITI in Seychelles;
- (c) Build MSG knowledge about the oil sector and the concept of petroleum revenue management in Seychelles.

B. Project Components

25. Component 1 - Options for Petroleum revenue management in Seychelles. The study on the revenue management framework will clarify the concepts of ownership, management and revenue sharing, which will apply in the event the exploration is successful. The ultimate objective is to make sure that if oil production is commercially viable, oil revenues will foster sustainable economic development and poverty reduction by providing GoS with the budget needed to invest in infrastructure and public services. The study will also articulate the different roles that are needed to adequately manage petroleum resources, and highlight best practices and the lessons learnt from international experiences. Finally the study will provide input for the revenue management provision that could be included in the petroleum legislative framework, with specific recommendations on potential amendments of the Constitution, the Petroleum Law and the petroleum regulations.

26. A series of workshops will be organized on revenue management to help Government of Seychelles discuss the options for sustainable revenue management and make decisions on the way forward.

27. Component 2 - Institutionalization of EITI in Seychelles. To require and maintain the practice of disclosing oil sector contextual information and revenues flows, the Government of Seychelles will need to make sure that the provisions existing in the current legal and regulatory framework allow the collection and publication of all relevant information. If not, the necessary amendments should be drafted and incorporated as needed. This component of the project is meant at helping GoS meet the EITI institutionalization requirement by financing the review and amendment as of the legal and regulatory framework of the oil and gas sector to ensure EITI compliance.

28. Component 3 – Build MSG Capacity in oil sector and petroleum revenue management. As international experience has shown, mismanagement of petroleum revenues can lead to economic instability, impoverishment, social disparities, environmental degradation, and unrest, in addition to weakened overall governance. To properly manage petroleum revenue and mitigate the risk of resource curse, it is essential for Government of Seychelles to develop the capacities of all relevant stakeholders to engage into meaningful discussions on management of the petroleum resource. This component of the project is aimed at developing these capacities. It will finance training of the multi-stakeholder group in oil sector reviews and petroleum revenue management, and finance the consultancy services needed to help the MSG develop its first EITI report and audit the proposed grant.

29. Given that EITI trust fund is expected to close on December 31, 2015, it can realistically not support all the activities planned by the government of Seychelles, and validated by the EITI Secretariat in the work plan for the period 2014-2016. The activities, which are neither financed through the proposed EITI grant nor by the Government of Seychelles, will be financed by the follow up trust fund – the Extractives Global Practice Support (ESGP) – which is being currently developed - if fund availability is confirmed for the proposed project, when the trust fund will become effective.

C. Project Cost and Financing

Project Components	Project cost	Grant Financing	% Financing
1. Options for Petroleum revenue management in Seychelles	USD 100K	USD 100K	100%
2. Institutionalization of EITI in Seychelles	USD 55K	USD 40K	73%
3. Build MSG Capacity in oil sector and petroleum revenue management*	USD 210K	USD 150K	72%
Total Baseline Costs			
Physical contingencies – 5% (included in each item)			
Price contingencies - – 5% (included in each item)			
 Total Project Costs	USD 365K	USD 290K	USD 79%
Interest During Implementation			
Front-End Fees			
Total Financing Required			

30. The core activities of the project would be financed by EITI MDTF through a USD 500,000 grant, with GoS providing a parallel co-financing of USD 75,000

31. The core activities of the project would be financed by EITI MDTF through a USD 290,000 grant, with GoS providing a parallel co-financing of USD 75,000. The project cost includes only activities that will be realistically implemented before EITI closing date, which is scheduled for December 31, 2015.

32. There is a gap in the financing of the set of activities planned under component 3 which is meant to “Build MSG capacity in oil sector and petroleum revenue management”. The total budget needed to cover the costs of activities planned under this component (which mirrors the set of activities covered under Objectives 4 and 5 of the work plan validated by the EITI Secretariat, including audit costs) is USD 270K. This financial gap will be covered by ESPG provided availability of the funds under the new trust fund is confirmed.

33. The project will be able to reach its development objectives whether or not ESPG funds are confirmed since the follow on activities would finance separate activities, to further enhance Seychelles Petroleum MSG capacity.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

34. The Ministry of Finance, Trade and Investment (MOFTI) will be the recipient organization that that will administer the funds through the Office of the Principal Secretary for Finance (OPSF), for the benefit of the Petroleum MSG, which consists of representatives of GoS, Civil Society, private Sector and Industry (see table 1) and is responsible for the successful implementation of EITI.

Table 1. Petroleum MSG Seychelles

Government	<ul style="list-style-type: none"> – The Principal Secretary, Department of Finance, Ministry of Finance, Trade and Investment (Chair) – The Central Bank Governor – The Commissioner of the Seychelles Revenue Commission – The Legal Adviser, Seychelles Revenue Commission – 1 Representative from the Attorney General’s Office – 1 Representative from the Ministry of the Environment (appointment expected)
Civil Society	<ul style="list-style-type: none"> – 4 members from the NGO Coalition Ciizen Engagement Plateform Seychelles (CEPS)
Private Sector	<ul style="list-style-type: none"> – The Country Manager of Ernst & Young – One representative from CORVINA
Oil companies	<ul style="list-style-type: none"> – The CEO of PetroSeychelles – The Managing Director, WHL Energy – General Manager External Relations, Afren EAX

35. OPSF, which is anchored within MOFTI, will be the implementing agency of the proposed project. OPSF has the mandate to implement donors’ financed operations and has a record of successful experiences in World Bank funded operations. At present, it is in charge of the

implementation of the Sustainability and Competitiveness Development Policy Lending and the supervision of a Study on energy efficiency and Renewable energy.

Financial Management and Disbursement Arrangement

36. The project will use the Financial Management manual, currently used by the Department of Finance, which is part of the Public finance management regulations developed under the Public Finance Act of 2012. Moreover, OPSF already has a defined structure, administrative arrangements, internal control procedures, including procedures for authorization of expenditures, maintenance of records, safeguarding of assets (including cash), segregation of duties to avoid conflict of interest, regular reconciliation of bank account statements, bank accounts signing mandate (to include at least two signatories), regular reporting to ensure close monitoring of project activities, and the flow of funds to support project activities. OPSF has past experience of managing grants.

37. Use of the existing Office and its financial management arrangements, which are acceptable to the World Bank, will facilitate proper utilization of available resources, and ensure consistency of fiduciary implementation across the project, as well as fiduciary risk management. OPSF is also responsible in ensuring that project funds are used for their intended purpose.

38. The annual budget would be prepared by OPSF with input from the petroleum MSG. Project annual budgeting would be based on the cost tables, and would be updated according to the latest information during project implementation. The approved annual budget would be included in the MOFTI budget estimates, entered into the accounting system, and used for periodic comparison with actual results as part of the interim reporting.

Flow of Funds and Disbursement

39. The EITI grant funds will be channeled from the World Bank to the Government of Seychelles through a US dollar designated bank account in the Central Bank which will be used to pay all eligible project expenses. The designated account will be opened prior to effectiveness of the project and will be operated in accordance with the procedures and guidelines set forth in the Bank's Disbursement Guidelines.

40. The account will be managed by the Financial Planning and Control Division in the Ministry of Finance, Trade and Investment. The department of Finance will manage all the expenditures and maintain the supporting documentation. As eligible expenditures are incurred, the Senior project accountant shall withdraw the amount to be financed by the World Bank from the designated account in accordance with the grant agreement.

41. The Department of Finance shall be responsible for producing the Interim Financial Reports (IFRs) on a bi-annual basis to be submitted no later than 45 days after the end of each reporting period to the Bank. These reports would provide required financial monitoring information.

42. The recipient shall prepare and subject to audit only one project Financial Statements covering the entire project period. The audited Financial Statements for the period shall be furnished to the World Bank not later than six months after the end of prescribed disbursement deadline.

B. Results Monitoring and Evaluation

43. Monitoring and evaluation would be managed by the Department of Finance with input from the petroleum MSG. The World Bank team would assist the Department of Finance in tracking performance indicators during regular supervision missions. The Department of Finance, through OPSF, will also be responsible for overall day-to-day technical supervision of the implementation of the project activities and will benefit from technical input from the petroleum MSG to this end.

44. Project monitoring and evaluation will include the following:

- (d) **Status Reports:** With input from the petroleum MSG, OPSF will prepare status reports on the implementation of the project activities as part of the terms of the Implementation Grant Agreement. These reports must be submitted on a bi-annual basis no later than 45 days after the end of each reporting period to the Bank. The goal of status reporting is to ensure timely support and feedback from the Government of Seychelles on the activities outlined in the Grant Agreement. These reports will also include all EITI publication requirements, as well as the status of the Project Results Framework: PDO and Intermediate Results Indicators, when applicable and as contained in Annex 1.
- (e) **Completion Report:** With input from the petroleum MSG, OPSF will also prepare a completion report within six months of grant closing, to ensure that the objectives outlined in the Grant Agreement are met and there is a plan for their sustainable continuation.
- (f) **Financial Statements:** OPSF is required to prepare financial statements that reflect the operations, resources, and expenditures related to the activities detailed in the Grant Agreement. The requirements for periodic reporting and independent auditing of financial statements will be included in the Grant Agreement.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Risk category	Rating
1. Political and Governance	L
2. Macroeconomic	L
3. Sector Strategies and Policies	L
4. Technical Design of Project or Program	L
5. Institutional Capacity for Implementation and Sustainability	M
6. Fiduciary	L
7. Environment and Social	L
8. Stakeholders	L
9. Other: program and donors	M

OVERALL	M
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B. Overall Risk Rating Explanation

45. Overall risk is rated moderate due to moderate implementation capacity risk and program and donors coordination risks.

46. While the Department of Finance has a good record in implementing bank projects, the timeframe for this project implementation is tight. As a result, the implementation risk is moderate rather than low as is the case for projects with a longer implementation framework. To mitigate this risk the World Bank supervision team will help the client draft terms of reference and timely procure the services, by providing OPSF with examples of terms of reference that could be used for the various assignments.

47. There is also a moderate risk of duplicating some of the efforts already developed in the thorough review of the oil and gas legal and regulatory framework that has recently been completed by the Republic of Seychelles, with support from the IMF and other donors. To mitigate this work, the World Bank supervision team will work with the country management unit and liaise with colleagues from IMF and other relevant parties.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

48. The proposed project is purely a technical assistance project meant at supporting Government of Seychelles' efforts to comply with EITI requirements and thereby establish the principles of a sustainable petroleum revenue management system and enhance transparency in the oil sector. Therefore, benefits are not easily quantifiable making it difficult to accurately carry out a traditional cost benefit analysis. Instead, a qualitative assessment indicates that the proposed project will have substantial economic benefits to Seychelles as it will improve transparency, accountability and governance in the extractive industries. By enhancing the petroleum MSG capacity to comprehend the oil sector and the concept of petroleum revenue management in Seychelles, the project is also expected to help reach sustainable agreements in the industry and to make the petroleum sector development a better contributor to shared growth and employment.

49. The proposed project also has financial benefits that are sustainable. In the first place, by introducing EITI practices, it will enhance the prospects for attracting renowned investors to invest in upstream oil and gas; and directly leverage funds towards this end. By supporting Government of Seychelles' effort to reach early agreement on petroleum revenue ownership, management and sharing, the project will also contribute towards reducing the risk that petroleum becomes a curse rather than a blessing as is the case in many countries with large petroleum endowed.

B. Technical Issues

50. The activities covered in the proposed project are all part of the EITI work plan, which was

cleared by EITI board in August 2014. They are therefore all consistent with the set of activities traditionally financed by EITI and essential for Seychelles' to become an EITI compliant country.

C. Financial Management

51. The fiduciary arrangements will be carried out by OPSF. The Bank performed a simplified financial management assessment of this proposed project in accordance with OP/BP 10.00 and the Financial Management Practice Manual (issued by the Financial Management Sector Board in March 1, 2010). It was concluded that the recipient agency has an adequate financial management system in place that can provide, with reasonable assurance, accurate and timely information on the status of the funds as required by the Bank.

52. Overall, the project is relatively small and has a straightforward design and planned activities. However, to ensure that the required FM arrangements are maintained, most contracts will be prior reviewed by the World Bank. However, the project would allow for direct purchases. The grant will be transferred to a dedicated account.

53. The overall FM risk-rating assigned to this project at appraisal stage is low. The financial management team will monitor the project's financial risk during project implementation.

D. Procurement

54. Procurement of goods and works and selection of consultants shall be conducted in accordance with: (i) "Guidelines: Procurement of Goods, Works, and non-Consulting Services Under IBRD Loans and IDA Credits & Grants by WB Borrowers," dated January 2011 revised July 2014; (ii) "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits & Grants by WB Borrowers," dated January 2011 revised July 2014; and (iii) "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.

55. In case there are jointly co-financed activities due to possible contribution of other donors during the project implementation, the procurement process will follow Bank rules and procedures as indicated above and the review of the procurement activities and decisions will remain in the Bank hands. There will be no exceptions to this rule.

56. The project's procurement activities are quite simple since they mainly consist of selection of consultants. These activities will be carried out by OPSF, which procurement performances have been consistently satisfactorily.

57. The procurement methods and requirement for bank review are described hereinafter.

(a) Contracts for goods

<u>Procurement Method</u>	<u>Threshold for the method in 1000 USD</u>	<u>Bank review in 1000 USD</u>
(a) International Competitive Bidding (ICB)	USD 0.5 or more for goods	All contracts

(b) National Competitive Bidding	All contracts estimated below the ICB threshold and above shopping ceiling	The first two contracts
(c) Shopping	Below USD 100 for goods	Post review
(d) Direct contracting	N/A	All contracts

(b) Contracts for consultant services

Procurement Method	Contract estimated amount in 1000 USD	Bank review in 1000 USD
(a) All selection methods except SQC and single source selection	NA	All contracts estimated above USD 200
(b) Selection Based on the Consultants' Qualifications (SQC)	100	All contracts estimated above USD 200
(c) Individual Consultants	N/A	All contracts estimated above USD 100
(d) Single Source Selection	N/A	All contracts

58. The project's procurement plan was reviewed and approved by the Bank.

59. The Bank standard bid documents for goods and the bank standard RFP (Requests for Proposals) will be used for all contracts. For the purpose of clause 2.7 of the consultant guidelines, for all contracts estimated below the equivalent value of USD 50,000, the short list may comprise only local firms.

E. Environment and Social (including Safeguards)

60. This grant concerns building client capacity on revenue management. It is not expected to have potential adverse environmental and social implications or risks, and therefore no safeguard policies are triggered. This grant involves reporting about the context of the Seychelles oil sector and pure accounting and disclosure of payments and revenue data, which has no safeguards issues. Therefore the proposed project classification is C.

Annex 1: Results Framework and Monitoring

Seychelles: Implementation of the Extractive Industries Transparency Project

Project Development Objective (PDO): The project development objective is to help Government of Seychelles establish the principles of a sustainable petroleum revenue management and enhance transparency in the oil sector.

PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Target Values**		Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				YR 1	YR 2				
Indicator One: Adoption, by Seychelles Petroleum MSG, of the study developing options on petroleum revenue management	<input type="checkbox"/>	Text	Options for petroleum revenue management not available	The study to develop options conducted.	The study is conducted and the options adopted.	Once	Report	OPSF	Indicates that (i) the study has been developed by the consultants, (ii) members of Seychelles Petroleum MSG have been trained to petroleum resource management, have discussed the work, provided input as needed and adopted acceptable options, thereby reflecting enhanced capacity to develop a sustainable revenue management agreement.
Indicator Two: Institutionalization of the EITI	<input type="checkbox"/>	Yes/ No	No	No	Yes	Once	Report	OPSF	Indicates that: (i) the review of the oil and gas legal and regulatory framework has been done, (ii) obstacles preventing the publication of financial flows in the oil and gas sector have been identified and (iii) amendments enabling to remove these obstacles have been drafted, thereby enabling the institutionalization of the EITI and an increased level of transparency and accountability in the sector.
Indicator Three: Compliance to EITI reporting requirements by Seychelles Petroleum MSG	<input type="checkbox"/>	Yes/ No	No		Yes	Annual	Report	OPSF	Indicates that the key stakeholders of Seychelles Petroleum MSG have been trained on petroleum resource management and that they are capable to lead the production of the specific reporting requirements of EITI, thereby demonstrating they capacity to successfully drive the EITI process.
INTERMEDIATE RESULTS									
Intermediate Result (Component One):									
<i>Intermediate Result indicator One:</i> Number of workshop on Petroleum Revenue Management	<input type="checkbox"/>	Number	0	1	2	Annual	Report	OPSF	To ensure that all stakeholders are consulted on petroleum revenue management and that the study is inclusive and has the potential to reflect stakeholders views and meet their expectations
:									

Intermediate Result (Component Two):									
Intermediate Result indicator One: Review of the oil and gas legislation needed for the institutionalization of EITI is performed.	<input type="checkbox"/>	Yes/ No	No	Yes	Yes	Once	Report	OPSF	Indicates that a new review of the oil and gas sector legislation has been developed in view of identifying the additional amendments that would be needed to ensure EITI reporting requirements. Since the latest review and amendment of the oil and gas sector legislation have been done, in 2013, with the objective of fostering competition and private sector competition, they might not suffice to ensure compliance with EITI requirements.
Intermediate Result (Component Three):									
Intermediate Result indicator One: % of Seychelles Petroleum MSG members trained	<input type="checkbox"/>	%	0	85	100	Annual	Report	OPSF	Indicates that the members of Seychelles Petroleum MSG have received the training financed under the project
Intermediate Result indicator Two: Adoption of the reconciliation report by Seychelles Petroleum MSG	<input checked="" type="checkbox"/>	Yes/ No	No	No	Yes	Annual	Report	OPSF	Indicates that Seychelles Petroleum MSG has been able to lead the successful preparation of the first EITI reconciliation report.

*Please indicate whether the indicator is a Core Sector Indicator (see further <http://coreindicators>)

**Target values should be entered for the years data will be available, not necessarily annually

