Seychelles –
Development Finance Assessment

January 2024

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Acronyms

AGS	Auditor General Seychelles
AEOI	Automatic Exchange of Information
ASP	Agency for Social Protection
ASYCUDA	Automated System for Customs Data
CBS	Central Bank of Seychelles
CEPS	Citizens Engagement Platform Seychelles
CoC	Certificate of Compliance
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CSOs	Civil Society Organizations
DA	District Administrations
DBS	Development Bank of Seychelles
DFA	Development Finance Assessment
DMO	Debt Management Office
DMS	Debt Management Strategy
DSA	Debt Sustainability Analysis
ESG	Environmental, Social and Governance
ETF	Environment Trust Fund
FDI	Foreign Direct Investment
FIU	Financial Intelligence Unit
FSA	Financial Services Authority
GDP	Gross Domestic Product
GEF	Global Environment Facility
GIFT	Global Initiative for Fiscal Transparency
IATF	Inter-Agency Task Force on Financing for Development
IBC	International Business Company
IBP	International Budget Partnership
IFD	Integrated Financing Dashboard
IFF	Illicit Financial Flow
IFI	International Financing Institution
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INFF	Integrated National Financing Framework
INTOSAI	International Organization of Supreme Audit Institutions
IOAs	Investment Opportunity Areas
MDAs	Ministries, Departments and Agencies
MFNTP	Ministry of Finance, National Planning and Trade
MPAs	Marine Protected Areas
MSME	Micro Small and Medium-sized Enterprise
NBS	National Bureau of Statistics
NDS	National Development Strategy
NDS I	National Development Strategy (2019–2023)
NDS II	National Development Strategy (2023–2028)
NGO	Non-Governmental Organization
NPA	National Planning Authority
NWG	National Working Group
OECD	Organisation for Economic Co-operation and Development
PIMA	Public Investment Management Assessment
PIMU	Project Investment Management Unit
PM&E	Performance Monitoring and Evaluation
PPBB	Programme Performance-Based Budgeting
PSeIP	Public Sector Investment Programme
PSIP	Public Sector Investment Plan
RMS	Resource Mobilization Strategy
SCR	Seychelles Rupees
SDGs	Sustainable Development Goals
SECDEX	Securities, Commodities and Derivatives Exchange
SeyCCAT	Seychelles Conservation and Climate Adaptation Trust
SI	Statutory Instrument
SIB	Seychelles Investment Board
SIBA	Seychelles International Business Authority
SME	Small and Medium-sized Enterprise
SPF	Seychelles Pension Fund
SRC	Seychelles Revenue Commission
SSF	Social Security Fund
TMS	Tax Management System
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNODC	United Nations Office on Drugs and Crime
UNPRI	UN Principles for Responsible Investment
UNU	United Nations University
USD	United States Dollar
VAT	Value Added Tax

Acknowledgement

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Foreword

It is with great pleasure and a sense of shared purpose that we present this Development Finance Assessment (DFA) Report, a collaborative effort between the Ministry of Finance, National Planning and Trade of Seychelles and the United Nations Development Programme (UNDP). As we navigate the complex and ever-evolving global development landscape, the importance of finance in attaining sustainable and inclusive progress cannot be overstated.

This report arrives at a pivotal moment, as the Government embarks on a new phase in its National Development Strategy (NDS). The objective of the DFA is to provide insights into the development finance landscape of Seychelles, looking across a range of public, private, domestic and external sources of finance. It also provides invaluable insights into the adjustments required within existing policies and institutional frameworks to better align with the increasingly complex finance landscape in the country and to maximize opportunities for additional resource mobilization in view of financing needs.

This assessment serves as the foundational platform upon which informed decisions can be made and bold actions can be executed. It enables us to harness the evolving opportunities in development finance, both on a global and local scale, in a more coordinated fashion. This, in turn, ensures that resources and policies can be harmonized to achieve the desired development outcomes.

We extend our heartfelt appreciation to all the stakeholders who generously contributed their expertise, time and resources to make this assessment a reality. It is through our collective efforts and unwavering commitment that we pave the way towards a more sustainable, equitable and prosperous world for all.

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Key Messages

- The assessment acknowledges that Seychelles has achieved significant accomplishments, which provide a solid foundation for effectively capitalizing on evolving opportunities within the development financing landscape. Some notable achievements include the implementation of Programme Performance-Based Budgeting and Performance Monitoring and Evaluation, both critical for optimizing budget allocation to priority areas and ensuring effective monitoring. Additionally, the Seychelles Fintech Strategy aims to align digital finance with national development priorities, and digitalization is expected to streamline business operations and improve the tracking and management of development finances. The report also notes the ongoing implementation of the Seychelles Revenue Commission's strategic plan, as well as the Government's efforts to design a diaspora policy.

- The new National Development Strategy (NDS II, 2023–2028) offers a valuable opportunity to enhance the mechanisms for aligning national resources with the country's development aspirations and the Sustainable Development Goals. It is imperative for the Government to develop tools facilitating the alignment of sectoral annual budgets with the NDS. Issuing certificates of compliance could enable ministries and agencies to prudently align their actions with the national vision. Furthermore, the operationalization of the Integrated Financial Management Information System (IFMIS) is expected to accommodate the tagging of SDG/NDS expenditures to improve tracking and monitoring of spending.

- Establishing a robust governance framework is essential to guarantee the successful execution of the NDS. Although the COVID-19 pandemic meant that the National Working Group established for NDS I (2019–2023) was not fully operational, this mechanism could be reinstated for the new NDS, along with a strong commitment to ensuring its effectiveness in monitoring and regular reporting on progress.

- The Government has an efficient Revenue Commission and a robust tax policy. In pursuit of the 2030 Agenda for Sustainable Development, the country can further enhance progress by designing an SDG-aligned taxation framework to foster inclusive and sustainable development. For instance, the implementation of a gender-sensitive taxation approach could play a pivotal role in promoting equality, especially in situations where women are disproportionately represented as employees but earn lower wages.

- A recent Public Investment Management Assessment identified shortcomings in national and sectoral planning, project appraisal and selection, government capacity, and maintenance budgeting. Additionally, gaps were found in integrating climate change considerations into public investment management, particularly in areas related to maintenance budgeting, project selection criteria and institutional roles. Improving project management is pivotal for enhancing the implementation of public sector projects.

- Given the limited fiscal space, expanding and deepening the participation of the local and international private sector in the country's development agenda is essential. Building on existing efforts, such as the enactment of key legislation to encourage private sector investment and the design of the SDG Investor Map, an additional step could be the establishment of a national private sector engagement strategy. This strategy would include infrastructure for structured dialogues with the private sector, to help them align their efforts with national development priorities. Strengthening the Public-Private Partnership (PPP) Unit with the requisite resources and expertise is also vital to enhance private sector involvement in PPP projects. Finally, improving the business environment, including addressing gaps in areas such as contract enforcement, will further facilitate the growth of the private sector.

- To ensure comprehensive monitoring of financial flows and their alignment with the country's development priorities, the introduction of an Integrated Financing Dashboard is imperative. This dashboard can effectively track and synchronize all key public, private, domestic and international financing flows to the country. The integration of development financing data can significantly enhance transparency and accountability, enabling the assessment of financing gaps and the adoption of coordinated financing strategies.

1. Introduction

Achieving Seychelles' Vision 2033[1] **and the 2030 Agenda for Sustainable Development requires mobilizing a diverse range of public and private financial resources.** The steps to be taken towards securing the necessary financing are guided by the Addis Ababa Action Agenda, in which UN Member States called for the design of integrated national financing frameworks (INFFs) to finance both national development objectives and efforts to achieve the Sustainable Development Goals (SDGs). INFFs are aimed at addressing the challenges countries face in devising integrated approaches to operationalize financing strategies, challenges such as lack of capacity to manage increasingly more complex financing instruments; struggles with promoting and enabling domestic business environments; the growing need to establish adequate collaborative frameworks with a wide range of players and partners; existing dependence on declining traditional sources of finances; the need to promote and maximize untapped new and innovative sources of development financing; and potential misalignment between government planning and finance policy functions.

A set of methodologies were then crafted to help countries overcome these challenges. The Inter-Agency Task Force on Financing for Development

1 Seychelles, Ministry of Finance, National Planning and Trade, Seychelles Vision 2033 (Victoria, 2019).

(IATF) developed a methodological guidance note on each of the building blocks of an INFF. On that basis, the United Nations Development Programme (UNDP) developed the Development Finance Assessment (DFA) as a tool to help governments shape the inception phase of the INFF process. The DFA gives a comprehensive picture of existing and potential public and private financing in the country and identifies opportunities to mobilize additional sources of finance and use available financial resources more efficiently to achieve national development objectives inspired by the SDGs. The recommendations of the DFA are intended to help countries to strengthen their planning and public and private finance processes, prepare for the development of the country's financing strategy and tackle obstacles towards financing their national development goals. The subsequent INFF aims to foster the alignment of all financing flows while integrating planning, budgeting and financing processes. The INFF also focuses on strengthening government policy and existing monitoring and reporting processes, as well as identifying institutional gaps and potential governance and coordination mechanisms, so that national resources can be used more efficiently for the achievement of the development goals articulated in the national plans and Agenda 2030.

The Seychelles DFA aims to:

i. Provide an overview of development finance flows for Seychelles.

ii. Describe how systems can be strengthened to better align and monitor future financing flows with the priorities of the National Development Strategy 2023–2028 (NDS II) and the SDGs.

iii. Evaluate the role of the planning and budgeting process in linking both public and private financing in the context of the NDS and the SDGs.

iv. Assess the roles and responsibilities of national institutions and their associated policies governing all public, private, domestic and international financing flows and in managing the different financial flows to directly contribute to the NDS and SDGs.

v. Review existing institutional structures as well as monitoring and reporting processes and consider ways to make them more useful tools for implementing the 2030 Agenda.

vi. Provide recommendations for better aligning financing for development with national development priorities and the SDGs and ultimately guide the design of an INFF which encompasses these flows.

vii. Propose mechanisms for mobilizing additional sources of finance and using existing financial resources more efficiently to achieve national development objectives.

This report is divided into seven chapters. After this introductory chapter, chapter 2 provides an overview of the global, regional and national macroeconomic environment and includes an analysis of the implementation of NDS I. It also identifies risks to Seychelles' macroeconomic progress. Chapter 3 provides a historical review of the main financial flows in the past decade and an assessment of expected financing needs in the coming four years. Chapter 4 assesses the use of policies and instruments to mobilize, invest in and influence public and private financing. Chapter 5 analyses existing monitoring and reporting processes. Chapter 6 addresses the last building block of the framework and details the existing institutional framework for coordinating different sources of finance, as well as for monitoring implementation of the national priorities and the SDGs. It analyses current platforms for engagement between different stakeholders and their roles in establishing an INFF. Recommendations are summarized in chapter 7.

2. Global and Regional Development Finance Outlook

This chapter describes recent global and regional macroeconomic developments. It also provides the main fiscal and economic highlights for Seychelles and discusses the fiscal impact of the COVID-19 pandemic. The chapter includes two tables identifying the main risks associated with global growth and Seychelles' economic performance.

Globally, political and economic events continue to negatively affect the world's economic growth, posing a serious threat to global output. These events include Russia's invasion of Ukraine, high inflation rates, a tightening of financial conditions in most regions and the continuing impact of the COVID-19 pandemic. As a result, world economic growth is now expected to slow down from 6 percent in 2021 to almost half that level, 3.4 percent, in 2022. World growth is projected to slow down even further in 2023, to 2.8 percent, before experiencing a modest gain in 2024, when it is expected to reach 3 percent[2].

Future growth depends on the success of monetary and fiscal policies implemented across the world. Policies are aimed at fighting inflation, on the one hand, and on the other, at alleviating the burden of cost-of-living increases on vulnerable groups. Global headline inflation is expected to fall from 8.7 percent in 2022 to 6.8 percent in 2023 and 5.2 percent in 2024[3].

Further risks threaten the world's economic recovery. Table 1 provides a list of potential risks to world economic growth, as well as their potential impact. The 2022 McKinsey global survey on economic conditions identified geopolitical instability, inflation and supply chain disruptions as the top three global risks to economic growth, followed by volatile energy prices and rising interest rates[4]. The survey also found that respondents see supply chain disruptions as major obstacles for their companies' growth.

Following a substantial increase in 2021, globally, private capital flows experienced a drastic decrease in 2022. In 2021, private capital flows increased

2 IMF, "World Economic Outlook Update, July 2023" (Washington, D.C., 2023).

3 IMF, *World Economic Outlook, April 2023* (Washington, D.C., 2023).

4 McKinsey & Company, "Economic conditions outlook during turbulent times, December 2022", 21 December 2022. Available at https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/economic-conditions-outlook-2022.

Table 1 \\ Main risks to world growth

Main Risks	Impact
Monetary policy fails to achieve a soft landing to reduce inflation	Economic growth is hampered
Global tightening in financing conditions	Widespread emerging market debt distress.
Geopolitical fragmentation	Trade and capital flows are impeded and climate policy cooperation deteriorates
Resurgence of a new global health crisis	World economic outpput is depressed
A worsening of China's property sector crisis	Spill over to the domestic banking sector weighs heavily on the country's growth
Lack of progress in designing a debt resolution framework	Fiscal unsustainability in developing countries, lower growth and higher borrowing costs
Concentration of investments in developed countries and high-tech sectors such as renewable energies	Investment is diverted from developing countries and social sectors.
Overstretched supply chains and industrial policies in developed economies	Global trade is hampered

Source: IMF, *World Economic Outlook*, October 2022 (Washington, D.C., 2022).

due to loosened financing conditions and major infrastructure stimulus packages. Additionally, foreign direct investment (FDI) flows reached $1.58 trillion in 2021, representing a 64-percentage increase from 2020, the year in which the COVID-19 pandemic began, and which saw less than $1 trillion in FDI flows[5]. But in 2022, global FDI flows fell by 12 percent to $1.3 trillion. FDI in developing countries increased only marginally and was concentrated in a few large emerging economies. Inflows in many smaller developing countries were stagnant.

Downward pressure on FDI could persist in 2023, given the multiple overlapping crises affecting the global economy. The investment gap across all SDG sectors has increased from $2.5 trillion in 2015 to more than $4 trillion per year today. FDI flows fell by 6 percent to $212 million, the same level as 2010[6].

5 UNCTAD, *World Investment Report 2022: International Tax Reforms and Sustainable Investment* (Geneva, 2022)
6 Ibid.

At the regional level, East African economies have yet to achieve pre-COVID-19 growth levels[7]. Despite strong growth in most of East Africa in 2021, the war in Ukraine had a negative impact on the region's growth in 2022. The region's growth in 2021 was estimated at 4.8 percent, supported by sustained public spending on key infrastructure projects, reopening of travel and trade, deeper regional ties under the East African Community and the recovery in tourism. The top three performers in economic growth in the region in 2021 were Rwanda, Seychelles and Kenya. However, the region experienced slower growth in 2022, at 4.4 percent, due to the lingering effects of the pandemic as well as geopolitical tensions. Growth is expected to recover to 5.1 percent in 2023 and 5.8 percent in 2024, largely driven by growth in Rwanda, Uganda, Ethiopia, Kenya, Djibouti and the United Republic of Tanzania, in that order[8].

Fiscal consolidation measures helped countries to moderate their deficits. As a result of ongoing consolidation efforts, fiscal deficits in the region are expected to decline from 5.8 percent in 2022 to 3.4 percent in 2023. However, the region experienced an increase in debt levels in 2021, with the debt-to-GDP (Gross Domestic Product) ratio reaching 87 percent in 2021, up from 79 percent in 2020. These ratios are expected to remain at around 69 percent of GDP in 2023 and 66 percent in 2024[9]. Even countries showing debt-to-GDP ratios below the appropriate thresholds are dealing with debt service-related liquidity constraints, as in the case of Ethiopia. Although most countries of the region have managed to control inflation, it remained at the highest level in the region's recent history in 2022, averaging 36.8 percent. It is expected to drop to 27.8 percent in 2023.

Table 2 \\ Fiscal Policy responses to COVID-19 as percentage of GDP

	Above the line measures		
	Additional spending or foregone revenues		
	Total	Health sector	Non-health sector
Seychelles	6.54	0.55	5.99
Kenya	2.45	0.20	2.25
Comoros	3.55	1.98	1.56
Mauritius	9.20	0.30	8.90
Maldives	8	2.8	5.2

Source: IMF, Database of fiscal policy responses to COVID-19, October 2021.

7 African Development Bank, *East Africa Economic Outlook 2023: Mobilizing Private Sector Financing for Climate and Green Growth* (Abidjan, 2023).

8 Ibid.

9 IMF, World Economic Outlook Database: April 2023 edition.

In Seychelles, despite global uncertainty, economic growth was projected at 9 percent in 2022[10]. Growth was mainly driven by the improved performance of the tourism and information and communication sectors, which compensated for the contraction experienced by the fishery sector. Economic growth is projected to decline to 4.2 percent in 2023 before reaching an average of 3.8 percent between 2024 and 2026[11]. The estimated cost of the COVID-19 response in Seychelles was about 6.5 percent of 2020 GDP, higher than in peer countries such as Comoros and Kenya but slightly less than in Maldives and Mauritius. Table 2 shows the cost associated with the fiscal responses to the pandemic in Seychelles and a group of selected peer countries.

Seychelles' short- and medium-term socio-economic performance could be impacted by some major risks. While the country is experiencing higher economic growth rates than its peer countries in the region, it remains vulnerable to key risks that might negatively affect its economic performance and social cohesion. Most of these risks are exogenous; they include continuous inflationary pressures, global chain disruptions and the tightening of global financial conditions. Other risks include the country's exposure to climate change, as well as the employment environment, especially for young people. Table 3 shows the main risks identified for Seychelles in the coming years.

10 Seychelles, *Central Bank of Seychelles, Annual Report 2022* (Victoria, 2022).

11 Seychelles, Ministry of Finance, National Planning and Trade, *Mid-Year Economic and Fiscal Outlook: Financial Year 2023 and 2024 Outlook* (Victoria, 2023).

Table 3 \\ Seychelles main risks to socio-economic performance

Risks	Impact	Policy options
Slower economic growth in source tourism markets	Lower tourism receipts	Further diversify economic sectors beyond tourism and fishing
Inflationary pressures go unchecked	Higher prices and increased cost of borrowing	The Central Bank of Seychelles (CBS) should maintain proactive monetary policy
Disruptions in global supply chains	Negative impact on primary and secondary production impact.	Diversify economy.
Tightening of global financial conditions	Increased debt service costs and exposure to refinancing risks	Diversify sources of financing and prioritize concessionality of sources.
Climate resilience financing gap for 2020–2030 is not secure	Key climate resilience initiatives go unfunded.	Involve private sector in green energy and eco-friendly transport. Develop a PPP framework.
Climate change and coastal erosion	Long-term sustainability risks to the country's economic reliance on tourism	Strengthen disaster preparedness systems and enhance coastal management
Social cohesion	Rising inequality, substance abuse and unemployment, particularly among youth	Improve quality education and skills development

Source: World Bank, IMF, AfDB, UK Government and author's assessment.

Seychelles' development path is guided by Vision 2033[12]**.** The country envisages a modern, diversified and resilient economy and a prosperous, people-centred nation, which provides excellent public services with stakeholder participation and fair opportunities for all. The vision also calls for Seychelles to become a world leader in sustainable, responsible, ethical and sustainable tourism, closely integrated with the nation's high environmental protection standards and socioeconomic goals.

12 Seychelles, Ministry of Finance, National Planning and Trade, *Seychelles Vision 2033.*

Also listed among the country's objectives are ensuring continued democratic rule and creating an enabling environment for free enterprise and entrepreneurship.

The first National Development Strategy 2019–2023 (NDS I) established six pillars. These include i) good governance, ii) people at the centre of development, iii) social cohesion, iv) innovative economy, v) economic transformation and vi) environmental sustainability and resilience. NDS II (2023–2028) does not deviate substantially from the pillars identified in NDS I.

The governance structure for implementing NDS I included a National Working Group (NWG). The Ministry of Finance, National Planning and Trade (MFNPT) was mandated to coordinate the formulation and implementation of the strategy, as well as the monitoring of the national economic development planning process. To facilitate the implementation of the NDS, the NWG was established, reporting to MFNPT. Comprised of representatives from the public and private sectors and from civil society, the NWG reports on implementation progress, challenges faced, actions taken and any other pertinent issues related to the NDS. A Secretariat was also established, in charge of preparing an annual report to be submitted to Cabinet or the National Assembly. The NWG did prepare the annual report in 2019, but the COVID pandemic prevented it from completing the report on an annual basis.

2.1 Financing Envelope 2023–2027

The medium-term fiscal framework used for this exercise assumes that the Government will achieve a primary surplus by 2023. According to the IMF debt sustainability analysis (DSA) undertaken in 2022[13], the Government should achieve a primary surplus of 1.7 percent of GDP at the end of 2023, increasing to an average of 3.5 percent in 2025–2027. This assumption is based on the fiscal consolidation measures undertaken by the Government. According to the assumptions used in the exercise, public financing needs will decrease by around 20 percent from 2023 to 2024 and remain fairly stable for the remainder of the period. The Government's borrowing needs, therefore, should not change dramatically from needs in the past few years, as described in the previous section. The borrowing levels assumed in the exercise are expected to help Seychelles bring its debt ratios to sustainable levels while at the same time channelling sufficient resources to its development priorities. Unfortunately, no assumption is available regarding the financing needs of the private sector for the coming years. Funding NDS II and Agenda 2030 cannot be left to the Government alone; the private sector's participation will be needed. Therefore, it is important that a detailed plan for engagement with the private sector be developed and implemented. This issue will be analysed in the next section of the report. Table 4 provides an overview of the Government's expected financing needs as a percentage of GDP and in Seychelles Rupees (SCR) millions. GDP projections have been calculated using the GDP nominal growth rate used in the DSA exercise.

13 IMF, "Debt Sustainability Analysis", Annex III in *Seychelles: 2022 Article IV Consultation, Second Review under the Extended Fund Facility Arrangement, and Request for Modification of Performance Criteria and Indicative Targets—Press Release; Staff Report; And Statement By The Executive Director For Seychelles* (Washington, D.C., 2022).

Table 4 \\ Public financing needs 2023–2027

	2023	2024	2025	2026	2027
Public gross financing needs (SCR millions)	3,579.46	2,912.60	2,903.33	2,918.36	2,911.07
As % of GDP	14.6%	11.0%	10.2%	9.6%	9.0%
Memo items:					
GDP nominal (SCR millions)	24,516.85	26,478.19	28,464.06	30,399.61	32,345.19
Nominal GDP growth (in %)	8.4%	8.0%	7.5%	6.8%	6.4%
Primary surplus % of GDP (+ indicates surplus)	1.7%	3.0%	3.6%	3.7%	3.6%

Source: Author's calculation and IMF, "Debt Sustainability Analysis".

3. Seychelles Development Finance

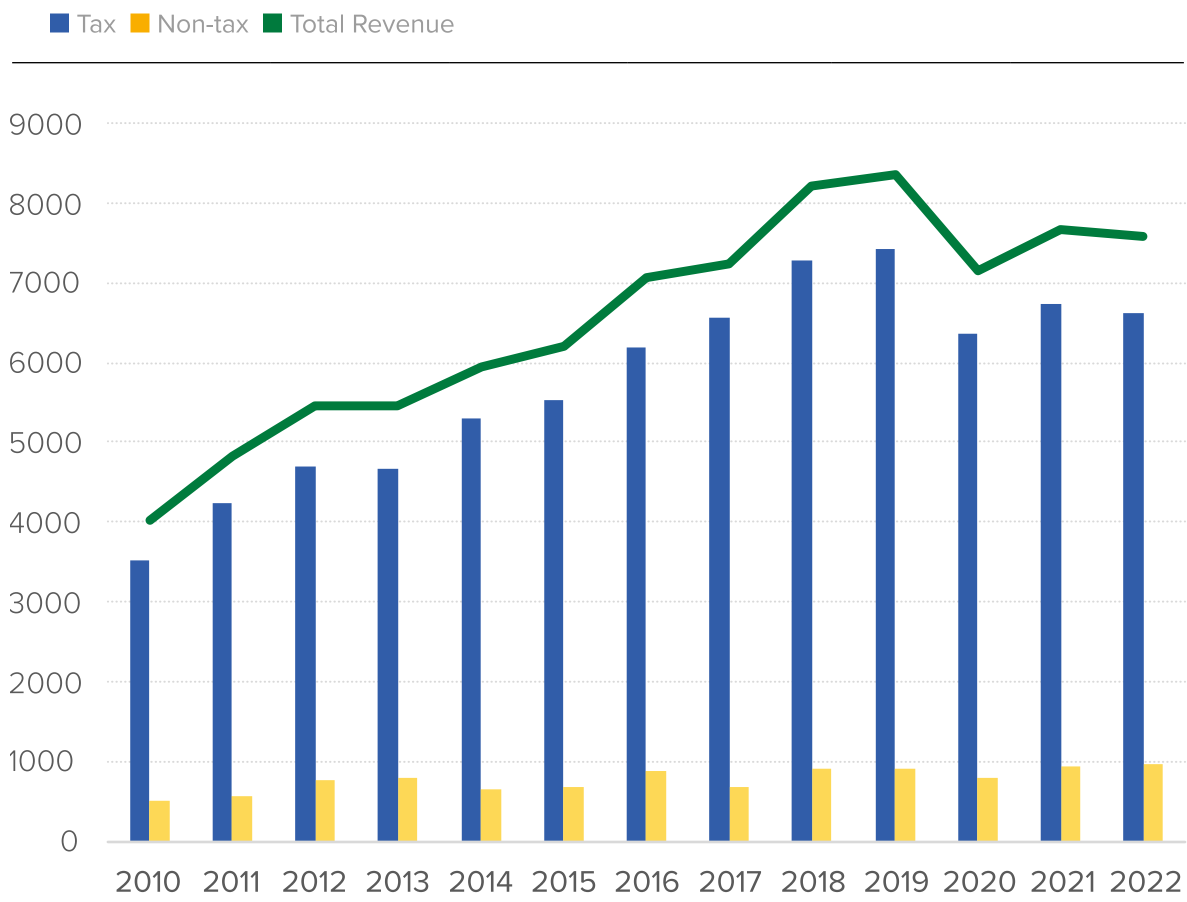
This section provides a comprehensive analysis of recent capital flows into Seychelles, coming from private, public, domestic and external sources. The chapter focuses on two main areas: public financing flows and private financing flows. It also reviews actual flows during the last 10 years. For most sections, the same source of data (the Central Bank of Seychelles) was used in order to maintain consistency. When unavailable, alternative sources were used and noted.

3.1 Public Financing

3.1.1 Government revenues

Domestic government revenues analysed in this section include direct and indirect taxes and non-tax revenue. Direct and indirect taxes include all individual income taxes, corporate taxes, value added tax (VAT) and customs and import duties and taxes. Non-tax revenue covers fees charged by the Government's Ministries, Departments and Agencies (MDAs), fines and penalties and other domestic sources funding government initiatives on certain activities, sectors and/or emergencies. This category also includes net revenues from state-owned enterprises and equity investments. Non-tax revenues have represented about 10 percent of total revenues over the last five years. Tax revenues grew steadily between 2010 and 2019, but dropped during 2020 and have yet to regain pre-pandemic levels. Figure 1 shows the trends in these flows between 2010 and 2022.

Figure 1 \\ Seychelles recent revenue trends, SCR millions

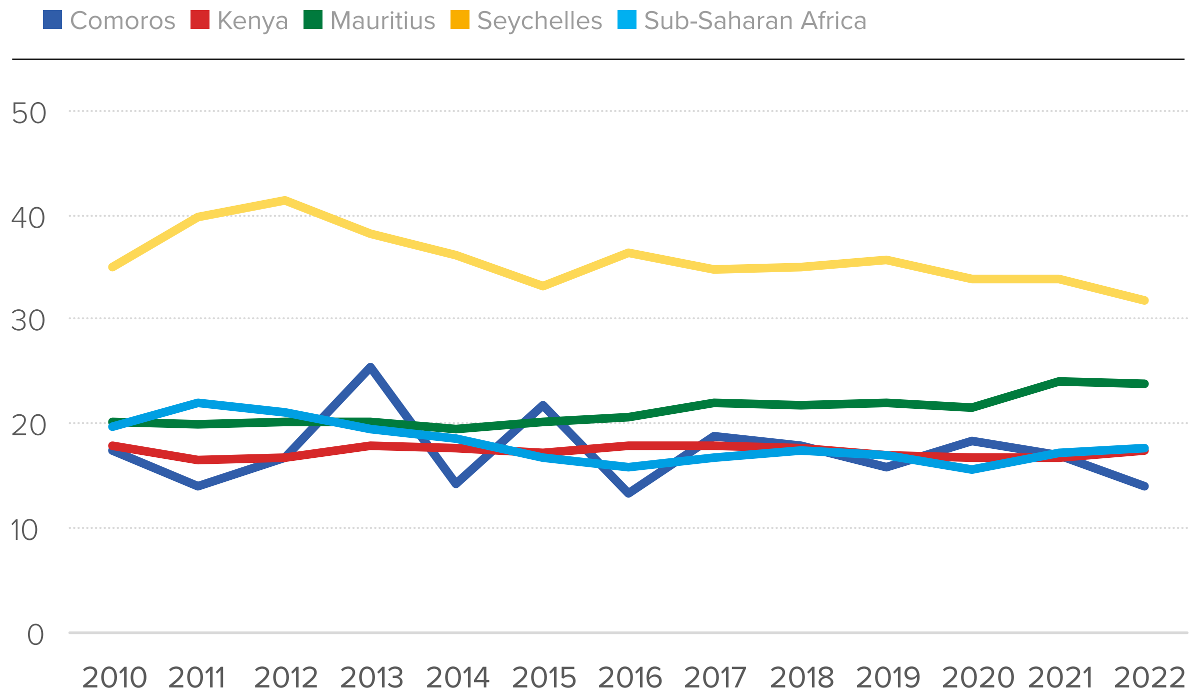


Source: CBS statistics and Seychelles, MFNPT, Mid-year Economic and Fiscal Outlook: Financial Year 2023 and 2024 Outlook

As a percentage of GDP, government revenues in Seychelles are the highest among peer countries. Although the figures show a downward trend, especially after 2012, the share of government revenues to GDP is twice the size of the average for sub-Saharan Africa and well above peer countries in the region. Figure 2 shows government revenues to GDP ratios in selected countries, as well as the average for sub-Saharan countries as a whole. This high tax rate ratio has been achieved through the implementation of well-designed tax reforms over the last decade. Reforms included the introduction of progressive business tax rates, a flat-rate personal income tax, revisions of import tax rates, an excise tax regime and a value added tax. The Government also introduced the Tourism Marketing Tax and the Corporate Social Responsibility Tax, among others[14].

14 OECD, *OECD Tax Policy Reviews: Seychelles 2020* (Paris, 2020).

Figure 2 \\ Evolution of government revenues to GDP, selected countries, 2010–2022



Source: IMF, World Economic Outlook, April 2023.

Seychelles' tax revenues predominantly come from indirect taxes and business tax, with VAT being the largest source of tax revenues[15]. According to a study conducted by the Organisation for Economic Co-operation and Development (OECD), the business tax burden in Seychelles is highly concentrated on a small number of taxpayers, and companies in the bottom 70 percent account for only 1.3 percent of business tax revenues[16]. This imbalance in the business tax burden results in large part from a combination of differentiated tax rates across sectors and generous tax base provisions targeted at specific sectors. Additionally, according to the study, informality remains an issue in Seychelles and there is evidence that some businesses are not adequately reporting their activities and income. Larger companies that are part of multinational groups can easily reduce their effective tax burdens through international tax planning, since Seychelles' current international tax rules do not effectively protect its corporate tax base.

15 Ibid.
16 Ibid.

Table 5 \\ Evolution of tax revenue 2020–2022, SCR million

	2020	% of total	2021	% of total	2022	% of total
Tax revenue	6,369	100%	6,721	100%	7,392	100%
Income tax	1,023	16%	1,030	15%	1,085	15%
Trade tax	260	4%	226	3%	302	4%
Excise tax	1,268	20%	1,207	18%	1,415	19%
VAT	2,117	33%	2,326	35%	2,964	40%
Business tax	1,204	19%	1,457	22%	1,207	16%
Other taxes	497	8%	475	7%	419	6%

Source: IIMF, Seychelles: 2022 Article IV Consultation and MFNPT, Mid-Year Economic & Fiscal Outlook 2023.
Note: Total for 2022 is slightly different from the total provided in table 5 due to the different sources used.

In 2018, the Seychelles Revenue Commission (SRC) introduced a progressive regime, including an increase in the tax-free threshold and changes in the regulations affecting the rates and calculation of income tax. The existing legislation provides progressive income tax rates and differentiates between citizens and non-citizens.

The tourism sector contributes to overall government tax revenue through the business tax and, more importantly, through the total VAT collected.

Table 6 provides a description of the different tax brackets applied to income taxes.

Table 6 \\ Applicable income tax brackets

Bracket	Gross monthly income (SCR)		Rates	
	From	To	Citizen	Non-Citizen
Bracket 1	0	8,555.50	0%	0%
Bracket 2	8,555.51	10,000.00	15% of the amount in excess of SCR 8,555.50	15% of the amount not exceeding SCR 10,000.00
Bracket 3	10,000.01	83,333.00	SCR 216 plus 20% of the amount in excess of SCR 10,000.00	SCR 1,500 plus 20% of the amount in excess of SCR 10,000.00
Bracket 4	> 83,333		SCR 14,883.28 plus 30% of the amount in excess of SCR 83,333.00	SCR 16,166.60 plus 30% of the amount in excess of SCR 83,333.00

Source: Seychelles Revenue Commission

Traditionally, the tax system in Seychelles was based on a territorial tax regime[17]. As such, only income sourced inside the country was liable to tax in Seychelles: that is, only income arising from business activities conducted, goods situated or rights used within the physical territory of Seychelles were taxed. New regulations introduced in 2021 adopted a revised approach for covered companies, including the adoption of an economic substance test for passive income received from a non-resident. Other characteristics of Seychelles' tax system include a self-assessment regime, which was introduced in 2010 to encourage voluntary compliance by allocating the responsibility for reporting and declaring taxable income to the taxpayer. Also, under existing regulations all new businesses must register with SRC within 28 days of commencing trading. Regulations also include directives related to record-keeping, timing of submissions, tax status offences and penalties and others..

Business tax is applicable on the taxable income of a business activity[18]. This type of tax is levied at different rates depending on the business structure

17 Seychelles, Seychelles Revenue Commission, "Seychelles tax system". Available at https://src.gov.sc/seychelles-tax-system/#Seychelles_Tax_system.

18 Ibid.

or the economic sector under which the entity or person operates. The Business Tax Act covers three main regimes: presumptive tax, business tax and withholding tax. The presumptive tax was introduced in 2013 for small businesses with an annual turnover below SCR 1 million and applies a flat rate of 1.5 percent on the annual business turnover of the current year. Business tax, on the other hand, is applicable to businesses with an annual turnover exceeding SCR 1 million and applies different progressive tax rates for sole traders, partnerships and companies. Lastly, the withholding tax is the amount of tax withheld by businesses having a contract with another business for works undertaken. Under existing legislation, the payer must withhold 1.5 percent of the total amount paid to the specified business.

The Government also collects other types of tax revenue. A key tax for government revenue is the VAT. It was introduced in 2010 and applies to all goods and services supplied in Seychelles or imported into Seychelles. The Immovable Property Tax, introduced in 2019, is applicable to all non-Seychellois owning an immovable property in Seychelles. The Tourism Marketing Tax was introduced to fund marketing activities and promote Seychelles around the world, as well as to ensure continuity in tourism-related investments. It is applicable to various business activities such as hotels, guest houses, self-catering establishments, cafés and restaurants, air transport services, ferries, boat and car rentals, divers and travel agents, casinos, banks and insurance and telecommunications companies. The rate of Tourism Marketing Tax payable by a business with an annual turnover of SCR 1 million and above is 0.5 percent. A new type of tourism tax was introduced in 2023: the Accommodation Turnover Tax. This applies a 2 percent tax to all tourism accommodation with an annual turnover of over SCR 100 million. It is payable by all tourism accommodation operators: hotels, guest houses, self-catering establishments, yachts, cruises and ships. A third type of tax for the tourism sector was also introduced in 2023 and is called the Tourism Environmental Levy. This tax applies to tourism providers such as hotels, guest houses, self-catering establishments, yachts and island resorts offering accommodation to visitors. It divides accommodation establishments into four categories: i) small accommodations (1 to 24 rooms); ii) medium accommodations (24 to 50 rooms); iii) large accommodations (51+ rooms); and iv) yachts and island resorts. The tax rates are as follows: SCR 25 per person per night (p/n) for small accommodations; SCR 75 p/n for medium accommodations; and SCR 100 p/n for large accommodations and yachts and resorts.

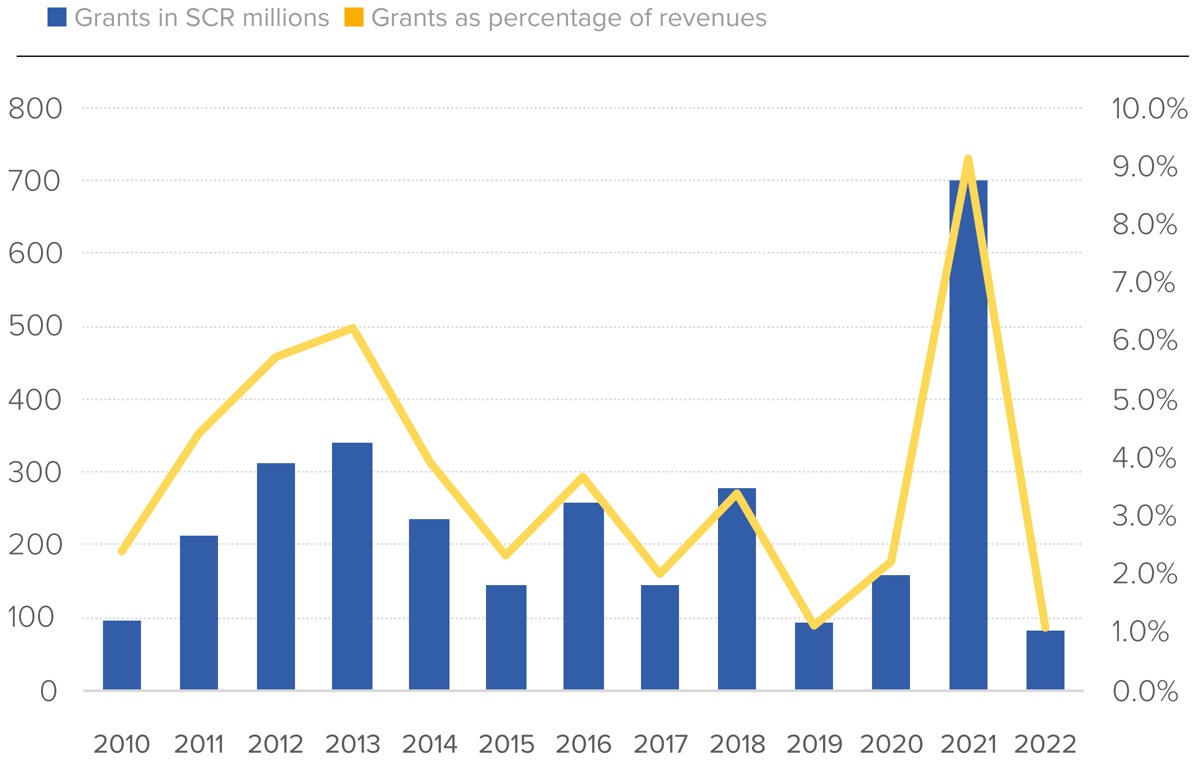
The new SRC strategy[19] includes specific measures to tackle tax evasion and illicit activities and reduce revenue leakage and gaps. The strategy calls for strengthening the deterrent effect by increasing SRC's community presence and audit coverage, especially for cases with a high risk of non-compliance. To increase revenue collection, SRC plans to establish relationships with international partners to identify new ways of capturing businesses operating in the informal sector and areas where there are revenue leakages. It also plans to develop and implement strategies to tackle commercial fraud and identify gaps in the tax base to advise MFNPT on any potential legislative changes needed. Meanwhile, to improve tax compliance, SRC plans to implement a compliance model that segments taxpayers and plans interventions based on compliance level and past compliance behaviour. It also aims to make use of computer-assisted audits and explore the use of data analytics to detect non-compliance. Lastly, SRC plans to undertake a comprehensive reform and restructuring within its IT unit to meet emerging business needs, such as those of the new remote working environment.

19 Seychelles, Seychelles Revenue Commission, *Strategic Plan 2023–2025* (Victoria, 2022).

3.1.2 Grants

As a high-income country, Seychelles does not benefit extensively from grant financing. External grant flows have mainly been aimed at advancing the SDGs, particularly in the areas of marine conservation, climate change adaptation and mitigation, as well as assisting small and medium-sized enterprises (SMEs) in the blue economy sector. The grants have been provided by organizations such as UNDP, the European Union, the African Development Bank and others. Reported grant flows into the country include $6.4 million (2015) [20] allocated towards sustainable development and climate change adaptation and mitigation programmes. In 2019, the Green Climate Fund supported ecosystem-based adaptation projects to climate change projects in the region (Seychelles included) in the amount of $38 million[21]. Seychelles also channels grant support through the Blue Grants Fund allocated by the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) to support projects related to the Blue Economy.

Figure 3 \\ Evolution of grants, 2010–2022



Source: CBS statistics and MFNPT, *Mid-Year Economic & Fiscal Outlook 2023*. 2023

20 Hajira Amla, "Seychelles receives $6.4m in sustainable development and climate change grants from EU", Seychelles News Agency, 2 December 2014. Available at http://www.seychellesnewsagency.com/articles/1875/.

21 Seychelles News Agency, "Seychelles to benefit from $50 million in climate change project grant money", Seychelles Broadcasting Corporation, 24 August 2020. Available at https://www.sbc.sc/news/seychelles-to-benefit-from-50-million-in-climate-change-project-grant-money/.

Since 2010, the trend in grant financing has fluctuated from year to year. However, with the notable exception of 2021, grants have represented an average of around 3 percent of total government revenues. The figure for 2021 includes extraordinary assistance received to assist in COVID-19 recovery. Figure 3 illustrates this trend in SCR millions and as percentage of revenues.

3.1.3 Government Expenditures

The bulk of government expenditures correspond to recurrent spending. The share of recurrent spending has been steadily growing during the last decade, rising from 76 percent in 2011 to 93 percent in 2020. Most budget lines have fluctuated throughout the period, so it is difficult to pinpoint a specific budget line behind this steady growth. However, it is important to highlight the shift in transfers to the

Table 7 \\ Government Expenditures 2010–2021, as percentage of total expenditures

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Expenditure & net lending												
Current expenditure	83%	76%	76%	78%	82%	85%	87%	91%	87%	90%	90%	86%
Primary current expenditure	64%	68%	66%	69%	75%	78%	78%	82%	79%	83%	84%	79%
Wages & salaries	19%	19%	18%	15%	23%	19%	17%	28%	29%	30%	25%	28%
Goods & services	21%	21%	20%	15%	23%	17%	16%	35%	33%	33%	26%	29%
Interest due	18%	8%	11%	7%	6%	6%	9%	9%	8%	7%	6%	8%
Transfers												
Social programme of central government	8%	6%	5%	4%	6%	7%	2%	1%	1%	2%	13%	5%
Transfers to public sector from Central Government	8%	12%	12%	8%	14%	25%	29%	0%	1%	1%	4%	2%
Benefits & approved programmes of ASP/ Social Security Fund	9%	8%	7%	6%	9%	9%	13%	16%	15%	16%	15%	14%
Other	0%	2%	2%	1%	0%	0%	0%	2%	0%	0%	0%	0%
Capital expenditure	26%	21%	22%	20%	15%	13%	12%	7%	9%	6%	6%	12%
Development grant	91%	0%	0%	0%	0%	0%	0%	2%	2%	2%	1%	1%
Net lending	-10%	2%	0%	0%	2%	1%	1%	0%	1%	2%	2%	0%
Contingency	0%	0%	2%	1%	1%	1%	0%	0%	1%	1%	1%	1%
Stabilization fund	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Memo item:												
GDP	11,705	12,609	14,519	16,015	17,119	18,340	19,014	20,515	20,648	21,655	19,782	20,248
Total expenditures & net lending as % of GDP	32%	37%	38%	34%	33%	32%	38%	36%	41%	39%	57%	49%

Source: Government Finance Statistics, CBS public sector between 2013 and 2016 (growing from 8 percent to 29 percent of expenditures) and in transfers to social protection services between 2015 and 2020 (growing from 9 percent to 15 percent of expenditures). The cost of borrowing, as measured by interest payments, has remained fairly constant during the period, averaging 9 percent of expenditures. Capital expenditures have dropped dramatically from 21 percent in 2011 to 6 percent in 2020, rising to 12 percent in 2021. Table 7 provides an historical overview of Government expenditures over the last 10 years.

3.1.4 Public Investment Projects

Implementation of the Public Sector Investment Programme (PSeIP) requires improvements to make it an effective tool to achieve national development objectives. A review of the execution rate for capital expenditures in the last five years shows that the rate has progressively improved over time. In 2018, the execution rate for capital expenditures was 62.3 percent, whereas in 2022, the rate had gone up to 89 percent. However, the real picture is a little more complicated. Unspent funds for projects are usually transferred to a suspense account and allocated to selected new projects for the following year. But these new projects are not always budgeted for in the following year[22]. This practice tends to overestimate the effective execution rate. When the suspense account is taken into account, execution rates for 2022 drop down to 66 percent. One clear example of funds being underutilized comes from the Blue Bond issued in 2018. Five years after issuance, proceeds from this bond are reported not to have been fully utilized. According to government officials[23], the reason is a lack of capacity at the sectoral ministries to undertake feasibility studies for planned projects. New regulations are trying to tackle this important issue by not allowing any project to be included in the PSeIP without a proper feasibility study. Efforts, therefore, need to be channelled towards increasing technical capacity at the sectoral ministries to undertake such studies. Table 8 shows the reported execution rate for different projects in the last five years, together with the actual execution rate, factoring in the suspense account.

Table 8 \\ Capital Expenditures Execution Rate 2018-2022

	2018	2019	2020	2021	2022
Execution rate	62.3%	71.8%	79.9%	80.7%	89.0%
Actual execution rate †				67.1%	66.4%

† Taking into account amounts paid into suspense accounts.

Source: Seychelles, MFNPT, Government Annual Performance Report 2022.

22 Seychelles, Ministry of Finance, National Planning and Trade, *Government Annual Performance Report 2022* (Victoria, 2022).

23 Interview with officials at Seychelles Ministry of Finance, National Planning and Trade.

3.1.5 Government borrowing

The Debt Management Strategy (DMS) is updated annually and included in the Budget Document. The main objective of the strategy[24], in line with international best practices, is to finance the national budget while achieving a debt portfolio structure consistent with prudent cost and risk levels. Its scope includes external and domestic debt and government guarantees. Fiscal discipline and a stronger than expected economic recovery after 2020 enabled Seychelles' public debt situation to improve in 2021, when debt levels dropped by around 13 percentage points of GDP to 76.2 percent of GDP in 2021. Public debt levels, however, remain above the high-risk threshold, limiting the amount the Government can borrow. But public debt is expected to steadily fall below the benchmark by the end of 2023[25].

The period 2018–2021 saw a sizeable increase in external borrowing. During this period, the Blue Bond was issued and external borrowing took place to address the effects of COVID-19. Domestic borrowing, also guided by the DMS, has experienced a dramatic increase over the last few years. Issuance of Treasury Bonds has gone up from 2.4 percent of revenues in 2019 to 38 percent in 2021.

Tables 9 and 10 show recent Government borrowing trends.

Table 9 \\ External borrowing 2013–2021, SCR millions

	2013	2014	2015	2016	2017	2018	2019	2020	2021
External borrowing (SCR millions)	272.78	286.43	107.99	354.1	122.55	668.2	426.46	1276.88	2059.58
As % of revenues	5.0%	4.8%	1.7%	5.0%	1.7%	8.1%	5.1%	17.9%	26.9%

Source: DMO, MFNPT.

Table 10 \\ Domestic bond issuance, 2017–2022, SCR millions

	2017	2018	2019	2020	2021	2022
Domestic bond issuance (SCR millions)	300.00	-	200.00	1,500.00	2,955.94	1,295.20
As % of Government Revenues	4.2%	0.0%	2.4%	21.0%	38.6%	17.1%

Source: DMO, MFNPT.

24 Seychelles, Ministry of Finance, National Planning and Trade, *Debt Management Strategy* (Victoria, 2023).
25 IMF, "Debt Sustainability Analysis".

Seychelles has implemented novel debt management initiatives, such as the issuance of the first Blue Bond in 2018. With assistance from the World Bank, it put together an innovative financing package that mobilized $15 million from private investors to support the ocean economy. Further support from the World Bank helped Seychelles to save over $8 million in interest charges over the 10 years of the bond. The financial arrangement included a World Bank partial credit guarantee of $5 million (lowering Seychelles' borrowing cost by 2 percent per year), as well as $5 million in concessional financing from the Global Environment Facility (GEF), lowering Seychelles' net borrowing cost by an additional 3 percent per year[26]. The proceeds of the Blue Bond were channelled through SeyCCAT to support projects aimed at marine conservation, sustainable seaweed cultivation, cleaning up the sea floor and determining the economic viability of rock oyster farming, among others.

3.1.6 Public private partnerships

No PPP projects have been recorded as being implemented in Seychelles. The Government has developed a legal framework to improve the country's attractiveness in terms of mobilizing private finance and involving the private sector in the provision of infrastructure and services, but there are no records of any PPP project having been implemented in Seychelles. The Government has enacted the Public Procurement Act (2008), the Seychelles Investment Act (2010) and the Public-Private Partnership Act (2017) to provide a legal environment conducive to a greater flow of investments into the country and to safeguard the rights of investors[27]. The Project Investment Management Unit, within MFNPT, is mandated to oversee and support the development of PPPs in the country. However, the legal framework lacks the supporting regulations necessary to implement the laws that have been enacted.

3.2 Private financing

3.2.1 Foreign direct investment

Over the last few years, FDI inflows in Seychelles have remained fairly constant as a percentage of GDP. Although they peaked in 2012 at 24.7 percent of GDP, FDI flows in Seychelles have averaged around 11 percent of GDP in the last five years. An initial increase in FDI experienced in 2010 was due to new tourism development projects, developments in telecommunications, fisheries, financial services and transport. In 2012, FDI flows increased when the national airline was partly sold to a foreign airline. Table 11 shows FDI flows into the country over the past 10 years.

Seychelles has been successful in diversifying the sectoral distribution of FDI flows. Although the tourism sector remains the most important destination for FDI flows, other sectors have recently opened up for external private investors. In 2009–2013, of a total of 938 projects, 868 were channelled into the tourism sector and 50 to the International Business Companies (IBC) sector, while the remaining 20 projects were directed towards the transport sector. In 2014–2019, the total number of projects was 855, of which 639 projects were directed towards the tourism sector and 119 towards the IBC sector. During the period, new sectors also benefited from FDI flows: health (38 projects), fishing (35 projects), telecommunications

26 World Bank, "Seychelles: Introducing the World's First Sovereign Blue Bond", Thematic Bond Advisory, Case Study (Washington, D.C., 2018).
27 World Bank, "PPP Country Profile – Seychelles" (Washington, D.C., Public-Private Partnership Legal Resources Centre, 2020).

(21 projects) and other sectors (3 projects). Figure 4 shows the sectoral distribution of FDI flows, in percentage, during these two periods.

During the last decade, Seychelles has maintained its share of FDI into the region. Although Kenya and the United Republic of Tanzania started the period attracting around 60 percent of FDI flows into the region, since 2014, Ethiopia has attracted most of the FDI into the region, reaching 44.9 percent in 2022. This increase in FDI flows into Ethiopia can be attributed to factors such as economic growth, market size, FDI openness and the influence of specific countries like China[28], which made Ethiopia a central hub for its Belt and Road Initiative. Meanwhile, Seychelles' share of FDI into the region has remained fairly constant at around 2 percent, peaking at 3.6 percent in 2012 with the sale of the national airline. Table 12 shows the evolution of FDI into the region and the different shares by country.

Table 11 \\ FDI flows into Seychelles, 2010–2021 (SCR millions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
FDI flows	2543.9	2567.4	3581.7	2053.0	2931.4	2590.2	2067.7	2619.7	1661.4	2016.7	2153.6	2651.6
As % of GDP	21.7%	20.4%	24.7%	12.8%	17.1%	14.1%	10.9%	12.8%	8.0%	9.3%	10.9%	13.1%

Source: UNCTAD, *World Investment Report 2022.*

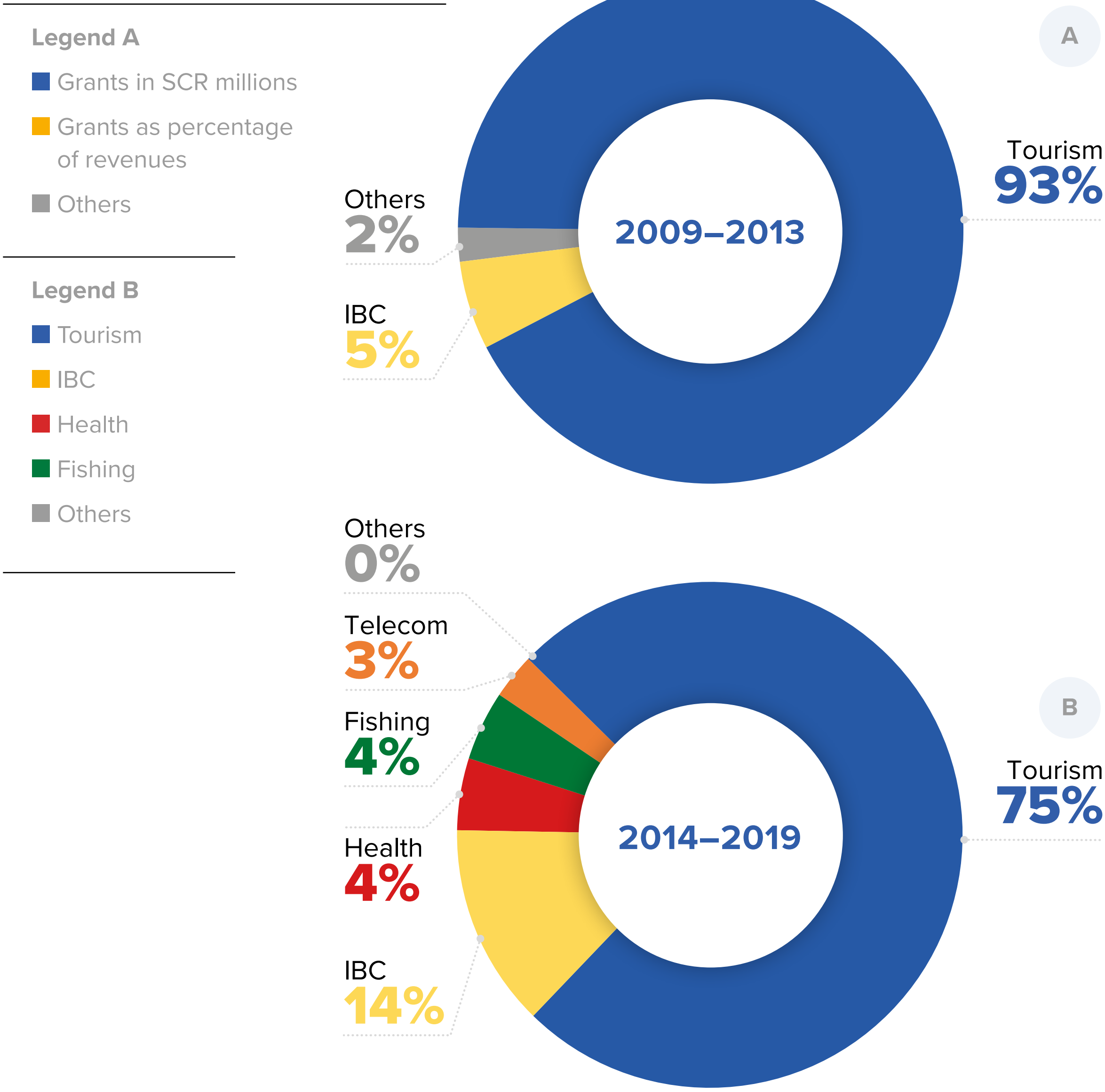
Table 12 \\ Evolution of FDI flows into the East Africa region, 2010–2021

Region/ country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
East Africa (US$ million)	6,180.7	6,656.0	7,355.7	8,112.6	7,308.0	7,736.6	8,301.8	8,784.2	8,053.9	7,892.9	6,061.9	8,178.7	8,726.0
Ethiopia	4.7%	9.4%	3.8%	16.6%	25.4%	33.9%	49.9%	45.7%	41.1%	32.3%	39.3%	52.1%	44.9%
Kenya	30.5%	33.6%	29.6%	24.4%	20.7%	18.9%	13.7%	16.0%	14.1%	13.9%	11.8%	5.5%	9.3%
Mauritius	7.0%	6.5%	8.0%	3.6%	6.2%	2.8%	4.6%	5.5%	5.7%	5.6%	3.7%	3.1%	3.1%
Seychelles	3.4%	3.1%	3.6%	2.1%	3.1%	2.5%	1.9%	2.2%	1.5%	1.8%	2.0%	1.9%	2.6%
Uganda	8.8%	13.4%	16.4%	13.5%	14.5%	9.5%	7.5%	9.1%	13.1%	16.1%	14.4%	14.0%	18.7%
U.R. Tanzania	29.3%	18.5%	24.5%	25.7%	19.4%	20.2%	10.4%	10.7%	12.1%	15.4%	11.3%	11.3%	13.6%

Source: UNCTAD, *World Investment Report 2023.*

28 Degele Ergano and K. Rambabu, "Ethiopia's FDI inflow from India and China: analysis of trends and determinants", *Journal of Economic Structures*, vol. 9, No. 35 (2020).

Figure 4 \\ Comparison of sectoral distribution of FDI



Source: UNCTAD, *Investment Policy Review: Seychelles* (Geneva, 2020).

3.2.2 Remittances

Remittances have not played an important role in private flows into Seychelles. Personal remittances comprise personal transfers and compensation of employees, which include cash or in-kind transfers between resident and non-resident individuals and the income of border, seasonal and other short-term workers employed in an economy where they are not resident. In 2020, emigrants represented 37.4 percent of Seychelles' total population. Their main destination countries were Australia, Canada,

Table 13 \\ Evolution of remittances into Seychelles, 2010–2021, SCR millions

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Remittances (SCR million)	209.7	312.8	242.1	155.2	192.2	245.3	294.2	295.6	315.7	331.8	175.7	161.0
As % of GDP	1.8%	2.5%	1.7%	1.0%	1.1%	1.3%	1.5%	1.4%	1.5%	1.5%	0.9%	0.8%

Source: World Bank-KNOMAD, 2022.

Mozambique, South Africa and the United Kingdom[29]. Although the country has no specific diaspora policy at present, the Foreign Affairs Department is working on a National Diaspora Engagement Policy. As a percentage of GDP, remittance flows have remained at about 1 percent over the last 10 years. Table 13 shows the evolution of remittances between 2010 and 2021.

3.2.3 Financing the private sector

Credit to the private sector from banks, in nominal terms, has been rising steadily. By 2021, total outstanding private credit amounted to SCR 8.7 billion or 43 percent of GDP. The business sector accounted for most of the stock of outstanding credit, with a total of SCR 6.0 billion. Individuals and households and mortgages (together) shared a similar level of outstanding credit. Outstanding credit to the private sector experienced a dramatic increase in 2020 as a result of the stimulus packages put in place by the Central Bank of Seychelles (CBS) to assist companies during the COVID-19 pandemic. In response to the pandemic, the CBS implemented the Private Sector (MSMEs) Relief Scheme and the Private Sector (Large Enterprises) Relief Scheme, which were administered by commercial banks and the Development Bank of Seychelles (DBS)[30]. These schemes provided financing resources for day-to-day operating expenditures, including payment of rent, utilities, salaries, taxes, goods and services contracts, to the extent not covered under other measures announced by the Government. Table 14 shows the total amount of outstanding credit to the private sector between 2010 and 2021.

Sectoral distribution of banking credit to businesses is notably skewed towards the tourism sector. This sector accounted for 27 percent of the total outstanding credit extended by the banking sector to private businesses. Building and construction, real estate and trade are the other sectors benefiting from bank credit flows. Figure 5 shows the sectoral distribution in 2021 of the outstanding credit of businesses in Seychelles.

Banks are the main source of financing for businesses in Seychelles. Private companies in Seychelles have not engaged in bond issuance. The factors preventing the private sector from issuing bonds at national level include low economic diversification, lack of a financial culture, the small domestic market and vulnerability to environmental shocks[31].

29 Vatican Dicastery for Promoting Integral Human Development, “Country Profiles – Seychelles”, 2021. Available at https://migrants-refugees.va/country-profile/seychelles/.

30 Laura Pillay, “Private sector relief lines of credit to remain as is” Seychelles Nation, 9 January 2021. Available at https://www.nation.sc/articles/7492/private-sector-relief-lines-of-credit-guarantee-to-remain-as-is.

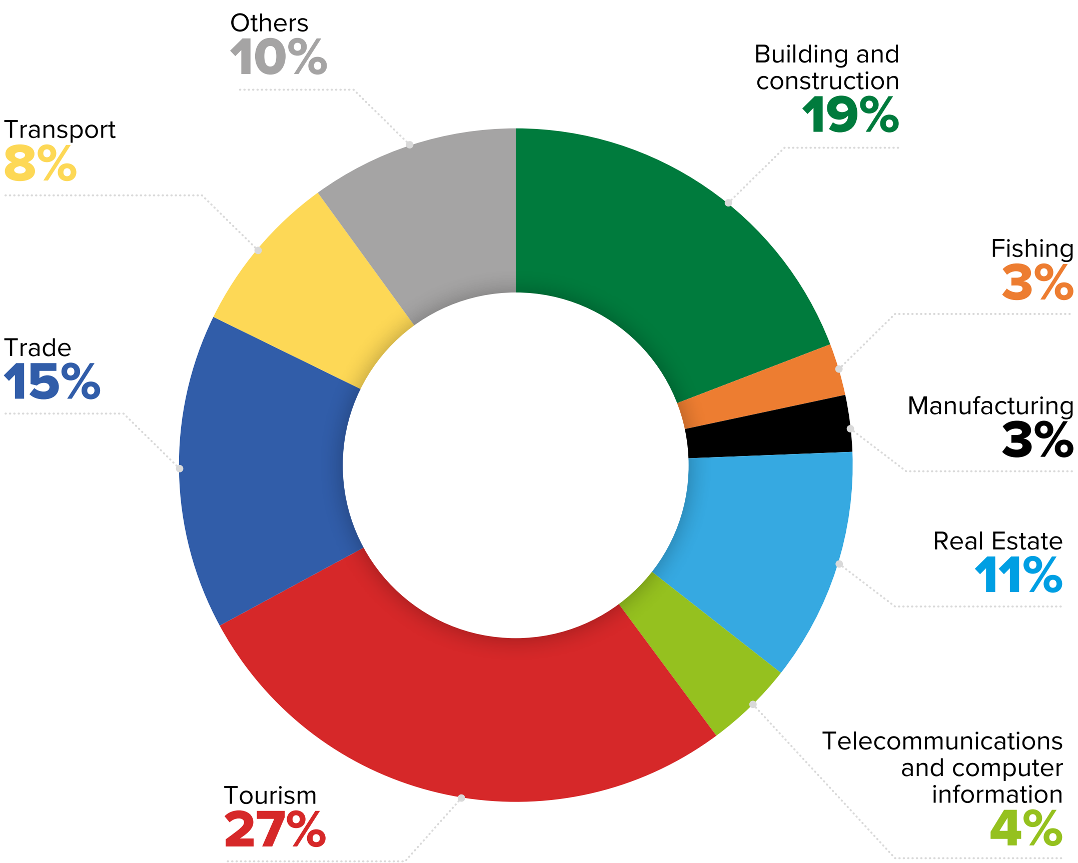
31 Interview with Seychelles Chamber of Commerce and Industry.

Table 14 \\ Outstanding credits by banks to domestic residents, 2010–2021, SCR millions

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Individuals and households	503.9	582.9	664.7	763.4	947.7	998.3	1,096.5	1,349.7	1,530.0	1,740.2	1,525.0	1,246.1
Mortgages	319.8	379.5	427.6	452.8	480.7	503.0	578.4	713.9	944.2	1,226.8	1,355.2	1,456.6
Other private sector	2,066.5	2,112.9	2,188.3	2,212.1	2,883.3	3,144.4	3,447.7	3,968.7	4,271.0	5,261.7	7,001.0	6,009.8
Private sector	2,890.3	3,075.3	3,280.5	3,428.3	4,311.7	4,645.7	5,122.7	6,032.3	6,747.1	8,228.7	9,881.2	8,712.5
Private sector as percentage of GDP	24.7%	24.4%	22.6%	21.4%	25.2%	25.3%	26.9%	29.4%	32.7%	38.0%	50.0%	43.0%

Source: CBS statistics, 2022.

Figure 5 \\ Sectoral distribution of banks' credit to businesses, 2021



Source: CBS

3.2.4 Other flows

Insurance companies

The insurance industry in Seychelles is guided by the Insurance Act of 2008[32]**.** The government agency in charge of regulating the insurance industry is the Financial Services Authority (FSA)[33]. As the regulator, it aims[34] to maintain fair, safe, stable and efficient insurance markets for the benefit and protection of the public, to promote confidence in the insurance industry and to ensure fair treatment of policyholders. The industry's total assets have seen steady growth in the last few years, reaching SCR 1.4 billion in 2021. Table 15 shows the evolution of assets for long-term insurance and general insurance businesses in Seychelles. Insurance companies invest their assets according to their cash-flow projections (see Figure 6). As such, long-term insurance companies favour investments in long-term assets such as land and buildings, Treasury bonds and fixed bank deposits. On the other hand, general insurance companies, with shorter-term liabilities, prefer current bank deposits, Treasury bonds and, to a lesser extent, land and buildings. Table 15 shows trends of the insurance sector over the 2018–2021 period.

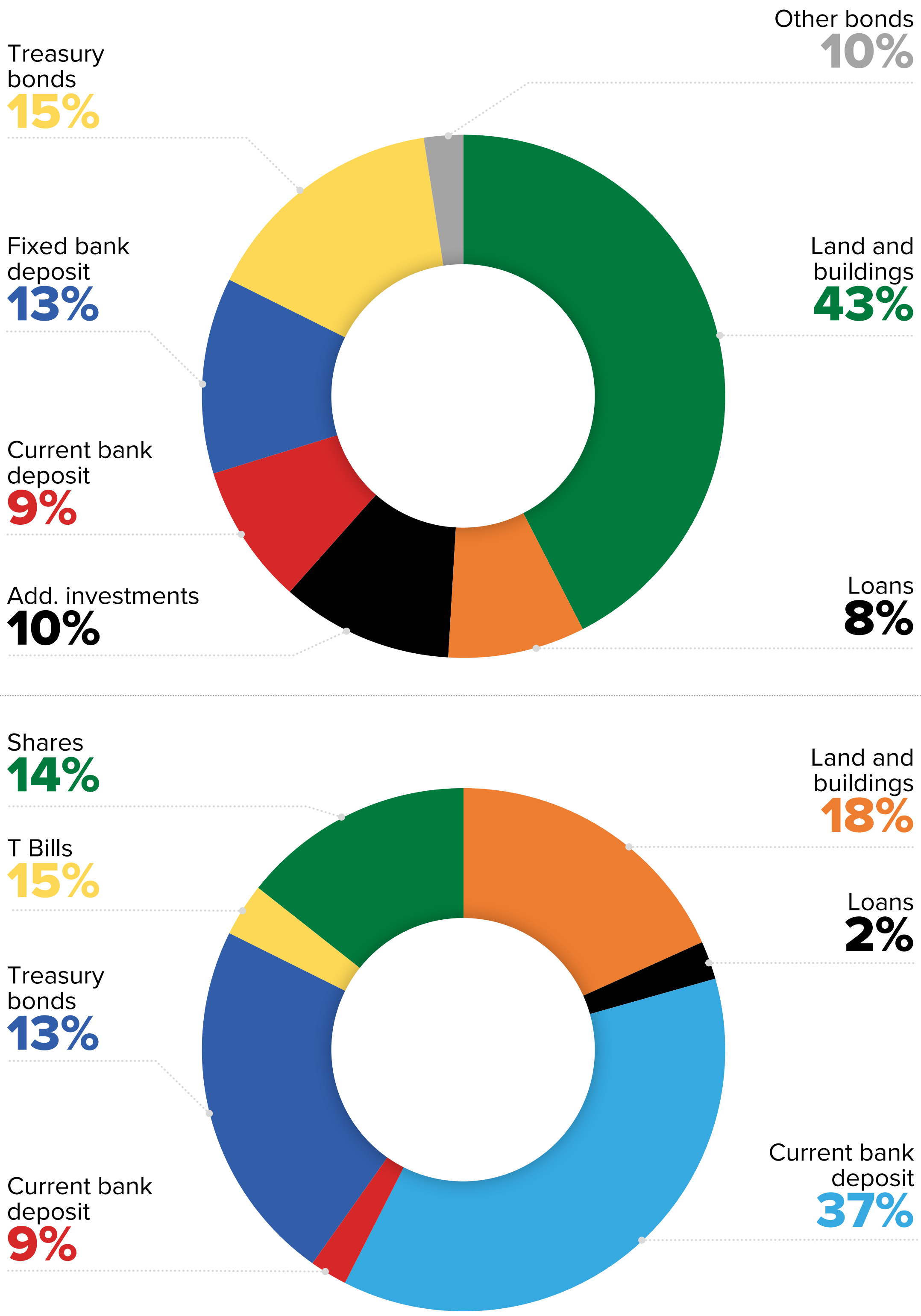
Table 15 \\ Trends in assets and liabilities for the insurance industry, 2018–2021, SCR millions

	2018	2019	2020	2021
Long term insurance businesses				
Total assets	566	587	615	658
Total liabilities	29	24	29	21
General insurance businesses				
Total assets	510	647	763	742
Total liabilities	172	277	294	297
Total				
Total assets	1076	1234	1378	1400
Total liabilities	201	301	323	318

Source: Seychelles, FSA, *Insurance Industry Report 2021* (Victoria, 2021).

32 Seychelles, Consolidated Insurance Act, 2008 to 20 December 2018.
33 Seychelles, Financial Services Authority Act, 2013.
34 Seychelles, Consolidated Insurance Act, 2008 to 20 December 2018.

Figure 6 \\ Investment shares for the insurance industry in Seychelles, 2021



Source: FSA, Insurance Industry Report 2021.

Pension Fund

Although some private pension schemes are provided by companies to attract employees, the Seychelles Pension Fund (SPF) is the main pension actor in the country. Private pensions are pension funds or other types of schemes set up by a company for its employees, who may benefit from the pensions either on retirement or when they leave the company, but they do not substitute for the pension earned with SPF. The Fund is a statutory body set up under the Seychelles Pension Fund Act of 2005. SPF operates a defined benefit pension system upon retirement at 60 years old, although in 2020 it introduced a minimum pension for all its pensioners. Additionally, the Government, through the Agency for Social Protection (ASP), also provides a universal pension to all its citizens from age 63 onwards[35]. SPF provides an additional saving-for-retirement instrument through its voluntary contribution scheme, which accumulates higher interest rates and is mainly paid out in a lump sum to members aged 55 and up.

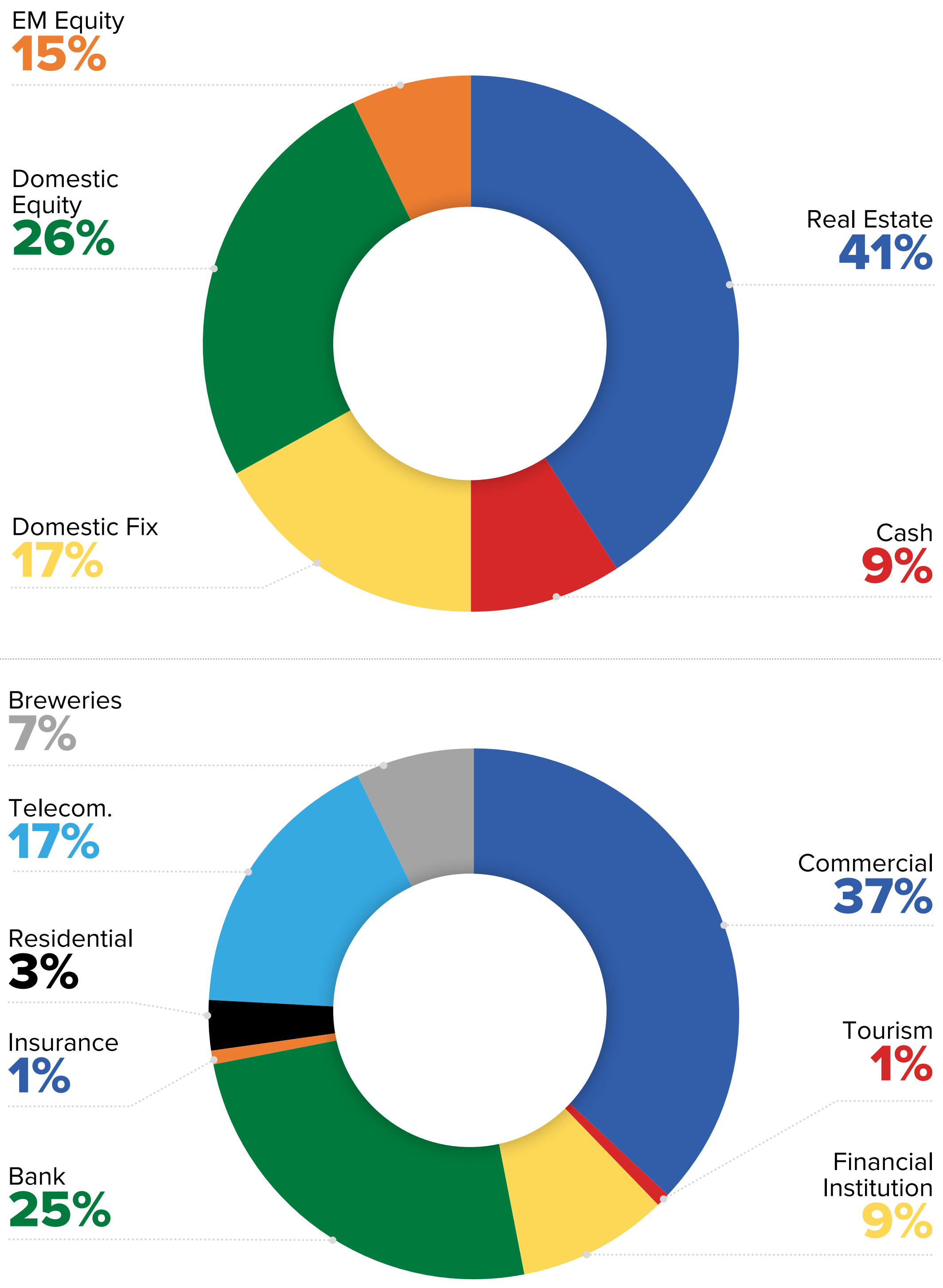
Total assets managed by SPF are SCR 3.95 billion. These assets are invested according to the investment policy of the Fund and are currently dominated by investments in real estate. By sectoral categories, commercial and banking are the top two sectors receiving investment funding from SPF. Figure 7 shows the complete breakdown of invested assets by class and by sector.

The Seychelles Pension Fund Act[36] calls for the preparation of an investment policy that must be approved by the Fund's Board. The Act requires the policy to include the sectors in which investment will and will not be allowed, the limits and ranges for investing in particular sectors, risk tolerance, expected returns and any other matters deemed relevant at the time the policy is prepared. The current

35 Seychelles, Seychelles Pension Fund, *Strategic Plan 2021–2023* (Victoria, 2020).

36 Seychelles, Seychelles Pension Fund Act, 2005.

Figure 7 \\ SPF invested assets, by class and by sector, 2022



Source: Seychelles, SPF, *Annual Report 2022* (Victoria, 2022).

policy, developed in 2021, covers all these areas. As two of its criteria for investing, the policy includes the development role that SPF plays in Seychelles, as well as the need to consider Environmental, Social and Governance (ESG) factors in analysing investment options. The policy allows for domestic private equity investments and fixed income investments in instruments issued by private corporations, the Government or in the international securities market. The current target allocated to domestic private equity (listed or unlisted) is 15 percent of total assets (SCR 0.6 billion). The policy also sets out an aim for SPF to become a signatory of the United Nations Principles for Responsible Investment (UNPRI).

Illicit Financial Flows (IFF)

Illicit financial flows are cross-border movements of capital associated with illegal activity, or, more explicitly, money that is illegally earned, transferred or used that crosses borders[37]. According to the World Bank, these flows (and more specifically their sources) pose an increasing challenge to governments' capacity for mobilizing resources. The World Bank indicates[38] that corruption, organized crime, illegal exploitation of natural resources, fraud in international trade and tax evasion are as harmful as the diversion of money from public priorities. Illegal logging, fishing and mineral extraction are strongly connected with deforestation, the depletion of fishing stocks and environmental degradation, as well as the impoverishment of individuals and communities who rely on those resources to sustain themselves. In the health sector, for instance, drug counterfeiting can be linked to preventable deaths from malaria and tuberculosis due to the use of sub-standard counterfeit drugs. In terms of economic losses, IFFs erode the Government's capacity to mobilize domestic resources and, since the funds are usually sent abroad, syphon off economic resources from the economy. The United Nations Office on Drugs and Crime (UNODC) is providing assistance to Seychelles in developing Standard Operation Procedures to optimize effective cash seizure.

Currently, Seychelles has legal instruments in place to combat money laundering and financing of terrorism. The Anti-Money Laundering and Countering the Financing of Terrorism (Amendment) Act 2021 enables the competent authorities to cooperate and coordinate to ensure the compatibility of anti-money laundering and countering terrorism financing requirements with data protection and privacy rules and similar provisions[39]. Additionally, Government has set up a Financial Intelligence Unit (FIU) within the CBS, in charge of deterring, detecting and disrupting domestic and international money laundering, terrorism financing and proliferation financing.

Although no data are available on IFFs in Seychelles, the Government needs to track, measure and fight these flows. Solutions put forward by international agencies include allocating more resources to preventing criminal activity and sanctioning serious and substantial illegal tax evasion, as well as increasing transparency about tax policies by requiring all tax holidays to be publicly disclosed, along with the names of officials involved in granting the holiday. The United Nations Conference on Trade and Development (UNCTAD) is leading global efforts with partners to measure IFFs and piloting the measurement of these flows in some African countries, including assessing the costs to local economies caused by IFFs and designing a conceptual framework for statistical measurement of IFFs.

37 World Bank, "Illicit Financing Flows (IFFs)", 7 July 2017. Available at https://www.worldbank.org/en/topic/financialsector/brief/illicit-financial-flows-iffs.

38 Ibid.

39 ESAAMLG, "Anti-money laundering and counter-terrorist financing measures – Seychelles", 5th Enhanced Follow-up Report & Technical Compliance Re-Rating (Dar es Salaam, 2021).

3.2.5 Summary of financing flows

During the period under analysis, a total of SCR 123 billion flowed into the private and public sector in Seychelles. The distribution between private and public is skewed towards public financing due to the lack of data for actual credit extended by domestic banks to the private sector; only stock information is available. Two types of flows – grants and remittances – have remained negligible for the whole period. Table 16 shows the amounts of financing that have been available to the private and public sector between 2010 and 2021. Table 17 shows financing flows for the same period as a percentage of GDP.

This section includes a review of existing policies and initiatives influencing current financial flows, as well as recommendations for promoting relevant public and private financing flows and aligning them to the country's development agenda and the SDGs. Seychelles has domesticated Agenda 2030 into its development plan and this DFA coincides with ongoing work to prepare NDS II for the next five years (2023–2028). Although the required costing exercise for implementing the strategy is not yet available, this section includes potential sources/types of financing that can help to match Seychelles' financing needs and be used to meet its development priorities and SDGs.

Table 16 \\ Summary of financing flows into Seychelles, 2010–2021, SCR millions

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Public Financing Sources													
Government revenues	4,016.95	4,809.60	5,462.16	5.466.16	5,948.03	6,210.77	7,5059.81	7,220.68	8,204.55	8,314.20	7,145.62	7,666.53	77.551.95
Grants	96.09	211.68	312.47	339.87	233.74	144.31	257.77	144.84	276.99	94.20	157.19	700.21	2,969.37
Borrowing	n.a	n.a	n.a	272.78	286.43	107.99	354.10	422.55	668.20	626.46	2,776.88	5,015.52	10,530.91
External	n.a	n.a	n.a	272.78	286.43	107.99	354.10	122.55	668.20	426.46	1,276.88	2,059.58	5,574.97
Domestic	n.a	n.a	n.a	n.a	n.a	n.a	n.a	300.00	-	200.00	1,500.00	2.955.94	4,955.94
Private sources													
FDI	2,543.94	2,567.37	3.581.69	2052.98	2,931.40	2,590.16	2,067.73	2,619.67	1,661.38	2,016.70	2,153.61	2,651.60	29,438.22
Remittances	209.70	312.77	242.14	155.24	192.17	245.30	294.19	295.63	315.72	331.78	175.74	160.97	2,931.36
Total	6,866.69	7,901.42	9,598.45	8,286.93	9,591.77	9,298.53	10,033.60	10,703.37	11,126.84	11,410.34	12.409.05	16,194.82	123,421.81

Source: Author's calculations using sources cited in the previous sections

Table 17 \\ Summary of financing flows into Seychelles, 2010–2021, as percentage of GDP

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Public Financing Sources												
Government revenues	34.3%	38.1%	37.6%	34.1%	34.7%	33.9%	37.1%	35.2%	39.7%	38.5%	36.1%	37.9%
Grants	0.8%	1.7%	2.2%	2.1%	1.4%	0.8%	1.4%	0.7%	1.3%	0.4%	0.8%	3.5%
Borrowing	n.a	n.a	n.a	1.7%	1.7%	0.6%	1.9%	2.1%	3.2%	2.9%	14.0%	24.8%
External	n.a	n.a	n.a	1.7%	1.7%	0.6%	1.9%	0.6%	3.2%	2.0%	6.5%	10.2%
Domestic	n.a	n.a	n.a	n.a	n.a	n.a	n.a	1.5%	0.0%	0.9%	7.6%	14.6%
Private sources												
FDI	21.7%	20.4%	24.7%	12.8%	17.1%	14.1%	10.9%	12.8%	8.0%	9.3%	10.9%	13.1%
Remittances	11.8%	2.5%	1.7%	1.0%	1.1%	1.3%	1.5%	1.4%	1.5%	1.5%	0.9%	0.8%
Total	58.7%	62.7%	66.1%	51.7%	56.0%	50.7%	52.8%	52.2%	53.9%	52.7%	62.7%	80.0%

Source: Author's calculations using sources cited in the previous sections.

4. Financing Strategy

4.1 Government Financing and Expenditures

4.1.1 Government Financing

The budget process in Seychelles is governed by the Public Finance Management Act of 2012. The Act requires MFNPT to prepare a three-year (at least) macroeconomic and fiscal programme indicating its policy objectives, estimates for revenues, current and capital expenditures, borrowing and debt servicing and contingent liabilities. The Ministry is also required to set up the necessary systems throughout the Government for planning, allocating and budgeting resources and to promote transparency by reporting periodically to the National Assembly. The Act also regulates areas such as budget, treasury management, budget execution and accounting and reporting issues. Starting in 2013, Seychelles started to adopt Programme Performance-Based Budgeting (PPBB) and Performance Monitoring and Evaluation (PM&E). These reforms were intended to improve the processes for budget allocation to and monitoring of priority areas. They also represented one of the pillars of a government-wide shift towards results-based management. During the early stages of the process, the World Bank provided technical support to the Government to develop the appropriate infrastructure in terms of policies, processes, tools and human capacity.

The budget process is sequenced in two stages[40]. The first phase starts with MFNPT issuing a budget circular and ceilings to all Ministries and Agencies. During budget preparation[41], each Ministry and Agency must prepare its own draft sectoral priorities, together with detailed spreadsheet tables indicating how the ceiling will be allocated by budget programme, sub-programme and economic items of classification. Budget Review Meetings take place to review, if necessary, the proposed allocation of the ceiling and discuss performance targets. This phase closes with MFNPT issuing Budget Allocation letters to the Ministries and Agencies providing final allocations by Ministry, Agency and programme, as well as amounts approved for projects over the medium term. The second phase involves Ministries and Agencies incorporating any necessary changes and returning the final budgets, which are compiled and put together for final submission to the National Assembly. The Parliament, through the Finance and Public Accounts Committee, reviews the underlying fiscal policies and data aggregates for the coming year, as well as details of expenditure and revenue.

40 PEFA, *Public Finance Management Performance Report, Seychelles, 2016* (Rotterdam, 2017).

41 There is currently no medium-term revenue strategy (MTRS).

The budget process as it stands does not establish a direct link with the SDGs. Although linkages between national priorities and the budget process are established during the sectoral budget preparation, specific goals, targets and baselines are not explicitly related to the SDGs. Budget allocations only include aggregate references to the SDGs, instead of establishing an effective SDG policy and budget linkage[42]. This linkage could be achieved by aligning clear SDG plans within the context of the Medium-Term Macro-Fiscal Framework. For instance, in considering domestic revenue mobilization, options for making tax collection more pro-poor and pro-gender should be considered. On the expenditure side, allocations to Ministries and Agencies should be SDG-based and provide for SDG-based spending reviews. Finally, on the financing side, careful review of existing options needs to be included in the DMS and options should be considered such as blended financing, sustainable and green bonds, and accessing climate change funds. Currently, no SDG tagging exists to link specific expenditures to the corresponding SDG's objectives. This option will be available once the planned Integrated Financial Management Information System (IFMIS) is operational at MFNPT.

Government revenues are expected to provide the main financing source to implement countries' development strategies. This expectation is premised on the vulnerability that many countries in Africa, and the world, are facing with regard to their debt sustainability indicators. At the same time, governments are expected to make a final push towards achieving Agenda 2030 and their national development agendas. Therefore, tax policy needs to be as effective as possible in order to meet financing requirements, but, at the same time, must be fair, inclusive and in line with the country's development policy and the SDGs. After the implementation of tax reforms, Seychelles is expected to increase tax collection by about 1.8 percent of GDP in 2024 and 2025, mostly through an increase in business tax and other tax projections and the improved macroeconomic framework[43].

Tax policy in Seychelles is designed by MFNPT and implemented through SRC. SRC is a semi-autonomous revenue administration agency under the authority of MFNPT. It was established by the Seychelles Revenue Commission Act, 2009 and became operational in 2010. It is responsible for collecting all personal, corporate and value added taxes. It has recently prepared its strategy document[44] for 2023–2025, focusing on i) improving compliance, ii) service delivery and trade facilitation, iii) border protection and iv) meeting international commitments. In order to accomplish these objectives, SRC is planning to maximize revenue collection by strengthening internal processes, improving taxpayers' debt management and suppressing non-compliance. Tax compliance and the sizeable informal sector remain important challenges to overcome. SRC is planning to expand its education and awareness programmes to facilitate taxpayer compliance. Digitalization of its operations is another integral part of SRC's efforts to improve efficiency and deliver results. SRC is also proposing a set of measures to expand the tax base, including expanding audit coverage, designing new ways of capturing businesses operating in the informal sector and identifying areas where there are revenue leakages, as well as developing and implementing strategies to tackle commercial fraud and identifying gaps in the tax base in order to advise MFNPT on any potentially necessary legislative changes. SRC's new strategy is intended to support key government-wide priorities in the NDS and monitoring is to take place through a set of agreed indicators. These indicators, however, overwhelmingly focus on tax performance,

42 UNDP Sustainable Finance Hub, *Budgeting for the Sustainable Development Goals: A Modular Handbook* (New York, 2022).

43 Data provided by Seychelles Revenue Commission.

44 Seychelles, Seychelles Revenue Commission, *Strategic Plan 2023–2025*.

efficiency and compliance, and leave out indicators that could measure progress towards promoting a more equitable and pro-poor tax framework.

The current trend at the regional level is for countries to raise more resources domestically in a fair and equitable way. SRC's strategy, however, does not include specific measures for the design and implementation of an SDG-aligned tax framework to expand the tax base and promote more equitable and pro-poor tax systems, in line with the Leave No One Behind approach, including entries with the informal sector. The tax framework should put in place initiatives to remove regressive, discriminatory and inequitable provisions in tax laws, policies and practices that unfairly affect women.

Seychelles would benefit from developing an SDG-aligned taxation framework. This would generate and expand revenues for Government and therefore for investment in the SDGs. Moreover, tax policy can, by itself, be a tool to promote inclusive and sustainable development. For instance, gender-sensitive taxation can promote gender equality by reviewing and adapting tax policies applied to micro- small and medium-sized enterprises (MSMEs), since women are overrepresented as employees in this type of enterprise and earn the lowest wages. Furthermore, tax policies can have various applications, for instance in infrastructure, environment, (i.e., carbon taxes), or health outcomes, (i.e., 'sin' taxes). International initiatives[45], including those developed by UNDP, to help countries develop tax systems that work for people and for advancing the SDGs are available and could be a source of guidance.

New initiatives are being implemented across the region to make existing tax frameworks work for people. Implementation of these initiatives includes capacity-building assistance, with the aim of turning existing tax regimes into ones that promote progressive tax regimes. Additionally, cooperation with implementing institutions[46] also aim at strengthening the green taxation agenda and incorporating pro-equality and pro-poor monitoring indicators.

4.1.2 Grants

Multilateral Development Funds have dedicated funds financed by multiple donor countries that are managed by multilateral institutions such as the World Bank and the GEF. The GEF is an independent financial organization that provides grants to developing countries for biodiversity, climate change and land degradation projects. Since 1991, it has provided up to $12.5 billion in grants globally and has leveraged $58 billion in co-financing for 3,690 projects in 165 developing countries. In the financing cycle that ended in 2022, 30 countries have pledged $4.1 billion, which are intended to cover additional funding requirements. However, accessing these funds is challenging. Mobilization of financial resources from climate change funds requires skills to prepare project documents that are responsive and meet the set criteria. Another requirement is having in place accredited entities that can access funds directly. To assist governments in benefiting from this type of financing, they can request assistance in programming, project design and assessment tools developed by various institutions.

The Loss and Damage Fund to be launched at COP28 could help Seychelles secure additional climate finance. The Loss and Damage Fund is aimed at providing financial assistance to nations most vulnerable to and most impacted by the effects of climate change. Although some traditional financing instruments can be used to deal with loss

45 For example, the Addis Tax Initiative. See Addis Tax Initiative, "Tax systems that work for people and advance the Sustainable Development Goals". Available at https://www.addistaxinitiative.net/about.

46 UNDP is currently implementing one such programme across the region, supported by the Governments of Finland and Norway.

and damage, this resource was developed because innovative finance tools (for instance, taxes on fossil fuel companies) were needed to respond to the magnitude of loss and damage. It is expected that this Fund will tackle gaps that current climate finance institutions such as the Green Climate Fund do not fill.

4.1.3 Local Government

Under its constitution, Seychelles has only one central government and no provincial and municipal local governments with local revenue collection and spending autonomy. Its local government structure was established in 1994 and is governed by the Local Government Act of 2015. The local government structure in Seychelles has undergone a series of reforms to strengthen community services, resulting in the establishment of 27 District Administrations (DAs) or councils. In July 2018, seven Regional Councils were established to give inhabitants a voice in managing their affairs. These local government structures align with the Government's vision of promoting sustainable development in Seychellois communities based on a participatory approach.

Responsibilities of the DAs include developing strategic plans in line with government policies and formulating district development plans along with other government MDAs. As with any other Ministry, DA budgets are approved annually by the National Assembly and are based on DAs' actions plans, which must align with national development efforts. Overall budgetary revenues for DAs include: i) resources included in the Appropriation Act, ii) resources received from any investments, iii) funds received in connection with any services or the use of any facility or property of the council and lastly, iv) funds lawfully received by way of gift or otherwise. Therefore, they are prevented from accessing directly any funding made available to Seychelles from climate change adaptation funding from domestic sources such as SeyCCAT and the Environment Trust Fund (ETF)[47].

Recommendations

1. Prepare a thorough and comprehensive cost assessment for NDS II to provide the overall guidance for securing the necessary financing.
2. Strengthen the linkages between the budget process and SDGs within the Medium-Term Macro-Fiscal Framework. Review specific steps that can be taken to incorporate and track SDGs in the budget allocation. Once the IFMIS system is operational at MFNPT, establish an SDG tagging practice to better link SDG spending.
3. Develop and implement planning tools for aligning budgets and finance with the SDGs and NDS targets by identifying specific expenditures with a direct impact on SDG or NDS targets.
4. Train budget officials on the existing methodologies for SDG budget alignment.
5. Enhance capacities for enforcing tax compliance: establish education and awareness programmes and use computer-assisted audits and data analytics to detect non-compliance.
6. Review and identify any necessary measures to correct the high disparity between the top and bottom companies' contribution to business tax revenues.

47 Daniel Etongo and Kelsey Gill, "Local Governance Capacity Needs for Implementing Climate Change Adaptation in Seychelles: An Assessment Based on the Capital Approach", *Challenges*, vol. 13, No. 2 (2022).

7 Develop the necessary skills to prepare solid project proposals to benefit from climate change grants.

4.1.4 Public sector project implementation.

A recent Public Investment Management Assessment (PIMA) highlighted some shortcomings in project implementation[48]. The report commended the Government for existing laws and regulations, as well as the formal guidelines and instructions issued to implement the regulatory framework. The report also indicated that existing budget processes were well formulated and supported by a medium-term fiscal framework. Furthermore, available budget documentation provides a comprehensive analysis of the PSeIP, including a section in the Government Annual Performance Report. However, many projects are not executed as planned. The assessment identified a number of reasons for this underexecution, including i) weaknesses in the national and sectoral planning processes, ii) challenges and gaps in the appraisal and selection processes for projects entering the budget, iii) limited capacity for preparing and analysing information across the Government and iv) the need to improve maintenance budgeting and planning.

Important gaps also exist in the integration of climate change into the public investment management framework. The PIMA report highlighted positive practices within the climate-related public investment programme, such as good coordination across the central government and well-established frameworks for climate-related risk management. However, it pointed out important gaps in appraisal, selection and budgeting for climate-related public investments. These gaps included low technical capacity to appraise projects and prepare corresponding feasibility studies, low maintenance budgets and lack of clarity in criteria for selecting projects and in institutional roles and responsibilities.

Recommendations

1 Increase technical capacity at sectoral ministries to ensure projects are adequately appraised and proper feasibility studies are prepared before they are incorporated into the Public Sector Investment Plan (PSIP).

2 Improve maintenance budgeting and planning, particularly by updating fixed asset registers and making this information available in the Fixed Asset Management System.

3 Implement the PIMA's recommendations to prepare selection criteria to guide project selection; to ensure the roles and responsibilities of major players in the public investment management processes are well-defined; and to develop national and sectoral plans with costed investment proposals and aligned these with the budget.

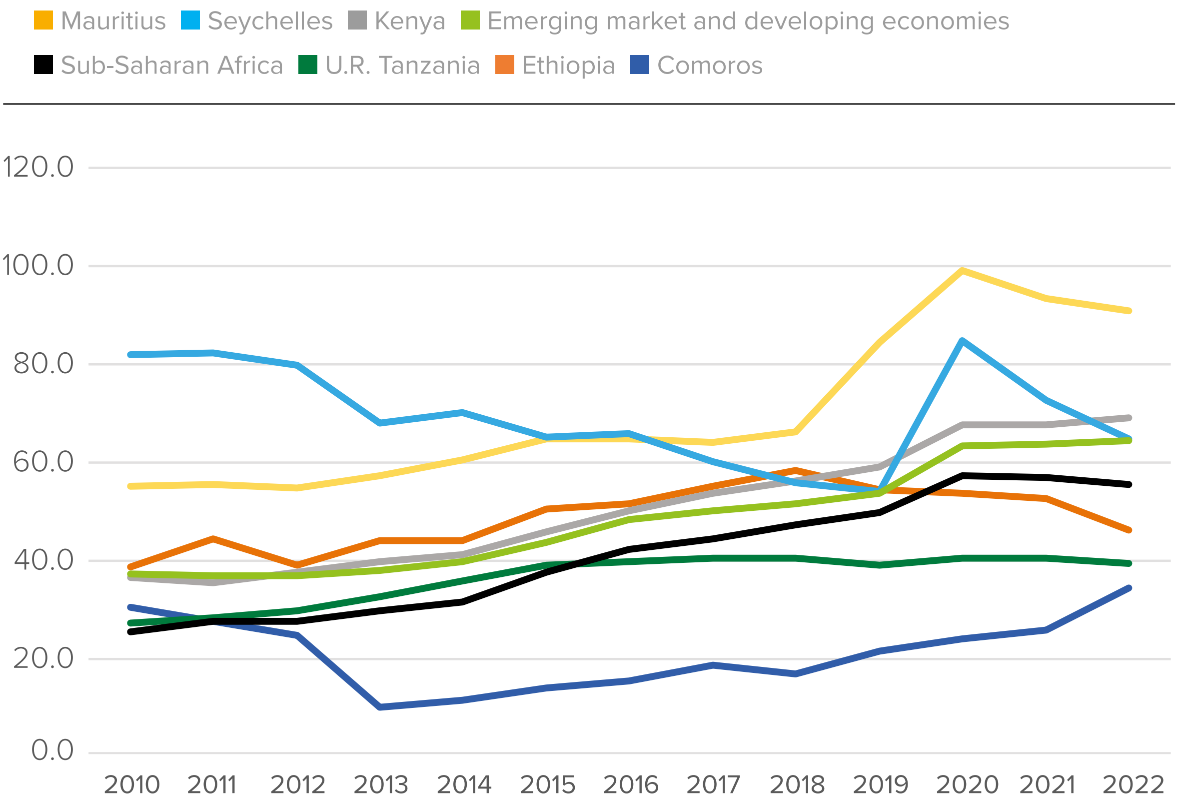
4.1.5 Government borrowing

Since the COVID-19 pandemic, the Government has made extensive efforts to bring down debt to sustainable levels. Ongoing efforts to maintain fiscal discipline have brought back the ratio to 72.5 percent in 2021 from 89.1 percent in 2020. Figure 8 shows the evolution of the debt-to-GDP indicator for Seychelles and regional peer countries. Seychelles

48 IMF, *Seychelles: Technical Assistance Report – Public Investment Management Assessment – PIMA and Climate PIMA* (Washington, D.C., 2023).

began the process of lowering its debt-to-GDP ratio in the early part of the last decade. Before the pandemic, it had successfully brought down the ratio from above 80 percent in 2010 to 59 percent in 2019. After the increase in debt-to-GDP ratio in 2020, associated with pandemic-related borrowing, the country has managed to re-establish a downward path for this indicator.

Figure 8 \\ Debt-to-GDP ratio levels, selected countries, 2010–2022



Source: IMF, *World Economic Outlook*, October 2022.

External and domestic borrowing in Seychelles is guided by the NDS, the Medium-Term Fiscal Framework and the DMS. The borrowing process begins at the sectoral ministries, which are in charge of identifying projects, guided by the NDS and the sectoral objectives. MFNPT then assesses the financing envelope available and decides the appropriate source of financing (budget vs. external borrowing). When external financing is needed, the Planning Directorate at MFNPT is in charge of engaging with International Financing Institutions (IFIs), while the Ministry of Foreign Affairs and Tourism engages with bilateral creditors. There is no sectoral distribution of external creditors, and the selection of the financing source is undertaken based on established working relationships. Lastly, the Debt

Management Office (DMO) at MFNPT reviews the financial terms of any loan proposal and checks whether the financing terms are aligned with the DMS.

The annual DMS identified several portfolio risks. These include: i) external debt has low exposure to refinancing risks but could be highly volatile to fluctuations in exchange rates, ii) the high percentage of fixed-rate debt provides relatively low risk to interest rate fluctuations, especially the domestic debt portfolio, iii) due to the short maturity instruments used in the domestic market, average time to refixing increases and remains moderately high given the size of the domestic debt portfolio. The preferred strategy for 2023–2025 envisages relatively more domestic market issuance with a focus on shorter-term bonds. On the external side, it acknowledges the decreasing amounts of concessional financing that will be available to Seychelles in the coming years. The strategy, however, lacks a thorough review of strategy implementation in the previous year. Such a review would provide useful inputs for updating the DMS, including obstacles identified in implementation, market reactions to government securities, observed interest rates and external financing flows. Challenges found in implementing the DMS will also provide valuable inputs to use in deciding on sources and types of financing instruments for the upcoming year.

The DMS lacks a set of target ranges for risk indicators to serve as a basis for strategy design and selection. In terms of reporting, the DMO publishes quarterly reports that include most data and information on the existing debt portfolio, including cost and risk indicators. Lacking in the reports, however, are the disbursements during the period, making it difficult to assess the magnitude of these inflows.

Seychelles' external debt flows show a high degree of dependency on a limited number of financing creditors. Financing from non-traditional development creditors has growth potential. In addition to China and India, potential partners include, for example, Brazil, South Africa, South Korea, Turkey and countries in Eastern Europe. These creditors are increasingly aligning their support along the national priorities of recipient countries and providing medium- to long-term maturity structured loans. Also, the fact that they focus more on productive sectors of the economy would nicely complement IFIs' focus on social sectors. Any such approach would need to take place within the framework of the medium-term DMS. In order to expand and diversify the country's external creditor base, a resource mobilization strategy (RMS) would need to be developed.

The Government has implemented some innovative initiatives and collaborations in debt management. In addition to the issuance of the first Blue Bond back in 2018 (discussed in chapter 3), the Government established the Seychelles' Conservation and Climate Adaptation Trust (SeyCCAT)[49], which was initially capitalized with proceeds from the Government of Seychelles $21.6 million debt conversion undertaken in 2015. The deal, with the support of The Nature Conservancy, enabled the Government to safeguard 30 percent of its exclusive economic zone in marine protected areas (MPAs).

The debt conversion scheme allowed SeyCCAT to repay the impact investor, distribute $0.28 million in grant financing and capitalize an endowment fund with $0.15 million on an annual basis until reaching a total of $6.7 million. SeyCCAT is committed to sustainable fisheries and other activities that contribute substantially to conservation, protection and maintenance of biodiversity and adaptation to climate change.

49 Seychelles, SeyCCAT, "Seychelles' Conservation and Climate Adaptation Trust (SeyCCAT): Achieving conservation through innovative finance and creative collaborations". Available at https://seyccat.org/wp-content/uploads/2017/09/infographic_talking_points_bat_web-1.pdf.

The domestic market for government securities could be further developed. At the moment, since commercial banks are the main buyers of government securities, government securities tend to be of a short nature. This type of instrument is associated with higher refinancing and interest rate risks (domestic securities are issued with fixed interest rates but their short maturities increase exposure to interest rate fluctuations). Pension funds are expected to increase demand for medium- and long-term securities. However, Seychelles has not yet benefited from foreign investors' increased appetite for sustainability and green bonds[50]. Under existing legislation, foreign investors can participate in government bond auctions in Seychelles, since these auctions are open to all adult individuals, whether resident or non-resident, provided they have a Seychelles rupee account with one of the local banks[51]. Issuing this type of instrument could expand the investor base and slightly lower borrowing costs. Another added benefit of expanding the existing investor base outside Seychelles would be to minimize the crowding-out effect that could be triggered by current domestic borrowing trends. According to a recent study, green bonds have a slightly lower borrowing cost compared to "regular" bonds within 56 percent of primary and 70 percent of secondary market studies, particularly for those green bonds that are government-issued and investment grade, and that follow defined green bond governance and reporting procedures[52]. In any such efforts, currency risks for foreign investors, as well as existing legislation governing the currency of issuance, will need to be taken into account.

Figure 9 shows the growing size of this type of instrument among different economies. Bond issuance in Seychelles takes place according to an annual borrowing plan published by MFNPT[53]. Implementation follows this plan, and procedures for participating in the auctions are also published.

50 UNDP has developed a thorough framework to issue this type of bond to target specific needs related to the 2030 Agenda.

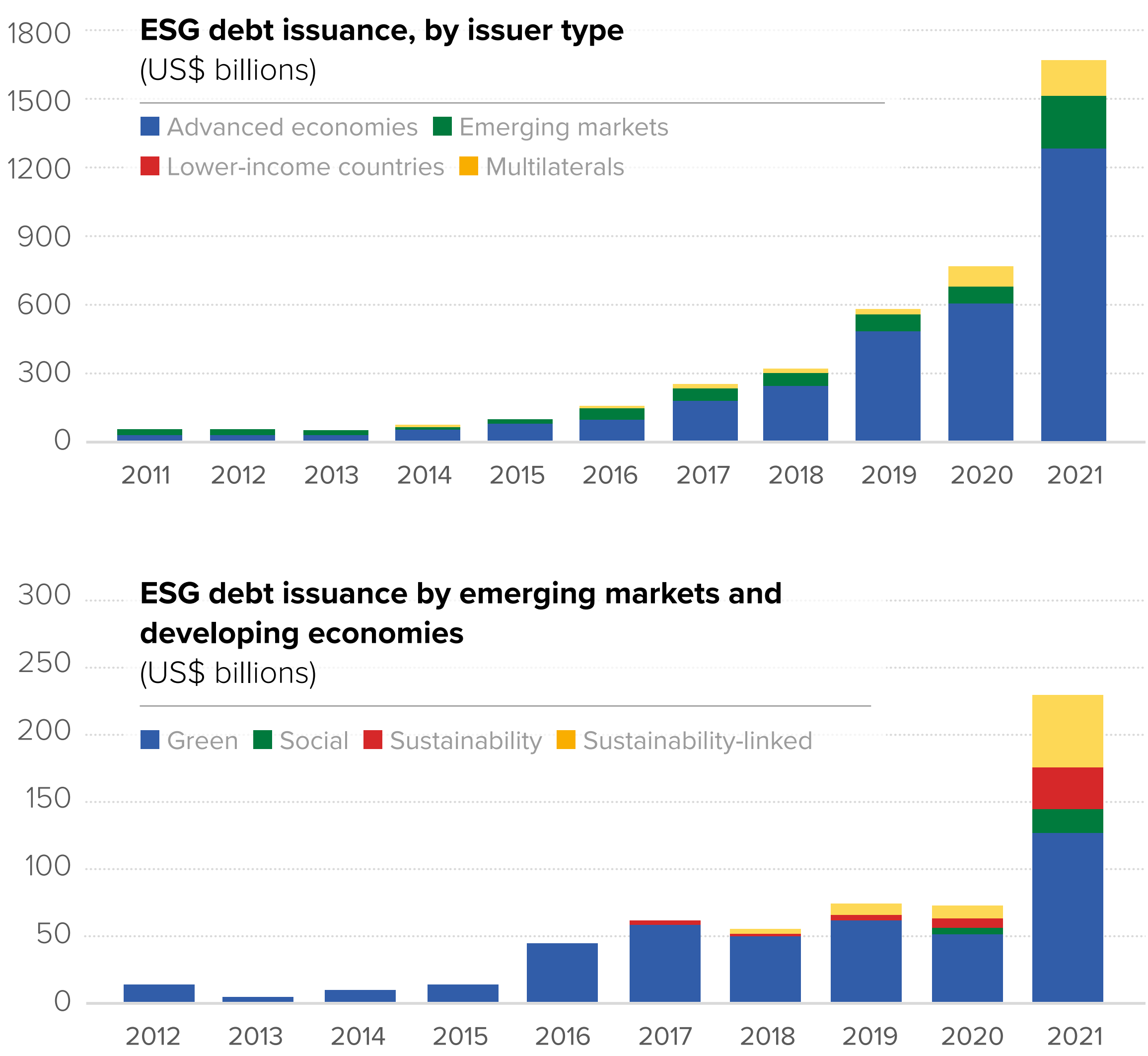
51 Seychelles, Central Bank of Seychelles, "Operational Guidelines for the Issuance and Management of Government Securities" (Victoria, 2013; amended 2021).

52 Stefan MacAskill, Eduardo Roca, Benjamin Liu and Rodney Anthony Stewart, "Is there a green premium in the green bond market? Systematic literature review revealing premium determinants", *Journal of Cleaner Production,* vol. 280, No. 2 (2021).

53 Seychelles, Ministry of Finance, National Planning and Trade, "Annual Borrowing Plan: 2022" (Victoria, 2022).

However, the Government has not re-entered the international capital markets since the issuance of the 2018 Blue Bond, and according to its DMS, the Government is not planning to access this type of financing within the strategy period. The carrying cost of this type of instrument has also been taken into consideration, since the proceeds from the 2018 issuance have not yet been fully utilized (see chapter 3).

Figure 9 \\ ESG issuance trends 2011–2021



Source: IMF, *Sovereign ESG Bond Issuance*, IMF Working Paper, WP/23/58 (Washington, D.C., 2023)

There are pros and cons to issuing this type of instrument. Points in favour of issuing bonds include the high international demand, the slightly lower costs associated with green/blue bonds, and the fact that it supports a strategy of diversifying investors and demonstrates the commitment of the

Government to addressing climate change and to the green/blue agenda. On the other hand, the process of issuing this type of instrument is more complex than that involved in issuing ordinary bonds, since it requires international certifications (which can also affect costs). Moreover, these bonds are by nature more restrictive, since the proceeds can be spent only on specific projects. Lastly, reporting is more cumbersome, as additional reporting needs to be prepared by DMO.

Recommendations

1. Review strategy implementation and incorporate findings, as a section, in the DMS document. Findings should be used as inputs to update the strategy.
2. Incorporate target ranges for the portfolio main risk indicators to illustrate main vulnerabilities and the rationale for the debt strategy.
3. Design and implement an RMS to expand and diversify the domestic and external financing sources available to Seychelles.
4. Review the legal framework for issuing ESG bonds and expanding the market to include foreign investors.
5. Establish a dedicated unit for mobilizing climate change funds from various sources at MFNPT. The unit will be responsible for day-to-day activities related to climate change funds and for aligning this funding to national priorities.
6. Ensure that the Climate Change Unit, in turn, sensitizes and assists other MDAs as well as the private sector in the process of accreditation to various climate change funds to increase funding opportunities.

4.1.6 Public Private Partnerships

Successful implementation of a PPP framework can bring many benefits to a country. International experience shows that, for a country to reap these benefits, the PPP framework should be aligned with national long-term development goals to provide a vehicle for supporting the development of small and medium-sized enterprises. The legal context governing the PPP framework needs to support this service delivery model and to provide effective governance and supervision mechanisms. PPP agreements should provide a fair and efficient risk allocation and clearly allocate responsibilities for different partners.

Clarity and transparency can facilitate private sector willingness to participate in PPP arrangements and enable the country to fully benefit from this kind of financial framework. Alignment with Agenda 2030 could also be included in the framework. This would ensure that, alongside considerations related to environmental sustainability, social impact and climate change, the authorities can incorporate specific clauses to correct social inequalities, such as requiring that a certain proportion of employees be young, untrained, female or belonging to a specific ethnic group. Another option could be to require the private company to provide specialized training or employment to the local population.

Currently, PPP projects are not being implemented in Seychelles. Although the Public-Private Partnership Act of 2017 established the basis for developing this type of financing framework, there is little evidence that PPPs have been implemented in the country. The Project Investment Management Unit (PIMU) was established to oversee and support the development of PPPs in the country. However, it appears to have no website or online presence, and no information regarding its activities was available. More visibility should be created for the unit, especially because, as part of its duties, it is supposed to be the coordinating body for all PPPs in the country. Further strengthening of technical capacity should take place at PIMU and at the MDA level to increase awareness of and sensibly promote PPPs as a potential financing source. An appropriate PPP regulatory framework should also be developed and implemented. Going forward, PPPs are under consideration as a financing source for various sectoral strategies. Providing a complete regulatory framework will support the implementation of these strategies.

Recommendations

1. Accelerate the development, review and implementation of regulations, guidelines and other instruments to increase private sector participation through PPPs.
2. Strengthen the PPP unit with the required human resources and expertise.

4.2 Private Sector Flows

4.2.1 Foreign Direct Investment

FDI can be an important tool for promoting economic growth in Seychelles. Some of the benefits FDI can provide to Seychelles include[54] the development of the country's human capital through the training and skills enhancement opportunities that external investors can provide for the local workforce. FDI can also promote important technology transfer from the investing country, helping Seychelles to upgrade and diversify its production and export base. Profits generated by FDI contribute to corporate tax revenues, and FDI can also generate employment by creating new job opportunities, which in turn can help reduce unemployment and improve the overall standard of living.

The Government already provides incentives to promote FDI[55]. It has designed a legal framework to govern FDI flows, including[56] the National Investment Policy of 2018, the Investment Act (Act 31 of 2010, as amended) and the Investment (Economic Activities) Regulations (Statutory Instrument [SI] 71 of 2014). This legislation is complemented by policies and procedures developed and implemented by the MDAs. The Government has established the Seychelles International Business Authority (SIBA) to promote offshore activities and facilitate companies willing to set up in the country. Incentives provided by Seychelles include the fact that the country does not impose tax on companies conducting their business outside its borders. Seychelles has signed Double Tax Treaty Agreements with several countries, which further incentivize and facilitate the registration of businesses in and from Seychelles[57]. The Government also provides other fiscal incentives including tax credits, tax holidays, duty-free access for the import of materials required for initial investment and expedited work permits for foreign employees.[58]

54 Prakash Loungani and Assaf Razin, "How Beneficial Is Foreign Direct Investment for Developing Countries?", *Finance & Development*, vol. 38, No. 2 (June 2001).

55 BBCIncorp, "Seychelles Tax Haven: Why Is It Popular for Foreign Investors?", 6 April 2020. Available at https://bbcincorp.com/offshore/articles/offshore-investments-in-seychelles-tax-haven.

56 UNCTAD, *Investment Policy Review: Seychelles* (Geneva, 2020).

57 Focus Business Services Seychelles, "Seychelles Double Tax Treaty Agreements". Available at https://www.fbsseychelles.com/seychelles-double-tax-treaty-agreements/.

58 U.S. Department of State, "2023 Investment Climate Statements: Seychelles". Available at https://www.state.gov/reports/2023-investment-climate-statements/seychelles/.

While Seychelles offers numerous opportunities for FDI, the country faces several challenges in attracting and increasing FDI. One of these challenges is its small market size and small population compared with other countries in the region. Furthermore, the country's geographical isolation increases transportation costs, its limited natural resources and economic diversification restrict the scope of investment opportunities, and land for storage, for warehouse purposes and manufacturing is scarce. The business climate does not help to attract foreign investment. Finally, some economic sectors are out of reach for the foreign investor: current regulations provide a detailed list of 65 types of business in which only Seychellois may invest.

In order to promote FDI flows into the country and to align them with Seychelles development priorities, the Government and UNDP have commissioned an SDG Investor Map exercise. The main process carried out through the SDG Investor Map[59] is to filter down investment opportunities from national priorities, as defined in National Development Plans, in order to identify Investment Opportunity Areas (IOAs)[60]. The exercise translates SDG needs and policy priorities into attractive investment opportunities for the private sector that are posted on a UNDP portal showcasing business opportunities at an international level[61]. Various actions are contemplated under the exercise, among them:

- Identifying sector, subsector and priority regions to focus the mapping.
- Building the business case. The exercise will prepare business and financial metrics needed for presenting to investors. These include market size, return on investment profile, investment timeframe, ticket size and market risks.
- Preparing an impact case. For each of the investment opportunities identified, the mapping will include complete impact metrics such as sustainable development needs and expected outcomes, SDGs indicators involved and impact risks. Each case is captured in a standardized spreadsheet template.
- Identifying enabling environments such as policies, regulations and financial factors and actors to make the investment process a success.
- Providing worldwide exposure by placing the identified investment opportunities in UNDP's online platform, which will be accessible by all potential investors.

Recommendations

1 Improve the business environment by addressing the main obstacles, especially enforcement of contracts, which could have a more direct impact on FDI.

2 Regularly update the data and information on the UNDP portal resulting from the SDG mapping exercise to ensure it always contains the latest market and policy-related information.

3 Scale up efforts to transform emerging opportunities identified in the Investor Map into IOAs through investment in appropriate enabling environments.

59 UNDP, SDG Investor Maps. Available at https://sdgimpact.undp.org/sdg-investor-map.html.

60 Some of the IOAs identified include fish processing, floating photovoltaics, eco-tourism development and value chains, semi industrial commercial fishing, sustainable aquaculture farms, sustainable export-oriented crop production, digital marketplaces for diversifying the export market and cold storage infrastructure.

61 UNDP, SDG Investor Platform. Available at https://sdginvestorplatform.undp.org/.

4 Build up technical and institutional capacity to ensure bankable projects are designed and promoted.

5 Promote the country as an ideal destination for investors.

4.2.2 Financing the private sector

Given the limited fiscal space of the public sector, the business sector's participation in the development agenda of the country needs to be expanded and deepened. Developing countries have increasingly turned to the private sector to finance sustainable development. For private sector participation in the development process to be efficient and effective, however, coordination and consensus on the roles of the actors must be ensured. The private sector has the capacity to contribute to the development agenda through corporate and strategic practices such as creating jobs and promoting gender equality in the workforce, developing new ideas and work techniques, bringing service provision closer to populations and communities, facilitating access to housing and fostering innovation and technological improvements, among other things. In addition, the private sector should be at the forefront of designing new approaches and sustainable models for their businesses in a profitable and economically sustainable way. To that end, in 2018, the Government developed an Investment Policy to which policies and regulations dealing with investment, business start-up and operations, health, safety and security are to be aligned in order to provide greater consistency, predictability, stability and, importantly, investor confidence in the Seychelles economy.

The Investment Policy of 2018 does not look at promoting or facilitating economic activity. This piece of legislation has as its primary objective to orient, protect and regulate economic activity, but it does not give enough attention to promoting or facilitating it[62]. Furthermore, even though the policy highlights as priorities openness, transparency, consistency and particularly predictability, these priorities have largely not yet been reflected in legislation, and where laws do include them, the provisions are not enforced, rendering them ineffective[63]. Finally, while the policy document does include some guidelines and measures to support investment, it does not include specific priorities, targets for investment promotion or guidance on whether these should be public or private, domestic or foreign[64].

Accessing credit for the private sector in Seychelles has become increasingly more difficult, both in terms of accessibility and in terms of cost[65]. During the COVID-19 pandemic, the CBS set up two Private Sector Relief Schemes, intended to assist businesses facing economic hardship caused by the pandemic. The first scheme was the Private Sector Relief Credit Line Facility, which was intended for affected individuals and MSMEs. The credit line represented a total of SCR 500 million and was administered by commercial banks to provide soft loans with annual interest rates of 1.5 percent, a grace period of 18 months and up to 8 years repayment period. For large enterprises, a separate scheme was created and funded at SCR 750 million, which was also administered by commercial banks; the maturity profile was similar to that for MSMEs, but the annual interest rate was set at 4.5 percent. These two initiatives had a profound impact on the bank credit to the private sector for 2020. The outstanding stock of loans to the private sector rose by 20 percent

62 UNCTAD, *Investment Policy Review: Seychelles.*

63 Ibid.

64 Ibid.

65 Tony Muhumuza, Bertrand Rasool and Lucas Navarro, "Empowering the Private Sector to Diversify Seychelles' Economy", UNDP Discussion Paper (Port Louis, UNDP, 2021).

from 2019 to 2020[66]. It is important to highlight that this increase of outstanding loans to the private sector took place at the same time that government domestic borrowing was increasing by almost 100 percent from 2019 to 2020. Outside these schemes, lending terms for companies with established credit track records reached annual interest rates of 8 and 8.5 percent, high for the average business. Reasons given for the lack of bank financing to the private sector depend on who is being asked. Whereas credit seekers indicate that banks are not offering the appropriate financial instruments, banks often mention that credit seekers rarely submit bankable projects. Furthermore, the Securities, Commodities and Derivatives Exchange (SECDEX) is not liquid for local companies, and it is not used to raise capital. According to the Financial Services Authority, the lack of issuance of corporate bonds is due to three main reasons: the relatively small number of businesses, the long process involved in issuing and the associated costs.

Furthermore, the secondary market has not yet developed in Seychelles, limiting the liquidity of any corporate bond.

Accessing private financing for new companies is even harder. New enterprises looking for financing have to face even greater restrictions than their counterparts with more established track records. Some seed capital is available through the Ministry of Investment, Entrepreneurship and Industry. This financing source, in some instances, requires upfront capital, and the process for accessing the funds has proven to be complex and difficult to comply with. Other schemes are available through the DBS, which consist of concessional loans to MSMEs, but they are mostly allotted to traditional economic sectors such as fishing, blue economy and agriculture.

Entrepreneurs in Seychelles face important financial literacy and capability barriers. A study by UNCTAD[67] highlighted that financial literacy and capability were the most important barrier and among the main constraints for entrepreneurs. Furthermore, the majority of available funding goes to traditional activities; few sources of financing are available to new and innovative business proposals, with only a few schemes specifically targeting innovation. The financial sector in Seychelles is conservative and has neither the experience nor the willingness to provide financing opportunities to start-ups. Finally, the loan approval process for companies is lengthy and it is difficult to provide the necessary collateral, two issues highlighted by a CBS survey[68] as among the main constraints facing companies trying to access financing from the banking sector. The survey indicated that, for example, in the manufacturing sector it took on average four to six months to access a loan.

Financial inclusion in Seychelles is a well-established concept. The country has a highly banked population of 94 percent, the highest reported in sub-Saharan Africa[69]. Access to financial services and products in the banking sector is not a key concern in relation to financial inclusion. Instead, the CBS has focused on other aspects of financial inclusion, such as digital finance (promoted by MFNPT), SME financing and consumer protection[70], with efforts in this regard including the Financial Consumer Protection Act enacted in 2022 as well as the ongoing work towards introducing the regulations necessary to support the Act. Other initiatives in

66 Data provided by the Central Bank of Seychelles.

67 UNCTAD, *Investment Policy Review: Seychelles.*

68 Seychelles, Central Bank of Seychelles, "MSME Survey: Access to Credit – Media Presentation", 29 August 2018. Available at https://cbs.sc/Downloads/Pressrelease/CBS%20MSME%20Survey_Media.pdf

69 Dhashni Naidoo and Abel Motsomi, *Financial Literacy Baseline Survey: Seychelles 2016* (Johannesburg, Finmark Trust, 2016).

70 Alliance for Financial Inclusion, "Central Bank of Seychelles hosts FinTech workshop to build national strategy", 10 May 2019.

the pipeline at the national level include setting up a national ID system[71], introducing disincentives for using cash and cheques and ensuring provisions for disaster recovery management. The Seychelles Fintech Strategy was approved by the Cabinet of Ministers in August 2021 as part of the Government's Digital Economy Agenda. The strategy is expected to guide and coordinate national efforts to increase availability of and access to financial services. It should also identify priorities and gaps in aligning digital finance to national development priorities.

The CBS has designed several financial inclusion initiatives. These include the National Strategy for Financial Education, the Modernization of the Payment System, and the Credit Information System. The National Strategy for Financial Education was developed to deliver important financial knowledge to the population. It was implemented from 2017 to 2020 and was not renewed. However, financial education and digital literacy programmes are developed on a yearly basis taking into consideration the needs of the market.

The Modernization of the Payment System was implemented to facilitate consumers, businesses and other entities in undertaking financial transactions. These include making payments and using accounts and payment instruments issued by financial institutions. The Credit Information System was intended to provide information on creditworthiness in order to facilitate decision-making by lenders extending credit to individuals and businesses.

The CBS has recently approved a new company to provide electronic money services to the country. The company is expected to provide several services under the National Payment System (Electronic Money) Regulations, 2022, which were issued to amend the National Payment System Act of 2014. These services will include the issuance, distribution

Table 18 \\ Gross domestic savings, as percentage of GDP

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Comoros	17.9	12.4	12.9	12.3	11.4	13.5	8.8	12.0	13.0	13.0	16.3	16.3
Ethiopia	23.5	31.5	30.6	28.1	30.3	31.4	31.1	30.3	32.3	29.9	26.6	25.2
Kenya	16.0	13.7	14.7	14.6	15.6	15.8	14.0	13.7	14.0	14.1	14.9	15.1
Mauritius	15.9	14.4	19.2	20.1	18.8	19.5	20.0	22.0	22.4	21.5	19.8	21.5
Seychelles	17.2	12.4	17.0	26.5	15.1	15.6	10.3	11.1	26.4	24.3	8.7	15.3
U.R.Tanzania	23.4	21.1	25.7	27.1	28.4	25.5	28.4	31.3	34.5	37.7	37.9	37.1

Source: IMF, *World Economic Outlook*, April 2023.

71 The national ID system (SeyID) was launched in 2022. Work is continuing to get businesses to onboard the system in order to encourage greater uptake by the public.

and transfer of electronic money and execution of payment transactions through the use of electronic money. The first company to provide such a service was originally granted authorization back in 2015. Using electronic money will allow customers to make various payments using smartphones. The measure should expand financial inclusion by allowing customers to store money in their mobile phones and use it to pay for goods and services without the usual direct exchange of cash, writing a cheque, transferring money from one account to another or swiping their debit or credit cards.

Savings rates in the country represent a determinant factor in the availability of funding to the private sector. High levels in aggregate savings would yield larger investments associated with higher GDP growth. Experiences from developing countries establish a direct link between savings and investment, production and employment and, therefore, savings rates can be a key tool to generate greater sustainable economic growth [72]. In Seychelles, domestic savings rates are below peer countries in the region. Rates have averaged 16 percent of GDP over the last decade, as compared with an average of around 30 percent of GDP over the same period in countries like Ethiopia and the United Republic of Tanzania. Mauritius, too, shows higher savings rates, at 20 percent of GDP. A working paper to study the situation in the United Republic of Tanzania prepared by United Nations University (UNU)[73] determined that such high savings rates are the consequence of continuous increases in per capita income, positive real deposit rates and stable broad money. Further analysis indicated that the high dependency on agriculture by the population at large makes people more vulnerable to climate risk and therefore fosters saving in order to mitigate any potential negative impact of climate shocks. Conducting financial literacy programmes and workshops can help educate the public on the importance of saving and investing. Teaching individuals about budgeting, financial planning and investment strategies could help them to make informed decisions about their financial future and promote a culture of saving in Seychelles. Table 18 shows a comparison of domestic savings to GDP ratios between countries in the region.

Companies do not issue corporate bonds in Seychelles. This financing option is being reviewed and analysed, but will be difficult to implement in the short term due to the limited scope of the stock exchange and the lack of the required financial technical knowledge in domestic businesses. Other challenges include the lack of a functional secondary market, as well as increased government borrowing in the domestic market, which has a tendency to crowd out private investment since it is considered risk-free. To overcome these obstacles, several measures would need to be implemented, including: preparing and implementing a capital market master plan identifying actions to advance capital markets in Seychelles; providing technical capacity through financial education and training to domestic corporate businesses to improve their governance systems, increase transparency and raise awareness of the possibilities of raising long-term finance from capital markets; and addressing the crowding-out effects of increased government borrowing and the high returns obtainable from such investments.

Further private sector (especially SME) access to financing could be achieved through crowdfunding. This financing option could be ideal for start-ups and SMEs, which often have difficulty in accessing financing through traditional means such as bank credit. Money raised by Africa-based crowdfunding portals has been primarily directed

72 Artur Ribaj and Fitim Mexhuani, “The impact of savings on economic growth in a developing country (the case of Kosovo)”, *Journal of Innovation and Entrepreneurship*, vol. 10, No. 1 (2021).

73 Maureen Were and Cornel Joseph, “Determinants of domestic savings in Tanzania: Empirical evidence”, WIDER Working Paper 2022/166 (Helsinki, UNU-WIDER, 2022).

towards funding start-ups and SMEs ($17.7 million) and real estate crowd-invested projects ($13.6 million)[74]. Potential problems with this kind of platform relate to the financial knowledge of the would-be investors, as well as issues with legal and regulatory frameworks. Crowdfunding is still relatively new and, so far, has mostly been a developed country phenomenon; therefore, to take advantage of such tools, mechanisms would be needed to guarantee that the financial information provided by interested companies is accurate and complies with legal frameworks. Without laws to protect privacy, mandate disclosures and ensure that contributors have opportunities for legal redress, investors may not sufficiently trust the business proposals of companies trying to crowdfund projects[75]. Seychelles could undertake a study to evaluate its readiness for crowdfunding. This could be followed by investing in supportive ecosystems and enabling initiatives and actions, including forward-thinking regulations and effective technological solutions.

One successful experience of launching a crowdfunding platform took place in Morocco, with the assistance of UNDP. The project used the Tadamon platform, which is an aggregating platform for crowdfunding campaigns for civil society organizations (CSOs) to achieve SDGs for health, medical care, education and infrastructure. The results have been very encouraging, with a total of 500 CSOs mapped and presented on the platform by the end of 2020, and another 300 (for a total of 800) by the end of August 2021.

74 Afrikstart, *Afrikstart Crowdfunding in Africa Report* (n.p., 2016). Available at https://www.afrikstart.com/report/.

75 Cov Africa, “Crowdfunding in Africa: Opportunities and Challenges”, 6 February 2017. Available at https://www.covafrica.com/2017/02/crowdfunding-in-africa-opportunities-and-challenges/.

Insurance and Pension Fund assets could be an important source of capital for the private sector and an effective instrument to align private sector investment with the country's development priorities and the SDGs through ESG investment. The combined assets of these two sectors amounted to around SCR 5.3 billion[76]. Although each sector has its own investment parameters based on cash flow forecasts, desired risk exposure and investment diversification criteria, the availability of this capital for investment purposes and in line with the country's development priorities should be seriously considered and promoted. Engagement[77] with insurance companies and SPF could take the form of workshops or sensitization seminars on the benefits and importance of ESG investing; the advantages of developing their own policies and guidelines outlining the institution's commitment to integrating ESG factors into investment decisions and providing a framework for implementation; and the need for these organizations to champion ESG and use their influence as institutional investors to engage with companies and encourage them to improve their ESG performance, through, among other things, participating in shareholder meetings, voting on ESG-related resolutions and collaborating with other investors to advocate for change.

A range of studies have identified instruments and strategies to enhance SMEs' access to finance. These instruments and strategies can be used individually or in combination, depending on the specific needs and circumstances of the SMEs. These options could be analysed and reviewed as part of the engagement between Government and the private sector.

Strategies include:

- Long-term funding: This involves providing loans to SMEs through selected financial intermediaries in target regions. This could present a significant step towards providing SMEs with the long-term capital they need to grow and expand their operations[78].

- Partial portfolio guarantees: These are credit risk protection mechanisms for loans and other debt instruments granted by financial intermediaries to SMEs. This can help to alleviate some of the financial risk associated with lending to SMEs, thereby making it more attractive for financial institutions to provide them with loans[79].

- Financial advisory and policy support: This involves providing financial sector assessments to identify areas of improvement in regulations and policies that could enhance SME access to finance. It also includes the implementation of initiatives such as the development of an enabling environment and the design and establishment of credit guarantee schemes[80].

- Innovation in SME finance: This includes the introduction of new financial technologies and platforms that could provide SMEs with alternative sources of finance. For example, e-lending platforms and the use of alternative data for credit decisioning could help to increase the availability and accessibility of finance for SMEs[81].

- Financial inclusion initiatives: These are programmes designed to increase the financial inclusion of underserved segments, such as

76 Data for the insurance sector is for 2021, while data from the pension fund is for 2022.
77 OECD, *Sustainable and Resilient Finance: OECD Business and Finance Outlook 2020* (Paris, 2020).
78 European Investment Bank, "SME Access to Finance Initiative" (Luxembourg, 2020).
79 Ibid.
80 World Bank, "Small and Medium Enterprises (SMEs) Finance". Available at https://www.worldbank.org/en/topic/smefinance.
81 Ibid.

start-ups and youth- and women-led businesses. This could involve providing them with access to financial services and products that they might not otherwise be able to access, thereby enhancing their ability to secure financing[82].

- Supportive policies: Policies that support SMEs in accessing finance can also play a crucial role. This could involve reducing regulatory barriers, providing tax incentives or providing training and education to SMEs on how to access finance[83].

- Partnerships with financial institutions: Building partnerships with financial institutions can also help to enhance SMEs' access to finance. This could involve providing financial institutions with incentives to lend to SMEs, or providing SMEs with access to financial institutions that are more likely to lend to them[84].

Recommendations

1 Improve the financial education and capability of entrepreneurs.

2 Continue the ongoing work to set up a regulatory sandbox to pilot and test innovative fintech solutions in a controlled and monitored policy environment (expected to be in place by the end of 2024).

3 Explore options for crowdfunding. This could be followed by investing in supportive ecosystems and enabling initiatives and actions, including forward-thinking regulations.

4 Prepare and implement a capital market master plan to identify actions to advance capital markets in Seychelles.

5 Set up a Business Engagement Forum to promote dialogue between the Government and the private sector. Discuss, as part of the agenda, options to facilitate private sector access to financing.

6 Develop a National Private Sector Strategy and enhance the technical capacity to implement it. A resulting action plan would include a periodization of the reforms needed.

7 Design an action plan for engaging with insurance companies and the SPF to channel capital to the private sector, in alignment with national development priorities and SDGs.

4.2.3 Remittances

International experiences[85] indicate that remittances have a profound impact in increasing investment in countries with less developed financial sectors. This positive impact is achieved by promoting and supporting these private flows into the country and allowing migrants to invest their savings in small businesses, real estate or other assets in their own countries and thereby support local markets. Promoting these flows can provide direct financial support to the population. Engaging and integrating the diaspora with national development plans and enhancing their contributions to Seychelles' sustainable development could be an important tool to complement financial flows into the country.

82 European Investment Bank, "SME Access to Finance Initiative".

83 Ibid.

84 Ibid.

85 Paola Giuliano and Marta Ruiz-Arranz, "Remittances, Financial Development and Growth", IMF Working Paper 05/234 (Washington, D.C., IMF, 2006); Juthathip Jongwanich, "Workers' Remittances, Economic Growth and Poverty in Developing Asia and the Pacific Countries", UNESCAP Working Paper WP/07/01 (Bangkok, UNESCAP, 2007).

However, achieving this would require coordinated efforts and the implementation of a constant and innovative outreach strategy. To guide this effort, a national policy and related action plan need to be developed, followed by the appropriate legal, regulatory and institutional frameworks to coordinate and harmonize national efforts to engage Seychellois diaspora members. The Ministry of Foreign Affairs and Tourism is working to develop a strategy to identify existing barriers and opportunities in engaging the diaspora, and the Ministry should then lead the process for developing and implementing a policy and action plan.

Current levels of remittances into Seychelles are low. These flows have accounted for around 1 percent of GDP in the last five years. To increase remittance flows, international experience shows that reducing transaction costs and fees for remittance transfers increase the disposable income of migrants, boost their incentives to send money home and encourage the use of formal remittance channels.

Recommendations

1. Review the existing regulations for remittances to find ways to further reduce transaction costs and fees charged for transactions.

2. Finalize the National Diaspora Engagement Policy to coordinate efforts for engaging with the diaspora. Develop the corresponding regulatory and institutional set-up to make the policy effective.

5. Monitoring and Review

This chapter analyses existing processes to monitor financial resources in Seychelles. The assessment includes ICT systems as well as tracking and reporting of financing flows for the national development plans and the SDGs. This chapter also looks at existing mechanisms for monitoring the alignment of financing flows with national development priorities.

5.1 Existing Monitoring Systems

The computerized system in use at present does not facilitate monitoring budgetary flows into Seychelles development priorities. Monitoring and reviewing budgetary flows to development priorities and the SDGs is currently difficult due to the lack of an Integrated Financial Management Information System (IFMIS) at the MFNPT. The Ministry is in the process of installing such a system and it is expected to be finalized and operational by next year. IFMIS is an Oracle-based system used at the national level of government, aimed at improving accountability and transparency in financial management. The system automates processes such as budget preparation and execution, accounting and reporting, making them more efficient and accurate and facilitating monitoring and review. IFMIS systems are also associated with a decline in procurement-related corruption since they streamline procurement processes and provide a transparent platform for suppliers. Implementing the system would provide Seychelles with a key tool to monitor budget implementation and financial allocation of resources to development priorities and may enable SDGs to be further integrated across the budget process. For an IFMIS to be implemented successfully, the relevant authorities must be committed to financial reform objectives, ICT infrastructure must be in place, and adequate resources and human resource capacity must be allocated to the project[86]. Some successful examples of using IFMIS systems to capture government flows include those in Ethiopia and the United Republic of Tanzania. However, having an IFMIS system does not always guarantee a trouble-free process

86 Marie Chêne, "U4 Expert Answer: The Implementation of Integrated Financial Information Management Systems (IFMIS)" (Bergen, U4, 2009).

for monitoring government financial flows. At the beginning of the implementation of an IFMIS project in Ghana[87], for instance, only transactions related to expenditures on goods and services, external debt servicing, capital expenditures and other salary expenditures were routed through the IFMIS system. Additional efforts had to be made in order to capture some transactions related to wages, domestic debt servicing and statutory, extrabudgetary and donor funds.

Budget execution analysis is conducted on an annual basis. The report, as mandated by Sections 31 and 32 of the Public Finance Management Act[88], is prepared by MFNPT on an annual basis. This Annual Performance Report is made publicly available on the Ministry's website. It includes a thorough analysis of budget performance, focusing on revenues, expenditures and debt. It compares actual vs. programmed data for each of these categories and includes an explanation of any deviation. However, the report lacks an analytical section looking into the linkages between expenditures and the development priorities of the country. It does not include any sectoral or further detailed analysis of financial performance, and no other ex-post analysis of budget implementation is undertaken. This lack of sectoral data makes it impractical to assess, ex-post, budgetary alignment with national development sectoral priorities. Some countries, such as Uganda[89], have developed a methodological framework for assessing budget alignment with National Development Plans. The framework was developed and included in the country's Public Finance Management Act as a method for conducting ex-post analysis of the budget that works in a similar way to a performance audit. The assessment looks at how the previous budget advanced the National Development Strategy and the SDGs and it is attached to the annual budget for the next financial year. A similar methodology could be developed in Seychelles to assist in assessing budget alignment with the NDS. Staff at the Ministry could benefit from South-South cooperation with Uganda to obtain the inputs needed to develop a comparable framework in Seychelles. Box 1 provides a summary of the framework developed by Uganda to assess budget alignment with development priorities[90].

Box 1: \\ Monitoring Budget Performance in Uganda

Uganda's Public Finance Management Act, 2015 requires the issuance of a Certificate of Compliance (CoC). The process resembles that of a performance audit report. The annual budget's overall compliance with the National Development Plan (NDP) is derived from a stepwise assessment approach undertaken at four different levels: macroeconomic, national, sector/MDA and local government. The overall objective of the CoC is to ensure that the development planning and budgeting frameworks are aligned towards achieving Uganda's Vision 2040 through the NDPs. It also provides a tool to measure progress towards the development objectives of the country. To prepare the CoC, the National Planning Authority (NPA) developed an assessment framework to measure the budget's compliance: if the score is 80%–100%, it is judged as "satisfactory"; »

87 IEG, "Supporting Integrated Financial Management Information Systems to Increase Budgetary Discipline", in *World Bank Support for Public Financial and Debt Management in IDA-Eligible Countries* (Washington, D.C., World Bank, 2021).

88 Seychelles, Public Finance Management Act, 2012.

89 Winnie Nabiddo, "The Certificate of Compliance for the Alignment of Annual Budget to NDPIII: Overview of the Budget Compliance Assessment" (Kampala, Uganda National Planning Authority, 2021).

90 National Planning Authority, "Certificate of Compliance". Available at http://www.npa.go.ug/development-performance/certificate-of-compliance/.

» a score of 60%–79% is “moderately satisfactory”; and if the score is less than 60%, it is judged to be “unsatisfactory”.

At the macroeconomic level

The framework measures attainment of key NDP macroeconomic targets such as economic growth, GDP per capita, external grants, interest payments and primary and fiscal balance.

At the national level

The assessment focuses on whether the annual budget’s theme, goal, objectives and development strategies are aligned to the NDP. In particular, the assessment considers the intent of the budget to address NDP thematic areas. In Uganda, these have included competitiveness, wealth creation, employment and inclusive growth. Additionally, the assessment framework looks at the percentage of projects that were on schedule.

At the sector and MDA level

At this level, the assessment focuses on the level of expenditure out-turn for development budget across the majority of the sectors and whether sectors have strategic plans that are aligned to the NDP. It also considers whether there are capacity gaps in any sectors with regard to timely absorption of funds which significantly affect the implementation of sector and MDA plans. Lastly, it assesses whether sectors and MDAs are budgeting on the basis of outputs instead of results.

At the local government level

The assessment looks at the nature of expenditures, current vs. capital, to check whether required financing at this level is taking place. Finally, it checks whether central government is compliant with its transfer commitments to local governments.

SRC is implementing a process to digitalize all its services. Once the system is functional, taxpayers and businesses will be able to access their tax information and interact with SRC online. The first phase of the project has already been implemented, involving the Tax Management System (TMS), the Automatic Exchange Of Information (AEOI) platform and the upgrading of the Automated System for Customs Data (ASYCUDA) World, and processes are expected to be fully automated by the middle of 2024[91]. The new strategy plan, covering 2023–2025, includes ICT as a strategic enabler to support all SRC’s divisions in carrying out their tasks.

External and domestic borrowing is monitored by a debt recording system. The debt management department at MFNPT is currently using the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS)[92], which allows for comprehensive monitoring of all external borrowing flows. The system also allows debt instruments to be coded with the economic sector to which the financing is being channelled. Reporting by economic sector is limited to the debt bulletin, which is not publicly available. This information is not incorporated into a wider assessment of financial flows. A newer debt recording system, the Commonwealth Meridian, is available to replace CS-DRMS. The new system is web-based with granular and strong access controls on both functional and data levels. New features include an improvement in accessibility to the data depository, which facilitates access for the various debt management stakeholders. This feature would allow for the CBS, public enterprises or line ministries to input data, increasing debt data coverage beyond central government and

91 Data provided by Seychelles Revenue Commission.

92 Development Finance International, “Commonwealth Secretariat Debt Recording and Management System (CS-DRMS)”. Available at https://www.development-finance.org/en/topics-of-work/debt-recording-and-management/cs-drms.

facilitating better control of project disbursements, which is a common challenge for all DMOs. The system also allows central banks to use Meridian to obtain data directly from agencies and/or large private sector organizations that currently report via surveys, which then still require capturing into the debt management system. The new system could be a useful tool for improving debt transparency and for capturing a wider variety of financial flows in one system. Upgrading from CS-DRMS to Meridian would be a useful step towards improving monitoring tools for assessing development finance alignment with national development priorities and the SDGs.

Under the Public Finance Management Act, the National Assembly is in charge of monitoring the national budget. Once the budget is tabled by the Government, the National Assembly is mandated to review and approve it, if deemed appropriate. Additional ex-post review of budget execution is undertaken by a seven-member congressional committee called the Finance and Public Accounts Committee. The Committee undertakes this analysis using the Auditor General's budget report and can propose any measures it considers necessary to ensure that the funds of the Government are properly and economically spent. No specific review or analysis is conducted regarding linkages between the budget and the SDGs.

The National Bureau of Statistics (NBS) undertakes data collection for the country. NBS was established in June 2010, under the National Bureau of Statistics Act, 2010, and operates as a semi-autonomous government agency responsible for collecting, compiling, analysing and publishing statistical information. NBS is also responsible for coordinating, monitoring and supervising the National Statistical System. NBS produces a variety of statistics, most of which are available online in PDF form, on different aspects of the nation including the economy, agriculture, demographics, tourism and prices. These statistics are mostly based on censuses and surveys periodically undertaken by NBS. Institutionally, NBS is made up of different divisions that focus on specific issues such as economics, agriculture and social statistics, demography and vital statistics, and the national accounts units. NBS does publish the data it is mandated to collect and process; however, some data users have indicated that the data's underlying quality and availability should be improved.

The other institution conducting review of Government budgets is the Auditor General Seychelles (AGS). By law[93], the Auditor General has the mandate to audit the consolidated government accounts and issue an audit report on the accounts, as well as to submit the report to the Minister of Finance and the National Assembly. The Auditor General's audit report focuses only on financial performance and does not include a performance audit. The International Organization of Supreme Audit Institutions (INTOSAI) is already supporting its members to conduct SDG audit reports as a way to monitor whether governments' commitments towards achieving the SDGs are being implemented. The AGS has the capacity to undertake performance auditing and has done so at times at the request of international organizations and of the Government.

The CBS is in charge of monitoring private sector financial flows. The data available on the CBS website is comprehensive and timely and includes a wide variety of sectors on a monthly, quarterly and annual basis. Data and information about credit extended to the private sector is published by the Statistical Department in the Bank's quarterly and annual reports. Monitoring of private sector inflows (FDI) and remittances is also published in the Bank's quarterly and annual reports. Source data regarding these flows comes from the Seychelles Investment Board (SIB), which is responsible for monitoring projects and financial flows.

93 Seychelles, Auditor General Act, 2010.

The Government has also taken steps to increase CSO participation in the budget process[94]. In 2018, the Access to Information Act was enacted, providing a legal framework for Seychellois to seek and obtain government information. The law was intended to facilitate an open and transparent public administration and thereby strengthen freedom of information and expression, encourage democratic participation, provide legal safeguards for the individual and strengthen confidence in the public authorities and control by the public. The Government developed an Open Government National Action Plan consisting of three commitments to increase transparency and public participation: i) strengthening public participation in the budget process, ii) implementation of the Access to Information Act and iii) creation of an e-engagement portal to increase citizen responsiveness. In order to strengthen public participation in the budget process, MFNPT was to review the budget calendar to include engagement with Citizens Engagement Platform Seychelles (CEPS) and other relevant CSOs and to provide training and sensitization programmes to CSOs on matters of policy and law, organized jointly between Government and CEPS. The Government was also to design an e-engagement portal.

Establishing effective public participation in the budget process is challenging. Public participation, whether by CSOs or other platforms, has proven to help governments to better respond to the public's needs and can facilitate more effective and efficient execution of public resources[95]. In 2020, the Global Initiative for Fiscal Transparency (GIFT) and the International Budget Partnership (IBP) implemented a project[96] to promote and foster public involvement in the country's budget cycle. Five African countries were selected (Benin, Liberia, Nigeria, Senegal and South Africa) and the project worked with each country's finance ministry to establish an advisory group made up of five to ten representatives from government and CSOs. The objective of the advisory group was to provide the finance ministry with feedback and recommendations on the selection, design and implementation of the country's public participation initiative. These groups were also tasked with monitoring the impact of participatory mechanisms. After two years (and during the COVID-19 pandemic), some success stories were reported[97]. In Benin, for instance, the Ministry of Economy and Finance launched a mobile application to publish key information on the budget and the budget cycle. Responding to feedback received from civil society, the Ministry was able to add new features to the tool, thus promoting public engagement in each phase of the budget process. Elsewhere, advisory group members in Liberia, Nigeria and Senegal worked in close collaboration to co-create detailed action plans for the development and implementation of pre-budget consultations in 2022. As another outcome of the project, some lessons were learned on how to successfully promote and channel public participation in fiscal policy and budgeting.

Some of the lessons learned included[98]:

- The role of the finance ministry was key to the success of the initiative and to preventing the process from being stopped by challenges encountered during implementation. Other members were also important for obtaining political buy-in within government and among other groups and sectors.

94 Seychelles, Government of Seychelles, "Seychelles' First Open Government National Action Plan 2019–2021" (Victoria, 2019).

95 Murray Petrie, "Public Participation in Fiscal Policy", IMF Public Financial Management Blog, 7 June 2017. Available at https://blog-pfm.imf.org/en/pfmblog/2017/06/public-participation-in-fiscal-policy-posted-by-murray-petrie1-direct-engagement.

96 Marianne Fabian, Suad Hasan and Juan Pablo Guerrero, "Public Participation in the Budget Process: A New Approach", IMF Public Financial Management Blog, 1 August 2022. Available at https://blog-pfm.imf.org/en/pfmblog/2022/08/public-participation-in-the-budget-process-a-new-approach-posted-by-marianne-fab.

97 Ibid.

98 Ibid.

- Inputs from civil society enriched discussions and challenged preconceived notions. The project proved that public inputs can be channelled in an orderly way and can be carried out without overburdening the Ministry during the budget process.

- Members of advisory groups should, ideally, come from units responsible for budget policy and implementation. Those from the CSO community should have the necessary technical skills and capacity to engage collaboratively with public officials and represent the views of different stakeholders, especially those from marginalized and vulnerable sectors.

- Fiscal transparency and public participation peer-learning and capacity-building activities are likely to increase understanding of the value of participatory budgeting and of the role that civil society groups can play in this process.

- Having clear rules of engagement is key in ensuring that the expectations of the various actors are aligned.

5.2 Integrated Financing Dashboard

To monitor financial flows to and alignment with the country's development priorities, a comprehensive view of all financing flows is needed. Monitoring should focus on private and public, external and domestic flows, and should facilitate policies and strategies designed to support flows experiencing periods of slow-down. Currently, a variety of institutions and IT systems in Seychelles are involved in capturing and reporting on this type of flow, including MFNPT, the CBS, NBS and CS-DRMS. An Integrated Financing Dashboard (IFD) would help the country to effectively implement and operationalize its INFF and achieve Seychelles' national priority objectives by tracking and synchronizing all key public, private, domestic and international financing flows to the country, such as tax and non-tax revenue, budget expenditure, public debt (domestic and external), official development assistance, private investment, credit/equity to the private sector, FDI, remittances, non-governmental organization (NGO) flows, foundations, climate finance, blended finance and PPPs.

Integrating such country-specific development financing data would have a range of benefits. A unified platform or dashboard system would enhance transparency and accountability of Government to different stakeholders in financing expenditure; enable the design of coordinated financing strategies for SDG-oriented national development priorities; help identify funding gaps for SDG financing; and allow for evaluating financing strategies through financial risk assessments to improve adaptability and crisis preparedness. Such a dashboard, therefore, would be a useful and efficient way to monitor and track financial flows and exchange data with other international data platforms such as those of the World Bank and the IMF.

Recommendations

1 Install the IFMIS system in Government to better track budgetary flows to development priorities.

2 Upgrade the debt recording system to Meridian in order to improve coverage of financial flows into the country.

3 Explore the possibility of developing an ex-post analysis of budget execution and its alignment to the NDS and SDGs. Explore the possibility of benefiting from South-South cooperation with Uganda to secure the necessary inputs to develop a Seychelles-specific model.

4 Continue implementing the Open Government National Action Plan to promote public participation in the budget process.

5 Develop an Integrated Financing Dashboard to monitor financial flows to national development priority areas and the SDGs, building on existing financial tracking systems

6. Governance Structure

Preparing and implementing a sound INFF requires strong political ownership as well as high-level government coordination mechanisms. A centralized high-level government committee responsible for overseeing the INFF process will usually provide the overall coordination and leadership required to successfully implement the necessary changes and reforms. An Oversight Committee can coordinate national efforts, ensure leadership at the highest level, access the necessary political influence to support efforts to implement reforms, and improve coordination with the private sector.

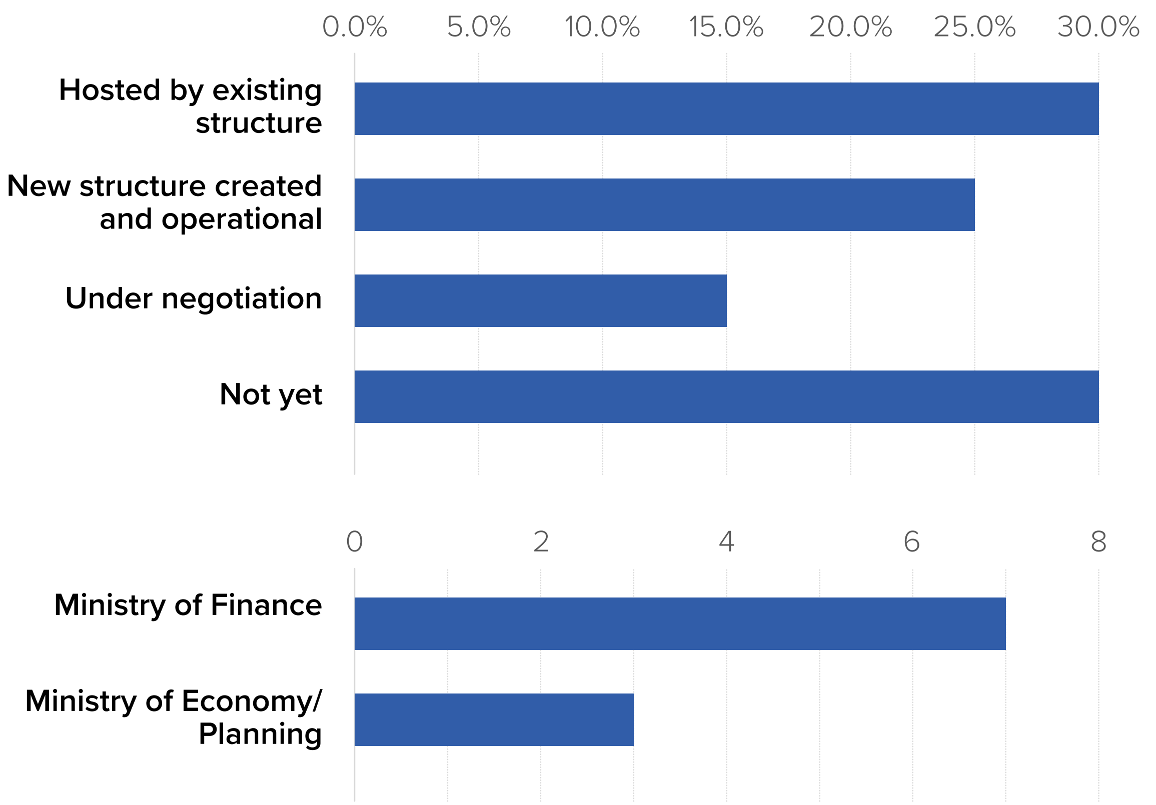
In order to effectively advance national development priorities and Agenda 2030, an effective government institutional structure needs to be in place for implementing necessary reforms and coordinating with different stakeholders. The governance structure is entrusted with key roles for guaranteeing the success of the entire process. These roles include:

1. Guiding the entire INFF process.
2. Ensuring the country's ownership and leadership of the process.
3. Establishing and strengthening intragovernmental collaboration and multi-stakeholder participation.
4. Monitoring progress and evaluating achievements in order to guide revisions to the action plan if considered necessary.
5. Enhancing coordination with development partners, the private sector and CSOs.
6. Overcoming obstacles and increasing coherence and integration of existing approaches and processes

Different countries have adopted different approaches towards the governance structure. While some countries have adapted existing structures to act as the governing body for the INFF process, other countries have set up new bodies for the task. According to an INFF survey conducted in 2022, 30 percent of countries surveyed chose to use an existing structure to host the INFF's governing body, while 25 percent chose to set up a new one[99]. The chosen institution to house the governing body has also differed from country to country, with the majority of

99 INFF Facility, *The State of Integrated National Financing Frameworks in 2022* (New York, 2022).

Figure 10 \\ Housing the INFF governance structure, Countries' choices



Source: INFF Facility, The State of Integrated National Financing Frameworks in 2022.

countries selecting the finance ministry as the hosting institution, while others chose economy or planning ministries. Figure 10 shows countries' choices for housing the INFF governance structure.

Other important players involved in the INFF process include the National Assembly, the private sector, CSOs and development partners. The National Assembly is responsible for approving and reviewing the NDS to advance SDG implementation in the country, approving budget allocations and checking that the proper alignment between the two is established. There is currently no specific body in charge of overseeing the implementation of Agenda 2030 in the country, but the Planning Department at MFNPT is in charge of developing the NDS and of domesticating the SDG agenda into the strategy. The private sector also has an important role in the implementation of the NDS and in achieving the SDGs. It provides the investments needed to create jobs, promote inclusive and sustainable industrial development and protect biodiversity. Its involvement, however, has not yet been harnessed. CSOs, meanwhile, can have a considerable impact on raising public awareness of the SDGs, including by reviewing public spending and budgetary allocations and by providing advocacy and knowledge for integrating the SDGs into the national

development framework, as well as reviewing and monitoring progress. Lastly, development partners and private sector actors have a profound role in providing financial resources and technical capacity (as needed), aligning their cooperation support with the Government's development strategy and the SDGs as well as in monitoring progress in achieving the SDGs. Currently, there is no forum in Seychelles for engaging with either the private sector or with development partners. This task should be assumed by the INFF governance structure, once it is created.

The only related governance structure identified in Seychelles is the NWG. This working group was set up to implement the NDS. MFNPT was mandated to coordinate the formulation and implementation of the strategy and the monitoring of the national economic development planning process, and established the NWG to facilitate NDS implementation.

The NWG was given the responsibility of reporting back to the Minister on implementation progress, challenges faced, actions taken and any other relevant issues. The NWG is comprised of representatives from the public and private sectors and from civil society. A Secretariat in charge of preparing an annual report to be submitted to Cabinet or the National Assembly was also established. The NWG did prepare an annual report in 2019, but the COVID-19 pandemic prevented it from preparing a report in the remaining year of the NDS I implementation period. This or a similar institutional arrangement could be used to push forward the INFF process.

7. Summary of Recommendations

Sector	Recommendation	Objective	Timeframe	Responsible Entity
Public Finance				
NDS II	Prepare a comprehensive costing assessment for NDS II to provide the overall guidance for securing the necessary financing.	Provide guidelines on the financing envelope that will be needed in the next five years.	Short term	MFNPT
Government tax revenues	Strengthening the linkages between the budget process and the SDGs within the Medium-Term Macro-Fiscal Framework. Review specific steps that can be taken to incorporate and track SDGs in the budget allocation. ▪ Once the IFMIS system is operational, begin tagging expenditures to monitor flows to SDG and NDS. ▪ Train budget officials on SDG tagging.	Improve linkage between the budget and the SDGs.	Short term	MFNPT
	Assess the need to incorporate a pro-poor and pro-gender SDG-aligned tax framework into SRC's strategic plans. Engage with development partners, including UNDP, for assistance in developing such a framework.	Establish a link between the tax regime and the SDGs.	Medium term	SRC
	Support SRC's programmes for improving and facilitating tax compliance: establish education and awareness programmes as well as tax interventions and use computer-assisted audits and data analytics to detect non-compliance.	Improve tax compliance.	Medium term	SRC

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Sector	Recommendation	Objective	Timeframe	Responsible Entity
Local government	Review existing limits for accessing grant financing	Channel resources to local authorities.	Medium term	MFNPT
	Develop skills to prepare solid project proposals to benefit from climate change financing.	Maximize access to concessional financing.	Short term	MFNPT
Public project financing	Increase technical capacity, at sectoral ministries to ensure projects are adequately appraised and proper feasibility studies are prepared before they are incorporated into the PSIP.	Improve project implementation rate.	Short term	Sectoral ministries
	Improve maintenance budgeting and planning, particularly by updating fixed asset registers and making this information available in the Fixed Asset Management System.	Ensure fixed assets are properly listed and maintained.	Medium term	MFNPT
	Implement PIMA's recommendation to prepare selection criteria to guide project selection; ensure the roles and responsibilities of major players in public investment management processes are well defined; and develop national and sectoral plans with costed investment proposals and aligned with the budget.	Improve project implementation rate.	Medium term	Sectoral ministries

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Sector	Recommendation	Objective	Timeframe	Responsible Entity
Government borrowing	Review strategy implementation and incorporate findings, as a section, in the DMS document. Findings should be used as inputs to update the strategy.	Improve the quality of the DMS.	Short term	DMO
	Incorporate target ranges for the portfolio main risk indicators to illustrate main vulnerabilities and the rationale for the debt strategy.	Improve the quality of the DMS.	Short term	DMO
	Design and implement a debt mobilization strategy to expand and diversify the financing sources available to Seychelles.	Reduce dependency risk and increase access to financing sources.	Medium term	DMO
	Review the legal framework for issuing ESG bonds and expanding the market to include foreign investors.	Tapping external investors and reduce crowing out effect.	Medium to long term	DMO
	Establish a dedicated unit for mobilizing climate change funds from various sources at MFNPT. The unit will be responsible for day-to-day activities related to climate change funds and for aligning the funding to national priorities.	Increase access to climate change funding.	Medium to long term	MFNPT
	Ensure the Climate Change Unit sensitizes and assists other MDAs and the private sector in the process of accreditation to various climate change funds to increase funding opportunities.	Increase access to climate change funding.	Medium to long term	MFNPT
PPP	Accelerate the development, review and implementation of regulations, guidelines and other instruments to increase private sector participation through PPPs.	Provide a complete regulatory framework.	Short term	MFNPT
	Strengthen the PPP unit with the required human resources and expertise.	Prepare PPP unit to face challenges ahead.	Medium term	MFNPT

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Sector	Recommendation	Objective	Timeframe	Responsible Entity
Private Finance				
FDI	Improve the business environment by addressing the issue of enforcement of contracts which could have a more direct impact on FDI.	Provide a regulatory framework for FDI.	Medium term	SIBA and MFNPT
	Regularly update the platform so that it always contains the latest market and policy-related information.	Promotes FDI.	Long term	SIBA and MFNPT
	Scale up efforts to transform emerging opportunities identified in the Investor Map into IOAs through investment in appropriate enabling environments.	Ensure FDI is channelled to priority areas.	Long term	SIBA and MFNPT
	Build up technical and institutional capacity to ensure bankable projects are designed and promoted, as well as to promote the country as a location for investors.	Promote FDI.	Medium term	SIBA

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Sector	Recommendation	Objective	Timeframe	Responsible Entity
Private sector financing	Explore options for crowdfunding.	Provides access to capital for MSMEs	Medium term	CBS and MFNPT
	Prepare and implement a capital market master plan to identify actions to advance capital markets in Seychelles.	Provides access to capital for large enterprises.	Medium term	MFNPT
	Set up a Business Engagement Forum to promote dialogue between the Government and the private sector.	Provide coordination between government and private sectors.	Short term	Ministry of Investment, Entrepreneurship and Industry
	Develop a National Private Sector Strategy and enhance the technical capacity to implement it. A resulting action plan would include a periodization of the reforms needed.	Provides coordination between government and private sectors	Medium term	Ministry of Investment, Entrepreneurship and Industry
	Research ways to improve the private sector's access to finance, information and markets, as well as the appropriate sector financial tools needed for business growth.	Provides access to capital for large enterprises.	Medium term	Ministry of Investment, Entrepreneurship and Industry and MFNPT
	Design an action plan for engaging with insurance companies and the SPF in order to channel capital to the private sector in alignment with national development priorities and the SDGs.	Provides access to capital for large enterprises	Medium term	CBS and MFNPT
Remittances	Review the existing regulations for remittances to find way to further reduce transaction costs and fees charged for transactions.	Promotes inflows.	Short term	CBS
	Develop the National Diaspora Engagement Policy to coordinate efforts for engaging with the diaspora. Prepare the corresponding regulatory and institutional set-up for its effective implementation.	Provides overall guidance for engaging with the diaspora.	Short term	Ministry of Foreign Affairs and Tourism

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Sector	Recommendation	Objective	Timeframe	Responsible Entity
Monitoring				
	Fast-track the installation of the IFMIS system in Government to better track budgetary flows to development priorities.	Allow for better monitoring of budgetary funds.	Short Term	MFNPT
	Upgrade the debt recording system to Meridian in order to improve coverage of financial flows into the country.	Allow for better monitoring of debt flows.	Short Term	MFNPT
	Explore the possibility of developing an ex-post analysis of budget execution and its alignment to the NDS and SDGs. Explore the possibility of benefiting from South-South cooperation with Uganda to secure the necessary inputs to develop a Seychelles-specific model.	Ensure better assessment of finance allocations.	Medium term	MFNPT
	Continue implementing the Open Government National Action Plan to promote public participation in the budget process.	Improve budgetary process.	Medium term	MFNPT
	Assess the technical capacity at the NBS to ensure good and timely data. Determine the financing needed to carry out its tasks.	Ensure better quality data is available for analysis.	Medium term	NBS and MFNPT
	Explore ways of developing a framework to promote and channel public/CSO participation in the budget process. This task could also be a candidate for South-South cooperation to enable Seychelles to benefit from experiences in other countries.	Improve budgetary process.	Medium term	MFNPT
	Develop an integrated dashboard to monitor financial flows to national development priority areas and the SDGs, building on existing financial tracking systems.	Improve monitoring of financing flows.	Medium term	MFNPT
Governance				
	Design the appropriate structure for the NWG to undertake the tasks and responsibilities needed to push the INFF process forward.	Establish an Oversight Committee and take INFF process forward.	Immediate term	MFNPT

...table ends.

Annex 1 - Consultation and Quality Assurance

Experts Consulted	
Advisory Committee	Ministry of Finance, National Planning and Trade (MFNPT)
Ms. Elisabeth Charles	Principal Secretary, Economic Planning, MFNPT
Mr Dick Laborte	Director, Debt Management Office, MFNPT
Ms. Sharon Committant	Analyst, Debt Management Office, MFNPT
Mr. Santosh Marimuthu	Economist - National Planning and Trade, MFNPT
Mr. Antoine Barbe	Public Investment Management Unit, MFNPT
Mr. Terrence Payet	Senior Statistician - Research and Statistics Div., Central Bank of Seychelles
Ms. Stephanie Jean-Louis	Statistician - Research and Statistics Division, Central Bank of Seychelles
Mr. Rajinder Chouhan	Deputy Auditor, Office of the Auditor General
Ms. Virginie Quatre	Director Capital Markets & Collective Investment Schemes Supervision Director Capital Markets, Seychelles Financial Services Authority
Ms. Geetha D'Souza	Manager Capital Markets Seychelles Financial Services Authority
Mr. Oliver Bastienne	Chairperson, Seychelles Chamber of Commerce and Industry (SCCI)
Ms. Brinda Devi Dabysing	Country Representative, World Bank
Ms. Aissatou Diallo	Resident Representative, IMF

Experts Consulted	
Mr. Milko van Gool	Minister Counsellor, EU Delegation
Mr. Vikram Grewal	Second Secretary, Indian High Commission
Programme Reference Group	UN Country Team for Mauritius and Seychelles

Quality Assurance Team	
Mr. Tony Muhumuza	Assignment Lead and Senior Economist, UNDP Mauritius and Seychelles
Mr. Sébastien Vauzelle	Senior Economist, UN Resident Coordinator's Office, Mauritius and Seychelles
Mr. Jamiil Jeetoo	Economics Analyst, UNDP Mauritius and Seychelles
Ms. Haajira Jumaye	Coordinator, Development Finance, UNDP Mauritius and Seychelles
Mr. Moortaza Jiwary	SDG Finance, UNDP Africa Sustainable Finance Hub (ASFH)
Ms. Sophie Belle	Economist, MFNPT
Mr. Ankun Liu	SDG Finance Specialist, UNDP ASFH
Ms. Ana-Maria Beldiga	SDG Finance Consultant, UNDP ASFH
Mr. Desma Natome	Programme Advisor, UNDP ASFH
Mr. Arimiyaw Saasi	South-South Cooperation Analyst, UNDP ASFH

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