

# Budget Speech 2014

## (English)

Delivered to the National Assembly  
on 10 December 2013



**finance**  

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**trade and  
investment**

By the Minister of Finance, Trade and Investment,  
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Republic of Seychelles

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## 2014 Budget Speech

### *Beyond Reforms, Accelerating Growth for Shared Prosperity*

Mr. Speaker,

Leader of Government Businesses in the National Assembly

Leader of Opposition in the National Assembly

Honourable Members of the National Assembly

Dear Seychellois Brothers and Sisters,

It is my pleasure to present to you the proposed budget for 2014.

#### **1. Introduction**

Mr. Speaker, a child faces many challenges as he grows up. There are ups, there are downs, and sometimes the challenges are so hard that they threaten the ability of that child to progress. More than often, that child finds a way to rise above those challenges, to continue to grow up, and eventually mature into an adult who enjoys success and stability. Eventually, as a responsible parent, he will ensure that the prosperity that he has worked so hard for is shared equitably among all his children.

Like this child, a nation faces similar challenges as it develops.

Mr. Speaker, five years ago, the Seychellois nation and its economy was like a child who had done so well growing up, but somewhere along the way, found himself in need of a helping hand. Today, five years later,

Seychelles, like this determined child, has recovered strongly; ready to take the next step towards more success and prosperity.

Having recovered from the economic and financial crises of 2008 to record five successive years of growth, the time has come for the Government to share the benefits of this growth with its people. As Seychelles is now poised to move beyond the era of reforms, our policies have to be geared to accelerate growth further and create more prosperity. As a responsible Government we also need to ensure that the benefits of this greater prosperity continue to be shared equally and fairly with our people.

Mr. Speaker, it is with these considerations in mind that I have chosen the theme of the 2014 Budget to be: ***Beyond Reforms: Accelerating Growth for Shared Prosperity.***

## **2. Overview of the Economy in 2013**

Mr. Speaker, the **global economy** recorded mixed outcomes in 2013. Global growth is forecasted at 2.9%.

In Seychelles, macroeconomic fundamentals remain strong. As predicted, **growth in the domestic economy accelerated this year**. Moreover, at 3.5%, real GDP growth exceeded the 3% target that was set for this year. **Unemployment** remained below 2%.

Mr. Speaker, growth in the real economy continued to be driven by the **tourism** sector. For the first three quarters of 2013, visitor arrivals rose by 13% and income was up by about 11%. Growth in the traditional European market has rebounded and strong increases were observed in new markets, namely Russia, the UAE, and Asia.

Prudent **monetary policy** by the Central Bank of Seychelles (CBS) helped reduce **inflation**, which is forecasted to average 4.4% for 2013 compared to 7.1% last year. Favourable oil price movements on the international market resulted in stable demand for foreign currency. This helped maintain stability in the domestic foreign exchange market. CBS' gross external reserves are targeted at US\$400 million or about 4 months of imports by end-December 2013.

Mr. Speaker, average **interest rates** declined this year. The average lending rate of commercial banks fell from 13.39% at end-2012 to 11.68% at end-October this year. Against this backdrop, **credit to the private sector** grew by 6.8% in July 2013 compared to 4.5% for the same period in 2012.

### **3. Financial Sector Developments**

Mr. Speaker, notable developments in the financial sector in 2013 include approval by the CBS of a banking license for the Bank of Ceylon (BOC). The BOC is recruiting and plans to open in early 2014.

In the international financial services sector, the Seychelles International Business Authority (SIBA) expects a decline in revenue in 2013. Seychelles' classification by the OECD as not compliant with some of its criteria on exchange on information following the Phase 2 Peer Review, and the recent amendment in our law to abolish bearer shares, are likely to result in a slowdown in activity in the sector for the rest of this year. Nevertheless, we expect SIBA's revenue to still approach SR100 million.

Mr. Speaker, activities on the Seychelles Securities Exchange is progressing well. Following the floating of SACOS shares this year, shares

are currently trading at SR64 compared to SR35 per share pre-listing. To date, 16,776 shares have traded since inception for a total value of SR1,127,129.

We expect financial leasing services to begin shortly now that the legal framework is in place.

#### **4. Budgetary Performance in 2013**

The fiscal outlook for 2013 remains positive with a revised primary fiscal balance of 5.2% of GDP or SR788.6 million now expected. Government expects to collect SR5.6 billion in revenue, excluding grants, which will be SR185 million or 3% above the 2012 level.

Total tax revenue for this year is forecasted at SR4.7 billion. We forecast total dividends from public enterprises at SR433 million this year, or an increase of almost SR200 million above the average of the previous five years.

Mr. Speaker, at SR5.2 billion, total primary expenditure (excluding interest) is projected at SR223 million less than the 2013 original budget. This reflects mainly lower grant receipts which are directly related to capital expenditure. Interest payments are forecasted to reach SR645 million, which would be SR115 million or 21% above the original budget. This is mainly due to higher than expected interest rates on treasury-bills in late 2012.

By end-2013, the public debt-to-GDP ratio is forecast to fall to 69%. Mr. Speaker, since 2008 Seychelles has made considerable progress in restructuring our debts and normalizing relations with creditors. In August

this year we concluded a debt restructuring agreement (for a loan worth US\$8 million) with the EXIM Bank of India, and in November, we signed a similar agreement with Japan for loans worth US\$9.7 million. Only one agreement needs to be finalized in the context of the Paris Club debt rescheduling. This is with Russia, who already signed the Agreed Minutes.

## **5. Outlook for 2014 and the Medium-Term**

Mr. Speaker, the **world economy** is expected to strengthen moderately next year, with global output forecasted to grow by 3.6%, albeit in an environment of downside risks.

We forecast that **growth in the Seychelles economy will to increase marginally to 3.6% next year and accelerate to 4% in 2015**. This stronger growth will be supported primarily by continued recovery of our principal European tourism market and expansion of the new markets.

## **6. The 2014 Budget**

### **6.1 Principal Objectives**

Mr. Speaker, the 2014 budget aims for Government to achieve two main objectives, which are critical to maintain its sustainability in the medium to long term.

Firstly, the budget provides for a comprehensive review of the wage structure and wage levels in Government. This is to allow Government to pass more benefits of the reforms to the people. This will make Government's pay structure more competitive and enable it to continue to attract quality staff.



Secondly, Government will freeze non-priority expenditures for the first half of 2014 to this year's levels. Only increases in wages and salaries and other priority spending, including recruitment in critical areas, will be accommodated until an exercise to rationalize the budget and identify possible wastage and savings is completed by mid-next year.

Mr. Speaker, the proposed 2014 budget ensures that Government remains on target to attain its long-term debt objectives. Our primary fiscal target, including a back-to-back loan from the European Investment Bank (EIB) to the Public Utilities Corporation (PUC) for the year 2014, is forecasted at 4.4% of GDP or SR720.9 million. Excluding this loan, our primary fiscal surplus is budgeted at 5% of GDP.

## **6.2 Revenue**

Mr. Speaker, total revenue including grants, is projected at SR6.2 billion in 2014. Tax and non-tax revenue combined is budgeted at SR5.7 billion, an increase of SR160 million or 3% over the 2013 revised projection. This will result from higher collection of taxes, primarily in VAT revenues, due to lowering of the threshold and personal income tax. Grants are projected at SR483 million.

## **6.3 Expenditure**

Mr Speaker, we are proposing a total expenditure of SR6 billion, including debt interests, which represents SR210 million or 4% above the revised 2013 budget.

Mr. Speaker, despite our constraints Government will continue to pursue its efforts to strengthen the pillars of our society with vigour. We believe firmly

that a well-educated and healthy nation is a prerequisite to a prosperous nation.

Access to free and quality education for all our youth, irrespective of their financial means and background, always has been and will remain one of the cornerstones of our strategy to promote growth and economic prosperity. The same principle applies for the health of our nation.

We have demonstrated our commitment to this noble cause by again in 2014 giving the two largest budgetary allocations to the Health and Education ministries; SR535.4 million and SR439.4 million, respectively. To note, the Ministry of Social Affairs, Community Development and Sports will receive SR81.8 million.

#### **6.4 Wages and Salaries**

Mr. Speaker, a sum of SR1.261 billion is proposed for wages and salaries in 2014. This is a 12% increase compared to the revised 2013 budget outcome. As a ratio of GDP, this represents a modest increase from 7.3% in 2013 to 7.6% next year.

#### **6.5 Goods and Services**

Government proposes spending of SR1.257 billion on goods and services for 2014 or 8.3% of GDP. This is about the same level as forecasted for 2013.

#### **6.6 New Agencies to be Created**

Mr. Speaker, three new agencies will be created next year. These agencies and their budgets are: (i) the Industrial Estate Authority (SR3.7 million); (ii) the National Institute of Technology, Science and Innovation (SR2.7

million); and (iii) the Creative Industries and National Events Agency (CINEA) SR31.4 million. The CINEA will be a merger of several existing institutions, namely the National Arts Council, Seychelles Heritage Foundation and the Events section of the Seychelles Tourism Board.

## **6.7 Investment in Public Infrastructure**

Mr. Speaker, the central Government's Investment Programme over the five-year period from 2012 to 2017 will cost SR8.4 billion. In 2013, SR1.06 billion will be spent, which represents 12.6% of this investment plan. Government will provide a further SR1.04 billion in 2014.

For the coming year, four key projects will be completed to improve safety and national security, namely: the Praslin and La Digue Fire stations (SR31 million); the second phase of the Coëtivy prison (SR27.6 million); the Young Offenders Reform Centre on Praslin (SR15.9 million); and the installation of CCTV cameras in Victoria (SR10 million).

Government will allocate SR15 million in 2014 toward the digitalization of television by the Seychelles Broadcasting Corporation (SBC) to ensure readiness for full digitalization of services by 2015. We will further allocate SR6 million toward the Victoria Traffic Management Plan, and SR4.5 million for the purchase of an asphalt plant.

Phase 1 of the new Seychelles Tourism Academy will be completed in the first half of 2014. The total project cost, including furniture and equipment, will be SR87 million and this is co-financed by the Seychelles Government and BADEA.

Mr. Speaker, in 2014 Government will continue a vital project in the Ministry of Health to improve its operating theatre facilities. This will cost SR55 million. We will allocate SR13.6 million in 2014 and the balance in 2015 budget for this project. Preparations for the Ile Perseverance health centre will start in 2014 and for this Government is proposing an allocation of SR1.2 million as co-financing. The balance will come from loans from the OPEC and BADEA.

Government is also finalizing the Ile Perseverance secondary school project, which will go on tender in 2014. SR11 million has been allocated next year for the new school. Government will shortly submit the proposed Seychelles & Horticultural Training Centre project to development partners for funding. We have allocated SR3.4 million in the 2014 budget. In addition, SR8 million will be spent on repairs and maintenance of the Au Cap, Pointe Larue and Anse Aux Pins primary schools, through the European Union disaster grant.

Mr. Speaker, Government will accelerate its investment in the fisheries sector in 2014. We will spend a total of SR10 million on utilities for Zone 14 to make the quay operational. An additional SR36 million under the Fisheries Development Fund will go towards the construction of semi-industrial long line fishing vessels and value-added fisheries facilities.

We will spend SR5.9 million on Research and Fisheries Management Plans and a further SR6 million for air and sea patrols and to install communication systems on board artisanal fishing vessels for improved monitoring and surveillance. Government has also allocated a further SR45 million in 2014 under Contingency, mostly for anti-piracy patrols.

Government will also support the construction of semi-industrial fishing boats through a sovereign guarantee of approximately **SR120 million** (US\$10 million) to the Bank of Ceylon.

Following the signing of a new fisheries protocol this year between Seychelles and the European Union, funding for the fisherman sectoral programme will continue. This agreement has two components; the first is an annual amount for access to the Seychelles EEZ (€2.75 million during 2014-15, and €2.5 million for the remaining years (2016-19)); and the second, annual specific amounts to support implementation of the Seychelles fisheries sectoral programme and maritime policy (€2.6 million for the first two years, and €2.5 million for the remaining years).

Mr. Speaker, we will also revive interest in Aquaculture. Through a US\$148,000 grant from NEPAD, our Government will in 2014 put in place the regulatory framework to guide the development of the sector. Once this is in place, Government will call for investment.

Regarding the Energy sector, Government will increase its capital grants to PUC in 2014 by SR25 million to SR150 million. Moreover, Government has provided guarantees for an additional €7 million (about SR114 million) towards water projects.

Mr. Speaker, to reach the highest level of development a country needs to take bold investments, as challenging as these may be. We have begun discussions with development partners, as well as financial institutions, to explore alternatives to fund one of the largest infrastructure projects ever implemented in Seychelles. This is the project for the development and expansion of Port Victoria. In view of the substantial cost—the latest

estimate is about SR2.4 billion (€150 million)—the project will be phased over a number of years.

Mr. Speaker, this is an ambitious and costly project, but one whose implementation is necessary. However, Government would be unable to fully fund it without compromising our debt objectives. As such, we will invite private sector participation to provide options for investment such as public-private partnership, Build-Operate-Transfer (BOT), among others. This project is critical for the development of Seychelles as it will support further growth of our fisheries sector, our petroleum storage and bunkering activities, and to accommodate the ever growing volume of trade through Port Victoria.

## **7. Initiatives to Support more Efficient Budget Execution**

Mr. Speaker, this year we began piloting the Programme Performance Based Budgeting (PPBB) initiative in two ministries (Education and Natural Resources). This will continue in the coming year and we will include three more ministries in 2015.

Moreover, we have begun the groundwork for adoption of the International Public Sector Accounting Standards (IPSAS) in 2014. This will consolidate the budget accounts of Government with the cash flow of public enterprises and will allow the Government and the general public to have a better appreciation of the operations of the public sector.

## **8. Furthering the Structural Reform Agenda**

Mr. Speaker, structural reforms have complemented our stabilisation efforts by strengthening institutional frameworks. It is important that we continue to implement further structural reforms in areas where weaknesses still exist.

## 9. Public Enterprise Reforms

Mr. Speaker, we have made substantial progress in reform of public enterprises.

The establishment of the Public Enterprise Monitoring Commission (PEMC) this year is expected to further enhance transparency in the monitoring process. Already, increased oversight has resulted in a notable improvement in compliance with reporting requirements. All public enterprises have now submitted their corporate plans detailing their activities for the next three years. As a requirement of the new PEMC Act, all public enterprises will have to follow International Financial Reporting Standards (IFRS) by 2016. This will be supported by the development of additional policies and guidelines to further strengthen governance.

Mr. Speaker, during last year's budget address I identified about a dozen public enterprises and agencies whose accounts were considered not up to date. I am pleased to note that the majority of them have now submitted their latest (2012) Audited Financial Statements. Three of those enterprises, whilst having made progress in finalizing their accounts, are yet to submit them to the National Assembly, mostly due to internal restructuring. These are: Sociétée Seychelloise d'Investissement (SSI), the National Information Services Agency (NISA), and L'Union Estate. We expect these enterprises to regularize their accounts by mid-2014.

Mr. Speaker, through the public enterprise reforms **we have significantly minimized risks to the Government budget.** This has resulted from

policy changes that have improved the financial viability of those enterprises.

For instance, this year the Seychelles Petroleum Company (SEYPEC) successfully eliminated universal subsidies on cooking gas (LPG) and abolished the two-tier pricing system. With the automatic adjustment mechanism now in place LPG prices move in line with international prices.

Mr. Speaker, PUC has also made significant progress in improving its long term financial viability. In November, it began the process of eliminating cross-subsidization between businesses and households for utility tariffs through rebalancing of utility prices. As a result of this rebalancing PUC will over the next 8 years ensure full cost recovery by charging both the households and commercial sectors prices that reflect the cost of production.

Mr. Speaker, another benefit of our public enterprise reforms is that **through privatization we have continued to increase private sector participation** in the economy.

Following the sale of 23% of the shares of the Seychelles Commercial Bank (ex-Seychelles Savings Bank) last year, the bank is now pursuing the privatization of a further 27%. Completion is scheduled for early 2014.

Mr. Speaker, we are close to completing the privatization of Government's 50% share in the Bank of Muscat International Offshore (BMIO). Moreover, in 2014 Government will privatize its shares in the State Assurance Corporation of Seychelles.

## **10. Other Notable Developments in Public Enterprises**



Mr. Speaker, in July, **SEYPEC** signed an agreement with Germany's KFW to restructure the tanker debts through a deferral of principal repayments on the loans. In October, a new Ship Management and Commercial Agreement was signed with German Tanker Shipping Company (GTS), which is expected to improve the operations and eventually, the profitability of the tanker operations.

**Air Seychelles'** performance strengthened in 2013 which has further improved its financial outlook. The airline remains on track for a second year of profits, which is expected to exceed the \$2m target.

Mr. Speaker, Air Seychelles has been flying high since entering in the strategic partnership with Etihad Airways. It will fly higher in 2014 with the introduction of flights to Europe, beginning with Paris in February. Over the next 12 to 24 months the airline will further expand its networks with the addition of new regional destinations, namely Mumbai, Madagascar, and Reunion. For this, Air Seychelles will acquire a new A319 aircraft.

The **Seychelles Trading Company (STC)** has continued to anchor prices of essential commodities. It also continued to absorb the transport costs of basic commodities to the inner islands to ensure consistency with prices on Mahé.

Following the opening of its new branch on Praslin this year, STC will open a new cold store on La Digue before the end of the year, and a retail outlet in January 2014. STC will widen its distribution network with a new supermarket in Grand Anse, Mahé, in March 2014. A site is being identified for an outlet at Anse Royal in the near future.

STC plans to open a Building Materials depot in February 2014. It is also in advanced discussions with SSI to operate a second supermarket at the ex-Cassis property.

Mr. Speaker following consultations amongst various Ministries and the **L'Union Estate** Board, a three-year strategic plan consisting of projects in tourism, agriculture, cultural/heritage and other areas will shortly be submitted to Government. This plan will define the way forward for the Estate, including identifying those activities that could potentially be outsourced either to other Government agencies or the private sector.

The **Development Bank of Seychelles (DBS)** celebrated 35 years as a development finance institution in 2013. During those three and a half decades DBS has approved approximately 7,800 projects worth SR1.9 billion. This, Mr. Speaker, has been a remarkable contribution to the economic development of Seychelles by DBS.

This year, DBS focused its efforts in sourcing new possibilities to access concessionary funding, including new lines of credit, to enable it to finance SMEs with loans at more affordable interest rates. Government has already given its approval for DBS to issue new bonds for the sum of SR100 million to enable it to increase its lending. Two separate bonds will be issued for SR50 million each; a two-year and a five-year bond.

## **11. Petroleum Exploration**

Mr. Speaker, exploration for petrol in Seychelles' Exclusive Economic Zone (EEZ) continues. Early this year AFREN Oil Company completed a 3D seismic survey and the processing and interpretation of these data will be completed by this year-end. Drilling is planned for late 2014.

Also in 2014, we should see an increase of exploration activities with the Japan Oil, Gas and Metals National Corporation (JOGMEC) expected to conduct further geophysical and geochemical surveys in our EEZ. This followed an agreement between Japan and Seychelles this year.

Mr. Speaker, also this year we reviewed and modernised the legal framework and fiscal regime of the Model Petroleum Agreement to bring them in line with best international practices. In June, we re-opened our EEZ to new oil companies after a moratorium of over two years.

We have begun the process of adherence to the Extractive Industry Transparency Initiative (EITI). Government recognizes that in the event of an oil discovery the wealth derived should be prudently managed, and the benefits evenly distributed to benefit all Seychellois. Seychelles will present its application for EITI adherence by April 2014.

## **12. Financial Sector; Strategy and Policies for 2014**

Mr. Speaker, 2014 will be a challenging year for our international financial services sector, especially in light of recent developments *vis-a-vis* the OECD. Nevertheless, with measures already taken and those expected early next year to strengthen compliance with the Organization's standards, we are confident that the sector will recover.

Mr. Speaker, **Seychelles' financial sector needs a new strategy.** The time has come for a fundamental re-thinking of the way forward for this industry. We will shortly begin preparing a strategic plan for development of the sector, with assistance from the World Bank. The private sector will be invited to participate actively in the preparation of the strategy.

This new strategy is critical to our aspirations to grow, diversify, and deepen the financial sector. It has to be one that has in place the right ingredients to attract high calibre investors and financial institutions.

A fundamental aspect of this strategy will be redefining the future of our international financial services sector and raise the profile of Seychelles a modern, efficient, and a reputable global financial centre.

Mr. Speaker, I wish to take this opportunity today, to reiterate Seychelles' absolute commitment to ensuring the highest level of conformity with best international practices on transparency and exchange of information on tax matters, and in the fight against money laundering and terrorism financing.

In this regard, over the next 12 months we will implement the following: (i) enactment of new laws governing the international financial services sector such as IBCs and Trust laws; (ii) amendment of other laws including Revenue laws to be consistent with international conventions; (iii) ratification of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters; (iv) becoming party to the Peer Review Assessment team and the OECD Peer Review Group; and (v) signing of more TIEAs and DTAs.

To strengthen our regulatory capability we have decided to amend our proposal for the non-financial service regulator. Instead of a commission as previously indicated, SIBA will now become the Financial Services Authority (FSA) with its mandate to focus solely on licensing and compliance. The promotional role for financial services will be transferred to the Seychelles Investment Board (SIB).

Mr. Speaker, a well functioning regulatory framework is one prerequisite of a strong international financial services sector. Another is the need to have products and services of the highest calibre and diversity to bring us at par with the best in the industry. In this context, we will continue to introduce new products.

In early 2014, we will amend the Financial Institutions Act to allow for Private/Investment Banking in Seychelles. Moreover, the Legal Practitioners Act will shortly be amended to allow foreign legal practitioners to practice in Seychelles. This will add a new dimension to the sector and raise our status as a high-end jurisdiction.

In line with our various international commitments there is a need to open up the financial services sector further. To balance out the demand for more professional services whilst safeguarding local professionals, we will assess the merits of allowing more foreign participation in certain services. Consideration will be given to the possibility of operators currently licensed in the international financial services sector to also provide certain professional services to the domestic economy. However, to do so they will have to be subject to similar licensing and taxation requirements with regards to those services to ensure a level playing field with domestic service providers.

Mr. Speaker, Government has been contemplating introducing Islamic finance as part of our strategy to continue diversifying our financial sector. We are finalizing the framework and assessing the most appropriate model that would adapt best to our economy.

Following introduction of financial leasing, which will target mainly businesses, the forthcoming launch of hire purchase will facilitate credit for consumable goods such as small equipment and home appliances. Meanwhile, CBS has begun exploring new financial products to assist small borrowers.

Mr. Speaker, CBS will also amend its legal framework to allow bureaux de change to provide other minor services such as sale of phonecards, lottery tickets, newspapers, etc. Bureaus will however, have to keep separate accounts for the various activities.

In 2014, Government will take additional measures to further reduce the cost of borrowing. We will consider: (i) introducing a single transfer fee to replace the multitude of fees that is payable currently to discharge and recharge collaterals when transferring loans from one bank to another; and (ii) making insurance policies transferable at a minimal cost when transferring loans.

On the Securities Exchange, Trop-X will increase its range of products to provide companies with new avenues to raise capital and provide more opportunities to diversify risk management policies. The year 2014 promises further developments with the prospect of more equity listings.

### **13. Contributions toward the Seychelles Pension Fund (SPF)**

Mr. Speaker, to sustain the viability of the Seychelles Pension Fund, contributions will increase by 1% as from January 2014. Employers and employees will each contribute an additional 0.5% of employee gross salaries. This will bring total contribution to the SPF to 4%, of which 2% will be made by employers and 2% by employees.

## **14. Tax Policies for 2014**

### **14.1 Business Tax**

Mr. Speaker, as announced in last year's budget address, as from 2014 most medium and large sized businesses (except banks, telecommunication companies, insurance companies, breweries and tobacco producers) will pay a 30% business tax rate compared to 33% paid in 2013.

### **14.2 Value Added Tax (VAT)**

A number of additional measures will be introduced with regards to the VAT in 2014. We will:

- **Lower the threshold for mandatory registration of VAT to SR3 million.** This will result in over 100 new businesses to be registered for VAT.
- **Introduce VAT refund at the airport** for non-residents. We will consider extending this to the sea port in July, 2014 if feasible.
- **Exempt VAT on an additional list of goods and services,** including: transfer of immovable property, medical supplies and medical services, uniforms for private schools, and burial coffins. Government is proposing these reductions to make those goods and services more affordable. Businesses are urged to pass on the benefits of those reductions to consumers.
- **Abolish VAT on Disposal of Assets.** This measure will apply to all VAT-registered businesses that, having previously benefited from

fiscal concessions upon the importation of their assets, now wish to dispose of them.

- **Reduce the timeframe for VAT refund from 45 days to 30 days.**

### **14.3 Corporate Social Responsibility Tax (CSR) and Tourism Marketing Tax (TMT)**

Mr. Speaker, in 2013 we collected SR43 million and SR20 million in CSR tax and TMT respectively.

As from January, 2014, these two taxes will be covered under their own separate legislation, for which bills will come before the National Assembly shortly.

Government is well aware of the private sector's desire to make payment of CSR tax and TMT profit-based. However, the fact is that today, Mr. Speaker, in certain sectors of our economy the large majority of businesses pay no or minimal business tax, because they continuously declare large taxable losses. This is partly because policies in place allow businesses to do so. There is thus a need for a comprehensive review of such policies to ensure fairness. This review will guide our decision as to whether or not we make these taxes payable on profits in the future.

Mr. Speaker, each and every person in our society should benefit from the success of our economy and we all need to enjoy the fruits of our labour. Every actor in the economy without exception should make a fair contribution, including through reasonable tax payments. Growth has to be inclusive, meaning that benefits have to be shared equitably between those



who invest and those who work to transform those investments into more wealth.

#### **14.4 Tax Incentives to Support Heritage and Culture**

Mr. Speaker, as a responsible Government we have to continue to support the preservation of our heritage and our culture. To encourage businesses to join this effort, their discretionary CSR liabilities can be used to assist owners with refurbishment and renovation of heritage buildings and historical landmarks. Government will in the future also consider providing small grants to assist owners of buildings with heritage value who may not be able to mobilize funds.

Mr. Speaker, last year we increased the allowable tax deductions for hotels that support local performing artists to 125%. In 2014, we will extend this advantage to all activities where those artists perform.

#### **14.5 Additional Policy Changes in 2014 to Facilitate Business**

Mr. Speaker, we have identified several areas where policy will be reviewed in 2014 to improve consumer welfare and business climate.

- **We will lower trades tax on more imported products**, including: fish and crustacean products (fresh, frozen or chilled), tomato and chilli sauces, coconut milk, retreaded tyres, and certain articles of clothing for occupational use.
- **We will also reduce trades tax on electric and LPG cars, and bicycles**, from 25% to 15%. This will harmonize the duties with Trades Tax on hybrid cars and assist in promoting usage of clean energy.

- **A policy to minimize vertical integration in different sectors will be introduced.** This limit excessive control by one or more operators in various sectors of the economy. It will also ensure that all business, large or small benefit from economic growth.
- **The number of years for depreciation of motor-vehicles for Car Hire and Taxi Operators will be reduced** from 15 to 10 years. This will be reviewed further going forward to harmonize with the Business Tax treatment and facilitate disposal and fleet replacement.
- **We will eliminate the requirement for Car Hire operators to have bi-annual roadworthiness tests for new vehicles in the first two years.** However, the bi-annual tests will be required should the vehicles get into serious accidents, for which criteria will be established.
- **The merits of introducing personalized license plates will be analyzed.**

#### **14.6 A New Gaming Bill to be Introduced**

Mr. Speaker, a new Gaming Bill will be tabled before the National Assembly in 2014, as the current law has become outdated. This new law will make provision for modern techniques to strengthen supervision and compliance by casino operators.

#### **14.7 Exclusivity Agreements in Industrial Fishing to be Renegotiated**

Mr. Speaker, our nation needs to get more out of our blue economy. Today the bulk of our fish catch is processed outside Seychelles, including in the region. We need to attract more investors to process more of our fish here

in Seychelles. This is the only way to increase value addition in the sector and bring more benefits of our marine resources to our people.

Mr. Speaker, through our drive to attract more foreign investment we have seen an increase in interest in our fisheries sector over the past year. Recently, a Korean company began moving operations to Seychelles from other parts of the region. Moreover, a major European operator has submitted to the Seychelles Government plans to set up a major part of its operations in Port Victoria.

Mr. Speaker, notwithstanding the wish for more foreign investors in our fishing industry, I want to emphasize that it is also our Government's wish to see more Seychellois invest in the sector. However, to attract more investment we need to overcome constraints that still exist.

One such constraint is the relatively high cost of energy which negatively affects our competitiveness. Government will undertake a reflection aimed at exploring possible innovative solutions to lower energy cost.

Mr. Speaker, another constraint is the exclusivity and other special rights over certain fisheries-related activities currently in place. Government has made clear its intentions to terminate such arrangements and will aim at doing so in 2014.

## **15. Trade Related Issues**

### **15.1 Accession to World Trade Organization (WTO)**

Mr. Speaker, following two successful working party meetings in 2013, negotiations for Seychelles' accession to the WTO has reached an advanced stage. We have received support from numerous countries in

this process, which has allowed us to approach the final hurdle with optimism for finalized accession in 2014.

Our focus has now turned on securing National Assembly approval, in the first quarter of 2014, for amendments to various laws and regulations which are critical for our final submission for accession. We have already agreed a Legal Action Plan with the Attorney General's Office.

Mr. Speaker, Government has taken steps to ensure that in our endeavors to accede to the WTO, we maintain acceptable levels of protection for the sensitive sectors of our economy.

Mr. Speaker, as part of our WTO commitments, we have to make several changes to existing trade policies and procedures in 2014.

Firstly, as from January **Trades Tax on certain petroleum products**, including fuel, will be transferred to **Excise Tax**. As this is only a transfer from one tax regime to another there will be no change in prices of those products.

Secondly as of March 2014, **Environmental Levies on vehicles and satellite dishes** will be paid at the Seychelles Licensing Authority instead of at Customs as is the case today.

Also as of March, 2014, **Export Permit** requirements will be streamlined. Presently, export permits are required for all goods exported from Seychelles. Export permits will only apply to products which will require vetting for the purpose of public health, plant and animal health, obligations under international conventions, and environmental concerns.

## 15.2 Trade Facilitation Measures

Mr. Speaker, substantial efforts have been made over the years to facilitate trade in Seychelles through modernization and improvement in Customs administration. However, we need to do more as many challenges remain.

We have entered into discussions with an international firm specializing in customs management and surveillance to propose a roadmap for modernization of our Customs administration and improvement of our trading environment. Through this partnership we intend to introduce a two-phased packaged solution designed to increase Customs' overall capacity and effectiveness, as follows:

- **Phase 1:** Introduction of a scanning solution with an Advance Cargo Information (ACI) system associated to a risk management system and Data Intelligence; and
- **Phase 2:** Development of a Single Window system within the next two years, which will provide a complete Customs management solution. A Single Window is an integrated system that enables international (cross-border) traders to submit regulatory documents, such as customs declarations, applications for import/export permits, certificates of origin, trading invoices etc., at a single location.

This initiative, which will complement the recently introduced ASYCUDA World system, will facilitate movement of goods, enhance Government revenues, achieve a higher level of control through better data intelligence and profiling, and enhance the capacity of local staff.

### **15.3 Actions to Strengthen Revenue Collection**

Mr. Speaker, in facilitating trade Government needs to also ensure that the Customs administration system optimizes revenue collection. We can only achieve this through more effective compliance, minimizing leakage and bringing more punitive measures on tax evaders. To strengthen revenue collection, in 2014 we will:

- **Beef up audit capabilities of the SRC** to increase focus on cross-matching of data with other agencies. This will allow better monitoring of a particular industry's performance and assist the SRC to identify and assess the credibility of their reported profits. This will also strengthen the Commission's efforts to tackle transfer pricing more effectively.
- **Reorganize and strengthen the Investigation Unit within SRC to deal more aggressively with fraudsters and serious tax evaders.** We will aim for this Unit to increase its capacity to investigate serious non-compliance. We will study models of other jurisdictions and if necessary international experienced agents will be recruited and if needed the law will be re-visited.
- **Tighten Control of Bonds and Locally Produced Excisable Goods**

### **15.4 Intensifying our Fight against Counterfeit Products**

Mr. Speaker, to tackle the proliferation of fake spirits, we are acquiring two spirit authenticators. These will assist the authorities to confirm the

authenticity of spirits at various locations. We will not hesitate to prosecute those found trading in fake spirits.

Moreover, Mr. Speaker, we need to ensure that the quality of meat and other food products that enter Seychelles meet the highest international standards in food safety. In this regard, we have taken the first steps to acquire specialized equipment that would assist local inspectors to ascertain the quality of imported products. We hope also that this measure will assist in protecting local producers.

## **16. Accelerating Investment and Improving Business Climate**

Mr. Speaker, during 2013 we implemented several measures aimed at improving our investment climate, including:

- Further amendments to the **Companies Act** to facilitate business;
- Launching of **WebGIS** software which is an internet based mapping service which allows the public to view, query and print specific GIS data from their homes, school, or workplace;
- Introduction of the new **Insolvency Act** which provides guidance to businesses and the Judiciary in the event of companies dissolving;
- Introduction of an **online VAT return** and **Online Business Activity Statement (BAS)** submission e-service;
- Introduction of **ASYCUDA World** to improve customs clearance;
- Introduction of **Electronic Funds Transfer** by Central Bank, currently only among banks and to be extended to the public next year; and

- Promulgation of **Mediation Rules** by the Chief Justice which provides a more speedy resolution of commercial cases.

Mr. Speaker, to increase efficiency and improve service delivery, several other additional **business-related government services** will be offered **online** as from next year, including:

- Application for **construction permits**;
- Application of **Business Licenses**;
- A more **Integrated Business Registration system** that will allow simultaneous processing of license applications and tax identification numbers (TIN);
- **e-Payment of registration fees and charges** for various Government services;
- **Mobile Phone e-Payment**;
- A **Collateral Registry** to enable the registration of movable assets such as stocks and shares;
- **E-Trade Portal**, which is an online platform that contains relevant information on trade, including laws and regulations, standards, procedures, guidance notes, fees, forms, licenses and permits on a product-by-product basis.

In 2014, Government will accelerate its efforts to facilitate investment and further improve the business climate. The MFTI is in the process of establishing a fully-staffed Division in the Ministry whose primary mandate



will be to monitor and ensure the timely implementation of additional actions required to improve the business environment and raise Seychelles' ranking in the ease of doing business.

Mr. Speaker, further to the above, additional e-services will be provided by Government as of next year, including: launching of an online National Land Registry; a new biometric smart-ID card; digital Signatures by DICT; an e-filing portal for tax payment and other services.

### **17. Investment Promotion and other Developments**

Mr. Speaker, we will continue to promote Seychelles as an attractive investment destination. Two MoUs on mutual cooperation with overseas international investment agencies were signed in 2013 and SIB will sign more in 2014. SIB will also host four more international investment forums in 2014. We need to compete more aggressively on the international scene if we are to become a premier destination for investment.

Mr. Speaker, while we continue to attract new foreign direct investment we need to better appreciate and increase our support for local investors. Although significant advances have been made, our investors still face major difficulties when setting up their businesses.

To better respond to their needs SIB will hold a national forum on investment in Seychelles in the first half of 2014, where all Government agencies will present their policies and procedures. The business community will also have the opportunity to share their experiences.

Mr. Speaker, with regards to major investment projects, the Savoy hotel at Beau Vallon is nearing completion and will be open by early next year. The

Bel Ombre hotel is progressing well and Government is the early phase of discussions with potential investors for two major hotel projects in South and West of Mahé. Development of the Eden Island residential villas have now entered the last phase.

### **18. We will Invest More in Small Businesses**

Mr. Speaker, in 2013, Government played its part to improve access to credit for small and medium enterprises (SMEs). The Small Business Finance Agency (SBFA) replaced the Concessionary Credit Agency and the lending threshold was increased to SR300,000.

As a further boost to the SME sector and in line with Government's continued efforts to provide financial assistance with more favorable loan conditions, a new SME Financing Incentive Scheme was recently put in place with commercial banks. Already, during its first four months, a total of 35 applications amounting to SR33 million have been approved. This, Mr. Speaker, is a clear sign of an economy that is buoyant.

The newly established Department of Entrepreneurial Development and Business Innovation will intensify its efforts to promote innovative practices and diversity amongst SMEs and will continue to support small entrepreneurs.

To further underline its commitment toward small businesses and households, the Government will in 2014 inject millions of rupees in various investment schemes.

First, **we will increase financial support toward SMEs totalling SR45 million** through:

- A further SR30 million injection from the Government budget toward SBFA
- SR10 million in lending from Nouvobanq and SCB to SBFA
- SR5 million toward interest rate subsidies for the SME Financing Scheme through commercial banks.

Second, Government will inject **SR3 million towards the ADF** and another **SR3 million** toward the newly-created **Agricultural and Fisheries Disaster Insurance Scheme**.

Mr. Speaker, this followed Government's recent decision to increase the ADF lending threshold to SR750,000 from SR500,000. Government has also re-affirmed its commitment to replenish the Fund as and when the necessary.

#### **19. We will Invest more in Renewable Energy Schemes**

Mr. Speaker, our Government aspires to transform Seychelles into an example of an environmentally sustainable country driven by clean energy. In 2014, we will invest SR4 million to support small businesses and households through a number of renewable energy schemes as follows:

- **SR3 million** toward the Photovoltaic Rebate Scheme; and
- **SR1 million** toward interest rate subsidy under the Seychelles Energy Efficiency and Renewable Energy Programme (SEEREP).

These two schemes have already been announced. We will work with our development partners to identify potential funding for more such schemes, and to target other sectors, including the commercial sector.

## **20. Subsidizing more Public Services for Low Income Groups**

Mr. Speaker, Government has pledged to support the more vulnerable groups in our society, and it will continue to do whatever is necessary to protect them. In 2014 we will spend:

- SR27 million to maintain the subsidy in public transport; and
- SR12 million to ensure that consumers utilizing less than 400 kilowatts of electricity per month do not see an increase in electricity tariffs as a result of the rebalancing exercise.

An annual review taking into consideration variables like fuel prices, exchange rates, new technology and other schemes to support moves to renewable energy, will be carried out to establish future levels of subsidies.

## **21. We will Invest more to assist First Time Home Buyers**

Mr. Speaker, last year I announced our Government's intention to introduce a new housing finance subsidy scheme for first time homebuyers. I am pleased to announce that we will launch this scheme with effect from January 1, next year. We have budgeted SR21 million for this scheme.

Through this scheme first time home buyers earning under SR20,000 per month will qualify for a Government subsidy in the form of a cash grant—between R50,000 to R200,000—that will go toward the applicant's down payment. To qualify for the subsidy applicants will need to have a minimum

of 10% as personal contribution towards the cost of the property. The level of subsidy will vary according to salaries of applicants as follows:

<b>Income (after PIT)</b>	<b>Maximum Subsidy (SR)</b>
Up to 5,999	200,000
6,000 to 6,999	180,000
7,000 – 7,999	160,000
8,000 – 8,999	140,000
9,000 – 9,999	120,000
10,000 – 10,999	100,000
11,000 – 11,999	95,000
12,000 – 12,999	90,000
13,000 – 13,999	85,000
14,000 – 14,999	80,000
15,000 – 15,999	75,000
16,000 – 16,999	70,000
17,000 – 17,999	65,000
18,000 – 18,999	60,000
19,000 – 19,999	50,000
20,000 and above	0

MFTI and MLUH will provide more details before the end of this year.

## **22. Salary Review**

Mr. Speaker, for five years now, the Seychellois people have made numerous sacrifices. Our people have gone through great pains to sustain the effects of the economic reforms which have today borne fruit. Whilst there have been salary increases in recent years, these have lagged behind inflation.

As President James Michel said in his most recent National Day address, the time has come for our Government to share the rewards of our success with our people. And as he promised, in 2014 Government will implement a comprehensive review of the salary structure and the salary level.

### **22.1 A New Salary Structure**

A new Public Service Salary Table will be established to replace the current Wage Grid. This new Salary Table will determine salaries of constitutional appointees and the public service. Government will shortly present details of this new structure to the National Assembly and seek approval for this structure through new laws and amendments to existing laws.

The new Salary Table will provide a fair and transparent mechanism for salary management in the public service.

The new Salary Table will become fully effective for the Judiciary from 1st July 2014. For Constitutional Appointees other than the Judiciary, it will become effective in two stages; they will receive the first increment from 1st July 2014, and the second from 1st December 2014.

### **22.2 Increase in Wages and Salaries in 2014**

Mr. Speaker, Government has decided to give a substantial, national salary increase in 2014. The increases being proposed will ensure a proportionate increase in the salaries of all individuals across government.

### **22.2.1 Increase in Minimum Wage**

Mr. Speaker, with effect from January 2014, the minimum wage for all workers other than casual workers will increase by 20% from SR22.25 to SR26.70 per hour or from SR3,375 to SR4,050 per month (based on a 35 hours' work per week). The rate for casual workers will rise from SR25.65 to SR30.78 per hour.

Mr. Speaker, through the lowering of business tax to 30% for most medium sized businesses this will allow the private to absorb the increase minimum wage, without the need to increase the cost of goods and services.

### **22.2.2 Increase in Salaries of the General Public Service**

Mr. Speaker, on 1st January 2014 salaries of the public service will also increase, and will be based on the existing salaries as at 31<sup>st</sup> December 2013. The enhancements will be as follows:

- Employees from SG1 to SG4 on the Government wage grid will receive salary increases of 20%;
- Employees from SG5 to SG8 will receive salary increases of 15% ;
- Employees from SG9 to SG12 will receive increases of 10%;

Mr. Speaker, home carers will also receive an increase of 20%.

These increases in public service salaries, constitutional appointees, and others like home cares, will cost Government SR131.5 million, of which R101 million will be for ministries and departments and SR30.5 million for budget dependent agencies.

To absorb these significant salary increases and other raises in benefits, Government has decided to review its recruitment policies in 2014. A thorough manpower budgeting exercise will be conducted during the coming months to review the structure of all Government ministries/department/budget dependent entities. Government expects that through the salary enhancements public servants will become more productive and hence minimize the need for additional recruitment.

### **23. Salaries of Public Enterprises**

Mr. Speaker, over the years, because public enterprises were accorded more autonomy in setting their salaries, and since salaries of constitutional appointees were fixed under the law, the gap between salaries of public enterprises and constitutional appointees has widened significantly.

To address this anomaly, Government has decided to cap salaries in all public enterprises to be consistent with the new Salary Table. Commercial enterprises will continue to be allowed to give other benefits such as bonuses however, this will be subject to new policies and guidelines.

### **24. Increases in Benefits and Allowances**

#### **24.1 Benefits**

Mr. Speaker, we will also increase the various benefits as follows:

	Increase (in SR)
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Orphan Benefit	80
Invalidity Benefit	140
Injury Benefit	130
Survivor (widows) Benefit	130
Sickness Benefit	130
Maternity Benefit	130
Retirement Pension	200

The impact on the 2014 budget of raising those benefits will be SR25.2 million.

## **24.2 Allowances**

Mr. Speaker, we are proposing an increase of SR100 per month on allowances of **apprenticeship and post secondary institutions**. The total impact on the 2014 budget is SR4.9 million.

**Graduate housing allowance** will in 2014 increase by 50% relative to the current level, from SR2,000 per month to SR3,000 per month.

## **25. Medium-Term National Development Strategy**

Mr. Speaker, to achieve sustained development we need to plan carefully and structure our various strategies to meet our aspirations. Last year Government began to prepare a new Medium-Term National Development Strategy (MTNDS).

This new strategy will offer new perspectives of the development of Seychelles and will be an important instrument in promoting more national

unity and social justice. These are key elements needed to ensure that sustainable development and economic stability prevail in an environment of good governance, social cohesion, peace and security.

In the preparation of the MTNDS, consultations will take place with all stakeholders including the private sector and civil society. Completion and validation is planned for September 2014. This will coincide with the time when the rest of the world will be preparing for the launching of the UNDP led Post-2015 Development Framework.

## **26. Future engagement with the International Monetary Fund**

Mr. Speaker, Government is of the view that it would be in the best interest of Seychelles to have a new programme with the IMF. A new programme will continue to benefit our country, by supporting macro-economic discipline, assisting further build-up of foreign exchange reserves, and maintaining confidence with development partners, investors, and international rating agencies. Discussions are still ongoing to determine the exact type of program.

## **27. Conclusion**

Mr. Speaker, our long journey through the economic reforms has been a difficult one. Without the resilience and sacrifices by everyone, we could not have reached where we are today. It is important that we remind ourselves that we have gone a long way, but we still have much more to do if we are to raise the income level of our people and bring more prosperity.

However, today Government is pleased that we are able to share the benefits of the success that we have realized until now. The theme *Beyond Reforms: Accelerating Growth for Shared Prosperity* that we have chosen

for this year's budget is a symbol of the journey that we have gone through and what we are able to give back to our people.

Mr. Speaker, our Government has repeatedly emphasized the need for our growth to be inclusive, whereby each and every member of our society benefits equitably from it. Through today's budget address I have provided each and everyone, from the business community to the households, students, our children, and all other stakeholders something to make their lives better.

On a final note Mr. Speaker, I would like to emphasize the need for all of us to continue working hard so that together we can bring more success to our beloved Seychelles and take it to the next level. It is only through hard work that we can continue to increase prosperity and improve the lives of our people even more.

Before I conclude, I would like to thank President Michel for his leadership and for his determination to improve the lives of the Seychellois people. I thank Vice-President Faure for his continued drive in supporting our reforms. I thank my colleague ministers for their support and their technical teams for their invaluable contributions.

I thank my dedicated and competent team at the Ministry of Finance, Trade and Investment for their professionalism and determination.

Mr. Speaker, I want to recognize the support of the private sector and civil society have and their inputs, suggestions and contributions which continuously assist us in modernizing our policies.

On behalf of the Government express our appreciation to the international organizations who continue to support our development.

Mr. Speaker, I thank you together with all the other members of the National Assembly for the support and patience that you have continued to show toward MFTI this year.

I finally would like to thank the people of Seychellois for their support toward our Government, our policies and our efforts to improve our country.

On this note, I commend the Appropriation Bill 2014 for the approval of the National Assembly.

Thank you.