



Project Proposal for

Seychelles

January 2025

Component: Revenue

Module: RM I – Tax Policy



PROJECT SUMMARY

COUNTRY: Seychelles

LEAD DEPARTMENT: FAD

REGION: AFR

PLANNED DATES: FY25-27

FUNDING PROGRAM TITLE: Seychelles – GPFP Revenue Module I&II

PROJECT MANAGERS: Andualem Mengistu (Tax Policy, FADT1, Lead)

ESTIMATED BUDGET \$336,470

CONTENTS

Acronyms	4
I. Project Purpose	5
II. Background.....	6
Macro-fiscal situation	6
Country engagement and alignment to reform priorities	6
III. Project Modules - Description.....	7
Table 1. Summary of Objectives covered by the Proposal	7
A. RM I – Tax Policy	7
Scope	7
Program Objectives	7
Expected Results (outcomes)	7
IV. Organizational Arrangements	8
A. Country Engagement.....	8
B. Delivery Modalities.....	8
C. Coordination / Cooperation.....	8
V. Risk Assessment and Mitigation	9
VI. CD Delivery Plan.....	10
Table 2. Summary of Indicative CD Delivery.....	10
Table 3. First year workplan	10
VII. Program Financials	10
VIII. Targeted Logical Framework	11
A. RM I – Tax Policy.....	11

ACRONYMS

CD	Capacity development
DRM	Domestic resource mobilization
FAD	IMF's Fiscal Affairs Department
ECF	IMF's Extended Credit Facility
RSF	IMF's Resilience and Sustainability Facility
VAT	Value added tax

I. PROJECT PURPOSE

The country's authorities have expressed interest in a new capacity development (CD) project to continue the IMF's Fiscal Affairs Department (FAD) supported reforms to mobilize tax revenue.

The authorities plan to implement a fiscal consolidation program to ensure debt sustainability and limit debt distress, while creating fiscal space to invest in capital projects that help enhance growth and mitigate the risks emanating from climate change. The interest in CD was expressed during an FAD meeting with the delegation of Seychelles at the IMF-World Bank 2024 Annual Meetings.

This new CD project will focus on supporting the country meet the targets embedded in the IMF's Extended Credit Facility (ECF) and Resilience and Sustainability Facility (RSF). Specifically, the CD project will help identify inefficient tax exemptions, and improve the technical capacity of officials, including estimating revenue potential, tax gap analysis, and ex-post evaluation of tax policy.

The estimated budget for this three-year project is \$336,470, and endorsement is requested for the full amount through FY27. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

II. BACKGROUND

Macro-fiscal situation

The economy of Seychelles, while recovering from the pandemic, has recently experienced a slowdown in growth. Despite the steady performance of sectors like tourism, IT, construction, and fishing, recent natural (flooding) and man-made (explosion) disasters have hindered the recovery process. Moreover, the long-term sustainability of the tourism sector, constrained by space limitations and environmental considerations, and the country's vulnerability to environmental shocks raise concerns about the future economic outlook.

Growth-friendly fiscal consolidation is key to preserve debt sustainability and limit debt distress while financing significant public investments. The increasing demands of tourism and climate change necessitate significant investments in infrastructure and adaptation measures. To balance these spending needs with debt sustainability, robust revenue mobilization strategies are crucial.

Country engagement and alignment to reform priorities

The IMF has provided CD on domestic resource mobilization (DRM) for the past two years. This involved a comprehensive analysis of the value added tax (VAT) system, identification of potential reform options to enhance efficiency, and quantification of tax expenditures (forgone revenue) within both the VAT and Business Income Tax systems of the country.

This new CD project will build on previous support on DRM. The engagement would focus on:

- Strengthening the tax policy framework to create a more efficient, streamlined, and effective tax system.
- Rationalizing tax expenditures.
- Improving the analytical capacity to forecast revenue, and to identify tax expenditures, estimate their fiscal cost, and distributional impact.
- Evaluating tax expenditures.

III. PROJECT MODULES - DESCRIPTION

This proposal will provide CD support to Seychelles in the area of tax policy. FAD CD will support improvements within the strategic objectives presented in Table 1.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM I / Tax Policy	Strengthen Policy Monitoring, Evaluation, and Institutions

A. RM I – Tax Policy

Scope

The focus of the CD activities is the development of appropriate models and hands-on training to enhance the technical capacity of the authorities to conduct ex-ante analysis of the revenue and distributional implications of potential tax policy changes, and ex-post evaluation and monitoring of tax policy measures.

Program Objectives

The objective of the program is to support the authorities in developing the capacity to (i) conduct ex-ante evaluation of policies, such as estimating the revenue foregone due to tax provisions; (ii) perform ex-post evaluation of policy through cost-benefit analysis; and (iii) conduct improved revenue forecasts.

Expected Results (outcomes)

The project's expected outcomes include streamlining ineffective tax exemptions by reducing VAT exemptions and zero ratings, and eliminating unproductive tax exemptions and incentives within the corporate income tax (CIT), customs duties, and excise tax systems. Additionally, the project is expected to improve the authorities' capacity to evaluate the revenue forgone due to proposed policy adjustments and enhance their ability to conduct post-hoc evaluations of policy effectiveness through cost-benefit analysis.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Country Engagement

In the last two years, Seychelles has benefited from three tax policy CD activities financed by the IMF. The first two CD activities assessed the VAT system in the country, identified reform options, and provided legislative amendments to address the identified gaps in the VAT law of the country. The authorities have made changes to the VAT law in accordance with the findings and suggestions of the CD activities. Furthermore, the activities identified tax expenditure provisions in the VAT and CIT system of the country and estimated the associated foregone revenue. A tax expenditure report containing these findings is expected to be published by the authorities by December 2024. During the IMF-World Bank Annual Meetings in October 2024, the authorities expressed their interest in expanding the coverage of the tax expenditure estimates to include customs duties, excises, and personal income taxes.

B. Delivery Modalities

CD will comprise of a mix of remote and in-person activities. Virtual deliveries will be used to provide efficiencies to in-person support, including pre-engagement meetings and post- follow-up meetings. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, ensure short-term expert work is aligned to plans, coordinate with other CD providers, and adjust reform implementation plans.

C. Coordination / Cooperation

Partner	Coordination Type	Coordination Area	Frequency
IMF's African Department	Supporting the reform targets set in the ECF and RSF	Tax Policy	Bi-yearly

V. RISK ASSESSMENT AND MITIGATION

Category/Module	Description	Risk Assessment	Mitigation Measures
EXTERNAL CLIMATE/CONDITIONS			
RM I - Tax Policy	None	Low	N/A
POLITICAL SUPPORT			
RM I - Tax Policy	Lack of political support for reforms.	Medium	Keep close engagement with IMF area department team on country priorities and developments. And make sure that the engagements are in line with the objectives included in the ECF and RSF programs.
MANAGEMENT AND TECHNICAL STAFF SUPPORT AND COMMITMENT			
RM I - Tax Policy	Low commitment of management to follow-up the CD and invest in the capacity of the staff.	Medium	Engage with senior management and technical staff pro-actively and explain the importance of the CD activities to achieving the overall macro-fiscal objective of the government.
RESOURCE ADEQUACY			
RM I - Tax Policy	Insufficient technical capacity and human resources necessary to implement reforms, and to use new tools developed as part of the CD.	Medium	Ensure CD plans include sufficient capacity building and training elements and prioritize CD to priority or highest risk areas where resources are limited.
OTHER RISKS			
RM I - Tax Policy	Multiple donors are providing technical assistance on DRM (for example: the World Bank provided support on transfer pricing) and inconsistent advice, gaps, or overlaps may arise as a result.	Medium	Take an active role in engaging with other donors to ensure support is well coordinated.

VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY25	FY26	FY27	Grand Total
RM I – Tax Policy				
HQ led CD mission	1	1	1	3

Note: In-person delivery was chosen in all instances because of the need for hands-on training and because extensive discussions are required with numerous local stakeholders.

Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
RM I – Tax Policy		
Q4/FY25	Field-Based work - FB	Tax expenditures
Q2/FY26	Field-Based work - FB	Evaluation of tax expenditures and revenue forecasting
Q1/FY27	Field-Based work - FB	Evaluation of tax expenditures and revenue forecasting

VII. PROGRAM FINANCIALS

Module	FY25	FY 26	FY27	TOTAL (USD)
Direct Delivery				
RM I - Tax Policy	\$97,328	\$106,384	\$110,746	\$314,458
Subtotal				
Trust Fund Management Fee (7%)	\$6,813	\$7,447	\$7,752	\$22,012
TOTAL	\$104,141	\$113,831	\$118,498	\$336,470

Note: The estimated budget for this three-year project is \$336,470 and endorsement is requested for the full amount through FY27.

VIII. TARGETED LOGICAL FRAMEWORK

A. RM I – Tax Policy

Objective	
Strengthen Policy Monitoring, Evaluation, and Institutions - TPM	
Outcome(s)	Indicator(s)
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	Models or tools developed or improved
Improved transparency and outreach	The fiscal cost and ex-post evaluation of tax expenditures are published