

BUDGET SPEECH 2013

Delivered by the Minister for Finance, Mr. Pierre Laporte

December 4th, 2012

Mr Speaker

Leader of Government Business

Leader of the Opposition

Honourable Members of the National Assembly

Fellow Citizens

A MORE DYNAMIC ENVIRONMENT FOR ACCELERATED GROWTH

1. Introduction

Mr. Speaker, in 2012 the Seychelles economy realized positive growth despite the effects of the financial meltdown, still being felt in many parts of the world. The impact of rising food and fuel prices internationally were felt by us all as domestic inflation soared to its highest level in four years. However, through it all we have been resilient as the fundamentals of our economy remains robust.

Supporting the positive growth this year, Mr. Speaker, has been a stable macro-economy supported by strong monetary and fiscal discipline. Nevertheless, we have ensured that people remain at the heart of our growth strategy through continued investment in their socio-economic needs.

Mr. Speaker, our private sector must remain dynamic because it is the engine of growth. This is why our Government is constantly exploring avenues to make the investment climate more conducive for the private sector to thrive. In 2012, we invested significant time and resources to ensure that it is easier, less costly, and less bureaucratic for anyone aspiring to do business in Seychelles.

When I took office in March this year, I made a firm commitment to build on the work started by my predecessor, Vice President Faure, to revamp and modernize the business environment in Seychelles. We both agreed that Seychelles did not belong in the “above 100” club of the World Bank’s Ease of Doing business ranking and that we could do better. With this shared vision we established an action plan, which we have implemented with vigour and determination, with the support of key stakeholders including our international partners and the private sector. Those efforts paid off as Seychelles climbed 29 places in the World Bank ranking. Mr. Speaker, such a significant improvement in one year is by any standard a major achievement.

In 2012, Seychelles was again ranked number 1 in Africa for e-Government. This is the result of this Government’s vision to adopt a modern approach in delivering its services by taking advantage of information technology. Our investment in the recently commissioned submarine cable link is testimony to that commitment. However, Mr. Speaker, putting that technological platform in place is not an end in itself. The human touch remains critical, hence the need for Government employees to also raise the bar and deliver their responsibilities with more professionalism, efficiency and dedication.

Mr. Speaker, the 2013 budget has been designed around measures that Government needs to take in order to accelerate economic growth, which is the theme of my budget. In doing so, however, this Government will always ensure that our social fabric is preserved.

2. Overview of the Economy in 2012

Despite the challenging global environment we forecast real GDP growth of 2.7% compared to 5% in 2011. We have recorded positive performances in most sectors of the economy, including tourism, industrial and semi-industrial fishing, manufacturing, and construction.

Mr. Speaker, our biggest economic challenge today is inflation, which is largely impacted by development in international markets. World prices of basic commodities and petroleum products have all increased this year. This was exacerbated by the temporary depreciation of the Seychelles rupee in the first seven months of 2012. This caused inflation to rise to over 9%, however, owing to a tighter monetary policy by the Central Bank of Seychelles (CBS), it has since gradually declined to 7.6% by end-October.

Other economic indicators affirm that our economy remains strong and resilient. The Seychelles rupee has stabilized against major world currencies following the earlier depreciation. Our primary fiscal surplus is projected to exceed the targeted level whilst public debt has fallen to 80% of GDP compared to over 150% of GDP in 2008. Official foreign exchange reserves have continued to grow and we expect it to reach around US\$300 million or equivalent of 2.7 months of imports at end-2012. The current account deficit on the balance of payments has remained unchanged at 22% of GDP.

Unemployment rate remains below 3% whilst the number of people on welfare has fallen from 5,000 in 2011 to around 3,500 this year.

Mr. Speaker, our economy has continued to suffer as a result of piracy. So far this year we have spent around SR50 million from the national budget on piracy-related expenses.

3. Budgetary Performance in 2012

Mr. Speaker, we forecast a primary fiscal surplus of around SR837 million or 5.9% of GDP this year. This is 1.2 percentage points above the budgeted 4.7%. Government expects to collect SR6.1 billion in revenue, SR770 million or 14% higher than projected. Expenditure will amount to SR5.8 billion or 14% above budget.

Trades Tax is expected to be 7% lower than anticipated, but this is compensated for by the increase of 7% in collection of Excise Tax on locally manufactured products. Since the Value Added Tax (VAT) was not implemented as planned in July this year revenues were instead collected in the form of Goods and Services Tax (GST). Collection of GST for the entire 2012 is forecast to reach R1.5 billion which is R108 million above the combined projected amounts for GST and VAT. Business Tax is projected to fall by around 1% on account of withholding tax.

Income Tax is projected at SR685 million, SR40 million or 6% above budget. The increase is mainly attributable to the private sector, which in turn reflects strong job creation.

Other Taxes and Stamp Duty contribution expect to be 61% higher than projected. This follows the receipt of exceptional property transfer fees from the sale of D'Arros island which raked in a total of SR288 million.

Regarding expenditure, both recurrent and capital expenditure are expected to exceed their respective budgets, in particular ministries and departments, benefits and approved programs of SSF and capital projects. Compared to a budgeted SR5.1 billion, expenditure will total SR5.8 billion. This will be SR700 million or 14% above budget and is explained by the following: (i) interest payments of SR161 million higher than budgeted due to stronger issuance of T-bills to assist CBS with monetary policy; (ii) SR351 million more than expected in grant-financed projects; and (iii) SR 188million additional expenses, including for Government restructuring.

In 2012, we enacted the Public Finance Management Act which provides a stronger framework for management of public finances. This will be accompanied by additional measures in 2013, including bringing accounts staff of all Ministries under the responsibility of the Ministry of Finance.

4. Monetary Policy in 2012

Mr. Speaker, 2012 has been a challenging year for monetary policy. CBS had to tighten monetary policy to counter rising inflation. However, in the process this caused a considerable reduction in liquidity available for commercial bank lending. Moreover, it caused a major rise in interest rates. Now that inflation is subsiding CBS has begun to relax monetary policy, which would provide more bank liquidity and increase domestic lending.

5. Anti Money Laundering and Exchange of Information Issues

Mr. Speaker, the recent incidents involving two Corporate Service Providers accused of accepting offers to launder money through Seychelles was a wake-up call to our offshore financial sector to remain alert and vigilant.

Whilst certain groups have used these incidents to try and tarnish the image of Seychelles as a clean offshore jurisdiction, this has failed to diminish the respect that Seychelles has earned from the international community including the OECD, who has recognized the concrete actions that we have taken to fight money laundering, financing of terrorism and to improve co-operation and transparency through exchange of information on tax matters.

Mr. Speaker, as this Assembly would recall, we recently amended the Anti-Money Laundering (AML) Act to strengthen our Financial Intelligence Unit (FIU). These amendments should also facilitate international co-operation once Seychelles is admitted as a member of the Egmont Group, the international grouping of FIUs. We have also strengthened our legislative framework governing offshore activities, such as Trusts, Foundations, Funds and Taxation.

Only in September this year, OECD confirmed Seychelles' status as fully compliant with its international standards on transparency and exchange of information. In recognition of our advancement in this area OECD has invited Seychelles to be an observer on its Peer Review Group meetings.

6. Seychelles' Investment Climate Significantly Improved in 2012

Mr Speaker, in 2012 we made considerable progress in improving the business climate in Seychelles. The Registrar General's office has facilitated the process of registering companies through an online registration and name search facility. Today a company can be registered within 48 hours and a unique business registration number (BRN) and tax identification number (TIN) issued instantly.

Through recent amendments to the Companies Act a flat fee structure was introduced for various services associated with company registration. It is now no longer a requirement to use a notary or lawyer to sign off documents when creating companies. This will speed up the registration process and reduce costs.

The Ministry of Finance, Trade and Investment (MFTI) recently introduced an online import and export permit application system and the **Seychelles Licensing Authority (SLA)** will shortly implement a similar system for business licenses. The **Immigration Division** has streamlined the application process of work permit and a permit is now obtainable within 7 days. The Division now publishes guidelines for work permit application on its website to improve transparency.

MFTI and the Seychelles Chamber of Commerce and Industry recently signed a Memorandum of Understanding to facilitate co-operation and improve consultation on policy matters. In 2013, as Minister for Finance, Trade and Investment, I also will intensify consultations with representatives of other private sector groups.

On the ground several major public and private sector projects have been or expect to be completed in 2012, including the Unity House Pension Fund building, the Kempinski resort, and Eden Plaza. Major projects under construction include Long Island hotel developments, Eden Island villa development and hotel, and Savoy Resort and Spa.

For 2013, new projects expected to begin include Bel Ombre hotel, E-marine sub-marine cable depot project, and hotel projects on Alphonse and Platte islands. In Victoria several important projects are proposed, including a town hotel on Albert Street, a multi-story trade centre at Huteau Lane, a new building for Nouvobanq on Francis Rachel Street, which would further embellish Victoria and make it a more dynamic and vibrant little city.

7. Performance of Key Economic Sectors

I. Tourism

Tourism remains the key sector of our economy. It recorded positive results in the first 10 months of this year, with visitor arrivals up by 7% compared to the corresponding period in 2011. Earnings are projected to reach US\$305 million in 2012, or 5% above last year.

II. Manufacturing Sector

Overall, manufacturing activities picked up in 2012. SEYBREW's alcohol and soft drink production have so far grown by 10% and 9% respectively, and other local spirits production increased by 41 per cent. Mineral water production rose by 8%; canned tuna production increased by 2% up to September 2012. In

construction, there were mixed performances in the production of quarry products.

In the fisheries sector, whilst Purse Seine catches in our EEZ decreased during the first semester of 2012, transshipment through Port Victoria increased over the same period. A significant increase in semi-industrial catch was recorded. However, artisanal catch decreased over the same period largely because of piracy concerns.

III. Financial Service Sector

CBS has continued to promote competition and transparency in the banking sector. Draft laws for Hire Purchase and Credit Sales, and for Leasing have been submitted to Cabinet; the former is already approved. The Bank has seen increased interest from potential investors in the banking sector. Regulations to cap commercial banks' fees and charges will become effective in the coming weeks. Cabinet this year approved a policy paper that paves the way for drafting of a Financial Services Commission (FSC) bill. The FSC, which will replace the Seychelles International Business Authority (SIBA), will become operational in 2013. It will regulate non-bank financial institutions, including insurance.

So far in 2012, SIBA recorded a 16% increase in revenue compared to 2011 due mainly to renewal of IBCs. Seychelles has signed Double Taxation Avoidance Agreements with 21 countries of which 18 are in force. Government will continue with negotiation for additional DTAAAs and we expect to conclude agreements with SADC and COMESA member countries in 2013.

IV. Agriculture and Fisheries

Mr Speaker, during 2012 Government took several important steps to boost the agricultural and fisheries sectors. The three support facilities for the livestock sector namely, the animal feed factory, the hatchery and the abattoir, were handed over to the private sector to enhance efficiency. Nevertheless, Government had to continue to provide some support to the activities of the abattoir through a subsidy on abattoir fees to keep the cost of slaughter more affordable.

During 2012 Mr Speaker, the Ministry of Natural Resources and Industry (MNRI) intensified its efforts to engage the support of several international organizations such as the Food & Agriculture Organisation (FAO), African Development Bank (AfDB), International Fund for Agricultural Development (IFAD), NEPAD and COMESA, to seek their financial and technical support for various programs of the MNIR and the sector as a whole. A new agricultural policy and strategy document will be ready by the first quarter of 2013.

There were also major developments in the fisheries sector this year. Government continued to provide financial support to the sector through the Fisheries Development Fund, which up to September 2012 approved 11 loans for a total of SR 42 million for the semi-industrial fishing. SFA has started to review and update the fisheries legislation in consultation with stakeholders and completion is expected in 2013. To promote sustainable exploitation, SFA in collaboration with relevant stakeholders have also developed management plans for certain species.

V. Information Technology

Mr. Speaker, in August 2012 we saw the arrival of the submarine cable. This project, which has cost Government US\$27 million, is critical for the future of our economy as it will boost activity in several sectors notably telecom, financial services, and others. It is hoped that the telecom companies take advantage of this technology to improve the quality of their services and provide more competitive rates. We are encouraged that the various regulators are taking a tougher stance on operators whose services fail to meet consumers' expectations.

8. Public Enterprises

Mr. Speaker, it is very important for public enterprises to remain strong and financially sound, because each time that an enterprise falls in financial distress Government has to bail it out through budgetary resources. This deprives other sectors of invaluable resources that could otherwise be invested to enhance the wellbeing of the people. Therefore our policies and monitoring mechanisms need to remain strong and effective.

We made significant progress in reforming our public enterprises, through privatization, strategic partnership, internal restructuring, reform of governance structures, and strengthening of internal control systems.

I. Privatisation of Seychelles Savings Bank (SSB) is Progressing

Mr. Speaker, to promote private participation in the banking sector Government in 2012 completed the first phase of privatization of SSB. However, whilst it offered 40% of the shares—to account holders and staff—

only 23% were subscribed. Government is currently exploring its options regarding future privatization plans for the SSB.

II. A new Air Seychelles

Following the signing of the strategic partnership with Etihad Airways in February this year, in which Etihad took a 40% shareholding in Air Seychelles, the initial results of this alliance are encouraging. The airline has undergone a re-engineering program of the business to ensure a healthy and prosperous long-term future for the airline, including a rightsizing program. It has introduced one new Airbus A330 into the fleet—another expected in 2013—and has increased the load factor of seats. Air Seychelles is now moving forward positively and could break even for the financial period 1st March 2012 to 31st December 2012, if market conditions remain as forecast.

The airline is planning to introduce services to Hong Kong in February 2013, following delivery of its second Airbus aircraft in January 2013, operating three return flights per week from the Seychelles to Hong Kong via Abu Dhabi.

III. We have Restructured the Development Bank of Seychelles (DBS)

In 2012, we restructured DBS. This restructuration included: (i) a new mandate that was approved by Cabinet; (ii) Incorporation of DBS as a company, though this process has been delayed due to certain issues encountered in negotiations with other shareholders; and (iii) a program to revamp the internal control and risk management structures of the bank to enhance transparency and accountability with assistance of the EU through a €300,000 grant.

The Bank has reduced its volume of approved but undisbursed loans from SR153 million at end-2011 to SR69 million by September 2012. Besides approving loans of SR6 million for project financing early in the year, the bank has also approved the sum of SR22.5 million with respect to the SFA/EU funds for the fishing sector.

The Bank has secured a line of credit of €5 million from the European Investment Bank (EIB) and €2.5 million from Nouvobanq. The latter will be used to complement the EIB loans towards financing of up to 75% of eligible project cost. Negotiation for a US\$10 million credit line from the Exim Bank of India is close to finalization. The bank has also started negotiation for lines of credit from AfDB and the Bank of Ceylon. Through these credit lines DBS is expected to resume lending in 2013.

IV. A new Setup for Government's Housing Financing and Management of its Housing Stock

Mr. Speaker, the Housing Finance Company (HFC) also underwent fundamental changes in 2012, including splitting the functions of the institution into two distinct operations. HFC is now incorporated as a company with its functions restricted to lending, whilst management of Government housing is now the function of the Property Management Company (PMC). The two institutions will continue to work closely given their complementarities.

Mr. Speaker, whilst Government remains committed to making social housing affordable to lower income households, further reforms are needed in this area. The current model whereby HFC subsidizes lending rates is not

sustainable and could jeopardize the long-term viability of the institution. Thus it needs to adopt a more sustainable lending model.

We also need to review our system of subsidy for social housing. We have already obtained technical assistance from the World Bank in this domain. Based on the results of this review we will reform the subsidy mechanism.

A major challenge for HFC is recovery of loans. In 2013, HFC will accelerate its debt recovery and review its loan approval process to reduce the risk of defaults. I take this opportunity Mr. Speaker, to appeal to all HFC clients to honour their responsibility and repay their loans on time to avoid risks of litigation, and so that others could also benefit with a roof over their heads.

V. Praslin Transport Company (PTC) re-absorbed by SPTC

Mr. Speaker, with the winding up of the Praslin Development Board, Seychelles Public Transport Corporation (SPTC) has re-absorbed the PTC as a subsidiary. This would increase synergy between the two organizations and allow for efficiency gains in their operations.

VI. Island Development Company (IDC)

Mr. Speaker, our outer islands present a major potential for our tourism industry. During 2012, IDC further consolidated its position as a performing parastatal, financially viable through its own operations.

Besides its tourism activities IDC has assisted Government agencies in the fight against piracy through logistical support. Furthermore, IDC has absorbed and assisted in the rehabilitation program of inmates on Coetivy and Marie-Louise.

Tourism activities on outer islands are expected to grow further in 2013 and IDC will be offering additional Islands for development.

VII. Seychelles Petroleum Company (SEYPEC)

Mr. Speaker we are keeping under close review the financial position of SEYPEC which is weakened by losses on its tanker operations. Two tankers were recently placed on long-term leases and we have started negotiations with the main lender to restructure the existing tankers' loans. If successful this would significantly improve the overall cash flow of SEYPEC.

Another measure that SEYPEC has taken to improve its financial position is elimination of subsidies on LPG for commercial users in May 2012. This was a first step towards eliminating the subsidy completely.

Besides the increase in international fuel prices and the adverse exchange rate impact that I alluded to earlier, SEYPEC has also witnessed a 31% reduction in the volume of Jet A1 sold in 2012, resulting from the cessation of long haul flights by Air Seychelles, though this has been partially compensated for by increase in short haul flights by other carriers. On a positive note, offshore bunkering activity has grown.

Mr. Speaker, SEYPEC's precarious financial situation also reflects the fact that it supplies fuel to PUC and SPTC at subsidized margins. As I said earlier, SEYPEC

still subsidizes LPG for private households, though as I've also noted this will no longer be the case as from January 2014. These policies have in 2012 cost SEYPEC a total of SR103 million, of which SR52 million and SR4.1 million to PUC and SPTC respectively, and SR47 million through LPG subsidy.

9. Petroleum Exploration

The search for oil and gas in our Exclusive Economic Zone (EEZ) continues. In 2012 we created PetroSeychelles, a State-owned company which is now responsible for the upstream sector of the oil industry, including promotion and supervision of exploration activities in our waters.

In view of the recent discoveries in East Africa, and as the legal framework and fiscal regime need to be revised and modernized, Government postponed its Licensing Round to 2013. This exercise is being conducted with the assistance of the Commonwealth Secretariat, IMF and World Bank. Some amendments to the petroleum legislation will be proposed to National Assembly in the first quarter of next year to ensure that the most important elements of our laws are up to date when the new Licensing round begins.

The two companies who have been allocated acreage in our EEZ for offshore oil exploration, namely WHL Energy and Afren, are preparing for their drilling commitments as per their agreements. These two companies expect to drill their first wells before 2014.

10. Economic Outlook for 2013

The outlook for 2013 remains positive and we expect the economy to grow by 3%, slightly faster than this year. Inflation will remain a challenge but we expect it to slow down to around 5%.

Tourism is projected to grow by 3% in 2013, which we expect will be achieved through growth in new markets namely Asia, Russia and the GCC. The European market will continue to be subject of uncertainty but we nevertheless anticipate a modest rebound in 2013.

The ICT sector is expected to continue to expand with a full year of benefits from the submarine cable which should lead to technological gains in other sectors of the economy and potentially open new opportunities for investment.

I want to note Mr. Speaker, that notwithstanding these forecasts, we remain cautious of the downside risks to the forecasts since, as we have said repeatedly, our economy remains vulnerable to external developments. A full account of the medium term outlook, as provided for under the Public Finance Management accompanies this budget as an Annex.

11. 2013 Budget

i. Principal Objectives

Mr Speaker, the 2013 budget is one that aims to touch the lives of each and every Seychellois in a significant way, from the average family to the business community. It is a budget that will:

- Strengthen the foundations for economic growth
- Preserve macro-economic stability within a sustainable fiscal framework
- Ensure that socio-economic needs of our people are not compromised
- Modernize the investment climate to further promote private sector-led development
- Further integrate Seychelles into the global economy

Our principal fiscal objective for the 2013 Budget is to achieve a primary fiscal balance of 5.6% of GDP, which is critical to Government's objectives of supporting macro-stabilization and achieving long-term debt sustainability.

ii. Revenue

We forecast that revenue collection will total SR6.3 billion, an increase of SR159 million or 3% over the 2012 revised projection. The increase will be mainly through higher collection of taxes. Excluding grants, we expect to collect SR5.6 billion in revenue which would be SR303 million or 6% above revised 2012. In total, tax revenue will be equivalent to 32.7% of GDP.

Revenues generated from taxes are expected as follows:

- Income and Non-Monetary Benefit Tax: SR752 million.
- Trades Tax: SR429 million
- Excise Tax: SR768 million
- Goods and Service Tax: SR 84 million
- Value Added Tax: SR1.5 billion
- Business Tax: SR922 million
- Other Taxes (including fees and charges, such as license fees, stamp duty and road tax): SR457 million.
- Non-Tax Revenue: (including dividends): SR693 million

iii. Expenditure

For the fiscal year 2013, Government proposes a total budget allocation of SR5.4 billion which represents 36% of GDP. This is an increase of SR722 million or 15% above the initial 2012 budget or 3% of the revised 2012 budget.

A total budget recurrent expenditure allocation to Ministries and Departments of SR1.9 billion is being proposed as follows:

- Ministry of Education: SR413.8 million, an increase of SR43 million or 12% above 2012.
- Ministry of Health: SR496.2 million, an increase of SR44.8 million over revised 2012 budget.
- Department of Defence: SR155 million, an increase of SR18.9 million over the 2012 revised budget.
- Ministry of Home Affairs and Transport: SR284.9 Million, an increase SR 68.6 million over the 2012 budget. The significant increase reflects increased operations of the Department of Police and Prisons and

reclassification of piracy related spending which in 2012 was funded under Contingency, but in 2013 under the MHAT budget.

A total of SR355.2 million is being allocated for Central Programmes of Government, which will include funding for the following programmes:

- SR120.5 million for the Tertiary Education Fund
- SR107.1 million for the social safety net
- SR30 million for Small Business Financing Agency
- SR21.1 million as fuel incentives for fishermen
- SR19.9 million for the NHRDC training fund

Other expenditures under this heading include SR6.5 million contribution to political parties, SR4 million for empowerment and social protection programmes, and SR1 million for social Renaissance programmes, which will include contribution to the Nurses Association of the Republic of Seychelles (NARS), and to the Red Cross Society of Seychelles.

A sum of SR258.9 million is being allocated for Government agencies involved in provision of essential services. This includes organisations such as Landscape and Waste Management Agency, Seychelles Fire and Rescue Services Agency, Seychelles Land Transport Agency, Seychelles Agricultural Agency, and Agency for Social Protection.

SR444.9 million is being allocated to Regulatory bodies including:

- SR119.9 million for the Seychelles Tourism Board
- SR56.9 million for the Seychelles Revenue Commission

- SR41.4 million for the National Drugs Enforcement Agency (NDEA)
- SR35.4 million for the Seychelles Fishing Authority
- SR32 million for SIBA

SR98.3 million is being allocated as Transfers to Public Enterprises. This will cater for the Government contribution to Air Seychelles' commitment prior to partnering with Etihad, and SR33 million to SPTC and PTC. SR442.9 million is being provided for Benefits and Approved Programmes of Government.

A. Wages and Salaries

Government is in 2013 allocating SR1.13 billion for wages and salaries in the public service. This is an increase of SR105.9 million or 10% over 2012 and equivalent to 7.5% of GDP. Of this increase, SR42.9 million will fund schemes of service and salary enhancement.

B. Goods and Services

The total allocation under goods and services for 2013 is SR1.21 billion or 8% of GDP. This represents a total allocation of an increase of 4% compared to SR1.16 billion for the revised 2012 budget.

iv. Expenditure by Large Ministries

A. Ministry of Health

In 2013, Ministry of Health will receive a budget of SR496.2 million. This represents 3% of GDP or 9% of total primary expenditure.

Wages and salaries: a total of SR214.9 million is proposed for wages and salaries of the health sector, or 16% over the 2012 budget. A revised scheme for health care assistants and nurses is provided for to improve the existing scheme which was last revised in 2010. The scheme will cost SR2.1 million. An amount of SR6 million will go towards recruitment and SR3.1 million for salary enhancement of existing staff. In addition, SR7.3 million is proposed for upgrading of posts.

Goods and Services for the Ministry of Health will amount to SR281.2 million. Of this, SR147.8 million or 53% will be for materials and supplies. The components are as follows: Procurement of drugs (SR48.3 million); Medical supplies (for SR34.8 million); Haemodialysis (SR19.3 million); Food supplies for SR15.6 million; Laboratory supplies for (SR14.4 million); and other medical supplies (SR11.3 million).

B. Ministry of Education

Mr. Speaker, the Ministry of Education is being allocated with the second highest budget in 2013. A total budget of SR413.8 million, representing 3% of GDP or 7% of total expenditure is proposed.

Wages and salaries: SR2.1 million is proposed for recruitment and salaries of returning graduates, and SR1 million for promotions and salary enhancement.

Goods and Services: an allocation of SR126.9 million is proposed for the Ministry of Education. A total SR28.5 million is being allocated for materials and supplies and SR45.8 million for service agreements.

v. Expenditure by Independent Institutions

a) Judiciary

Mr. Speaker, SR33.7 million will be allocated in the 2013 budget for the Judiciary. This is an increase of SR3.2 million or 11% over the revised 2012 budget. We anticipate the new *Palais De Justice* to be completed in mid-2013.

b) Auditor General's Office

The Office of the Auditor General will receive an allocation of SR11.7 million in the 2013 budget which represents an increase of SR1.9 million or 19% in comparison with the 2012 revised estimate.

12. Investments in Public Infrastructure in 2013 and over the Medium-Term

Mr. Speaker, in preparing the 2013 budget, Government introduced a new concept, namely the Public Sector Investment Programme (PSIP) with the aim of improving the predictability of its medium term fiscal plan. The PSIP will be an important budget planning tool for Government to outline its ongoing and future development priorities. It will improve efficiency in allocation of resources and will constitute a mechanism for developing an efficient and effective public service.

Mr. Speaker, the PSIP for the period 2012-16 is estimated at SR8.4 billion. At end-2012 SR2.46 billion is expected to be spent which represents about 29% of the total investment plan. Thus, SR5.9 billion is expected to be financed over the next four years. Furthermore, 55% of total investments are from social-related areas, namely health, education, housing and community, and social protection. For 2013 the largest share of the total expenditure is for capital

expenditure of almost 23%, which shows Government's commitment to sustain investment and support economic growth.

Total investment projected in General Public Services is SR354.7 million or 2.4% of GDP. In 2011, SR39.5 million was spent on office rent by Government entities and SR56.6 million is forecasted in 2012. Government will invest in buildings to save cost over the long term. Two main buildings costing about SR69 million in total, are expected to be built in the next four years. The construction of one is expected to start in 2013 and it is being financed through a public-private partnership. Another major project is the digitalisation television project by Seychelles Broadcasting Corporation, which will cost around SR59 million.

Several key investment projects will be implemented to strengthen overall security of the country. Investment in this sector will total SR1.37 billion. About 49% of this investment is for the Department of Defence, mainly financed through foreign grants. Furthermore, new contracts have already been signed and the projects have started in late 2012 for new fire stations on Praslin and La Digue costing SR21.5 million and SR4.6 million respectively. In addition, works on a new NDEA building costing around SR43.4 million, and funded through a UAE Government grant will begin in 2013.

A total of SR2.1 billion or 25% is budgeted for the economic affairs' sector. Ministry of Environment and Energy, and Department of transport have the larger share of the total allocation of this sector with SR848.3 million and SR461 million respectively. The wind power generation project, also financed by the UAE Government for a cost of around SR382 million, is expected to be

completed in early 2013. The Victoria Traffic Management project is expected to start in 2013.

The larger share of the total investment is for the housing and community sector for an amount of SR3 billion. The Ile Perseverance housing projects and infrastructure investment will amount to SR687 million and SR476.8 million respectively and reflects Government's commitment to develop Ile Perseverance including housing and business infrastructure. The other community housing projects will cost around SR1.1 billion. Government has further committed SR1.2 million per district for small community projects in 2013.

The health sector has a total investment plan amounting to SR531.3 million, of which SR191.5 million or 36% will be completed by end-2012. The main project is the remodelling of the operating theatre with modern equipment, and a new medical gas system which will cost SR40 million and SR18.6 million respectively.

Mr. Speaker, investment in the education sector is forecast at SR945 million. A total of 36% of investment in the education sector is for new construction or reconstruction of schools, 20% is for renovation, and upgrading or expansion of existing schools. For 2013 Government will complete one of the two Ile Perseverance primary schools and will start the construction of the secondary school. Furthermore, reconstruction of the Glacis primary school financed by the Chinese grant will start early next year. Government has budgeted SR11.7 million and SR7 million for the renovation of the existing primary and

secondary schools respectively. There will be SR19.3 million in 2013 for the purchase of educational equipment.

The Department of Social Affairs has an investment plan of SR41.5 million. This is mainly for the construction of a new rehab centre which will cost SR13.2 million and will be completed by 2014. A new project is also being developed by the department for a residential centre for children with difficult behaviour. This will be a joint facility with the day program for education vocational learning. This project is expected to cost SR15 million of which SR1 million has been budgeted next year for the designing stage.

I. Contingency

During 2012, SR75 million was allocated for Contingency and used mostly for piracy-related spending, and for Marie-Louise and Coetivy prisons. As the Ministry of Home Affairs has received the required funds for operation of the two prisons in 2013 only SR50 million is budgeted for Contingency.

13. Public Debt

Mr Speaker, we remain in a strong position to achieve our debt sustainability threshold of 50% of GDP by 2018. In 2012 we pursued efforts to finalize restructuring of our bilateral debts. We have already restructured all our commercial debt and only one bilateral debt remains to be finalized. This year, we signed rescheduling agreements with South Africa and Abu Dhabi, and one of two outstanding agreements with India. We are in the final stage of negotiations for the outstanding one.

Mr. Speaker, completion of debt restructuring is one of two key elements required to bring our debt to sustainable levels. Another factor is the need to avoid excessive indebtedness going forward. In 2013, external repayment will rise by US\$10 million as payments due under the rescheduling packages kick in.

14. Program Performance Based Budgeting (PPBB)

Mr. Speaker, the Public Finance Management Act that was recently approved provides for Government to report on its performance to the National Assembly. Government is finalizing a strategy to operate on a Program Performance Based Budgeting framework.

The underlying principle of programme-based budgeting is that budgetary information and decisions are structured according to the Government's objectives. This allows decision-makers to prioritise allocation of resources and allow for comparison of costs and benefits when funding decisions are being made.

In 2013, MFTI will develop a framework to implement PPBB which will set out the specific steps for Government to follow in budget execution. Implementation will begin in 2013 with a pilot phase covering the ministries of Education and Health.

15. Strengthening monitoring of public entities

To further strengthen monitoring of public enterprises we have proposed important amendments to the legal framework, including the creation of an independent Public Enterprise Monitoring Commission that will be responsible

for monitoring financial, governance, and transparency issues in relation to public enterprise. The new PEM bill provides for all public enterprises to adopt International Accounting Standards within a three-year timeframe.

Mr. Speaker, the Ministry of Finance is very concerned about the state of the financial accounts of some public enterprises and Government Agencies. An assessment recently carried out by MFTI showed that accounts of no less than 13 Government entities are currently not in order. This is not acceptable. We commend the efforts of those who have started to normalize their accounts. In 2013, Ministry of Finance will recommend actions against those that are non-compliant as provided for by law.

16. Pension Fund

Mr. Speaker, from 1st January 2013 retirement pension will be indexed to the inflation rate, but will not increase by more than 5% in any one year, in accordance with section 45 Seychelles Pension Fund Act 2005. This is essential to ensure that the pension increases in line with the rise in cost of living.

Mr. Speaker based on the current rate of contribution and the demography of our country, the Fund will become less sustainable over time. Despite the various investments that complement the contributions, if nothing is done at one point in the future it may not have sufficient funds to provide an adequate level of pension payment to our future pensioners.

To ensure the financial stability of the Fund, as previously announced by my predecessor, contribution will increase by 1% beginning January 2014. Of this, employers will contribute 0.50% of gross salaries of their employees, and the

other 0.50% will be contributed by employees in full time, part time, and casual employment. This will thus bring total contribution to the SPF to 4%, of which 2% by employers and 2% by employees.

Fellow Seychellois, Seychelloises: your contribution today towards the SPF is an investment in your retirement. The funds that you contribute are invested by the SPF, who is the custodian of your assets, to provide the maximum returns on your investment.

17. New Tax Policies and Measures to sustain growth

Mr Speaker, in line with modernization of our economy we need a tax system that is modern and equitable. In the 2013 budget I am proposing changes to some aspects of our tax regime, as well as introducing a number of new initiatives.

i. VAT to replace GST

Mr. Speaker, as from 1st January 2013 VAT will replace GST. The applicable rate of VAT will be 15% as it is now on GST.

VAT will be mandatory for businesses that generate a turnover of R5 million and above, except in activities that are exempted from the tax. We will lower the VAT threshold to SR3 million and SR2 million in January 2014 and January 2015, respectively.

Regulations have already been published that define activities that will fall under VAT. Some businesses with turnover of less than SR5 million will be able

to voluntarily register for VAT. Regulations have also been published on the list of commodities and basic services on which VAT will not apply.

Just to name a few, VAT will NOT apply on the following: rice, meat, fruit and vegetables, cooking oil, lentils, flour, bread, pharmaceuticals, infant food and formula, electricity, water, petroleum products, educational materials and stationery, toilet paper, animal feed, musical instruments, etc. A complete list of goods and services on which VAT will not apply appears in the Explanatory Notes.

Mr. Speaker, I want to reiterate that VAT is NOT a new tax but it is simply replacing GST. For this reason, and since VAT will not be applicable on basic commodities and services, its introduction should not cause prices of these goods and services to go up.

One of the major advantages of VAT is that it will provide critical information on financial transactions, which would make it more difficult for businesses to evade taxes. This also explains why certain groups in the business community are not in favour of VAT. I take this opportunity to urge all businesses to take their responsibility toward their tax obligation seriously. We will get tougher on those who deliberately evade paying their taxes.

Mr. Speaker, with introduction of VAT concessions that the tourism, fisheries, and agricultural sectors have been enjoying will continue to apply despite the cessation of GST. However, instead of obtaining those concessions under the TIA and AFIA these concessions will be given under other laws and regulations.

ii. Reduction in the rate of Business Tax for Certain Businesses

Mr Speaker, in 2009 tax on profits for businesses with turnover of SR1 million and above was reduced from 40% to 33% on taxable income. I am pleased to announce that in 2013 this will be brought down to 30%, except for commercial banks, telecommunication companies, insurance companies (but not brokers and agents), and alcohol and cigarette manufacturers. For those businesses, reduction in business tax will be considered when I present the 2014 budget.

Mr Speaker, to encourage businesses to list on the Stock Exchange, the business tax rate for companies who list on the Exchange will be reduced to 25% on taxable income. Withholding tax rate for non resident investing in companies listed on the Stock Exchange will be according to the Double Taxation Avoidance Agreement (DTAA).

To encourage investment in education and medical services we propose the business tax rate to be reduced to 15% as from 2013.

iii. A new simplified tax for small businesses

Mr Speaker, we will simplify the tax regime and reporting requirements for small businesses i.e. those with turnover of less than SR1 million. Beginning January 1, 2013, small businesses will have two options for payment of taxes: either to maintain the current system of paying business at 15%; or opt for an alternative presumptive tax at a flat rate equivalent to 1.5% of the value of gross turnover.

Small businesses that opt for the presumptive tax regime will not be required to submit audited financial statements. Instead they will simply lodge a simple tax return (see Explanatory Note).

iv. `Corporate Social Responsibility (CSR)

Mr. Speaker, Corporate Social Responsibility is a concept whereby businesses act to balance their economic growth by contributing to the sustainable, social, and environmental development of the country.

Today many businesses generously contribute to their communities or toward good causes, either through direct funding of social projects or through donations and sponsorship. But corporate social responsibility should be by all and not only by some. It is in this spirit, and in order to get businesses to give back to the community, that I propose the introduction of a CSR contribution, which will be applied on all businesses which make a turnover of SR1million and above at rate of 0.5% equivalent of turnover. This concept of CSR is one that is practised in other countries, such as our neighbour, Mauritius.

Mr. Speaker, businesses will have the following options to make this CSR contribution, namely (i) sponsorship; (ii) donation; (iii) direct funding of community projects; or (iv) deduction by SRC toward the CSR Fund that Government will create. Business will be given full flexibility as to which activities that their CSR contribution goes to, provided that these fall within guidelines that Government will establish.

Government will continue to assume responsibility to fund infrastructure projects in districts, so the areas where CSR funds would be expected to go

would be more toward areas such as: environmental; beach and coastal management projects; health and wellness including sports; renewable energy to mention a few. For businesses whose contribution amount to less than 0.5% of turnover the balance will be paid to the Fund at the time of assessment of tax obligations.

To accommodate this new contribution Government will in the coming weeks establish the various guidelines and structures, including the CSR Fund.

v. A Mandatory Contribution toward the Tourism Marketing Fund (TMF)

Mr. Speaker, over the years Government has contributed significantly in tourism marketing in Seychelles. When the TMF was established it was expected to be funded jointly by Government and the private sector. However, Government has ended up as the main provider to the Fund.

To get the private sector to contribute more toward tourism marketing I propose the introduction of a mandatory tourism marketing tax, also equivalent to 0.5% of turnover, on businesses with turnover above SR1 million in the following sectors: all tourism operators currently under TIA, banks, insurance companies (excluding brokers and agents) and telecom companies. To give the private sector more comfort and to ensure that the Fund is managed with the highest degree of transparency, they will be invited to play a more prominent role in management of the TMF.

vi. Tax Rebates for Artists and Musicians

Mr Speaker, to encourage tourism establishments to better support local artists and musicians, they will receive a tax credit of 125% as allowable deduction under the Business Tax Act for all payments made to artists and musicians. This will apply to local artists and musicians only.

vii. Incentives for Taxi Operators

To level the playing field for operators in the transportation of passengers, the levy for motor vehicles imported for taxi purposes will be aligned to that of public omnibuses, at SR5,000. This will apply to cars landing in Seychelles beginning January 2013.

Moreover, to help minimize costs, the age limit of motor vehicles for new entrants in the taxi business will be extended from 3 to 5 years in 2013. Those vehicles will have to meet standards established by SLTA and SLA.

viii. Measures to discourage large cash payments

In line with Government's efforts to promote electronic means of payment, and to assist in the efforts to combat anti-money laundering, payments and receipts in cash by all Government institutions will as from January 2013, be limited to SR25,000.

ix. Elimination of tax on small parcels

Mr. Speaker, as from January 1st 2013, all imports through the post or other courier services of a value not exceeding R3,000, being personal imports of a

non-commercial in nature, will not be subject to taxes. Instead a flat fee will be applied. These fees will be introduced through Regulations.

This new policy proposal will be harmonized with the provisions of the VAT Act, whereby unaccompanied personal imports of non-commercial in nature, and destined for private use, of a similar amount, is exempted from VAT.

x. Adjustment in Passenger Service Fee (PSF) to compensate for VAT Exemption on Airline Tickets

Mr. Speaker, since VAT will not be applied on airline tickets we will replace the two payments that apply today i.e. PSF of SR250 plus payment of 15% for GST, by a single PSF of SR650.

This is expected to result in a slight reduction in most fares, at least initially. For example, on a ticket to Mauritius costing SR4,500 a traveller today pays SR675 in GST and SR250 in PSF, i.e. SR925 in total. Under the proposed scheme, the person will only pay R650. (See Explanatory Notes).

xi A new treatment for SIBA Revenues

Mr. Speaker, beginning 2013 revenues collected by SIBA and its successor the FSC, will be transferred to Government on a quarterly basis. This will ensure that funds collected by SIBA are made available for the budget in a short period of time. This will also be another source of foreign currency toward build-up of CBS reserves. In 2013, MFTI will undertake an assessment of other parastatals and Government agencies with a view to extend this arrangement where feasible.

18. We will Further Improve the Investment Climate

Mr. Speaker, as much as we are proud of the progress that Seychelles has made in this area, we need to pursue with vigour, our program to further improve Seychelles' investment climate and we will not stop until the businessman on the street feels that he is satisfied that he can do business in our country within minimum delay, with ease, and at a reasonable cost.

During 2013 the **Registrar** will computerize the various registries. **MLUH** and the **Planning Authority** will:

- Introduce online land registry and online planning permission application which will eventually be linked to all relevant agencies
- Reduce the time taken to register new land at the Registrar and at the AG's Office
- Submit to National Assembly the revised Town and Country Planning Act and the Land Development Bill
- Promote the creation of an Association of Architects to improve standards and control
- Establish an Appeal Mechanism outside the ambit of the Minister with binding decisions

The **SLA** will: (i) establish a one stop shop for license application; (ii) introduce on-line application processes for all other licenses; and (iii) decentralize its services on Mahe with the opening of a branch in the South of Mahe.

Other measures in this area next year will include the introduction of electronic payment facilities, including for Government services and payment

of taxes; and establishment of Mediation and Civil Rules for the Commercial Court. A second judge for the commercial court will be appointed shortly.

Mr. Speaker, through re-engineered e-services we could change the way Government delivers services to the public. For example, through the recently introduced online business registration and the online import and export permit applications the public can access Government services on a 24/7 basis. This has helped boost economic activities and enhance productivity.

To further strengthen the legislative framework in the ease of doing business domain several pieces of legislation will be presented to National Assembly between now and end-2013. These include (i) the **Legal Practitioners Act**; (ii) a unified **Insolvency Bill**; (iii) a revised and modern **Companies Bill**; and (iv) an **Accounting Profession Bill**, aimed at enhancing the quality of financial reporting and strengthening accountancy profession.

19. We will Increase our Support for Small Businesses

Mr. Speaker, during 2012 the CCA/SBFA has continued to assist small businesses. Government will continue to fight for the cause of small and medium-sized enterprises (SMEs) for we believe that SMEs have and will continue to play an important role in the development of our economy. In 2013 we will implement several additional measures to further support SMEs.

Firstly, we will elevate the Small Business Financing Agency (SBFA), which replaced the Concessionary credit Agency (CCA) from a division in the MFTI, to a full fledged micro-finance Agency that will operate independently under its own law, with its own administration, and lending criteria.

Secondly, Government will increase its budgetary allocation to the Agency from R20 million to R30 million. To complement that, Nouvobanq and Seychelles Savings Bank will each contribute R5 million toward the SBFA in the form of a concessionary loan. Thus funding available for SMEs by SBFA will double next year.

Thirdly, the threshold of lending by the SBFA will double from SR150,000 to SR300,000.

In return, Mr. Speaker, we expect the SMEs to become more professional. SENPA will be asked to give more assistance to aspiring entrepreneurs in businesses development, marketing, bookkeeping etc., to enhance the chance of success of business starters. Moreover, SMEs need to become more responsible and repay their loans on time and avoid the risk of litigation and debt recovery.

20. We will bring more support to Farmers and Fisherman in 2013

Mr. Speaker, in recent months we have observed more vigour and by MNIR to increase support to the agricultural and fisheries sectors. This momentum will be maintained in 2013.

The Seychelles National Agricultural Investment Plan (SNAIP) will be finalized in the third quarter of 2013 when at least some financing is expected to be available from at least one international partner.

The Livestock Trust Fund has proved successful in assisting farmers in 2012. We will review the mandate of the Fund to ensure that it reflects the current realities facing the farming community. We will also transfer management of the Agricultural Development Fund (ADF) to DBS and raise the lending ceiling.

To sustain the outputs of farms MNRI will work closely with other operators such as the tourism sector, to encourage them to source meat, eggs, fruits and Vegetables locally.

Regarding the fisheries sector, construction has started on a 120-metre industrial quay on Ile du Port, costing approximately SR54 million, which could be completed by September 2013. This is an important development for Seychelles in its endeavour to maintain its status as the primary tuna landing and transshipment port in Western Indian Ocean. Land has been allocated on Ile du Port for net repairs, salt storage and other logistics required for the tuna purse seiners.

Works are ongoing at Providence to build processing facilities to increase value addition of fish products. For Bel Ombre, all infrastructures are expected to be in place before end-2013. This will include processing facilities and a fishermen gear store, for a cost of approximately Euro 1.2 million.

The European Union has provided funding for fisheries project to the tune of €8.5 million under the Fisheries Partnership Agreement of 2012. A further €5.6 million has been budgeted in 2013.

In 2013, the priorities are to improve facilities in districts, including building of fish markets, gear stores, and improving landing and storage facilities, clearing of passes, access channel and installation and servicing of navigational aids.

21. Policies to Improve Consumer Welfare

Mr Speaker, to improve consumer welfare Government is reviewing the different existing policies. For example, the Fair Trading Commission is drafting a Competition Policy to ensure that provisions under various laws relating to competition are harmonized.

As part of Government's continued effort to lower the cost of living and to provide broader choices to consumers, we reduced trades tax on this year on certain items including imported juice. Given the planned VAT exemptions on certain basic items on which GST apply today, we will have to amend the trades tax rates on certain imported meat, fruit and vegetable products to ensure that an adequate level of protection is maintained for local products without increasing prices.

22. Investment in Renewable Energy is critical for Growth and Prosperity

Mr. Speaker, the promotion of renewable energy has become a must rather than an option. Besides the fact that greenhouse gases are destructive, the constant increase in the cost of conventional energy will constrain growth. With this in mind, Mr. Speaker, the promotion of renewable energy sources should be at the heart of all our economic strategies. Several programs and initiatives will be introduced in 2013.

In line with Government's strategy to promote renewable energy, and to increase our country's long term environmental sustainability, we will in early 2013 introduce an affordable energy efficiency funding mechanism for home appliances and equipment. This initiative, which will be implemented with the financial support of commercial banks and technical assistance of the International Finance Corporation (IFC), aims at encouraging the adoption of energy-efficient home appliances and equipment such as solar water heaters. Government will give incentives to encourage banks to participate in the scheme.

We will also give more incentives for energy efficient motor vehicles. In this regard trades tax on hybrid vehicles will decrease from 25% to 15% in 2013. Today Mr. Speaker, there is no excise tax, and no levy on hybrid vehicles.

23. Financial Sector Policies

Mr. Speaker, access to credit remains one of the most difficult challenges for doing business in Seychelles. In 2013, we expect the Hire Purchase and Leasing services to be launched with both laws due before National Assembly early next year. These would give alternatives to consumers and businesses and will compete directly with bank loans. As I have noted above, CBS will work closely with DICT to promote e-payment across our economy.

SIBA will continue to focus attention on more value-added products, such as those relating to securities/securities exchange, various Funds, trusts and foundations, international trade zone to mention a few, while remaining in strict adherence to international standards and best practices. These would be consolidated through the redefining of SIBA as an FSC.

SIBA and CBS will further explore the feasibility of introducing Islamic-based financial products, both bank and non-bank. There are many benefits that Islamic finance would bring for Seychelles, such more competition in both banking and non-banking sectors.

As I alluded to earlier, Government is exploring options for further privatization of Seychelles Savings Bank.

For strategic reasons, the Bank of Muscat International (BMI), the main partner in the BMI Offshore (BMIO) has decided to sell its 50% share in BMIO. BMIO was established jointly by BMI and Nouvobanq as an offshore bank in 2008. Nouvobanq has also proposed to Government to sell its stake in the bank. Several offers have been received for BMIO; a preferred bidder has been recommended by the bank's Board of Directors to the shareholders, and a final decision on the sale is expected before end-2012.

24. A New Strategy for Management of Public Enterprises

Mr Speaker, Government will as from January 2013 transfer its participatory interests in 10 of the main State-owned commercial entities to the Société Seychelloise D'Investissement Limited (SSI). SSI is a company wholly owned by the Government of Seychelles established in 2008 and that already owns shares in 4 companies - IOT, Cassis Seychelles Company Ltd, 2020 Development (Seychelles) Ltd and Seychelles Cable Systems Company Ltd.

SSI will guide the strategies and oversee the performance and implementation of objectives of all commercial parastatals and agencies that it will own. It will

adopt policies and business strategies similar to privately owned commercial/investment enterprises to ensure that it operates within a robust framework to achieve its goals. The SSI Board will report to a “Commissi e de Surveillance” chaired by the President of the Republic and comprising of the Vice President and the Minister for Finance as members.

25. Subsidies on Cooking Gas for households to be Eliminated

Mr Speaker, as we would recall, in May this year SEYPEC removed the subsidy on LPG for commercial consumers. As a result of this measure, the company will collect SR10 million this year. To further strengthen its financial position, SEYPEC will, as from 1st July 2013 begin removing the subsidy on LPG for domestic households by raising the price of LPG by SR7.5 per kilo to bring it to SR22.5 per kilo. This process of elimination of LPG subsidies will be completed in January 2014 when prices will be further adjusted to reflect the real cost of LPG.

26. SPTC fares to remain Unchanged in 2013

Mr. Speaker, Government will continue to subsidize the cost of public transport provided by the SPTC in 2013. Based on the various costs incurred in providing its services SPTC would need to increase fares to SR8 if it is to operate without subsidy. However, recognizing that it cannot eliminate all subsidies in one go, Government has decided to grant SPTC a subsidy of SR33 million in 2013 to enable it to maintain bus fares at SR5.

27. We need to reform the Structure of Utilities Tariffs

Mr. Speaker, as with SEYPEC it is important for the long-term viability of the Public Utility Company (PUC) that the rate of utility tariffs paid by consumers reflect the cost of operations. In many countries tariffs are set to also cover investment costs. However, in Seychelles, we have thus far limited the tariffs to cover largely operational expenses. PUC's tariff structure unfortunately does not in all cases reflect that. As such major reforms are still needed to bring PUC's tariff structures in line with normal practices.

As a first step PUC will in January 2013 adopt a system of tariff indexation such that utility tariffs will be adjusted quarterly in line with movements in key variables that impact the cost of these services such as the exchange rate, international fuel prices, etc. Depending on the movements of these variables, tariffs could either increase or decrease. This will be followed by a gradual removal of cross-subsidization across the various client groups which will begin in July 2013 when PUC will start rebalancing the tariff structure. This rebalancing exercise will be completed gradually over a period of 7 years.

Mr. Speaker, as we have always done, our reforms do not leave behind those who are more vulnerable. To this end, this rebalancing exercise will be accompanied by the introduction of a social tariff.

28. Seychelles Trading Company (STC) Prices to be Adjusted

Mr. Speaker, Government has over the years used STC to anchor prices of basic commodities. However, exogenous events especially price increases on the

international markets have exerted extreme pressure on STC's finances and if nothing is done this will result in trading losses in the coming months.

In light of this STC will in early 2013 adjust prices of a number of its products. Government has nonetheless requested STC to undertake a comprehensive review of its sourcing strategy with a view to accessing more affordable products which could in turn be passed on to the people.

As we announced earlier this year, Government has requested STC to also enter the market for importation of construction materials. By anchoring prices STC would help reduce construction prices in Seychelles.

29. We will Strengthen the Audit Capacity of the Seychelles Revenue Commission (SRC)

Mr Speaker, an efficient tax administration is crucial for our socio-economic strategy. Our economy still depends largely on tax revenues to fund public projects and programmes.

SRC has faced many challenges in meeting its objectives due to, among other things, the fast evolving business environment. Rapid technological advances have rendered businesses more innovative in their accounting practices, and other new challenges are emerging. With such advances SRC has been unable to catch up with complex practices such as transfer pricing. Our tax authority will be taking several initiatives to beef up its capacity and enhance skills, knowledge and experience to keep pace with these new developments.

The SRC will shortly carry out a technical needs analysis to start a capacity building programme aimed at boosting the capability of its local workforce. We

will continue to encourage qualified Seychellois to consider a career within the SRC. Over the short-term, we will complement this initiative with recruitment of a limited number of foreign tax auditors and customs specialists. Nevertheless, Seychellois personnel will continue to lead and remain on the frontline.

Regarding Customs, significant progress has been achieved over the past two years, including (i) enactment of the new Customs Management Act, (ii) upgrading from Asycuda++ to Asycuda World (which will come into operation in the first quarter of 2013.); (iii) improvement in operations with new procedures; and (iv) increased cooperation with international bodies such as WCO, WTO, IMF and bilateral cooperation with foreign customs administration authorities.

Mr. Speaker despite these efforts by Customs, of late there has been major concerns expressed by the general public and the business community about the effectiveness of the Seychelles Customs. We want to tell those critics today that we have noted their concerns and will act to address those. Reforming of the Customs division will be accelerated in 2013 and will be one of the priorities of Government.

I recognize as Finance Minister that whilst these structures represent the foundations of a modern Customs administration, what matters most is how effective they are in delivering services at a level that the people expect. To this end, Mr. Speaker, we will focus our efforts on the operational aspects as well as strategic issues such as delivering the services with more efficiency and in line with international best practices.

30. Trade Policy and our Integration to the World Economy

Mr. Speaker, under the leadership of President James Michel Seychelles' reputation as a dynamic island state is today firmly recognized by the international community. 2013 will see a continuation of this. This is particularly true of Seychelles' campaign for a seat on the United Nations Security Council in 2017.

On the trade front we remain on track for accession to the WTO by 2014. The negotiation is entering an advanced stage and Seychelles has received support from numerous countries. As part of the ongoing accession process, during 2013 Government will continue to review and amend its laws and regulations to bring them in line with WTO standards.

At the regional level Government remains committed to explore, along with the private sector, opportunities for Seychelles' export and investment in the region through existing agreement with COMESA and its continued negotiations to enter the SADC Free Trade Area.

31. New Measures to assist First Time Home Buyers

Mr. Speaker, access to housing credit remains constrained by such factors as high interest rates and charges, and a general lack of interest by certain banks to give housing loans. Government will, beginning January 2013, implement certain measures to limit the charges that commercial banks charge on housing loans, and increase their lending to this sector.

Firstly, as provided for by the Financial Institutions Act, CBS will shortly issue Regulations that will limit the level of fees charged by banks on housing loans for residential housing and for first time buyers. As noted these Regulations should be in force by early 2013.

Secondly, Government-owned commercial banks will be required to invest a minimum share of their lending portfolio in any calendar year into housing loans.

32. Adjustment in Fees and Charges for Government Services

Mr. Speaker, Government periodically finds it necessary to revise the fees and charges for its various services. These various services and the respective changes are presented in the Supplementary Note.

33. We will implement a Salary increase in 2013

Mr. Speaker, the Government recognizes that the situation out there is tough , for the average Seychellois family. The Seychellois people have made major sacrifices in recent years. However, our ability to give salary increases is constrained by the need to maintain fiscal sustainability, which in turn is critical to ensure the economic future and prosperity of future generations.

Government is constantly exploring possibilities to improve the wellbeing of the people through a better salary. In this regard, Mr. Speaker, we will implement a salary increase in 2013. However, due to budget constraints all salary increases including minimum wage will take effect on July 1, 2013.

The minimum wage will increase by 6%, which is marginally above the forecast inflation rate of 5%. The minimum wage level will increase from SR21.00 to SR22.25 per hour for all workers other than casual. The rate for casual workers will be raised from SR24.20 per hour to SR25.65 per hour.

Salary increase in Government

Effective July 2013 the following wage increases will be implemented:

- Salaries of all employees from SG1 to SG6 will increase by 6%; and
- Salaries of all employees from SG7 onward will increase by 3%.

New Schemes of Service

Several new schemes of service will be implemented in 2013 but in 2 phases, some beginning January whilst others in July. The following ministries, departments and budget agencies will implement their new schemes of service as of January 1, 2013:

- Department of Immigration & Civil Status – Revised Scheme
- Department of Prisons – Revised scheme
- ALDEC
- Institute of Early Childhood
- Agency for Social Protection – Processing & Regional Officers

New Schemes of service for the following common cadres across Government will also be implemented in January 2013.

- Stores and Assets Management Cadre
- Policy analysts Cadre
- Housing Officers Cadre

The schemes for following common cadres will be implemented in July 2013:

- Psychologist Cadre
- Office Assistant Cadre
- Research and Project Cadre

The Seychelles Revenue Commission will also implement their new scheme of service as of July 2013, and will be aligned to the wage grid.

Benefits and Approved Programmes of the Agency of Social Protection

As from January, 2013 the following adjustments in benefits will be implemented:

	From (SR)	To (SR)
Orphan Benefit	1,280	1,360
Invalidity Benefit	2,440	2,580
Injury Benefit	2,120	2,250
Survivor (widows) Benefit	2,120	2,250
Sickness Benefit	2,120	2,250
Maternity Benefit	2,120	2,250
Retirement Benefits paid ASP	2,550	2,750
Retirement Benefits paid SPF	2,550	2,750

Benefits of Home Carers will increase by 6% per month in line with minimum wage. And as with the case for minimum wage Home Carer benefits will thus also increase as from July 2013.

34. Conclusion

Mr. Speaker, in 2012 we realised further achievements in key areas like human development, improved investment climate, e-Government, good governance and anti-corruption to name a few. These achievements will put us on a strong footing to remain resilient against harsh global economic conditions in 2013 and over the medium term. Under the leadership of President James Michel our country has shown that it can lead the way in promoting peace and harmony in Seychelles and beyond.

In 2013 we are likely to face the reality of yet another challenging year. This budget puts us in a strong position to face these challenges through a continuation of macro-economic stability that will safeguard the wellbeing of our people, especially the more vulnerable groups, which remain a key priority of this Government.

Mr. Speaker the policies and measures announced in this budget will strengthen the foundations for accelerating economic growth in 2013 and beyond. They provide the conditions for the private sector to drive our economy into the future through an improved investment climate. We have also sought to improve the conditions of our people through a salary increase, improved welfare benefits, and more investment in health, education and infrastructure.

Mr. Speaker, one of the keys to prosperity is improved productivity. More salaries and more welfare benefits are not the answer to a better future. Better working conditions could be achieved through more productive attitudes in our workplaces. I thus appeal to all Ministries and Government agencies to become more efficient in delivery of services; for the private sector to be more innovative and efficient in their operations; and for all workers to become more productive, creative and responsible in their workplaces. These attitudes, Mr. Speaker, are what we should adopt in the new Seychelles.

Before I conclude, I would like to thank President Michel for his guidance and support for the Seychellois people. I want to also acknowledge the support and guidance of Vice-President Faure who during his tenure as Finance Minister has led our reform program with vigour and determination. I also want to thank my colleague ministers and their technical teams for their contributions.

I want to particularly recognize the efforts and dedication of the staff of the Ministry of Finance, Trade and Investment, who have shown great professionalism in delivering their duties.

Mr. Speaker the private sector and civil society have throughout 2012 continued to make important contributions to the development of our country and for this I want to acknowledge their efforts.

I want to recognize the support and contributions of all our international counterparts, including multilateral organizations, and development as well as our bilateral partners.

I thank all honourable members of the National Assembly, including you, Mr. Speaker, for the support provided to me and my ministry throughout this year.

Finally, Mr. Speaker, I thank the Seychellois people for continuing to support the efforts of our Government in bringing our country forward.

I now commend the Appropriation Bill 2013 for the approval of the National Assembly.

Thank you.